

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2006 and 2007

With Independent Auditors' Report

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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 Financial Holding Companies. 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

To: Board of Directors
Cathay Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2006 and 2007 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company'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 generally accepted auditing standards in the Republic of China and Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of December 31, 2006 and 2007 and the results of its operations and its cash flows for the years then ended in conformity with Business Entity Accounting Act, Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, effective from January 1, 2006, the Company and Subsidiaries have adopted the Republic of China Statements of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments".

Ernst & Young
Taipei, Taiwan
The Republic of China
February 26, 2008

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Assets	Notes	December 31, 2006		December 31, 2007	
		NT \$	US \$	NT \$	US \$
Cash and cash equivalents	2,4	\$472,721,562	\$14,505,111	\$381,587,302	\$11,766,491
Due from the Central Bank and call loans to banks		51,598,723	1,583,269	58,973,222	1,818,477
Financial assets at fair value through profit or loss	2,5	157,644,153	4,837,194	137,322,294	4,234,422
Securities purchased under agreements to resell		47,988,635	1,472,496	18,427,144	568,213
Receivables -net		91,569,758	2,809,750	79,863,286	2,462,636
Loans -net	2,6	1,206,511,996	37,020,926	1,306,756,704	40,294,687
Available-for-sale financial assets -net	2,7	389,680,258	11,957,050	473,119,410	14,588,943
Held-to-maturity financial assets -net	2,8	544,969,604	16,721,988	587,561,561	18,117,840
Investments - equity method	2,9	3,700,103	113,535	3,022,508	93,201
Other financial assets -net	2,10	42,048,588	1,290,230	46,080,095	1,420,910
Investments in debt securities with no active market		85,491,221	2,623,235	126,849,092	3,911,474
Separate account products assets		161,276,980	4,948,665	254,052,254	7,833,865
Investments in real estate	2,11	102,545,157	3,146,522	106,384,870	3,280,446
Property and equipment -net		38,830,185	1,191,475	41,567,665	1,281,766
Goodwill and intangible assets -net	2,13	917,998	28,168	7,432,526	229,187
Other assets -net		50,018,767	1,534,789	55,333,344	1,706,239
Total assets		\$3,447,513,688	\$105,784,403	\$3,684,333,277	\$113,608,797
Liabilities & stockholders' equity					
Liabilities					
Due to the Central Bank and call loans from banks		\$100,472,725	\$3,082,931	\$73,637,393	\$2,270,657
Bankers acceptances and funds borrowed		816,250	25,046	1,624,200	50,083
Financial liabilities at fair value through profit or loss	2,14	68,054,088	2,088,189	60,028,740	1,851,025
Securities sold under agreements to repurchase	5,7	23,661,740	726,043	14,928,582	460,332
Payables		42,873,137	1,315,531	30,554,171	942,158
Deposits	15	962,572,893	29,535,836	1,027,834,886	31,693,953
Bonds payable	2,16	22,409,028	687,604	18,551,837	572,058
Reserve for operations and liabilities	2,17	1,827,249,311	56,067,791	1,963,863,176	60,556,990
Other financial liabilities	2,18	975,292	29,926	568,981	17,545
Separate account products liabilities		161,276,980	4,948,665	254,052,254	7,833,865
Other liabilities		18,126,507	556,198	8,799,279	271,331
Total liabilities		3,228,487,951	99,063,760	3,454,443,499	106,519,997
Stockholders' equity attributable to equity holders of the parent					
Capital stock					
Common stock	19	92,068,174	2,825,044	92,770,192	2,860,629
Capital surplus	20	78,867,213	2,419,982	81,971,213	2,527,635
Retained earnings					
Legal reserve	21	8,188,136	251,247	9,245,862	285,102
Unappropriated retained earnings		19,710,210	604,793	35,577,963	1,097,069
Other stockholders' equity					
Land revaluation increment		2,106	65	2,106	65
Cumulative translation adjustments		105,170	3,227	183,766	5,667
Unrealized gains or losses on financial instruments		21,345,473	654,970	10,955,521	337,821
Treasury stock	2,22	(4,140,047)	(127,034)	(4,140,047)	(127,661)
Net loss not recognized as net pension cost		(573)	(18)	(3,107)	(96)
Total equity attributable to stockholders of the parent		216,145,862	6,632,276	226,563,469	6,986,231
Minority interest					
		2,879,875	88,367	3,326,309	102,569
Total stockholders' equity		219,025,737	6,720,643	229,889,778	7,088,800
Total liabilities and stockholders' equity		\$3,447,513,688	\$105,784,403	\$3,684,333,277	\$113,608,797

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

The accompanying notes are an integral part of these consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except earning per share)

	Notes	2006		2007			
		NT \$	US \$	NT \$	US \$		
Interest income	2	\$107,179,616	\$3,288,727	\$112,396,924	\$3,465,832		
Less: Interest expenses	2	(20,154,056)	(618,412)	(20,715,646)	(638,781)		
Net interest income		87,025,560	2,670,315	91,681,278	2,827,051		
Net income other than interest							
Net commission and handling fee		4,223,395	129,592	5,043,537	155,521		
Net premiums from insurance business		133,879,045	4,107,979	105,013,761	3,238,167		
Losses on financial assets and liabilities at fair value through profit or losses		(5,903,070)	(181,131)	(5,912,293)	(182,310)		
Realized gains on available-for-sale financial assets		14,889,778	456,882	32,397,367	998,994		
Realized losses on held-to-maturity financial assets		(180,771)	(5,547)	(372,705)	(11,493)		
Gains on investments under equity method		1,785,654	54,792	32,864	1,013		
Gains on investments in real estate		12,198,216	374,293	6,118,267	188,661		
Losses on foreign exchange		(783,331)	(24,036)	(1,130,864)	(34,871)		
Impairment losses		(497,279)	(15,259)	(465,960)	(14,368)		
Provision for premiums reserve		(167,782,632)	(5,148,286)	(136,118,062)	(4,197,288)		
Other non-interest income-net		2,149,240	65,948	(2,629,922)	(81,095)		
Total Income		81,003,805	2,485,542	93,657,268	2,887,982		
Bad debt expenses		(25,666,274)	(787,551)	(4,085,730)	(125,986)		
Operating expenses							
Personnel expenses		(36,684,212)	(1,125,628)	(41,045,861)	(1,265,676)		
Depreciation and amortization expenses		(4,068,188)	(124,829)	(4,084,286)	(125,941)		
Other general and administration expenses		(10,470,198)	(321,270)	(10,214,211)	(314,962)		
Income from continuing operations before income taxes		4,114,933	126,264	34,227,180	1,055,417		
Income tax benefits (expenses)	2,23	3,372,705	103,489	(3,464,254)	(106,822)		
Consolidated income before cumulative effect of changes in accounting principles		7,487,638	229,753	30,762,926	948,595		
Cumulative effect of changes in accounting principles		3,249,323	99,703	-	-		
Consolidated income		\$10,736,961	\$329,456	\$30,762,926	\$948,595		
Include:							
Parent company		\$10,577,260	\$324,556	\$30,748,101	\$948,138		
Minority interest		159,701	4,900	14,825	457		
Consolidated income		\$10,736,961	\$329,456	\$30,762,926	\$948,595		
Earnings per share (expressed in dollars) :	24						
Primary earnings per share:		Before tax	After tax	Before tax	After tax	Before tax	After tax
Consolidated income before cumulative effect of changes in accounting principles		\$0.46	\$0.83	\$0.01	\$0.03	\$3.72	\$3.34
Cumulative effect of changes in accounting principles		0.27	0.36	0.01	0.01	-	-
Consolidated income		\$0.73	\$1.19	\$0.02	\$0.04	\$3.72	\$3.34

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

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English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity																					
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as net pension cost		Minority interest		Total									
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$								
Balance on January 1, 2006	\$85,242,234	\$2,615,595	\$68,092,037	\$2,089,354	\$6,009,431	\$184,395	\$226,579	\$6,952	\$28,146,255	\$863,647	\$3,048	\$94	\$81,154	\$2,490	\$(68,263)	\$(2,095)	\$-	\$-	\$(1,837)	\$(57)	\$3,430,369	\$105,259	\$191,161,007	\$5,865,634								
Minority interest																									(710,195)	(21,792)	(710,195)	(21,792)				
Effect on first time adoption of unrealized gains on financial instruments															10,485,096	321,728											10,485,096	321,728				
Appropriations and distribution for 2005																																
Legal reserve					2,178,705	66,852			(2,178,705)	(66,852)																						
Special reserve							(226,579)	(6,952)	226,579	6,952																						
Stock dividend	4,263,443	130,821							(4,263,443)	(130,821)																						
Cash dividends									(12,790,330)	(392,462)																		(12,790,330)	(392,462)			
Remuneration paid to directors and supervisors									(5,700)	(175)																		(5,700)	(175)			
Bonus paid to employees									(1,706)	(52)																		(1,706)	(52)			
Convertible notes converted into common stock	1,743,056	53,484	7,693,643	236,074																												
Land revaluation increment											(942)	(29)																(942)	(29)			
Capital surplus			(549)	(17)																								(549)	(17)			
Cumulative conversion adjustments													24,016	737														24,016	737			
Unrealized gains or losses of financial instruments															10,928,640	335,337												10,928,640	335,337			
Share exchanges	819,441	25,144	3,082,082	94,571																								3,901,523	119,715			
Treasury stock																	(4,140,047)	(127,034)										(4,140,047)	(127,034)			
Net loss not recognized as net pension cost																				1,264	39							1,264	39			
Consolidated income for the year ended December 31, 2006									10,577,260	324,556																		159,701	4,900	10,736,961	329,456	
Balance on December 31, 2006	\$92,068,174	\$2,825,044	\$78,867,213	\$2,419,982	\$8,188,136	\$251,247	\$-	\$-	\$19,710,210	\$604,793	\$2,106	\$65	\$105,170	\$3,227	\$21,345,473	\$654,970	\$(4,140,047)	\$(127,034)	\$(573)	\$(18)	\$2,879,875	\$88,367	\$219,025,737	\$6,720,643								
Balance on January 1, 2007	\$92,068,174	\$2,838,982	\$78,867,213	\$2,431,921	\$8,188,136	\$252,486	\$-	\$-	\$19,710,210	\$607,777	\$2,106	\$65	\$105,170	\$3,243	\$21,345,473	\$658,202	\$(4,140,047)	\$(127,661)	\$(573)	\$(18)	\$2,879,875	\$88,803	\$219,025,737	\$6,753,800								
Minority interest																												431,609	13,309	431,609	13,309	
Appropriations and distribution for 2006																																
Legal reserve					1,057,726	32,616			(1,057,726)	(32,616)																						
Cash dividends									(13,815,539)	(426,011)																			(13,815,539)	(426,011)		
Remuneration paid to directors and supervisors									(5,700)	(176)																			(5,700)	(176)		
Bonus paid to employees									(1,383)	(43)																			(1,383)	(43)		
Convertible notes converted into common stock	702,018	21,647	3,104,004	95,714																									3,806,022	117,361		
Capital surplus			(41)	(1)																									(41)	(1)		
Cumulative conversion adjustments													78,596	2,424															78,596	2,424		
Unrealized gains or losses of financial instruments															(10,389,952)	(320,381)													(10,389,952)	(320,381)		
Other capital surplus				37	1																								37	1		
Net loss not recognized as net pension cost																				(2,534)	(78)								(2,534)	(78)		
Consolidated income for the year ended December 31, 2007									30,748,101	948,138																			14,825	457	30,762,926	948,595
Balance on December 31, 2007	\$92,770,192	\$2,860,629	\$81,971,213	\$2,527,635	\$9,245,862	\$285,102	\$-	\$-	\$35,577,963	\$1,097,069	\$2,106	\$65	\$183,766	\$5,667	\$10,955,521	\$337,821	\$(4,140,047)	\$(127,661)	\$(3,107)	\$(96)	\$3,326,309	\$102,569	\$229,889,778	\$7,088,800								

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

The accompanying notes are an integral part of these consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars)

	2006		2007	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated income	\$10,736,961	\$329,456	\$30,762,926	\$948,595
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	4,068,188	124,829	4,084,286	125,941
Investment income recognized by equity method (in excess of) less than cash dividends received	(171,491)	(5,262)	335,224	10,337
Bad debt expenses	25,666,274	787,551	4,085,730	125,986
Provision for insurance reserve from insurance business	167,782,632	5,148,286	136,118,062	4,197,288
Gains on disposal of property and equipment	(6,978,447)	(214,129)	(1,282,739)	(39,554)
Impairment losses	497,279	15,259	465,960	14,368
Cumulative effect of changes in accounting principles	(3,249,323)	(99,703)	-	-
Disposal of treasury stock	-	-	37	1
Other adjustments	(453,200)	(13,906)	338,276	10,431
Changes in operating assets and liabilities				
(Increase) decrease in receivables	(6,695,720)	(205,453)	6,583,088	202,994
Increase in deferred income tax assets	-	-	(291,400)	(8,985)
Decrease in financial assets at fair value through profit or loss	16,953,446	520,204	20,093,896	619,608
(Increase) decrease in other financial assets	(4,409,176)	(135,292)	5,143,021	158,588
(Increase) decrease in other assets	(4,174,630)	(128,095)	3,170,118	97,753
Increase (decrease) in payables	9,053,351	277,795	(15,381,876)	(474,310)
Increase (decrease) in financial liabilities at fair value through profit or loss	12,807,300	392,982	(8,053,770)	(248,343)
Increase in deferred income tax liabilities	-	-	220,631	6,803
Increase in other financial liabilities	138,407	4,247	89,104	2,748
Increase (decrease) in other liabilities	536,349	16,457	(9,032,053)	(278,509)
Net cash provided by operating activities	222,108,200	6,815,226	177,448,521	5,471,740
Cash flows from investing activities				
Net increase from acquiring CUTIC	-	-	9,183,682	283,185
Increase in restricted assets	(1,450,000)	(44,492)	(1,550,000)	(47,795)
Increase in loans	(94,602,790)	(2,902,817)	(77,223,077)	(2,381,223)
Decrease (increase) in due from the Central Bank and call loans to banks	884,311	27,134	(7,388,630)	(227,833)
Increase in available-for-sale financial assets	(93,326,193)	(2,863,645)	(96,734,184)	(2,982,861)
Increase in held-to-maturity financial assets	(76,513,160)	(2,347,750)	(40,828,095)	(1,258,961)
Decrease in investments under equity method	3,272,166	100,404	199,719	6,158
Decrease (increase) in investments in real estate	3,472,945	106,565	(4,930,813)	(152,045)
Acquisition of property and equipment	(114,471)	(3,512)	(2,228,779)	(68,726)
(Increase) decrease in securities purchased under agreements to resell	(46,796,383)	(1,435,912)	29,561,491	911,548
Increase in other financial assets	(18,043,110)	(553,639)	(48,983,408)	(1,510,435)
Increase in other assets	(245,228)	(7,525)	(303,664)	(9,364)
Net cash used in investing activities	(323,461,913)	(9,925,189)	(241,225,758)	(7,438,352)
Cash flows from financing activities				
Increase (decrease) in due to the Central Bank and call loans from banks	27,904,957	856,243	(26,836,238)	(827,513)
Increase in deposits	86,763,925	2,662,287	19,828,358	611,420
Decrease in securities sold under agreements to repurchase	(10,203,195)	(313,077)	(9,026,317)	(278,332)
(Decrease) increase in banker's acceptances and funds borrowed	(4,250)	(130)	807,950	24,914
Decrease in bonds payable	(692,185)	(21,239)	(3,932)	(121)
Increase in other financial liabilities	578,941	17,764	1,784,277	55,019
Decrease in other liabilities	(191,943)	(5,890)	(319,848)	(9,863)
Cash dividends	(12,851,444)	(394,337)	(13,847,219)	(426,988)
Remuneration paid to directors and supervisors	(5,700)	(175)	(5,700)	(176)
Bonus paid to employees	(6,286)	(193)	(1,383)	(43)
Capital increase by cash	162,638	4,990	149,922	4,623
Net cash provided (used) by financing activities	91,455,458	2,806,243	(27,470,130)	(847,060)
Effects of exchange rate changes	13,231	406	113,107	3,488
Decrease in cash and cash equivalents	(9,885,024)	(303,314)	(91,134,260)	(2,810,184)
Cash and cash equivalents at the beginning of the period	482,606,586	14,808,425	472,721,562	14,576,675
Cash and cash equivalents at the end of the period	\$472,721,562	\$14,505,111	\$381,587,302	\$11,766,491
Supplemental disclosure of cash flows information				
Interest paid during the period (excluding capitalized interest)	\$18,916,435	\$580,437	\$20,095,277	\$619,651
Income tax paid	\$4,661,550	\$143,036	\$2,311,803	\$71,286
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stocks	\$9,436,699	\$289,558	\$3,806,022	\$117,361
Acquisition through share exchange	\$3,901,523	\$119,715	\$-	\$-

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

The accompanying notes are an integral part of these consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
(Expressed in thousands of dollars except
for share and per share data and unless otherwise stated)
December 31, 2006 and 2007

1. Organization and business scope

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) were merged into the Company through stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank merged on October 27, 2003. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. Cathay United Bank absorption merged with Lucky Bank on January 1, 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007 to increase competitiveness. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of December 31, 2006 and 2007, the total numbers of the employees of the Company and Subsidiaries were 34,782 and 38,033, respectively.

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

Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
The Company	Cathay Life	Life insurance	100.00%	100.00%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Act (the “Company Act”).

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Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
The Company	Cathay United Bank	Commercial banking operations	100.00%	100.00%	Cathay United Bank, originally named UWCCB, was enfranchised by the ROC government in January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger.
The Company	Cathay Century	Property and casualty insurance	100.00%	100.00%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on August 2, 2002.
The Company	Cathay Securities	Securities	100.00%	100.00%	Cathay Securities was incorporated on May 12, 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were transferred to Cathay Securities by using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.

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Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100.00%	100.00%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Act.
The Company、 Cathay Life、 Cathay United Bank、Cathay Century	Cathay Venture Capital Co., Ltd. (“Cathay Venture”)	Venture capital investment	67.00%	67.00%	Cathay Venture was incorporated on September 13, 2000, under the Company Act.
The Company	Cathay II Venture Capital Co., Ltd. (“Cathay II Venture”)	Venture capital investment	100.00%	100.00%	Cathay II Venture was incorporated on April 12, 2004, under the Company Act.
The Company	Lucky Bank	Commercial banking operations	100.00%	-	Lucky Bank, the former Taichung Central District Credit Union, was incorporated in 1947, reorganized as Taichung Seventh Credit Union in 1971 and reincorporated a commercial bank in 1997. On August 25, 2006, the Company acquired 100% of Lucky Bank by share swap. On January 1, 2007, Cathay United Bank was merged with the former Lucky Bank which was dissolved after the merger.

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Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
Cathay Life	Lin Yuan Property Management Co., Ltd. (“Lin Yuan Property Management”)	Property management services	10.00%	10.00%	Lin Yuan Property Management Co., Ltd. was incorporated on July 1, 2000, under the Company Act. On May 22, 2002, the company name was changed from “San Ching Property Management Co., Ltd.” to “Lin Yuan Property Management Co., Ltd.” 80% of the Company’s shares were disposed by Cathay Life on January 13, 2006, while 90% of them were held by Cathay Life before the disposal. As of and for the years ended December 31, 2007, the consolidated financial statement excluded Lin Yuan Property Management Co., Ltd.
Cathay Life	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50.00%	50.00%	Cathay Life (Shanghai) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest of Cathay Life (Shanghai).

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Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
Cathay Life 、 Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	99.53%	Symphox Information was incorporated on December 12, 1999, under the Company Act. Cathay Life and Cathay Venture own 60.12% and 39.41% interest of Symphox Information, respectively.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Viethnam)”)	Life insurance	-	100.00%	Cathay Life (Vietnam) was incorporated on November 21, 2007.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00%	50.00%	Indovina Bank was incorporated in Vietnam on October 29, 1992.
Cathay United Bank 、 Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Further related business	99.99%	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. Changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.

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Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
Cathay United Bank	Seaward Leasing Ltd. (“Seaward Leasing”)	Leasing for all kinds of equipments	-	-	Seaward Leasing was incorporated on February, 1996, under the Company Act. As of June 30, 2006, all Seaward Leasing shares held by Cathay United Bank were disposed. As such , the consolidated financial statements as of and for the years ended December 31, 2007 excluded Seaward Leasing.
Lucky Bank	Pao Shin Securities Co., Ltd. (“Pao Shin Securities”)	Securities	-	-	Pao Shin Securities was incorporated on September 9, 1988, under the Company Act. As of April 10, 2006, all Pao Shin Securities shares held by Lucky Bank were disposed. As such , the consolidated financial statements as of and for the years ended December 31, 2007 excluded Pao Shin Securities.

As of and for the years ended December 31, 2006 and 2007, the consolidated financial statements excluded following subsidiaries due to the respective total assets and operating revenues were considered immaterial to the Company.

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Investors	Investees	Business	2006.12.31 Ownership interest	2007.12.31 Ownership interest	Notes
The Company	Cathay Capital Management Inc., (“Cathay Capital Management”)	Management consultant	100.00%	100.00%	Cathay Capital Management was incorporated on June 12, 2000.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100.00%	100.00%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.
Cathay life	Cathay Securities Investment Co., Ltd. (“Cathay Securities Investment”)	Securities investment research analysis	100.00%	100.00%	Cathay Securities Investment was incorporated on November 25, 2002.
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100.00%	100.00%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100.00%	100.00%	Cathay Property Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100.00%	100.00%	Seaward Card was incorporated on April 9, 1999.
Cathay Capital Management	Cathay Pacific Partners Co., Ltd. (“Cathay Pacific Partners”)	Finance consultant	60.00%	60.00%	Cathay Pacific Partners was incorporated on October 15, 2002.
Seaward Leasing	China England Co., Ltd. (“China England”)	Credit, loan and securities investment	-	-	China England was incorporated on August 7, 1996. As of June 30, 2006, all Seaward Leasing shares held by Cathay United Bank were disposed and therefore the Company lost control over China England.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with Business Entity Accounting Act, Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles. A summary of significant accounting policies follows:

(1) Principles of consolidation

- A. In accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, consolidated financial statements preparation should comply with the Statements of Financial Accounting Standards of Republic of China (“ROC SFAS”) No. 7, except for subsidiaries in banking, insurance and securities which are required to be included in the consolidated financial statements.
- B. All significant inter-company transactions were eliminated in the consolidated financial statements.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits, checks for clearance, due from commercial banks and all highly liquid investments with maturities of less than three months.

(3) Financial assets and financial liabilities

Adopted the ROC SFAS No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Regulations Governing the Preparation of Financial Reports by Financial Holding Company”. Financial assets are categorized as the “financial assets at fair value through profit or loss”, “held-to-maturity financial assets”, “investments in debt securities with no active market”, “available-for-sale financial assets”, “derivative financial asset for hedging” or “financial assets carried at cost”, and accordingly, recognized at fair value initially. Financial liabilities are categorized as the “financial liabilities at fair value through profit or loss”, “derivative financial liability for hedging”, or “financial liabilities carried at cost”.

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The Company and Subsidiaries purchases and sales of financial assets in “regular way”. “Regular way” purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit or loss are categorized as held for trading or designated as at fair value through profit or loss. Gains and losses from changes in fair values of such assets are reflected in the income statement.

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums/discounts have been taken into the consideration of the effective interest rate calculation.

C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair values are recognized when investments in debt securities with no active market are derecognized, impaired, or amortized.

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profits and losses.

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E. Derivative financial assets or liabilities for hedging

Derivative financial assets or liabilities for hedging are derivative financial assets or liabilities that have been designated as hedges based on hedge accounting and are effective hedging instruments. These assets or liabilities are measured at fair value.

F. Financial assets carried at cost

Financial assets measured at initial cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss will be recognized. The impairment loss can not be reversed.

G. Financial liabilities

The Company and Subsidiaries uses amortized cost for subsequent valuation of financial liabilities, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging”, which 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, the net asset value for open-ended funds, the quoted price by the Taiwan Gre Tai Securities Market for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

(4) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized in which the control over the asset (or a portion) is surrendered. Transfer a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the assets.

If a transfer of financial assets does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

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B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under the liability agreement is discharged or cancelled or expires.

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

If there is 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 profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurs after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

B. Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, 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 recorded 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 similar financial asset. The impairment loss can not be reversed.

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C. 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 profit or loss, 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 profit or loss.

(6) Derivative financial instruments

The Company and Subsidiaries conducts derivative financial instrument transactions such as forward foreign exchange, interest rate swap, cross-currency swap, option and futures to hedge its risks associated with interest rates and foreign currency fluctuations. These derivative financial instruments are initially recognized at fair value on the date of which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives 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 that do not qualify for hedge accounting are taken directly to net profit or loss for the period.

For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to fluctuation in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

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At the inception of a hedge relationship, the Company and Subsidiaries formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. 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 and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges in compliance with hedge accounting requirements are accounted for as follows:

A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains and losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

For fair value hedge 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 before the hedge accounting is no longer applicable.

The Company and Subsidiaries discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. 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.

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Hedging instruments are subsequently measured at fair value or the gains (losses) resulting from the exchange rate changes are recognized in current period earnings by to the ROC SFAS No.14 “Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements”.

B. Cash flow hedges

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedges are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

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(7) Allowance for bad debts

Allowance for bad debts on bills, bill purchased, acceptances, guarantees loans, delinquent accounts, receivables of credit card and other receivables are determined based on the aging analysis of outstanding balances of such accounts and past experience.

(8) Investments-equity method

Investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was amortized. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in conformity with the acquisition cost allocation as provided in ROC SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method." Goodwill is no longer amortized.

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the capital surplus and the accounts. If the adjustment stated above is to debit the capital surplus account and the book balance of capital surplus from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and Subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

(9) Investments in real estate

Investments in real estate are stated at cost when acquired. Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains and losses are recorded in operating gains and losses accounts.

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Depreciation is calculated using the straight-line method in accordance with the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is for commercial leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “land revaluation adjustments” of stockholders’ equity.

Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

The Company and Subsidiaries adopted the ROC SFAS No. 37 “Accounting for Intangible Assets” on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair value. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets of the Company and Subsidiaries are deemed finite.

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing are performed when there are indications of impairment on intangible assets. The Company and Subsidiaries reevaluates the amortization periods and amortization methods of the intangible assets with finite useful lives at each balance sheet date and the changes are treated as changes in accounting estimates.

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The intangible assets of the Company and Subsidiaries are computer softwares and are amortized over the estimated useful lives of three to five years using the straight-line method.

(12) Accounting for Assets Impairment

Pursuant to ROC SFAS No. 35, “Accounting for Asset Impairment” the Company and Subsidiaries assesses indicators of impairment for all its assets within the scope of ROC SFAS No. 35 on each balance sheet date. If impairment indications exist, the Company and Subsidiaries shall then 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 fair values less costs to sell and the values in use.

For previously recognized losses, the Company and Subsidiaries shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company and Subsidiaries has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company and Subsidiaries shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- A. First, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs.
- B. If the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

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(13) Real Estate Investment Trust (REIT) and financial assets securitization

Cathay Life has adopted “Accounting Treatment under Real Estate Securitization” with the Accounting Research and Development Foundation.

Once the sales process is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under “total amount accrual method”.

If the originator and its related parties do not participate in the initial offering but subsequently acquire the REIT beneficiary securities less than 20% of its outstanding shares from the TSE at fair market value within three months after the issue date, the transfer and purchase transaction are deemed two independent transactions due to the subsequent purchase transaction has no significant influence over the transfer transaction. However, if the originator and its related parties subsequently acquire the REIT beneficiary securities over 20% of its outstanding shares within three months after the issue date, the subsequently acquired portion is not deemed a sale and therefore gain or loss on disposal of real estate for the originator related to the subsequently acquired portion shall be deferred.

Under the Regulations for Financial Assets Securitization, Subsidiaries, 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. Due to Subsidiaries have surrendered the rights and control on these securitized financial assets, such financial assets are no longer recognized on its accounts. The gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates for credit enhancement, which are classified as held-to-maturity financial assets and investments in debt securities with no active market due to lack of market quotes.

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. Due to 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.

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(14) Convertible notes

The excess of the redemption price over the par value of convertible notes are credited to redemption premium payable and amortized using the interest method. This amortization is recorded as interest expense.

The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible notes and reserve amounts for bonds redemption are transferred to the accounts of capital stock and capital surplus and accordingly, no gain or loss is recognized upon conversion.

(15) Reserves for operations and liabilities

The subsidiaries in banking, insurance and securities industries are required by the government to record operating and loss reserves.

(16) Treasury stock

The stock that the Company repurchases is recorded in the “treasury stock account”. The book value of the treasury stock is determined based on the reason of purchase and stock type (common or preferred stock) using the weighted average method. At the time of writing off treasury stock, the Company should debit common stock and capital surplus on stock issuance proportionally. As long as the book value of the retired treasury stock is higher than the sum of its par value and capital surplus on stock issuance, the excess should be debited to other capital surplus or retained earnings when capital surplus-treasury stock is insufficient. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus on stock issuance, the difference is credited to capital surplus-treasury stock.

According to the Ministry of Finance-Securities and Future Commission (91) article 108164:

A. In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose such treasury shares within this period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly.

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B. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities Exchange Act.

According to the Securities and Futures Commission (91) article 111467, shares previously bought back by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon conversion of the institutions into wholly-owned subsidiaries of a financial holding company and the conversion of such shares into treasury shares of the financial holding company, must be treated by such subsidiaries as their own treasury shares and a deduction of shareholders' equity and must be treated as treasury shares of the financial holding company. If the financial institutions hold shares of other financial institutions whose shares are also converted into the shares of the same financial holding company, the principle of equity investment shall apply. The Company follows ROC SFAS NO.30 "Accounting for Treasury Stocks" and treats shares held by its subsidiaries as treasury stock in its financial statements.

(17) Recognition of interest income and service fees

Interest income is recognized on an accrual basis except for loans classified as delinquent accounts. The accrual of income from delinquent accounts is discontinued; subsequent interest payments are credited to income when received. Service fees are recognized on an accrual basis.

(18) Insurance premium income and expenses

Direct premiums are recorded as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end based on past experience.

(19) Pension plan

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

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In compliance with SFC regulations, the Company and Subsidiaries follow the ROC SFAS No. 18, "Accounting for Pensions". When providing defined benefit plans, an actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets; when providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense for the employee's employment period.

(20) Foreign currency transactions

A. Translation of foreign currency transactions

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.

B. Translation of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are translation into NT dollars based on follows: all assets and liabilities denominated in foreign currencies are translation into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are translation based on the historical rates except for the opening balance of retained earnings, which is posted directly from the year end balance of previous year. Income statement items are translation by the weighted-average exchange rate of the fiscal year. Differences arising from above translation are reported as cumulative translation adjustments under stockholders' equity.

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(21) Income taxes

The Company adopted ROC SFAS No. 22, “Accounting for Income Taxes”, which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior years’ loss carry forwards and investment tax credits. An allowance is provided under assessment of the realizability of deferred tax assets. Adjustment of prior years’ income tax payable are included in current income tax expense.

In accordance with Article 49 of the Financial Holding Company Act, the Company and Subsidiaries selected the consolidated income tax return for tax filings and pay a 10% surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the consolidated tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and Subsidiaries.

The Company adopted ROC SFAS No. 12, “Accounting for Income Tax Credits,” for income tax deductions. The income tax deductions resulting from the expenditure on the purchase of equipment, research and development, education, training and investment in equity are accounted for under the current period recognition method.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date when the stockholders resolve the appropriation of earnings.

Effective from January 1, 2006, the Company and Subsidiaries have considered the impact of the “Alter native Minimum Tax Act” to estimate its income tax liabilities.

(22) Capital expenditure

Capital expenditure is capitalized and amortized over its useful life if it involves a significant amount and may generate revenues in future periods. Otherwise, it is expensed in the year as incurred.

(23) Translation to U.S. dollars

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of December 31, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.59 and NT\$32.43 provided by Federal Reserve Bank of New York of December 31, 2006 and 2007 are used for the translation.

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3. Change in accounting and its effects

The Company and Subsidiaries adopted the ROC SFAS No.34 “Accounting for Financial Instruments” and No.36. “Disclosure and Presentation of Financial Instruments” beginning on and after January 1, 2006 (the “effective date”).

The above change in accounting principles increased consolidated assets, liabilities and stockholders’ equity by NT\$16,384,910 (US\$502,759), NT\$2,486,909 (US\$76,309) and NT\$10,648,678 (US\$326,747) as of January 1, 2006, respectively. Consolidated income and earnings per share for the years ended December 31, 2006 increased by NT\$3,249,323 (US\$99,703) and NT\$0.36 (US\$0.01), respectively.

The Company and Subsidiaries adopted the ROC SFAS No.5, “Accounting for long-term investments in stocks under the equity method” (“ROC SFAS No.5,”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company and Subsidiaries’ share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is no longer being amortized. Such change in accounting principles the decreased investment under equity method by NT\$138,458 (US\$4,248) as of December 31, 2006, and decreased consolidated income by NT\$138,458 (US\$4,248) for the years ended December 31, 2006.

4. Cash and cash equivalents

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Petty cash and cash on hand	\$11,731,714	\$359,979	\$9,744,103	\$300,466
Cash in banks	17,128,347	525,571	11,079,599	341,647
Time deposits	420,097,617	12,890,384	350,389,873	10,804,498
Cash equivalents	-	-	343,501	10,592
Checks for clearance	11,563,330	354,812	3,298,851	101,722
Due from commercial banks	12,200,554	374,365	6,731,375	207,566
Total	<u>\$472,721,562</u>	<u>\$14,505,111</u>	<u>\$381,587,302</u>	<u>\$11,766,491</u>

As of December 31, 2006 and 2007, the amounts of time deposits with maturities beyond one years were NT\$1,524,927 (US\$46,791) and NT\$1,095,823 (US\$33,790), respectively.

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5. Financial assets at fair value through profit or loss

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Common stock	\$14,819,236	\$454,717	\$18,234,182	\$562,263
Beneficiary certificates	41,842,511	1,283,906	12,786,345	394,275
Exchange traded funds	2,414,255	74,080	261,234	8,055
Real estate investment trust	258,397	7,929	519,283	16,012
Commercial papers	15,241,113	467,662	9,687,729	298,727
Corporate bonds	3,704,597	113,673	3,882,122	119,708
Government bonds	35,059,429	1,075,773	1,021,138	31,488
Financial debentures	1,516,180	46,523	20,332,946	626,980
Overseas financial instruments	21,366,489	655,615	55,596,773	1,714,363
Derivative financial instruments	2,336,975	71,708	1,253,496	38,652
Structured time deposits	-	-	2,000,000	61,671
Valuation adjustment	19,084,971	585,608	11,747,046	362,228
Total	<u>\$157,644,153</u>	<u>\$4,837,194</u>	<u>\$137,322,294</u>	<u>\$4,234,422</u>

(1) As of December 31, 2006 and 2007, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$9,765,400 (US\$299,644) and NT\$6,522,500 (US\$201,126), respectively. Such repurchase agreements amounting of NT\$9,746,341 (US\$299,059) and NT\$6,503,534 (US\$200,541), respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to December 31, 2006 and 2007 are settled at NT\$9,753,463 (US\$299,278) and NT\$6,507,082 (US\$200,650) prior to January 31, 2007 and February 29, 2008, respectively.

(2) Related information on the above financial assets at fair value through profit or loss as of December 31, 2006 and 2007 being pledged please refer to Note 26.

6. Loans-net

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Inward-outward documentary bills	\$837,160	\$25,688	\$786,031	\$24,238
Loans	1,213,965,283	37,249,625	1,308,390,342	40,345,062
Overdrafts	602,863	18,498	527,941	16,279
Delinquent accounts	9,008,034	276,405	8,592,110	264,943
Subtotal	1,224,413,340	37,570,216	1,318,296,424	40,650,522
Less: Allowance for bad debts	(17,901,344)	(549,290)	(11,539,720)	(355,835)
Total	<u>\$1,206,511,996</u>	<u>\$37,020,926</u>	<u>\$1,306,756,704</u>	<u>\$40,294,687</u>

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7. Available-for-sale financial assets-net

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Common stock	\$116,044,616	\$3,560,743	\$117,843,468	\$3,633,780
Beneficiary certificates	1,124,412	34,502	1,023,084	31,547
Collateralized loans obligation and collateralized bonds obligation	5,768,785	177,011	7,339,215	226,310
Exchange traded funds	1,027,934	31,540	3,717,938	114,645
Government bonds	46,612,724	1,430,277	77,516,512	2,390,272
Corporate bonds	36,866,882	1,131,233	49,226,808	1,517,940
Financial debentures	61,401,736	1,884,067	114,349,948	3,526,055
Overseas financial instruments	90,808,276	2,786,385	79,622,401	2,455,208
Real estate investment trust beneficiary	9,227,656	283,144	9,365,232	288,783
Valuation adjustment	20,797,237	638,148	13,114,804	404,403
Total	<u>\$389,680,258</u>	<u>\$11,957,050</u>	<u>\$473,119,410</u>	<u>\$14,588,943</u>

(1) As of December 31, 2006 and 2007, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$12,780,900 (US\$392,172) and NT\$7,364,000 (US\$227,074). Such repurchase agreements amounting of NT\$13,915,399 (US\$426,984) and NT\$8,131,889 (US\$250,752) were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to December 31, 2007 will be settled at NT\$13,947,971 (US\$427,983) and NT\$8,159,958 (US\$251,618) prior to March 30, 2007 and June 30, 2008, respectively.

(2) Related information on the above available-for-sale financial assets as of December 31, 2006 and 2007 being pledged please refer to Note 26.

8. Held-to-maturity financial assets-net

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Government bonds	\$12,026,686	\$369,030	\$20,269,163	\$625,013
Corporate bonds	6,836,089	209,760	5,387,991	166,142
Financial debentures	19,409,812	595,576	12,330,169	380,208
Overseas financial instruments	487,259,807	14,951,206	523,923,252	16,155,512
Collateralized loans obligation and collateralized bonds obligation	17,456,930	535,653	22,705,050	700,125
Short-term notes	1,982,298	60,825	2,947,944	90,902
Subtotal	544,971,622	16,722,050	587,563,569	18,117,902
Less: Accumulated impairment	(2,018)	(62)	(2,008)	(62)
Total	<u>\$544,969,604</u>	<u>\$16,721,988</u>	<u>\$587,561,561</u>	<u>\$18,117,840</u>

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Related information on the above held-to-maturity financial assets as of December 31, 2006 and 2007 being pledged please refer to Note 26.

9. Investments under equity method

Investee	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Consulting	\$120,060	\$3,684	\$167,337	\$5,160
Cathay Capital Management	57,764	1,772	68,117	2,100
Seaward Card	40,098	1,230	37,704	1,163
Cathay Property Insurance Agent	9,180	282	7,587	234
Cathay Life Insurance Agent	92,291	2,832	42,901	1,323
Cathay Insurance (Bermuda)	73,730	2,262	88,345	2,724
WK Technology Fund VI Co., Ltd	433,755	13,309	424,375	13,086
Vista Technology Venture Capital Corp.	56,787	1,743	55,372	1,707
Omnitek Venture Capital Corp.	334,511	10,264	227,846	7,026
Wa Tech Venture Capital Co., Ltd.	204,470	6,274	176,115	5,431
Taiwan Real-estate Management Corp.	19,441	597	42,596	1,313
Taiwan Finance Corp.	1,375,154	42,196	1,271,370	39,204
IBT Venture Capital Corp.	602,317	18,482	420,234	12,958
Cathay Securities Investment Trust Co., Ltd.	280,545	8,608	408,289	12,590
Subtotal	3,700,103	113,535	3,438,188	106,019
Less: Unrealized gain from intercompany transactions	-	-	(415,680)	(12,818)
Total	\$3,700,103	\$113,535	\$3,022,508	\$93,201

10. Other financial assets-net

Item	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Derivative financial assets for hedging	\$251,901	\$7,729	\$306,522	\$9,452
Financial assets carried at cost	27,124,647	832,300	26,954,205	831,150
Structured time deposits	15,295,144	469,320	19,195,936	591,919
Customer's margin accounts	972,500	29,841	1,165,984	35,954
Bills purchased	3,826	117	10,701	330
Other miscellaneous financial assets	122,407	3,756	307,497	9,482
Accumulated impairment	(1,721,837)	(52,833)	(1,860,750)	(57,377)
Total	\$42,048,588	\$1,290,230	\$46,080,095	\$1,420,910

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11. Investments in real estate

December 31, 2006										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$115,783,294	\$3,552,725	\$4,632	\$142	\$(13,933,607)	\$(427,543)	\$(196,952)	\$(6,043)	\$101,657,367	\$3,119,281
Construction	682,662	20,947	-	-	-	-	-	-	682,662	20,947
Prepayments										
for										
buildings										
and land	6,032	185	-	-	-	-	-	-	6,032	185
Leased assets	213,046	6,537	-	-	(13,950)	(428)	-	-	199,096	6,109
Total	\$116,685,034	\$3,580,394	\$4,632	\$142	\$(13,947,557)	\$(427,971)	\$(196,952)	\$(6,043)	\$102,545,157	\$3,146,522

December 31, 2007										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$120,306,005	\$3,709,713	\$4,470	\$138	\$(15,411,620)	\$(475,227)	\$(195,923)	\$(6,042)	\$104,702,932	\$3,228,582
Construction	1,681,938	51,864	-	-	-	-	-	-	1,681,938	51,864
Total	\$121,987,943	\$3,761,577	\$4,470	\$138	\$(15,411,620)	\$(475,227)	\$(195,923)	\$(6,042)	\$106,384,870	\$3,280,446

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semiannually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collaterals.
- (4) Cathay Life had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building for the years ended of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, “Accounting Treatment of Real Estate Securitization” and “Interpretation of the Accounting Treatment of Real Estate Securitization”, respectively. The gain on disposal of real estates on this transaction was NT\$1,193,535 (US\$36,803) for the years ended December 31, 2007.

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(5) Cathay Life has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. Related information is as follows:

- A. Cathay Life transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$264,736).
- B. After the REIT was issued, the sponsor and related parties of Cathay Life did not participate in the original offering. Instead, Cathay Life bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding securities. Thus, it should be treated as a part of unsold real estate. Cathay Life has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by Cathay Life. As of December 31, 2006, the amounts of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,431) had been recognized.

12. Financial assets securitization

During 2007, Cathay United 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 1 st	NT\$3,335,000(US\$102,837)	2.175%
Senior tranche 2 nd	NT\$315,000(US\$9,713)	2.325%
Senior tranche 3 rd	NT\$340,000(US\$10,484)	2.545%
Senior tranche 4 th	NT\$480,000(US\$14,801)	2.945%
Subordinated tranche 5 th	NT\$200,000(US\$6,167)	3.00%
Subordinated tranche 6 th	NT\$200,000(US\$6,167)	3.20%
Subordinated tranche 7 th	NT\$576,335(US\$17,772)	-

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Cathay United 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 Cathay United Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests:

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

	<u>Corporate Loans Securitization</u>	
	<u>December 31, 2007</u>	<u>May 28, 2007</u>
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:

	<u>December 31, 2007</u>	
	<u>NT</u>	<u>US</u>
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 fair value with 10% adverse change	(6,433)	(198)
Impact on fair value with 20% adverse change	(12,821)	(395)

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(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

13. Goodwill and intangible assets-net

Item	January 1, 2006		Increase		Decrease		December 31, 2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Computer								
software	\$1,139,094	\$34,952	\$457,722	\$14,045	\$(1,273)	\$(39)	\$1,595,543	\$48,958
Land use right	9,480	291	6,559	201	-	-	16,039	492
Deferred								
pension cost	23,318	716	262	8	-	-	23,580	724
Subtotal	1,171,892	35,959	464,543	14,254	(1,273)	(39)	1,635,162	50,174
Amortized and impairment								
Amortized	(381,699)	(11,713)	(336,275)	(10,318)	810	25	(717,164)	(22,006)
Book value	\$790,193	\$24,246	\$128,268	\$3,936	\$(463)	\$(14)	\$917,998	\$28,168

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Item	January 1, 2007		Increase		Decrease		December 31, 2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$-	\$-	\$6,537,374	\$201,584	\$-	\$-	\$6,537,374	\$201,584
Computer								
software	1,578,831	48,684	522,192	16,102	(7,690)	(237)	2,093,333	64,549
Land use right	16,132	498	3,498	108	-	-	19,630	606
Subtotal	1,594,963	49,182	7,063,064	217,794	(7,690)	(237)	8,650,337	266,739
Amortized and impairment								
Amortized	(697,995)	(21,523)	(380,365)	(11,729)	7,690	237	(1,070,670)	(33,015)
Impairment	-	-	(147,141)	(4,537)	-	-	(147,141)	(4,537)
Subtotal	(697,995)	(21,523)	(527,506)	(16,266)	7,690	237	(1,217,811)	(37,552)
Book value	\$896,968	\$27,659	\$6,535,558	\$201,528	\$-	\$-	\$7,432,526	\$229,187

The intangible assets are computer software and are calculated using the straight-line method over the estimated useful lives of three to five years.

14. Financial liabilities at fair value through profit or loss

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Derivative financial				
instruments	\$1,266,444	\$38,859	\$128,023	\$3,948
Financial debentures	39,700,000	1,218,165	38,680,000	1,192,723
Subordinated financial				
debentures	10,000,000	306,843	5,000,000	154,178
Valuation adjustment	17,087,644	524,322	16,220,717	500,176
Total	\$68,054,088	\$2,088,189	\$60,028,740	\$1,851,025

(1) On May 23, 2002, Cathay United Bank issued have been five-year subordinated financial debentures totaling NT\$5,000,000 (US\$154,178) which matured. Subsequently on September 10, 2002, Cathay United Bank issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$154,178) with a floating interest rate or inverse floating interest rate and the interest is paid semi-annually. The subordinated financial debentures are repayable at maturity.

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- (2) 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.
- (3) On June 20, 2003, Cathay United Bank issued five-year and six-month dominant financial debentures amounting to NT\$5,000,000 (US\$154,178) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued five-year dominant financial debentures amounting to NT\$3,200,000 (US\$98,674), NT\$2,700,000 (US\$83,256) and NT\$1,800,000 (US\$55,504), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$61,671) with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.
- (4) On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$30,836), NT\$3,500,000 (US\$107,925), NT\$2,000,000 (US\$61,671), and NT\$1,000,000 (US\$30,836), 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 semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$77,089), NT\$1,500,000 (US\$46,253), NT\$1,500,000 (US\$46,253), NT\$2,500,000 (US\$77,089), NT\$1,500,000 (US\$46,253), NT\$2,500,000 (US\$77,089), NT\$1,000,000 (US\$30,836) and NT\$1,000,000 (US\$30,836), NT\$2,000,000 (US\$61,671), NT\$1,500,000 (US\$46,253), respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity and the interest is payable quarterly.
- (5) These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank.

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15. Deposits

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Check deposits	\$15,469,285	\$474,664	\$12,315,485	\$379,756
Demand deposits	162,375,312	4,982,366	113,802,630	3,509,178
Savings deposits	606,492,105	18,609,761	361,810,569	11,156,663
Time deposits	177,837,860	5,456,823	504,083,001	15,543,725
Outward remittances	-	-	35,102,110	1,082,396
Remittances payable	398,331	12,222	721,091	22,235
Total	<u>\$962,572,893</u>	<u>\$29,535,836</u>	<u>\$1,027,834,886</u>	<u>\$31,693,953</u>

16. Bonds payable

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Bonds payable	\$4,273,210	\$131,120	\$-	\$-
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	<u>\$22,409,028</u>	<u>\$687,604</u>	<u>\$18,551,837</u>	<u>\$572,058</u>

- (1) On April 28, 2003, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$72,464) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.
- (2) Cathay United 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 semi-annually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures.
- (3) 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.

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(4) Zero coupon convertible notes related information:

- A. Issuer: Cathay Financial Holding Co., Ltd.
- B. Issue amount: US\$700 million.
- C. Issue price: 100%.
- D. Maturity date: May 20, 2007.
- E. Interest: The notes do not bear interest except in the limited circumstances.
- F. Conversion rights:

Subject to certain conditions, each holder of the notes (the “Holder”) has the right during the conversion period to convert its notes (or any portion thereof being US\$1,000 (dollars) in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period.

G. Repurchase at the option of the holder:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 (dollars) or any integral multiple thereof) of such Holder’s notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium. The redemption premium is the amount payable at the issue price on the original issue date, plus a compound yield rate of 2.75% per annum (computed on a semi-annual note equivalent basis).

H. Repurchase in the event of delisting:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Company’s common shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 (dollars) or any integral multiple thereof) of such Holder’s notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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I. Repurchase in the event of change of control:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 (dollars) or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium, upon the occurrence of a change of control.

J. Redemption at the option of the Company:

The notes may be redeemed at the option of the Company, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that (a) the closing price (translated into US dollars at the prevailing rate) of the common shares for a period of 30 consecutive trading days (including trading days that fall within a closed period), the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the exchange rate, as defined in the indenture for the notes) and (b) the applicable redemption date does not fall within a closed period. Notwithstanding the foregoing, the Company may redeem, in whole but not in part, the notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that the applicable redemption date does not fall within a closed period.

K. Redemption due to tax regulation changes :

If, as a result of certain changes relating to the ROC tax laws or such other jurisdiction in which the Company is then organized, the Company becomes obligated to pay certain additional amounts, the notes may be redeemed at the option of the Company, in whole but not in part, at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on such redemption date.

L. Redemption amount at maturity:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, the Company will redeem the notes on the maturity date at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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M. Negative pledge:

Subject to certain exceptions, the Company will not, and will procure that none of its principal subsidiaries will, create or permit to subsist any lien to secure for the benefit of the holders of any international investment securities any sum owing in respect thereof or any guarantee or indemnity thereof without making effective provision to secure the notes (a) equally and ratably with such international investment securities with a similar lien or (b) with such other security as shall be approved by Holders of not less than a majority in aggregate principal amount of the outstanding notes.

N. Further issues:

The Company may create and issue further securities with the same terms and conditions from time to time without the consent of the Holders of the notes so that such further issuance shall be consolidated and form a single series with the notes.

O. Governing law:

The indenture, notes and deposit agreements are governed by, and construed in accordance with, the laws of the State of New York.

P. Status quo:

As of May 20, 2007, a total of US\$686,074 convertible notes have been converted into common stocks of 461,242 thousand shares. The conversion premiums payable and additional paid-in capital from the conversion amounted to NT\$20,288,151 (US\$625,598) and was recognized as capital surplus. A total of face value US\$2,500, convertible bonds have been redeemed before maturity. The company also has paid US\$214, for the redemption premium. As of the maturity date there were US\$13,926 outstanding convertible bonds outstanding and the Company then had paid off the principal amount plus redemption premium of US\$2,038.

17. Reserve for operations and liabilities

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Reserve for insurance business	\$1,827,052,904	\$56,061,764	\$1,963,535,576	\$60,546,888
Reserves for losses on guarantees	28,668	880	28,649	883
Reserves for losses on stock brokerage transactions	17,129	526	29,928	923
Reserves for losses on trading securities	150,610	4,621	269,023	8,296
Total	<u>\$1,827,249,311</u>	<u>\$56,067,791</u>	<u>\$1,963,863,176</u>	<u>\$60,556,990</u>

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- (1) Effective from December 24, 2002, Cathay Century Insurance unearned premium reserves should be provided based on assumed risks of different insurance products. The calculation of the reserve requires the involvement of actuaries as well as disclosures on the insurance product calculation statement which can not be changed unless approved by authorities. The unearned premium reserve should be reversed and then accrued at the next year end. Cathay Century Insurance reported to the authorities on the method of calculating unearned premium reserve on July 31, 2003 and was approved by the Ministry of Finance with Article 0920708262. On December 8, 2006, Cathay Century Insurance reported to the authorities on the change of method of calculating unearned premium reserve and was approved by the Ministry of Finance with Article 09502152840.

The unearned premium on motor vehicles compulsory insurance is provided based on the assumed premium in accordance with the article of Ministry of Finance.

- (2) Effective from December 24, 2002, the accruals of claim reserves are in accordance with “Insurance Industry Provision of Reserve for Indemnity” issued by the Ministry of Finance. The accruals include retained IBNR and outstanding claims. Effective from January 1, 2006, the accruals on reserves have changed from the fixed rates to a method subject to authorities’ approval based on the past experience and expenses. Cathay Century Insurance has reported to the authorities for the accrual method and its has been approved by Insurance Bureau of FSC(Article 09500204880). The method is as follows:

- A. Reserve for outstanding claims is estimated based on historical information and circumstances surrounding each claim for each type of insurance.
- B. Reserve for IBNR is determined by the past experience and loss on each insurance product category.
- C. The unearned premium reserve should be reversed and then accrued at the next year end.
- D. The reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”. The reserve on retained outstanding claims is based on related information. The reserve on IBNR is based on 1% of the retained net earned premium.
- E. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.

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F. The residential earthquake insurance product is in compliance of “Regulations for Method of Coinsurance and Contingency on Residential Earthquake”.

18. Other financial liabilities

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Derivative financial liabilities for hedging	\$487,429	\$14,956	\$101,430	\$3,128
Borrowed funds	312,160	9,579	308,730	9,520
Others	175,703	5,391	158,821	4,897
Total	<u>\$975,292</u>	<u>\$29,926</u>	<u>\$568,981</u>	<u>\$17,545</u>

19. Common stock

- (1) As of December 31, 2006 and 2007, the authorized share capital amounted NT\$120,000,000 (US\$3,682,111), and the issued share capital amounted NT\$92,068,174 (US\$2,825,044) and NT\$92,770,192 (US\$2,860,629), respectively.
- (2) The undistributed earnings recapitalization of NT\$4,263,443 (US\$130,821) thousand by issuing 426,344 thousand shares with par value of NT\$10 (US\$0.3) was resolved by the Company’s stockholders’ meeting on June 9, 2006 and approved by the Securities and Futures Bureau on December 31, 2006. The recapitalization record date was August 14, 2006.
- (3) On December 31, 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

20. Capital surplus

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$78,867,213 (US\$2,419,982) and NT\$81,971,213 (US\$2,527,635) as of December 31, 2006 and 2007, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted NT\$267,215 (US\$8,240) were included in the capital surplus as of December 31, 2006 and 2007.

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- (2) The capital surplus of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends.
- (3) In addition, pursuant to the Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

21. Retained earnings

(1) Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

(2) Undistributed earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.

B. On June 15, 2007, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2006. The Company declared cash dividends of NT\$1.5 (US\$0.05) per common share and such dividends with record date on July 5, respectively.

C. On June 9, 2006, the stockholders' meeting resolved the distribution of earnings of NT\$2.0 (US\$0.06) per share for the year ended December 31, 2005. The cash and stock dividends with record dates are NT\$1.5 (US\$0.05) and NT\$0.5 (US\$0.02) on July 17 and August 14, 2006, respectively.

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D. The Company is required to pay an 10% surtax in the forthcoming tax year for undistributed earnings.

E. In accordance with SFC regulations, in addition to the legal reserve retained, the Company is required to provide a special reserve in the amount equal to current year's contra account in stockholders' equity from current year's earnings after tax or prior year's undistributed earnings. However, contra accounts in prior year's accumulated stockholders' equity should only be provided from prior year's undistributed earnings. If a reversal of stockholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

F. In accordance with SFC regulations, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The cost of these shares are exempted from distributing as special reserve.

G. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost expect for the special reserve since 2007.

H. Dividends policy

The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations with excess cash from retained earnings distributed in cash, but cash dividends must be a minimum of 10% of the total dividends declared.

I. Accounting to the regulations issued by SFC, the Company should assume the dividends for year 2006 would be appropriated to the employees, directors and supervisors, and pro-forma earnings per share for the current year.

	For the year ended December 31, 2006	
	(NT\$)	(US\$)
a. Distribution		
Bonus paid to employees-Cash	\$1,383	\$43
Bonus paid to employees-Stock	-	-
Remuneration paid to directors and supervisors	5,700	176
b. Earnings per share after income taxes (expressed in dollars)	\$1.18	\$0.04
Pro-forma earnings per share (expressed in dollars)	1.18	0.04

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$$\text{Pro forma earnings per share} = \frac{\text{Net income—Bonus paid to employees—Bonus paid to employees(Stock)—Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

22. Treasury stock

The following is a summary of the movement of treasury stock as of December 31, 2006 and 2007:

December 31, 2006										
Reason for acquisition	In thousands of shares			Book value		Book value per share		Market value per share		
	January 1, 2006	Increase	Decrease	December 31, 2006	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares held by										
share exchange	-	66,660	-	66,660	\$4,140,047	\$127,034	\$62.11	\$1.91	\$74	\$2.27

December 31, 2007										
Reason for acquisition	In thousands of shares			Book value		Book value per share		Market value per share		
	January 1, 2007	Increase	Decrease	December 31, 2007	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares held by										
share exchange	66,660	-	-	66,660	\$4,140,047	\$127,661	\$62.11	\$1.92	\$67.60	\$2.08

23. Operating Expense

For the years ended December 31, 2006 and 2007, personnel expense, depreciation and amortizations are summarized below:

	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Personnel expenses				
Salary and wages	\$33,197,689	\$1,018,647	\$36,396,597	\$1,122,313
Labor & health insurance expenses	1,366,900	41,942	2,002,284	61,742
Pension expenses	870,061	26,697	948,499	29,247
Other expenses	1,249,562	38,342	1,698,481	52,374
Depreciation	3,940,920	120,924	3,709,785	114,393
Amortization	127,268	3,905	374,501	11,548

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24. Estimated income taxes

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Income tax calculates on accounting income	\$94,604	\$2,903	\$834,406	\$25,729
Plus (Less): Tax of interest income on a separate basis	1,020,896	31,326	407,728	12,573
10% surtax on undistributed retained earnings	257,799	7,910	-	-
Alternative minimum tax payable	12,740	391	2,314,163	71,359
Allocation of the cumulative effect of changes in accounting principles	763,130	23,416	-	-
Withholding tax for overseas investments	-	-	146,274	4,510
Tax effects under consolidated income tax	246,192	7,554	(521,929)	(16,094)
Deferred income tax benefits	(2,451,584)	(75,225)	(925,496)	(28,538)
Adjustment of income tax	(567,216)	(17,405)	267,141	8,237
Income tax credit	(15,651)	(480)	(8,616)	(266)
Prior year tax adjustments	(4,376)	(134)	9,443	291
Operating loss carry-forward	(2,729,239)	(83,745)	941,140	29,021
Total income tax (benefits) expenses	<u>\$(3,372,705)</u>	<u>\$(103,489)</u>	<u>\$3,464,254</u>	<u>\$106,822</u>

In accordance with the Financial Holding Company Act, the Company elected to file consolidated income tax return along with 10% surtax on undistributed retained earning tax for all subsidiaries being held over 12 months within a taxable year by the Company.

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(2) Income tax returns:

		December 31, 2007	
		Income tax returns examined by tax authorities	Notes
The Company	through 2003		The Company filed applications for re-examination of 2002 and 2003 tax returns.
Cathay Life	through 2003		Cathay Life filed applications for re-examination of 2002 and 2003 tax returns.
Cathay United Bank	through 2003		-
Cathay Century	through 2003		The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in year 1999, 2001 and 2002 tax returns, respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century has filed the dispute. Cathay Century also filed an application for re-examination of 2003 tax return.
Cathay Securities	through 2004		Cathay Securities filed an application for re-examination of 2004 tax return.
Cathay Pacific Venture	through 2003		-
Symphox Information	through 2005		-
Cathay Futures	through 2005		-
Lucky Bank	through 2004		-
Cathay Venture	through 2005		-
Cathay II Venture	through 2004		-

(3) Information related to imputation credit account:

A. Balance of imputation credit account

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
The Company	\$1,055,225	\$32,379	\$643,694	\$19,849
Cathay Life	764,057	23,445	1,160,741	35,792
Cathay United Bank	412,069	12,644	666,632	20,556
Cathay Century	4,361	134	11,141	344
Cathay Securities	8,236	253	7,427	229
Cathay Pacific Venture	565	17	111	3
Cathay Venture	20,316	623	1,027	32
Cathay II Venture	7,763	238	9,007	278
Cathay Futures	14,480	444	13,918	429
Lucky Bank	14,116	433	-	-

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B. Imputation ratio

	For the years ended December 31,	
	2006	2007
	Actual	Estimate
The Company	13.25%	1.81%
Cathay Life	7.96%	4.95%
Cathay United Bank	-	10.42%
Cathay Century	1.62%	1.06%
Cathay Securities	14.76%	12.58%
Cathay Pacific Venture	1.11%	0.54%
Cathay Venture	32.56%	0.89%
Cathay II Venture	7.26%	4.82%
Cathay Futures	33.33%	33.33%

(4) Information relating of undistributed retained earnings:

Year	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Prior to 1997	\$267,215	\$8,199	\$267,215	\$8,240
After 1998	19,710,210	604,793	35,577,963	1,097,069
Total	\$19,977,425	\$612,992	\$35,845,178	\$1,105,309

The undistributed retained earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

25. Earnings per share

	For the year ended December 31, 2006								
	Amount (Numerator)				Shares	EPS (in dollars)			
	Before income taxes		After income taxes		(in thousands	Before income taxes		After income taxes	
					of shares)				
	(NT\$)	(US\$)	(NT\$)	(US\$)	(denominator)	(NT\$)	(US\$)	(NT\$)	(US\$)
Primary earnings per share:									
Income from continuing operations									
before income taxes	\$4,114,933	\$126,264	\$7,487,638	\$229,753	8,988,827	\$0.46	\$0.01	\$0.83	\$0.03
Cumulative effect of changes in									
accounting principles	2,486,193	76,287	3,249,323	99,703	8,988,827	0.27	0.01	0.36	0.01
Consolidated income	\$6,601,126	\$202,551	\$10,736,961	\$329,456	8,988,827	\$0.73	\$0.02	\$1.19	\$0.04

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For the years ended December 31, 2007

	Amount (Numerator)		Shares	EPS (in dollars)					
	Before income taxes	After income taxes		(in thousands of shares)	Before income taxes		After income taxes		
	(NT\$)	(US\$)	(denominator)		(NT\$)	(US\$)	(NT\$)	(US\$)	
Primary earnings per share:									
Consolidated income	<u>\$34,227,180</u>	<u>\$1,055,417</u>	<u>\$30,762,926</u>	<u>\$948,595</u>	9,197,710	<u>\$3.72</u>	<u>\$0.11</u>	<u>\$3.34</u>	<u>\$0.10</u>

26. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Pacific Venture	Subsidiary of the Company
Cathay II Venture	Subsidiary of the Company
Lucky Bank	Subsidiary of the Company (Merged by Cathay United Bank on January 1, 2007)
Cathay Capital Management	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company
Cathay Life (Shanghai)	Subsidiary of the Company
Symphox Information	Subsidiary of the Company
Cathay Futures	Subsidiary of the Company
Indovina Bank	Subsidiary of the Company
Cathay Life (Vietnam)	Subsidiary of the Company
Cathay Pacific Partners	Subsidiary of the Company
Cathay Insurance (Bermuda)	Subsidiary of the Company
Cathay Securities Investment Consulting	Subsidiary of the Company
Cathay Life Insurance Agent	Subsidiary of the Company
Seaward Card	Subsidiary of the Company
Cathay Property Insurance Agent	Subsidiary of the Company
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee in accounted for using the equity method

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Name	Relationship
Taiwan Real-estate Management Corp.	The investee in accounted for using the equity method
Vista Technology Venture Capital Corp.	The investee in accounted for using the equity method
IBT Venture Capital Corp.	The investee in accounted for using the equity method
Cathay Real Estate Management Co., Ltd.	The investee in accounted for using the equity method
Sunny Asset Management Co., Ltd.	The investee in accounted for using the equity method
Cathay General Hospital	The chairman is also the Company's chairman
Lin Yuan Investment Co., Ltd.	The chairman is a second immediate family member of the Company's chairman
Yi Ru Corporation	The chairman is a second immediate family member of the Company's chairman in 2006
Wan Pao Development Co., Ltd.	The chairman is a second immediate family member of the Company's chairman
Taipei Smart Card Corp.	Investee company of Cathay United Bank
Culture and Charity Foundation of the CUB	Cathay United Bank is the major sponsor of the foundation
Taiwan Asset Management Corporation	The chairman is the representative of Cathay United Bank
Cathay Global Money Market Fund etc.	The fund is managed by Cathay Securities Trust Co., Ltd.
Lin Yuan Property Management	Affiliate
Seaward Leasing	Affiliate
China England Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Charity Foundation	Affiliate
Industrial and Commercial Bank of Vietnam	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Co., Ltd.	Affiliate
Shanghai East Fly Service Co., Ltd.	Affiliate

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Name	Relationship
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliate
China Eastern Aviation IMP/EXP Corp.	Affiliate
China Eastern Realestateinvestment Co.,Ltd	Affiliate
China Eastern Airlines Jiangsu Ltd	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Cathay Century Realty Co., Ltd.	Affiliate
Cathay Biology Technology Co., Ltd.	Affiliate
Cathay Real Estate Holding Corporation	Affiliate
Cathay Cultural Foundation	Affiliate
Other related parties	Includes chairmen, managers, their spouses and linear relatives of Subsidiaries

(2) Significant transactions with related parties:

A. Cash in banks

For the year ended December 31, 2006						
Name	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$-	\$-	0.72%-1.44%	\$248	\$8

For the year ended December 31, 2007						
Name	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$443	\$14	0.72%-1.53%	\$43	\$1

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

Name	For the years ended December 31,							
	2006				2007			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Industrial and Commercial Bank of Vietnam	\$1,656	\$51	\$19	\$1	\$11,451	\$353	\$38	\$1

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C. Financial assets at fair value through profit or loss

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities				
Investment Trust Co., Ltd.	\$6,642,591	\$203,823	\$7,675,605	\$236,682

D. Securities purchased under agreements to resell

Name	For the years ended December 31,							
	2006				2007			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan Finance Corp.	\$-	\$-	\$10	\$-	\$-	\$-	\$-	\$-

E. Receivables

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance				
(Bermuda)	\$8,303	\$255	\$12,658	\$390
Cathay Capital				
Management	10,605	326	14,756	455
Cathay General Hospital	1,184	36	-	-
Cathay Real Estate				
Development Co., Ltd.	-	-	679	21
Cathay Securities				
Investment Trust Co.,				
Ltd.	-	-	677	21
Seaward Leasing	-	-	417	13
Lin Yuan Property				
Management	1,760	54	5,213	161
Total	\$21,852	\$671	\$34,400	\$1,061

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F. Loans

Name	For the year ended December 31, 2006			
	Ending	Ending	Interest	Interest
	Balance	Balance	Revenue	Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing	\$2,120,000	\$65,051	\$31,375	\$963
Taiwan Real-estate Management Corp.	130,000	3,989	3,871	119
Cathay General Hospital	4,406,762	135,218	131,446	4,033
Others	413,962	12,702	11,765	361
Total	\$7,070,724	\$216,960	\$178,457	\$5,476

Name	For the year ended December 31, 2007			
	Ending	Ending	Interest	Interest
	Balance	Balance	Revenue	Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing	\$2,964,820	\$91,422	\$47,578	\$1,467
Taiwan Real-estate Management Corp.	114,000	3,515	3,479	107
Cathay General Hospital	4,654,423	143,522	158,305	4,882
Others	589,498	18,178	14,270	440
Total	\$8,322,741	\$256,637	\$223,632	\$6,896

G. Available-for-sale financial assets

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$705,967	\$21,662	\$690,832	\$21,302

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H. Deposit

Name	For the year ended December 31, 2006			
	Ending	Ending	Interest	Interest
	Balance	Balance	Expense	Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$323,264	\$9,919	\$5,188	\$159
Cathay Real Estate Development Co., Ltd.	117,632	3,609	45	1
Others	3,556,862	109,140	47,729	1,465
Total	\$3,997,758	\$122,668	\$52,962	\$1,625

Name	For the year ended December 31, 2007			
	Ending	Ending	Interest	Interest
	Balance	Balance	Expense	Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$783,962	\$24,174	\$10,800	\$333
Cathay Real Estate Development Co., Ltd.	88,236	2,721	234	7
Others	2,650,598	81,733	41,599	1,283
Total	\$3,522,796	\$108,628	\$52,633	\$1,623

I. Property transactions

a. Transactions between Cathay Life and related parties are undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

Name	Item	For the year ended December 31, 2006	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Cathay General Hospital etc.	\$9,802	\$301
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management	Taipei Royalty Building etc.	161,983	4,970
	Total	\$173,285	\$5,317

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Name	Item	For the year ended December 31, 2007	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Cathay Lank Mark etc.	\$37,486	\$1,156
Lin Yuan Property Management	International Building ect.	288,975	8,911
	Total	<u>\$326,461</u>	<u>\$10,067</u>

The total amounts of contracted construction projects for real estate as of December 31, 2006 and 2007 between Cathay Life were NT\$22,435 (US\$688) and NT\$183,396 (US\$5,655), respectively.

b. Real estates acquired by Cathay Life:

Name	Item	For the year ended December 31, 2006	
		Contract Price	
		(NT\$)	(US\$)
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$162,320</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$75,790</u>

The appraisal report has been taken into the consideration of determination on contract prices and the title has been transferred in 2006.

Cathay Life did not acquire any real estates from its related parties for the years ended December 31, 2007.

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c. Real estate rental income from Cathay Life and Cathay United Bank :

Name	Rental income			
	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Consulting	\$3,343	\$103	\$3,679	\$114
Cathay Capital Management	1,988	61	2,180	67
Cathay Real Estate Development Co., Ltd.	15,756	483	16,927	522
Cathay General Hospital	145,666	4,470	159,997	4,934
San Ching Engineering Co., Ltd.	7,455	229	7,907	244
Cathay Securities Investment Trust Co., Ltd.	12,062	370	13,331	411
Taiwan Asset Management Corporation	13,963	428	12,289	379
Taipei Smart Card Corp.	6,196	190	11,588	357
Seaward Leasing	-	-	1,438	44
Culture and Charity Foundation of CUB	1,000	31	1,000	31
Total	\$207,429	\$6,365	\$230,336	\$7,103

Name	Guarantee deposits in			
	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Consulting	\$877	\$27	\$1,055	\$32
Cathay Capital Management	479	15	638	20
Cathay Real Estate Development Co., Ltd.	3,645	112	3,945	122
Cathay General Hospital	7,324	225	9,114	281
San Ching Engineering Co., Ltd.	1,709	52	1,782	55
Cathay Securities Investment Trust Co., Ltd.	2,738	84	2,738	84
Taiwan Asset Management Corporation	3,477	106	3,477	107
Seaward Leasing	-	-	346	11
Total	\$20,249	\$621	\$23,095	\$712

Lease periods are usually 2-5 years and rentals are collected monthly.

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d. Real estate rental expense from Cathay Life, Cathay United Bank Cathay Securities and Cathay Futures.

Name	Rental expenses			
	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Real Estate Development Co., Ltd.	\$42,562	\$1,306	\$42,000	\$1,295
Lin Yuan Investment Co., Ltd.	2,512	77	2,094	64
Yi Ru Corporation	4,292	132	3,912	121
Seaward Leasing	-	-	16,664	514
Total	\$49,366	\$1,515	\$64,670	\$1,994

Name	Guarantee deposits paid			
	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Real Estate Development Co., Ltd.	\$11,561	\$355	\$11,561	\$356
Lin Yuan Investment Co., Ltd.	628	19	628	19
Yi Ru Corporation	1,190	37	1,190	37
Seaward Leasing	-	-	33,393	1,030
Total	\$13,379	\$411	\$46,772	\$1,442

According to the contracts, periods of leases generally were 3 years and rents were paid monthly.

J. Other assets

Prepayment

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Lin Yuan Investment Co., Ltd.	\$419	\$13	\$419	\$13

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

Name	For the year ended December 31, 2006			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$63,599	\$260	\$1,951	\$8

Name	For the year ended December 31, 2007			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$474	\$1,255	\$15	\$39

L. Securities sold under agreements to repurchase

Name	December 31,			
	Ending balance			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Wan Pao Development Co., Ltd.	\$4,462,438	\$136,927	\$712,128	\$21,959
Other related parties	1,136,573	34,875	1,210,188	37,317
Total	\$5,599,011	\$171,802	\$1,922,316	\$59,276

Name	For the years ended December 31,			
	Interest expenses			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Wan Pao Development Co., Ltd.	\$47,401	\$1,454	\$30,790	\$949
Other related parties	14,431	443	18,939	584
Total	\$61,832	\$1,897	\$49,729	\$1,533

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M. Payables

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Seaward Card	\$16,296	\$500	\$-	\$-
Lin Yuan Property Management	5,926	182	4,912	151
Cathay Real Estate Development Co., Ltd.	1,974	60	1,732	53
San Ching Engineering Co., Ltd.	15,735	483	8,648	267
Cathay Pacific Partners	8,471	260	2,231	69
Seaward Leasing	-	-	1,258	39
Other	-	-	89	3
Total	<u>\$48,402</u>	<u>\$1,485</u>	<u>\$18,870</u>	<u>\$582</u>

N. Advance receipts

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Taiwan Asset Management Corporation	<u>\$2,484</u>	<u>\$76</u>	<u>\$5,635</u>	<u>\$174</u>

O. Net commission and handling fee

a. Handling fee income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Consulting	\$-	\$-	\$3,045	\$94
Cathay Life Insurance Agent	3,842	118	-	-
Cathay securities investment Trust Co., Ltd.	895	27	20,345	627
Total	<u>\$4,737</u>	<u>\$145</u>	<u>\$23,390</u>	<u>\$721</u>

b. Reinsurance income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	<u>\$571</u>	<u>\$18</u>	<u>\$3</u>	<u>\$-</u>

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c. Commissions expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life Insurance Agent	\$121,083	\$3,715	\$23,721	\$731
Cathay Property Insurance Agent	17,616	541	840	26
Total	<u>\$138,699</u>	<u>\$4,256</u>	<u>\$24,561</u>	<u>\$757</u>

d. Reinsurance commissions expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	<u>\$13,895</u>	<u>\$426</u>	<u>\$12,580</u>	<u>\$388</u>

P. Net premiums from insurance business

a. Insurance income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay General Hospital	\$33,611	\$1,031	\$32,331	\$997
Cathay Real Estate Development Co., Ltd.	2,394	72	3,525	109
San Ching Engineering Co., Ltd.	1,389	43	1,396	43
Cathy Securities Investment Consulting	338	10	347	11
China Eastern Airlines Co., Ltd.	338,019	10,372	221,523	6,831
CEA Finance Holding Co., Ltd.	308	9	537	16
Seaward Leasing	-	-	10,958	338
Lin Yuan Property Management	2,019	62	4,012	124
Shanghai China Eastern Media Co., Ltd.	1,533	47	2,537	78
Cathay Securities Investment Trust Co., Ltd.	954	29	1,115	34
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	457	14	854	26
China Eastern Aviation IMP/EXP Corp.	-	-	446	14
Cathay Lin Yuan Security Co., Ltd.	230	7	338	10
CEA Finance Co., Ltd.	-	-	1,040	32
China Eastern Airlines Jiangsu Ltd.	-	-	2,136	66
China Eastern Real Estate Investment Co., Ltd.	-	-	7,547	233
Other related parties	49,881	1,531	308,968	9,527
Total	<u>\$431,133</u>	<u>\$13,229</u>	<u>\$599,610</u>	<u>\$18,489</u>

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b. Insurance claims payment

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
China Eastern Airlines Co., Ltd.	\$813	\$25	\$815	\$25
CEA Finance Holding Co., Ltd.	-	-	117	4
Other related parties	-	-	20	-
Total	\$813	\$25	\$952	\$29

c. Reinsurance income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$136,465	\$4,187	\$137,010	\$4,225

d. Reinsurance claims payment

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$87,991	\$2,700	\$28,824	\$889

Q. Net other non-interest income

a. Sales

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay General Hospital	\$11,224	\$344	\$3,088	\$95
Cathay Securities Investment Trust Co., Ltd.	3,938	121	3,707	114
Other	2,445	75	3,040	94
Total	\$17,607	\$540	\$9,835	\$303

b. Service Income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay General Hospital	\$5,751	\$176	\$3,618	\$111
Lin Yuan Property Management	884	27	4,592	142
Other	2,505	77	2,427	75
Total	\$9,140	\$280	\$10,637	\$328

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c. Miscellaneous income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$14,753	\$453	\$4,541	\$140
Cathay General Hospital	-	-	4,735	146
Other	309	9	3,530	109
Total	<u>\$15,062</u>	<u>\$462</u>	<u>\$12,806</u>	<u>\$395</u>

R. Sale of securities

For the year ended December 31, 2006						
Name	Securities	Shares (in thousand)	Amount		Gain on disposal	
			(NT\$)	(US\$)	(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Lin Yuan Property Management	2,400	\$47,554	\$1,459	\$3,707	\$114
Cathay Real Estate Development Co., Ltd.	Seaward Leasing	200,000	3,180,000	97,576	1,323,466	40,609
Seaward Leading Ltd. etc.	Waterland Securities Co., Ltd. etc.	-	187,708	5,760	-	-
Total			<u>\$3,415,262</u>	<u>\$104,795</u>	<u>\$1,327,173</u>	<u>\$40,723</u>

There were no related party transactions of securities for the year ended December 31, 2007.

S. Operating expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Consulting	\$52,938	\$1,624	\$52,587	\$1,622
Seaward Card	401,610	12,323	301,792	9,306
Cathay Pacific Management	63,895	1,961	77,585	2,392
Cathay Pacific Partners	23,471	720	14,981	462
Lin Yuan Property Management	646,830	19,848	608,381	18,760
Cathay Real Estate Development Co., Ltd.	13,984	429	14,618	451
San Ching Engineering Co., Ltd.	5,326	163	6,110	188
Cathay General Hospital	10,503	322	208,540	6,430
Cathay Lin Yuan Security Co., Ltd.	5,707	175	4,043	125
Seaward Leasing	-	-	11,026	340
Others	3,210	99	-	-
Total	<u>\$1,227,474</u>	<u>\$37,664</u>	<u>\$1,299,663</u>	<u>\$40,076</u>

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T. Others

- a. Cathay United 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. Cathay United Bank paid the amount of NT\$471,272 (US\$14,532) during the year period ended December 31, 2007. As of December 31, 2007, the accumulated amount paid was NT\$561,823 (US\$17,324).
- b. Cathay United 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. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management 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. Cathay United Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three year starting 2006 and the royalty amounted NT\$103,125 (US\$3,164) (amortized NT\$2,865 (US\$88) per month) was paid in January, 2006.
- e. For prospective operation and concentration on banking development, the board of directors resolved to sell out the stocks of Seaward Leasing 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\$0.49) per share. The gain from disposal of the investment recognized by the equity method was NT\$1,323,466 (US\$40,609), 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).
- f. Cathay United Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd for NT\$300,334(US\$9,216) (taxes were deducted) during the year period 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).
- g. Cathay United 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 the repossessed the land by mediation during the year period ended December 31, 2007.

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(3)The Company's significant transactions with related parties

A. Cash in bank

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,375,703	4.375%-5.26%	\$170,746
	Cash in bank	2,783	0.10%-2.25%	272
	Total	\$3,378,486		\$171,018

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$103,581	4.375%-5.26%	\$5,239
	Cash in bank	85	0.10%-2.25%	9
	Total	\$103,666		\$5,248

		For the year ended December 31, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,520,792	4.375%-5.70%	\$179,027
	Cash in bank	1,557	0.02%-2.35%	46
	Total	\$3,522,349		\$179,073

		For the year ended December 31, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$108,566	4.375%-5.70%	\$5,520
	Cash in bank	48	0.02%-2.35%	2
	Total	\$108,614		\$5,522

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B. Receivables

Name	Item	December 31,			
		2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay United Bank	Interest	\$21,161	\$649	\$21,900	\$675
Cathay Life	Receivables due to consolidated income tax	-	-	960,038	29,604
Cathay Century	Receivables due to consolidated income tax	154,364	4,737	251,961	7,769
Cathay Capital Management	Receivables due to consolidated income tax	10,605	326	14,756	455
Cathay Securities	Receivables due to consolidated income tax	6,582	202	10,961	338
Cathay Pacific Venture	Receivables due to consolidated income tax	19,176	588	-	-
Cathay II Venture	Receivables due to consolidated income tax	3,263	100	9,457	292
Total		<u>\$215,151</u>	<u>\$6,602</u>	<u>\$1,269,073</u>	<u>\$39,133</u>

C. Acquisition of property and equipment:

Name	Item	As of and for the years ended December 31,			
		2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Symphox Information	Other Equipment	\$49	\$-	\$-	\$-

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D. Payables

Name	Item	December 31,			
		2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	Receivables due to consolidated income tax	\$757,004	\$23,228	\$541,486	\$16,697
Cathay United Bank	Receivables due to consolidated income tax	1,430,294	43,888	1,096,026	33,796
Cathay Pacific Venture	Receivables due to consolidated income tax	-	-	3,527	109
Total		<u>\$2,187,298</u>	<u>\$67,116</u>	<u>\$1,641,039</u>	<u>\$50,602</u>

E. Operating expenses

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$10,765	\$331	\$19,521	\$602
Lin Yuan Property Management	-	-	235	7
Symphox Information	660	20	1,301	40
Seaward Leasing	1,009	31	929	29
Cathay General Hospital	-	-	89	3
Cathay Century	-	-	124	4
Total	<u>\$12,434</u>	<u>\$382</u>	<u>\$22,199</u>	<u>\$685</u>

(4) Subsidiaries' significant transactions with related parties are follows:

A. Cathay Life

a. Cash in banks

Name	Item	For the year ended December 31, 2006		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposit	\$26,250	1.05%-2.06%	\$6,992
	Cash in bank	2,603,715	0.10%-1.55%	76,943
Total		<u>\$2,629,965</u>		<u>\$83,935</u>

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		For the year ended December 31,2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$806	1.05%-2.06%	\$214
Bank	Cash in bank	79,893	0.10%-1.55%	2,361
Total		<u>\$80,699</u>		<u>\$2,575</u>

		For the year ended December 31,2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$4,722,950	1.15%-2.49%	\$55,965
Bank	Cash in bank	3,576,961	0.02%-2.35%	3,475
Total		<u>\$8,299,911</u>		<u>\$59,440</u>

		For the year ended December 31,2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$145,635	1.15%-2.49%	\$1,726
Bank	Cash in bank	110,298	0.02%-2.35%	107
Total		<u>\$255,933</u>		<u>\$1,833</u>

b. Other Receivables

Name	December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Century	\$757,004	\$23,228	\$541,486	\$16,697
Cathay Financial Holding.	115,027	3,530	77,960	2,404
Total	<u>\$872,031</u>	<u>\$26,758</u>	<u>\$619,446</u>	<u>\$19,101</u>

c. Other financial assets – current

		For the year ended December 31,2006		
Name		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank		<u>\$2,100,000</u>	1.80%-2.27%	<u>\$24,945</u>

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For the year ended December 31,2006			
Name	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	\$64,437	1.80%-2.27%	\$765

For the year ended December 31,2007			
Name	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	\$4,300,000	1.80%-3.32%	\$90,679

For the year ended December 31,2007			
Name	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	\$132,593	1.80%-3.32%	\$2,796

d. Secured loans

For the year ended December 31,2006				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,070,069	\$4,069,793	3.14%-3.37%	\$122,444

For the year ended December 31,2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$124,887	\$124,879	3.14%-3.37%	\$3,757

For the year ended December 31,2007				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,449,654	\$4,396,278	3.44%-3.73%	\$150,934
Others	303,248	246,646	2.10%-5.87%	6,268
Total	\$4,752,902	\$4,642,924		\$157,202

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For the year ended December 31, 2007				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$137,208	\$135,562	3.44%-3.73%	\$4,654
Others	9,351	7,606	2.10%-5.87%	193
Total	<u>\$146,559</u>	<u>\$143,168</u>		<u>\$4,847</u>

e. Financial assets at fair value through profit or loss-beneficiary certificates

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities				
Investment Trust Co., Ltd.	<u>\$6,281,292</u>	<u>\$192,737</u>	<u>\$7,455,267</u>	<u>\$229,888</u>

f. Property transactions

Transactions between Cathay Life and related parties are contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

Name	Item	For the year ended December 31, 2006	
		(NT\$)	(US\$)
Lin Yuan Property			
Management	Cathay Cosmos Building etc.	<u>\$161,983</u>	<u>\$4,970</u>

Name	Item	For the year ended December 31, 2007	
		(NT\$)	(US\$)
Lin Yuan Property			
Management	International Building etc.	<u>\$288,975</u>	<u>\$8,911</u>

g. Real estates acquisition

Please refer to page 57 for the detail of real estate acquisition from related parties for years ended December 31, 2006.

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h. Other assets-other

Name	December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Life (Shanghai)	\$298,343	\$9,154	\$298,343	\$9,200

i. Guarantee deposits paid

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Futures	\$377,481	\$11,583	\$560,751	\$17,291

As of December 31, 2006 and 2007, the imputed interest income from guarantee deposits paid to Cathay Futures were NT\$442 (US\$14) and NT\$261 (US\$8), respectively.

j. Other payable

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Financial Holding	\$-	\$-	\$960,038	\$29,603

k. Rental income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay United Bank	\$249,486	\$7,655	\$274,584	\$8,467
Cathay General Hospital	145,666	4,470	159,997	4,934
Total	\$395,152	\$12,125	\$434,581	\$13,401

l. Insurance income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007 (US\$)
Cathay United Bank	\$412,680	\$12,663	\$459,751	\$14,177
Other related parties	48,713	1,495	308,968	9,527
Total	\$461,393	\$14,158	\$768,719	\$23,704

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m. Reinsurance income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$136,465	\$4,187	\$137,010	\$4,225

n. Miscellaneous income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Century	\$665,730	\$20,427	\$759,006	\$23,405
Cathay United Bank	111,894	3,434	106,119	3,272
Total	\$777,624	\$23,861	\$865,125	\$26,677

The miscellaneous income primarily was cross-selling income and service income received by Cathay Life.

o. Insurance expense

Name	For the years ended December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Century	\$105,526	\$3,238	\$130,679	\$4,030

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$11,383 (US\$349) and NT\$10,185 (US\$314) paid by Cathay Life on behalf the employees for fidelity bond insurance were included in insurance expenses for the years ended December 31, 2006 and 2007.

p. Commissions expenses

Name	For the years ended December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Life Insurance Agent	\$121,083	\$3,715	\$23,721	\$731

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q. Operating expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay United Bank	\$55,093	\$1,691	\$661,862	\$20,409
Symphox Information	206,583	6,339	238,290	7,348
Lin Yuan Property Management	644,903	19,788	605,814	18,680
Cathy General Hospital	10,437	320	208,451	6,428
Total	<u>\$917,016</u>	<u>\$28,138</u>	<u>\$1,714,417</u>	<u>\$52,865</u>

r. Other

As of December 31, 2006 and 2007, the notional amounts of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	December 31,	
	2006	2007
Forward foreign exchange contracts	<u>USD565,572</u>	<u>USD160,362</u>
CCS contracts	<u>USD1,362,000</u>	<u>USD1,315,000</u>
Financial debentures	<u>-</u>	<u>NTD200,000</u>

The above financial debentures were the debentures acquired by Cathay United Bank from the secondary market. The amount acquired of 2007 was NT\$193,510 (US\$5,967).

In 2007, Cathay Life has entered a credit assignment agreement with Cathay United Bank in an amount of NT\$1,030,000 (US\$31,761).

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B. Cathay United Bank

a. Loans and deposits

Account/Name	For the years ended December 31,							
	2006				2007			
	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward								
Leasing	\$2,120,000	\$65,050	\$31,375	\$963	\$2,964,820	\$91,422	\$47,578	\$1,467
Taiwan								
Real-estate								
Management								
Corp.	130,000	3,989	3,871	119	114,000	3,515	3,479	107
Cathay General								
Hospital	336,969	10,340	9,002	276	258,145	7,960	7,371	227
Other related								
parties	260,196	7,984	12,297	377	317,693	9,797	7,503	232
Total	\$2,847,165	\$87,363	\$56,545	\$1,735	\$3,654,658	\$112,694	\$65,931	\$2,033

Account/Name	For the years ended December 31,							
	2006				2007			
	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$4,736,153	\$145,325	\$100,368	\$3,080	\$8,299,911	\$255,933	\$59,440	\$1,833
Cathay								
Financial								
Holding	3,753,266	115,166	174,414	5,352	3,805,511	117,345	179,073	5,522
Cathay Futures	1,065,408	32,691	14,376	441	1,218,323	37,568	16,919	521
Cathay								
Securities	977,885	30,006	17,917	550	303,698	9,365	11,619	358
Cathay Century	822,283	25,231	6,676	205	909,379	28,041	10,273	317
Cathay Pacific								
Venture	518,293	15,903	4,447	136	28,722	886	3,596	111

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For the years ended December 31,								
2006					2007			
Account/Name	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay								
Securities								
Investment								
Trust Co.,								
Ltd.	323,264	9,919	5,188	159	783,962	24,174	10,800	333
Cathay Real								
Estate								
Development								
Co., Ltd.	117,632	3,610	45	1	88,236	2,721	234	7
Other related								
parties	3,556,862	109,140	47,729	1,465	2,650,598	81,733	41,599	1,283
Total	\$15,871,046	\$486,991	371,160	\$11,389	\$18,088,340	\$557,766	\$333,553	\$10,285

For the year ended December 31, 2006							
Account/Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$768,544	\$23,582	\$111,784	\$3,430	4.38%-7.80%	\$26,872	\$825
Due from commercial							
banks							
Indovina Bank	\$162,927	\$4,999	\$6,860	\$210	0.50%-2.16%	\$78	\$2
Call loans from banks							
Indovina Bank	\$103,926	\$3,189	\$38,995	\$1,196	5.14%-7.85%	\$(550)	\$(17)
Due to banks							
Indovina Bank	\$257,371	\$7,897	\$19,005	\$583	-	\$-	\$-

For the year ended December 31, 2007							
Account/Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$329,502	\$10,160	\$-	\$-	5.00%-7.70%	\$2,551	\$79

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For the year ended December 31, 2007

Account/Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Due from commercial banks							
Indovina Bank	<u>\$323,566</u>	<u>\$9,977</u>	<u>\$3,685</u>	<u>\$114</u>	0.00%-2.16%	<u>\$160</u>	<u>\$5</u>
Call loans from banks							
Indovina Bank	<u>\$429,819</u>	<u>\$13,254</u>	<u>\$422,292</u>	<u>\$13,022</u>	2.40%-8.70%	<u>\$(1,423)</u>	<u>\$(44)</u>
Due to banks							
Indovina Bank	<u>\$64,457</u>	<u>\$1,988</u>	<u>\$13,951</u>	<u>\$430</u>	-	<u>\$-</u>	<u>\$-</u>

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

b. Securities sold under agreements to repurchase

Name	December 31, Ending balance			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Wan Pao Development Co., Ltd.	\$4,462,438	\$136,927	\$712,128	\$21,959
Other related parties	<u>1,136,573</u>	<u>34,875</u>	<u>1,210,188</u>	<u>37,317</u>
Total	<u>\$5,599,011</u>	<u>\$171,802</u>	<u>\$1,922,316</u>	<u>\$59,276</u>

For the years ended December 31,

Name	Interest expense			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Wan Pao Development Co., Ltd.	\$47,401	\$1,454	\$30,790	\$949
Other related parties	<u>14,431</u>	<u>443</u>	<u>18,939</u>	<u>584</u>
Total	<u>\$61,832</u>	<u>\$1,897</u>	<u>\$49,729</u>	<u>\$1,533</u>

c. Receivables

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Financial Holding	<u>\$1,430,294</u>	<u>\$43,888</u>	<u>\$1,096,026</u>	<u>\$33,797</u>

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d. Other receivables

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Seaward Leasing	\$218,761	\$6,713	\$-	\$-

e. Rental expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$249,486	\$7,655	\$274,584	\$8,467

f. Commission revenue

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$55,093	\$1,690	\$661,862	\$20,409

g. Accrued insurance expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$412,680	\$12,663	\$459,751	\$14,177
Cathay Century	125,396	3,847	152,728	4,709
Total	\$538,076	\$16,510	\$612,479	\$18,886

h. General expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Seaward Card	\$397,937	\$12,210	\$294,645	\$9,085
Symphox Information	270,735	8,307	415,612	12,816
Cathay Life	154,202	4,732	106,119	3,272
Total	\$822,874	\$25,249	\$816,376	\$25,173

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i. Other

- (a) Cathay United 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 year period ended December 31, 2007. As of December 31, 2007, the accumulated paid amount was NT\$561,823 (US\$17,324).
- (b) Cathay United Bank enters into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$1,030,000 (US\$31,761) during the year period ended December 31, 2007.
- (c) Cathay United 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.
- (d) The Cathay Life held the dominant financial debenture with notional amounts of NT\$200,000 (US\$6,167) which issued by Cathay United in 2003.
- (e) For organization restructuring, Cathay United Bank's board of directors resolved to sell its 64,994 thousand shares of Cathay Futures Corp. to Cathay Securities Corp. on February 10, 2006. The carrying value on the date when the transaction occurred was NT\$736,454 (US\$22,598) 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.
- (f) 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 December 31, 2006, with NT\$15.9 (US\$0.49) per share. The gain from disposal of the investment recognized by the equity method was NT\$1,323,466 (US\$40,609), 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).

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(g) Cathay United Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd for NT\$300,334(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).

C. Cathay Century

a. Cash in banks

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$404,793	0.10%	\$180
	Time deposits	400,655	1.93%-2.21%	7,112
Total		<u>\$805,448</u>		<u>\$7,292</u>

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$12,421	0.10%	\$6
	Time deposits	12,294	1.93%-2.21%	218
Total		<u>\$24,715</u>		<u>\$224</u>

		For the year ended December 31, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$420,729	0.10%	\$221
	Time deposits	488,650	2.16%-2.49%	10,052
Total		<u>\$909,379</u>		<u>\$10,273</u>

		For the year ended December 31, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$12,973	0.10%	\$7
	Time deposits	15,068	2.16%-2.49%	310
Total		<u>\$28,041</u>		<u>\$317</u>

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b. Financial assets at fair value through profit or loss-beneficiary certificates

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$66,016	\$2,026	\$155,324	\$4,790

c. Accrued marketing expense

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$115,027	\$3,530	\$77,960	\$2,404

d. Other payables

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Financial Holding	\$154,364	\$4,737	\$251,961	\$7,769

e. Premiums income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$105,526	\$3,238	\$130,679	\$4,030
Cathay United Bank	125,396	3,848	152,728	4,709
Total	\$230,922	\$7,086	\$283,407	\$8,739

f. Operating expense

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$703,826	\$21,596	\$835,234	\$25,755

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g. Other

As of December 31, 2006 and 2007 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	For the years ended December 31,	
	2006	2007
Forward foreign exchange contracts	USD\$19,924	USD\$21,660
CS contracts	USD\$36,050	USD\$34,550
IRS	-	NTD\$200,000

D. Cathay Securities

a. Cash in bank

Name	Item	For the year ended December 31, 2006		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$18,918	0.10%	\$99
	Negotiable certificates of deposit	915,000	1.24%-1.45%	17,838
Total		<u>\$933,918</u>		<u>\$17,937</u>

Name	Item	For the year ended December 31, 2006		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$581	0.10%	\$3
	Negotiable certificates of deposit	28,076	1.24%-1.45%	547
Total		<u>\$28,657</u>		<u>\$550</u>

Name	Item	For the year ended December 31, 2007		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$4,666	0.10%-2.35%	\$100
	Negotiable certificates of deposit	200,000	1.50%-1.77%	10,649
	Time deposits	4,000	1.39%-2.49%	870
Total		<u>\$208,666</u>		<u>\$11,619</u>

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		For the year ended December 31, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$144	0.10%-2.35%	\$3
	Negotiable certificates of deposit	6,167	1.50%-1.77%	328
	Time deposits	123	1.39%-2.49%	27
Total		<u>\$6,434</u>		<u>\$358</u>

Except for the NT\$650,000 (US\$19,945) negotiable certificate pledged as collaterals for the overdraft of settlement accounts and was recorded as restricted assets, all negotiable certificates were not pledged as of December 31, 2006.

b. Open-end funds and currency market instruments

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.				
– Cathay Bond Fund	<u>\$203,358</u>	<u>\$6,240</u>	<u>\$65,014</u>	<u>\$2,005</u>

c. Clearing and settlement fees, dealing handling fee expense and margin for futures trading – own funds

Name	For the year ended December 31, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures	<u>\$485</u>	<u>\$15</u>	<u>\$541</u>	<u>\$17</u>	<u>\$71</u>	<u>\$2</u>	<u>\$308,568</u>	<u>\$9,468</u>

Name	For the year ended December 31, 2007							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures	<u>\$642</u>	<u>\$20</u>	<u>\$863</u>	<u>\$27</u>	<u>\$36</u>	<u>\$1</u>	<u>\$221,839</u>	<u>\$6,841</u>

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E. Cathay Pacific Venture

a. Cash in bank

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$508,297	1.23%-1.44%	\$4,613
	Cash in bank	9,996	0.10%	9
	Total	\$518,293		\$4,622

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$15,596	1.23%-1.44%	\$142
	Cash in bank	307	0.10%	-
	Total	\$15,903		\$142

		For the year ended December 31, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$-	1.96%-2.16%	\$3,586
	Cash in bank	28,722	0.10%	10
	Total	\$28,722		\$3,596

		For the year ended December 31, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$-	1.96%-2.16%	\$111
	Cash in bank	886	0.10%	-
	Total	\$886		\$111

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F. Indovina Bank

a. Call Loans to Banks

For the year ended December 31, 2006				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest revenue (NT\$)	Interest revenue (US\$)
Cathay United Bank	\$38,995	\$1,196	\$550	\$17

For the year ended December 31, 2007				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest revenue (NT\$)	Interest revenue (US\$)
Cathay United Bank	\$422,292	\$13,022	\$1,423	\$44

b. Call Loans from Banks

For the year ended December 31, 2006				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$111,784	\$3,430	\$26,872	\$825

For the year ended December 31, 2007				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$-	\$-	\$2,551	\$79

G. Cathay Futures

a. Cash in bank

For the year ended December 31, 2006				
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$12,751	0.01%-1.20%	\$78
	Cash in bank	275,000	1.17%-1.71%	3,211
	Total	\$287,751		\$3,289

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		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$391	0.10%-1.20%	\$2
	Cash in bank	8,438	1.17%-1.71%	99
	Total	\$8,829		\$101

		For the year ended December 31, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$4,055	0.02%-2.35%	\$24
	Cash in bank	282,500	1.71%-2.49%	4,546
	Total	\$286,555		\$4,570

		For the year ended December 31, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$125	0.02%-2.35%	\$1
	Cash in bank	8,711	1.71%-2.49%	140
	Total	\$8,836		\$141

b. Customer's margin accounts

Name	December 31,					
	2006			2007		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	\$777,442	\$23,855	0.01%-1.71%	\$931,723	\$28,730	0.02%-2.02%

c. Futures customers' equity

Name	December 31,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$377,481	\$11,583	\$560,751	\$17,291
Cathay Securities	308,568	9,468	221,839	6,841
Total	\$686,049	\$21,051	\$782,590	\$24,132

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H. Cathay Life (Shanghai)

Insurance income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
China Eastern Airlines Co., Ltd.	\$338,019	\$10,372	\$221,523	\$6,831

I. Symphox Information

a. Cash in bank

		For the year ended December 31,2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$80,210	2.02%-2.16%	\$1,592
Bank	Cash in bank	3,399	0.10%	-
Total		\$83,609		\$1,592

		For the year ended December 31,2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$2,461	2.02%-2.16%	\$49
Bank	Cash in bank	104	0.10%	-
Total		\$2,565		\$49

		For the year ended December 31,2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$279,136	2.11%-2.49%	\$2,009
Bank	Cash in bank	32,742	0.10%	27
Total		\$311,878		\$2,036

		For the year ended December 31,2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$8,607	2.11%-2.49%	\$62
Bank	Cash in bank	1,010	0.10%	1
Total		\$9,617		\$63

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b. Sales Revenue

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay United Bank	\$191,604	\$5,879	\$260,051	\$8,019

c. Service Income

Name	For the years ended December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$177,480	\$5,446	\$164,604	\$5,075
Cathay United Bank	134,194	4,117	155,561	4,797
Total	\$311,674	\$9,563	\$320,165	\$9,872

J. Cathay Venture Capital

Available-for-sale financial assets

Name	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$575,621	\$17,663	\$104,247	\$3,215

K. Lucky Bank

Loans and deposits

	December 31, 2006			
			Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans	\$87,420	\$2,682	\$2,568	\$79
Deposits	\$726,252	\$22,285	\$(9,680)	\$(297)

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

26. Pledged assets

As of December 31, 2006 and 2007, the Company and Subsidiaries' pledged assets are summarized below:

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Item	Guarantee purpose	Carrying amount			
		2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, Loan, others financial or leasing	\$1,563,932	\$47,988	\$1,584,252	\$48,851
Guarantee deposits paid	Government bonds	8,593,633	263,689	8,392,821	258,798
Financial assets at fair value through profit or loss	Business reserves and guarantees	168,786	5,179	120,134	3,704
Available-for-sale financial assets	Business reserves and guarantees	234,318	7,190	8,228,624	253,735
Held-to-maturity financial assets	Business reserves and guarantees	2,314,641	71,023	658,944	20,319
Investments in debt securities with no active market	Business reserves and guarantees	14,830,000	455,048	15,000,000	462,535
		<u>\$27,705,310</u>	<u>\$850,117</u>	<u>\$33,984,775</u>	<u>\$1,047,942</u>

27. Commitment and contingent liabilities

(1) Cathay United Bank

- A. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constituted a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. About provisional measures, the Taipei District Court adjudged that Cathay United Bank in favor of the lawsuit on December 31, 2006. However, Pacific SOGO appealed and the appeal is being reviewed by the High Court. Furthermore, Cathay United 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 Cathay United Bank on October 12, 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.
- B. As of December 31, 2007, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$2,737,943 (US\$84,426) with prepayments of NT\$1,440,482 (US\$44,418).

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C. Lee and Li Attorneys-at-Law and SanDisk corporation filed lawsuits in the Taiwan Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by a former employee of Lee and Li Attorneys-at-Law, Eddie Liu, on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$27,752) and NT\$3.09 billion (US\$95,282), respectively. Cathay United 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 any claims has been made in these financial statements.

(2) Cathay Century

Cathay Century and Itanara Import Export Company have a dispute on cargo insurance benefits. The Itanara filed a lawsuit against Cathay Century and claimed for US\$773 with related notarization expenses. The Taiwan Taipei District Court ruled in favor of Itanara in the lawsuit except the notarization expenses. Cathay Century appealed to the higher court and the lawsuit is still in progress.

(3) Cathay Futures

A. The ex-employees of Cathay Futures took a civil action of the dismiss legally paying with NT\$487 (US\$15) on March, 2007. As of the date of this report, Court issued a judgment favoring Cathay Futures.

B. The building of management committee of original business address took a civil action of the park paying with NT\$966 (US\$30). As of the date of this report, the case is still in progress by District Court.

(4) As of December 31, 2006 and 2007, the bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Trust and security held for safekeeping	\$262,256,972	\$8,047,161	\$346,445,142	\$10,682,860
Travelers checks for sale	657,094	20,162	563,896	17,388
Bills for collection	51,246,626	1,572,465	51,625,884	1,591,917
Guarantees on duties and contracts	17,141,844	525,985	19,258,183	593,839
Unused commercial letters of credit	2,831,671	86,888	2,957,974	91,211
Irrevocable loan commitments	43,296,052	1,328,507	40,783,846	1,257,596
Credit card lines commitments	283,220,679	8,690,417	278,940,434	8,601,308
Stamp tax, securities and memorial				
currency consignments	1,727	53	1,727	53

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	December 31,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Book-entry for government bonds and depository for short-term marketable securities under management	\$345,264,800	\$10,594,195	\$383,450,700	\$11,823,950
Entrusted financial management business	-	-	2,253,460	69,487

(5) According to the effective operating leases agreement, rentals for the next five years are as follows:

Periods	NT\$	US\$
January 1, 2008~December 31, 2008	\$839,300	\$25,880
January 1, 2009~December 31, 2012	2,120,465	65,386
Total	<u>\$2,959,765</u>	<u>\$91,266</u>

28. Significant disaster losses: None.

29. Subsequent events: None.

30. Other significant matters

(1) Pension related information

A. Net periodic pension cost:

	For the years ended December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Service cost	\$730,493	\$22,414	\$712,006	\$21,955
(2) Interest cost	392,320	12,038	402,437	12,410
(3) Projected return on plan assets	(463,992)	(14,237)	(349,293)	(10,771)
(4) Amortization of unrealized gain on pension	11	-	(118)	(4)
(5) Amortization of unrealized transit on obligation	(377,988)	(11,598)	(377,987)	(11,655)
(6) Net amortization	62,607	1,921	74,995	2,313
(7) Gains from settlement	(28,592)	(877)	-	-
(8) Amortization of prior service cost	51,733	1,587	51,733	1,595
(9) Amortization of gain or loss	(214,253)	(6,574)	1,659	51
(10) Net periodic pension cost	<u>\$152,339</u>	<u>\$4,674</u>	<u>\$515,432</u>	<u>\$15,894</u>

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B. Pension funded status:

	For the years ended December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Vested benefit obligation	\$(7,394,439)	\$(226,893)	\$(7,893,978)	\$(243,416)
(2) Non-vested benefit obligation	<u>(3,338,362)</u>	<u>(102,435)</u>	<u>(4,046,796)</u>	<u>(124,785)</u>
(3) Accumulated benefit obligation	(10,732,801)	(329,328)	(11,940,774)	(368,201)
(4) Additional benefits based on future salaries	<u>(2,782,486)</u>	<u>(85,379)</u>	<u>(2,344,669)</u>	<u>(72,300)</u>
(5) Projected benefit obligation	(13,515,287)	(414,707)	(14,285,443)	(440,501)
(6) Fair value of plan assets	<u>15,894,473</u>	<u>487,711</u>	<u>12,497,171</u>	<u>385,358</u>
(7) Funded status=(5)+(6)	2,379,186	73,004	(1,788,272)	(55,143)
(8) Unrecognized transitional net assets	(1,262,995)	(38,754)	(924,428)	(28,505)
(9) Unrecognized prior service cost	258,667	7,937	206,934	6,381
(10) Unrecognized pension gain and loss	(3,263,768)	(100,147)	1,141,974	35,214
(11) Additional accrued pension liability	<u>(121,228)</u>	<u>(3,720)</u>	<u>(9,489)</u>	<u>(293)</u>
(12) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	<u>\$(2,010,138)</u>	<u>\$(61,680)</u>	<u>\$(1,373,281)</u>	<u>\$(42,346)</u>
(13) Vested benefit	<u>\$10,459,900</u>	<u>\$320,954</u>	<u>\$9,491,650</u>	<u>\$292,681</u>

C. Actuarial assumptions

	For the years ended December 31,	
	2006	2007
	(1) Discount rate	2.75%-3.70%
(2) Rate of increase in future salaries	1.50%~3.00%	2.00%~3.00%
(3) Expected return on pension plan assets	2.75%-3.70%	3.00%-3.50%

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(2) Financial instruments related information

A. The Company

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$13,249,833	\$13,249,833	\$406,561	\$406,561
Receivables	2,035,749	2,035,749	62,465	62,465
Investments under equity method	205,492,604	205,492,604	6,305,388	6,305,388
Other financial assets	31,720	31,720	973	973
<u>Liabilities</u>				
Payables	2,341,369	2,341,369	71,843	71,843
Bonds payable	4,273,209	4,273,209	131,120	131,120
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	1,013,833	1,013,833	31,109	31,109

Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$10,262,917	\$10,262,917	\$316,464	\$316,464
Receivables	2,490,453	2,490,453	76,795	76,795
Investments under equity method	214,115,082	214,115,082	6,602,377	6,602,377
Other financial assets	31,720	31,720	978	978
<u>Liabilities</u>				
Payables	3,051,760	3,051,760	94,103	94,103
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	444,155	444,155	13,696	13,696

b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

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- (a) The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables payables and other financial assets.
- (b) The fair value of derivative and bonds payable was recognized by the present value of anticipate cash flow.
- c. The fair value of the Company's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	December 31, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$13,249,833	\$406,561
Receivables	-	-	2,035,749	62,465
Investments under equity method	-	-	205,492,604	6,305,388
Other financial assets	-	-	31,720	973
<u>Liabilities</u>				
Payables	-	-	2,341,369	71,843
Bonds payable	-	-	4,273,209	131,120
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	-	-	1,013,833	31,109
Financial instruments	December 31, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$10,262,917	\$316,464
Receivables	-	-	2,490,453	76,795
Investments under equity method	-	-	214,511,082	6,602,377
Other financial assets	-	-	31,720	978
<u>Liabilities</u>				
Payables	-	-	3,051,760	94,103
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	-	-	444,155	13,696

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Note: The derivative financial instruments of the Company were valued using Discount Cash flow Model and Black-Scholes Model.

d. Information on financial risks

(a) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at December 31, 2006 and 2007:

Fixed interest rate

Item	December 31, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

Item	December 31, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

Item	December 31, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$444,155	\$13,696	\$-	\$-

Item	December 31, 2007					
	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$444,155	\$13,696

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Floating interest rate

Item	December 31, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

Item	December 31, 2006						
	Due in 4~5 year		Over 5 years		Total		
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Financial liabilities at fair value through							
profit or loss		\$-		\$-		\$1,013,833	\$31,109

Item	December 31, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$444,155	\$13,696	\$-	\$-

Item	December 31, 2007						
	Due in 4~5 year		Over 5 years		Total		
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Financial liabilities at fair value through							
profit or loss		\$-		\$-		\$444,155	\$13,696

The interest rate of floating interest rate financial instrument is repriced within a year. The interest rate of fixed interest rate financial instrument is fixed until the due date. Financial instruments excluded from the tables above due to absence of interest risk are financial instruments with no interest.

(b) Credit risk

The Company's exposure to credit risk is minimal.

e. Financial risk management objectives and policies

The Company's financial assets primarily consist of cash and cash equivalents, short-term notes and domestic common stocks.

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The Company enters into derivative transactions such as foreign currency options and cross currency swaps to protect against the risks of interest rate and exchange rate from investment activities.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, the Company also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing the Company's risks.

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock value risk and exchange rate risk, etc.. The Company conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress test methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of the Company's financial assets.

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on a contract. An internal credit risk evaluation model for investments in financial instruments is also created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Company has adopted and implemented the internal control regulations and sheets. The Company is also commenced to develop the information systems to accommodate the aforementioned policies.

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Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions and short-term notes (includes repurchase agreement). In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

B. Cathay Life

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$270,353,723	\$270,353,723	\$8,295,604	\$8,295,604
Notes receivable	12,542,006	12,542,006	384,842	384,842
Financial assets at fair value through profit or loss - current	87,855,778	87,855,778	2,695,789	2,695,789
Available-for-sale financial assets - current	159,616,918	159,616,918	4,897,727	4,897,727
Held-to-maturity financial assets - current	13,313,233	13,827,143	408,507	424,276
Investments in debt securities with no active market - current	5,001,829	5,001,829	153,477	153,477
Available-for-sale financial assets - noncurrent	170,885,851	170,885,851	5,243,506	5,243,506
Held-to-maturity financial assets - noncurrent	524,210,596	515,447,224	16,085,014	15,816,116
Financial assets carried at cost - noncurrent	19,621,636	19,621,636	602,075	602,075
Investments in debt securities with no active market - noncurrent	42,782,186	42,778,440	1,312,740	1,312,625
Long-term investments in stocks under the equity method	4,290,720	4,290,720	131,658	131,658
Guarantee deposits paid	8,181,101	8,181,101	251,031	251,031

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Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Notes payable	2,474	2,474	76	76
Guarantee deposits in	1,464,317	1,464,317	44,931	44,931
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	1,879,552	1,879,552	57,673	57,673
Option	7,691	7,691	236	236
Forward	8,022,181	8,022,181	246,155	246,155
IRS	421,537	421,537	12,934	12,934
Derivative financial assets for hedging - current				
IRS	251,901	251,901	7,729	7,729
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	9,996	9,996	307	307
Forward	11,361,889	11,361,889	348,631	348,631
IRS	203,592	203,592	6,247	6,247
Derivative financial liabilities for hedging - current				
IRS	23,867	23,867	732	732

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Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$196,913,663	\$196,913,663	\$6,071,960	\$6,071,960
Notes receivable	8,506,107	8,506,107	262,291	262,291
Financial assets at fair value through profit or loss - current	86,981,385	86,981,385	2,682,127	2,682,127
Available-for-sale financial assets - current	181,373,065	181,373,065	5,592,756	5,592,756
Held-to-maturity financial assets - current	8,307,886	8,303,803	256,179	256,053
Investments in debt securities with no active market - current	5,850,138	5,853,746	180,393	180,504
Available-for-sale financial assets - noncurrent	229,265,818	229,265,818	7,069,560	7,069,560
Held-to-maturity financial assets - noncurrent	572,148,779	561,032,468	17,642,577	17,299,799
Financial assets carried at cost - noncurrent	19,053,344	19,053,344	587,522	587,522
Investments in debt securities with no active market - noncurrent	59,126,664	54,880,852	1,823,209	1,692,287
Long-term investments in stocks under the equity method	6,254,217	6,254,217	192,853	192,853
Guarantee deposits paid	8,264,794	8,264,794	254,850	254,850
<u>Liabilities</u>				
Notes payable	2,311	2,311	71	71
Guarantee deposits in	1,488,192	1,488,192	45,889	45,889
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Futures	2,067,241	2,067,241	63,745	63,745
Forward	6,478,602	6,478,602	199,772	199,772
IRS	97,193	97,193	2,997	2,997
Derivative financial assets for hedging - current				
IRS	252,645	252,645	7,790	7,790

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Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities</u>				
Financial liabilities at fair value through				
profit or loss - current				
Forward	13,009,518	13,009,518	401,157	401,157
IRS	49,101	49,101	1,514	1,514
Derivative financial liabilities for hedging -				
current				
IRS	101,430	101,430	3,128	3,128

b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

- (a) The fair value of Cathay Life's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
- (b) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.
- (c) Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Cathay Life's financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Life uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (d) The fair value of Cathay Life's financial instruments was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

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c. The following table summarizes the fair value information of Cathay Life's financial assets and liabilities at December 31, 2006 and 2007:

Item	December 31, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and				
loss - current	\$82,130,365	\$2,520,109	\$5,725,413	\$175,680
Available-for-sale financial assets - current	159,613,026	4,897,608	3,892	119
Held-to-maturity financial assets - current	12,824,516	393,511	1,002,627	30,765
Investment in debt securities with no active				
market - current	5,001,829	153,477	-	-
Available-for-sale financial assets - noncurrent	157,047,268	4,818,879	13,838,583	424,627
Held-to-maturity financial assets - noncurrent	94,605,321	2,902,894	420,841,903	12,913,222
Financial assets carried at cost - noncurrent	19,621,636	602,075	-	-
Investment in debt securities with no active				
market - noncurrent	12,293,185	377,207	30,485,255	935,418
Long-term investments in stocks under the				
equity method	-	-	4,290,720	131,658
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and				
loss - current				
Futures	1,879,552	57,673	-	-
Option	7,691	236	-	-
Forward	-	-	8,022,181	246,155
IRS	-	-	421,537	12,934
Derivative financial assets for hedging - current				
IRS	-	-	251,901	7,729
<u>Liabilities</u>				
Financial liabilities at fair value through profit				
and loss - current				
Option	9,996	307	-	-
Forward	-	-	11,361,889	348,631
IRS	-	-	203,592	6,247
Derivative financial liabilities for hedging -				
current				
IRS	-	-	23,867	732

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Item	December 31, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or				
loss - current	\$81,791,799	\$2,522,103	\$5,189,586	\$160,024
Available-for-sale financial assets - current	181,373,019	5,592,754	46	2
Held-to-maturity financial assets - current	6,219,703	191,788	2,084,100	64,265
Investments in debt securities with no active				
market - current	2,848,883	87,847	3,004,863	92,657
Available-for-sale financial assets - noncurrent	226,180,672	6,974,427	3,085,146	95,133
Held-to-maturity financial assets - noncurrent	93,706,241	2,889,493	467,326,227	14,410,306
Financial assets carried at cost - noncurrent	-	-	19,053,344	587,522
Investment in debt securities with no active				
market – noncurrent	(2,848,883)	(87,847)	57,729,735	1,780,134
Long-term investments in stocks under the				
equity method	-	-	6,254,217	192,853
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or				
loss - current				
Futures	2,067,241	63,745	-	-
Forward	-	-	6,478,602	199,772
IRS	-	-	97,193	2,997
Derivative financial assets for hedging - current				
IRS	-	-	252,645	7,790
<u>Liabilities</u>				
Financial liabilities at fair value through profit or				
loss - current				
Forward	-	-	13,009,518	401,157
IRS	-	-	49,101	1,514
Derivative financial liabilities for hedging -				
current				
IRS	-	-	101,430	3,128

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d. Information on financial risk

(a) Interest rate risk

The following table summarizes the maturities of Cathay Life's financial instruments at December 31, 2006 and 2007:

Non-derivative financial instruments of fixed interest rate

Item	December 31, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$313,548	\$9,621	\$1,767,224	\$54,226	\$134,668	\$4,132	\$222,340	\$6,822
Available-for-sale financial assets	1,669,024	51,213	1,258,468	38,615	476,726	14,628	3,525,334	108,172
Held-to-maturity financial assets	11,610,611	356,263	3,315,525	101,734	10,327,699	316,898	5,070,199	155,575
Investments in debt securities with								
no active market	50,323	1,544	1,031,669	31,656	663,402	20,356	480,100	14,732

Item	December 31, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$4,348,930	\$133,444	\$14,696,709	\$450,958	\$21,483,419	\$659,203
Available-for-sale financial assets	3,138,983	96,318	95,303,204	2,924,308	105,371,739	3,233,254
Held-to-maturity financial assets	15,958,842	489,685	408,267,689	12,527,392	454,550,565	13,947,547
Investments in debt securities with						
no active market	1,984,567	60,895	29,928,574	918,336	34,138,635	1,047,519

Non-derivative financial instruments of float interest rate

Item	December 31, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$7,183,884	\$220,432	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	70,559,958	2,165,080	-	-	-	-	-	-
Held-to-maturity financial assets	82,973,264	2,545,973	-	-	-	-	-	-
Investments in debt securities with								
no active market	13,645,380	418,698	-	-	-	-	-	-

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Item	December 31, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,183,884	\$220,432
Available-for-sale financial assets	-	-	-	-	70,559,958	2,165,080
Held-to-maturity financial assets	-	-	-	-	82,973,264	2,545,973
Investments in debt securities with						
no active market	-	-	-	-	13,645,380	418,698

Derivative financial instruments

Item	December 31, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$17,498	\$537	\$18,748	\$575	\$16,259	\$499	\$4,462	\$137
Derivative financial assets for								
hedging	13,565	416	29,040	891	13,118	403	119,741	3,674
Financial liabilities at fair value								
through profit or loss	55,861	1,714	606	18	1,032	32	13,028	400
Derivative financial liabilities for								
hedging	4,030	123	710	22	19,127	587	-	-

Item	December 31, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$15,857	\$486	\$349,718	\$10,731	\$422,542	\$12,965
Derivative financial assets for						
hedging	61,507	1,887	14,930	458	251,901	7,729
Financial liabilities at fair value						
through profit or loss	-	-	142,194	4,363	212,721	6,527
Derivative financial liabilities for						
hedging	-	-	-	-	23,867	732

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Non-derivative financial instruments of fixed interest rate

Item	December 31, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$1,491,509	\$45,992	\$48,607	\$1,499	\$136,838	\$4,219	\$2,339,819	\$72,150
Available-for-sale financial assets	1,221,375	37,662	839,026	25,872	3,388,714	104,493	7,704,260	237,566
Held-to-maturity financial assets	6,327,347	195,108	12,685,460	391,164	5,091,188	156,990	16,188,132	499,172
Investments in debt securities with								
no active market	905,388	27,918	167,125	5,153	1,149,522	35,446	2,432,787	75,017

Item	December 31, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$1,330,590	\$41,030	\$6,141,408	\$189,374	\$11,488,771	\$354,264
Available-for-sale financial assets	11,126,920	343,106	93,751,564	2,890,890	118,031,859	3,639,589
Held-to-maturity financial assets	7,891,044	243,325	446,625,898	13,771,998	494,809,069	15,257,757
Investments in debt securities with						
no active market	455,602	14,049	48,821,596	1,505,446	53,932,020	1,663,029

Non-derivative financial instruments of float interest rate

Item	December 31, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$7,081,537	\$218,364	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	117,567,011	3,625,255	-	-	-	-	-	-
Held-to-maturity financial assets	85,647,596	2,640,999	-	-	-	-	-	-
Investments in debt securities with								
no active market	11,044,782	340,573	-	-	-	-	-	-

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Item	December 31, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,081,537	\$218,364
Available-for-sale financial assets	-	-	-	-	117,567,011	3,625,255
Held-to-maturity financial assets	-	-	-	-	85,647,596	2,640,999
Investments in debt securities with						
no active market	-	-	-	-	11,044,782	340,573

Derivative financial instruments

Item	December 31, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$20	\$1	\$41,637	\$1,284	\$13,235	\$408	\$4,630	\$143
Derivative financial assets for								
hedging	2,661	82	953	29	46,839	1,444	12,851	396
Financial liabilities at fair value								
through profit or loss	5,280	163	17,758	547	26,063	804	-	-
Derivative financial liabilities for								
hedging	24,630	760	8,838	273	40,259	1,241	4,154	128

Item	December 31, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$10,698	\$330	\$26,992	\$832	\$97,212	\$2,998
Derivative financial assets for						
hedging	-	-	189,341	5,839	252,645	7,790
Financial liabilities at fair value						
through profit or loss	-	-	-	-	49,101	1,514
Derivative financial liabilities for						
hedging	-	-	23,549	726	101,430	3,128

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(b) Credit risk

Cathay Life's exposure to credit risk is minimal.

e. Hedged of derivative financial instruments related information.

Cash flow hedges - IRS

The following table summarizes the terms of the Cathay life's interest rate SWAP for bonds hedging at December 31, 2006 and 2007:

a. December 31, 2006

<u>Par value</u>		<u>Exchange rate</u>	<u>Frequency</u>	<u>Maturity date</u>
<u>(NT\$)</u>	<u>(US\$)</u>			
\$372,500	\$11,430	ARMS	Each quarter	2009/3/24
350,000	10,739	4.0005%-6ml	Half year	2008/9/26
500,000	15,342	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Each quarter	2007/10/10
500,000	15,342	7.05%-90BACP	Each quarter	2007/10/10
300,000	9,205	5.5%-6ml	Half year	2007/12/26
500,000	15,342	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,137	4.003%-6ml	Half year	2008/6/13
500,000	15,342	4.0%-12ml	Yearly	2008/6/5
300,000	9,205	4.3%-12ml	Yearly	2010/6/20
200,000	6,137	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,137	7.603%-6ml	Half year	2007/7/31
300,000	9,205	2005/6/17~2005/7/31 : 7.25%-6ml 2005/7/31~2006/7/31 : 7.5%-6ml 2006/7/31~2007/7/31 : 7.75%-6ml	Half year	2007/7/31
300,000	9,205	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31

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Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,137	3.0%, if 6ml 2005/9/19~2006/9/19:1.0%-2.5% 2006/9/19~2007/9/19:1.0%-3.0% 2007/9/19~2008/9/19:1.0%-3.5% 2008/9/19~2009/9/19:1.0%-4.0% 2009/9/19~2010/9/19:1.0%-4.5% 2010/9/19~2011/3/19:1.0%-5.0%	Half year	2011/3/19
300,000	9,205	5.1%-6ml	Half year	2007/12/19
200,000	6,137	If 6ml<0.95%, Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,205	If 6ml<0.95%,Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,137	4.000%-6ml	Half year	2010/4/7
300,000	9,205	4.0002%-6ml	Half year	2010/4/7
400,000	12,274	4.0006%-6ml	Half year	2010/4/7
400,000	12,274	4.0007%-6ml	Half year	2010/4/7
250,000	7,671	90DCP	Each quarter	2008/8/10
900,000	27,616	90DCP	Each quarter	2010/8/18
600,000	18,411	90DCP	Each quarter	2010/8/19
100,000	3,068	4.0006%-6ml	Half year	2010/4/7
100,000	3,068	4.0007%-6ml	Half year	2010/4/7
450,000	13,808	90DCP	Each quarter	2008/8/22
330,000	10,126	90DCP	Each quarter	2008/8/24
300,000	9,205	5.35%-6ml	Half year	2008/1/8
200,000	6,137	4.0003%-6ml	Half year	2010/4/7
300,000	9,205	5.37%-6ml	Half year	2011/3/15
200,000	6,137	5.85%-6ml	Half year	2009/1/13
50,000	1,534	4.15%-6ml	Half year	2009/1/16
200,000	6,137	6.3%-6ml	Half year	2010/11/27
300,000	9,205	180DCP + 40bps	Half year	2008/3/24
300,000	9,205	180DCP	Half year	2008/6/12
1,500,000	46,026	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,287	90DCP+30bps	Each quarter	2008/9/17
782,304	24,004	1.25% + 3ml	Each quarter	2009/9/23
782,304	24,004	6ml	Half year	2013/9/20

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b. December 31, 2007

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$310,000	\$9,559	ARMS	Each quarter	2009/3/24
350,000	10,792	If 6ml<0.9%, 6ml If 0.9%<6ml<2.0%,3.05% If 2.0%<6ml,Max(4.0005%-6ml)	Yearly	2008/9/26
200,000	6,167	4.003%-6ml	Half year	2008/6/13
500,000	15,418	4%-12ml	Yearly	2008/6/5
300,000	9,251	4.3%-12ml	Yearly	2010/6/20
500,000	15,418	If 6ml<1.1%,6ml If 1.1% ≤ 6ml ≤ 2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,167	3.0%, if 6ml 2005/9/19~2006/9/19:1.0%-2.5% 2006/9/19~2007/9/19:1.0%-3.0% 2007/9/19~2008/9/19:1.0%-3.5% 2008/9/19~2009/9/19:1.0%-4.0% 2009/9/19~2010/9/19:1.0%-4.5% 2010/9/19~2011/3/19:1.0%-5.0%	Half year	2011/3/19
200,000	6,167	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,251	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,167	4.000%-6ml	Half year	2010/4/7
300,000	9,251	4.0002%-6ml	Half year	2010/4/7
500,000	15,418	4.0006%-6ml	Half year	2010/4/7
500,000	15,418	4.0007%-6ml	Half year	2010/4/7
250,000	7,709	90DCP	Each quarter	2008/8/10
900,000	27,752	90DCP	Each quarter	2010/8/18
600,000	18,501	90DCP	Each quarter	2010/8/19
450,000	13,876	90DCP	Each quarter	2008/8/22
330,000	10,176	90DCP	Each quarter	2008/8/24
300,000	9,251	5.35%-6ml	Half year	2008/1/8

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Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,167	4.0003%-6ml	Half year	2010/4/7
300,000	9,251	5.37%-6ml	Yearly	2011/3/15
200,000	6,167	5.85%-6ml	Half year	2009/1/13
50,000	1,542	If 6ml ≤ 1%, 6ml+0.2% If 1% < 6ml < 2%, 3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009/1/16
200,000	6,167	6.3%-6ml	Yearly	2010/11/27
300,000	9,251	180DCP + 40bps	Half year	2008/3/24
300,000	9,251	180DCP	Half year	2008/6/12
2,000,000	61,671	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,461	90DCP+30bps	Each quarter	2008/9/17
100,000	3,084	180DCP+30bps	Half year	208/12/18
200,000	6,167	180DCP+18bps	Half year	2008/7/11
900,000	27,752	90DCP+100bps	Each quarter	2009/5/20
2,700,000	83,256	90DCP+25bps	Each quarter	2013/8/24
1,500,000	46,253	90DCP+23bps	Yearly	2013/12/16
1,000,000	30,836	90DCP+26.5bps	Each quarter	2013/12/14
1,300,000	40,086	90DCP+45bps	Each quarter	2013/12/27
500,000	15,418	90DCP+23bps	Yearly	2013/12/14
1,000,000	30,836	90DCP+26.5bps	Yearly	2013/12/16
3,000,000	92,507	90DCP+26.5bps	Yearly	2013/11/3
1,500,000	46,253	90DCP	Yearly	2014/9/29
3,200,000	98,674	90DCP	Yearly	2014/9/27
2,000,000	61,671	90DCP	Yearly	2013/11/3
-	24,000	6ml	Half year	2013/9/20
-	14,000	6ml	Half year	2014/3/20
-	24,000	6ml	Half year	2014/3/24

The terms of interest rate swap agreements are established based on the terms of the bonds being hedged.

Cathay Life's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$427,686 (US\$13,123) and NT\$218,631 (US\$6,742) as of December 31, 2006 and 2007.

f. Financial risk management objectives and policies

Cathay Life's financial assets primarily consist of domestic or foreign common stocks, preferred stocks, bonds, corporate bonds, mortgage-backed securities, mutual funds, short-term notes, cash and cash equivalents.

Cathay Life enters into derivative transactions such as stock options, index futures, interest rate futures, interest rate swaps, currency forwards and cross currency swap to protect against the risks of stock value, interest rate and exchange rate from investment activities.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, Cathay Life also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing Cathay Life's risks.

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock price risk and exchange rate risk, etc.. Cathay Life conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress testing methods, back testing methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of Cathay Life's financial assets.

Credit Risk

Credit risk is the risk of loss due to counterparty or a debtor defaulting on their contractual obligations. Cathay Life minimizes the credit risk exposure by performing the following evaluations and controls:

Cathay Life has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by Cathay Life before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees. No defaults have occurred during the current financial year.

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Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are limited to 80% of the carrying value of the secured buildings which varies in different regions.

The credit risk level of policy loans is assessed at low, as the policy loan amounts are limited to the net realizable value of the insurance policy and hence are deemed as fully secured investments.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Life has adopted and implemented the internal control regulations and sheets. Cathay Life is also commenced to develop the information systems to accommodate the aforementioned policies.

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. Cathay Life primarily has sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, Cathay Life also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

C. Cathay United Bank

a. Information of fair value

Item	December 31, 2006 (Restated)			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$51,047,557	\$1,566,356	\$51,047,557	\$1,566,356
Available-for-sale financial assets	54,500,543	1,672,309	54,500,543	1,672,309

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Item	December 31, 2006 (Restated)			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
Held-to-maturity financial assets and debt securities with no active market	\$263,423,191	\$8,082,945	\$263,462,589	\$8,084,154
Investment accounted for using equity method	2,334,860	71,643	2,334,860	71,643
Others	854,391,121	26,216,358	854,391,121	26,216,358
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	49,166,718	1,508,644	49,166,718	1,508,644
Financial debentures payable	18,135,818	556,484	18,135,818	556,484
Others	1,115,320,215	34,222,774	1,115,320,215	34,222,774
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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
<u>Liabilities</u>				
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)

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Item	December 31, 2007			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$36,705,025	\$1,131,823	\$36,705,025	\$1,131,823
Available-for-sale financial assets	63,913,728	1,970,821	63,913,728	1,970,821
Held-to-maturity financial assets and debt securities				
with no active market	260,150,321	8,021,903	260,070,546	8,019,443
Investment accounted for using equity method	2,513,001	77,490	2,513,001	77,490
Others	878,800,437	27,098,379	878,800,437	27,098,379
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	44,277,140	1,365,314	44,277,140	1,365,314
Financial debentures payable	18,551,837	572,058	18,551,837	572,058
Others	1,138,877,712	35,118,030	1,138,877,712	35,118,030
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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
<u>Liabilities</u>				
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 derivatives instruments	234,235	7,223	234,235	7,223

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

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- (a) 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.
- (b) 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 Cathay United 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. Cathay United Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
- (c) 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.

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

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

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

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Item	December 31, 2007			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$35,150,296	\$1,083,882	\$1,554,729	\$47,941
Available-for-sale financial assets	54,340,281	1,675,618	9,573,447	295,203
Held-to-maturity financial assets and debt securities				
without active market	199,817,730	6,161,509	60,252,816	1,857,935
Others	-	-	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	44,277,140	1,365,314
Financial debentures payable	-	-	18,551,837	572,058
Others	-	-	-	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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 derivatives instruments	-	-	658	20
<u>Liabilities</u>				
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 derivatives 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.

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- d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gain NT\$434,805 (US\$13,342) and loss NT\$377,581 (US\$11,643) for the years ended December 31, 2006 and 2007, respectively.
- e. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the years ended December 31, 2006 and 2007 were NT\$41,229,122 (US\$1,265,085) and NT\$39,195,507 (US\$1,208,619), and expenses were NT\$17,296,186 (US\$530,690) and NT\$18,497,254 (US\$570,375), respectively.
- f. Cathay United 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 realized gains of NT\$333,391 (US\$10,230) and NT\$1,474,142 (US\$45,456) in income statement for the years ended December 31, 2006 and 2007, respectively.
- g. 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.
- h. Information on financial risk

- (a) 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.

- Ⓐ Interest rate risk

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

- Ⓑ Foreign exchange risk

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

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© Equity securities price risk

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

Cathay United 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.

January 1 ~ December 31, 2006						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$79,515	\$2,440	\$138,367	\$4,246	\$43,942	\$1,348
Foreign exchange	43,677	1,340	117,919	3,618	727	22
Equity Securities price	51,318	1,575	80,270	2,463	17,301	531

January 1 ~ December 31, 2007						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(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	250,252	7,717	59,724	1,842

Cathay United 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 Cathay United Bank exposure to risks and to generate revenues through trading activities. Cathay United Bank provides trades derivative instruments on behalf of customers and for its own positions. Cathay United 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.

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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. Cathay United 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. Cathay United Bank equity portfolios include stocks and equity index options.

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

(b) Credit risk

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

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To centralize risk management functions currently handled by different departments, Cathay United 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. Cathay United 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. Cathay United Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios.

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

Ⓐ Information on concentrations of credit risk:

Item	December 31, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$51,047,557	\$1,566,356	\$51,047,557	\$1,566,356
Available-for-sale financial assets	54,500,543	1,672,309	54,500,543	1,672,309
Held-to-maturity financial assets and debt securities with no active market	263,423,191	8,082,945	263,423,191	8,082,945
Investment accounted for using equity method	2,334,860	71,643	2,334,860	71,643
Others	854,391,121	26,216,358	854,391,121	26,216,358
Guarantees on duties and contracts	-	-	17,399,376	533,887
Unused commercial letters of credit	-	-	2,574,139	78,986
Irrevocable loan commitments	-	-	43,296,052	1,328,507
Credit card line commitments	-	-	283,220,679	8,690,417

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Item	December 31, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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	9,462	290	9,462	290
Options	61,076	1,874	61,076	1,874
Credit derivative instruments	464	14	464	14
December 31, 2007				
Item	Maximum credit risk exposed amount			
	Carrying value		amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$36,705,025	\$1,131,823	\$36,705,025	\$1,131,823
Available-for-sale financial assets	63,913,728	1,970,821	63,913,728	1,970,821
Held-to-maturity financial assets and debt securities with no active market	260,150,321	8,021,903	260,150,321	8,021,903
Investment accounted for using equity method	2,513,001	77,490	2,513,001	77,490
Others	878,800,437	27,098,379	878,800,437	27,098,379
Guarantees on duties and contracts	-	-	19,258,183	593,839
Unused commercial letters of credit	-	-	2,957,974	91,211
Irrevocable loan commitments	-	-	40,783,846	1,257,596
Credit card line commitments	-	-	278,940,434	8,601,308
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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

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- ⑥ Cathay United Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, Cathay United Bank is likely to be exposed to region or industry concentration risk. Cathay United Banks' information of concentration of credit risk is as follows:

	December 31,			
	2006 (Restated)		2007	
Loans, customers' liabilities under acceptances, bill purchased and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
Industry type				
Manufacturing	\$106,968,389	\$3,282,246	\$104,305,781	\$3,216,336
Financial institutions and insurance	43,912,932	1,347,436	51,082,590	1,575,166
Leasing and real estate	70,255,815	2,155,747	80,635,270	2,486,440
Individuals	406,853,815	12,484,008	421,120,619	12,985,526
Others	119,166,814	3,656,545	128,816,613	3,972,143
Total	747,157,765	22,925,982	785,960,873	24,235,611
Valuation allowance	(16,511,743)	(506,650)	(9,746,610)	(300,543)
Maximum credit risk exposed	\$730,646,022	\$22,419,332	\$776,214,263	\$23,935,068
Geographic Region				
Domestic	\$700,544,321	\$21,495,683	\$722,753,825	\$22,286,581
South East Asia	16,859,532	517,322	18,868,059	581,809
North East Asia	-	-	144,953	4,470
America	11,556,020	354,588	13,987,495	431,313
Others	18,197,892	558,389	30,206,541	931,438
Total	747,157,765	22,925,982	785,960,873	24,235,611
Valuation allowance	(16,511,743)	(506,650)	(9,746,610)	(300,543)
Maximum credit risk exposed	\$730,646,022	\$22,419,332	\$776,214,263	\$23,935,068

(c) 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 Cathay United Bank believe Cathay United Bank can generate within that period. As part of our liquidity risk management, Cathay United Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

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

The liquidity risk rate was 28.29%. Capital and working capital of Cathay United Bank have sufficed to deliver contracts. Cathay United Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

Cathay United Bank's financial debentures payable was matched with the interest rate swap and currency swap contracts which had been transferred from fixed rate to floating rate.

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

As of December 31, 2006 and 2007, respectively, the effective interest rates of financial instruments held and issued by Cathay United 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

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i. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets (liabilities) fair value			
		December 31, 2006 (Restated)		December 31, 2007	
		(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, Cathay United 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.

D. Cathay Century

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments:</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$1,971,644	\$1,971,644	\$60,498	\$60,498
Financial assets at fair value through profit or loss				
-current	502,961	502,961	15,433	15,433
Available-for-sale financial assets - current	2,548,140	2,548,140	78,188	78,188
Investments in debt securities with no active market-current	76,981	76,981	2,362	2,362
Receivables	1,715,787	1,715,787	52,647	52,647
Claims recoverable from reinsurers	170,371	170,371	5,228	5,228
Due from reinsurers and ceding Companies	76,565	76,565	2,349	2,349
Secured loans	2,095,268	2,095,268	64,292	64,292
Held-to-maturity financial assets - noncurrent	3,749,347	3,749,347	115,046	115,046
Financial assets carried at cost - noncurrent	60,000	60,000	1,841	1,841

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Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments:</u>				
<u>Assets</u>				
Investments in debt securities with no active market – noncurrent	\$229,220	\$229,220	\$7,033	\$7,033
Long-term investments in stocks under the equity method	449,041	449,041	13,779	13,779
Guarantee deposits paid	509,577	509,577	15,636	15,636
<u>Liabilities</u>				
Claims outstanding	19,550	19,550	600	600
Due to reinsurers and ceding companies	260,583	260,583	7,996	7,996
Operating and liability reserve	9,293,401	9,293,401	285,161	285,161
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures Contract	8,437	8,437	259	259
Options Contract	285	285	9	9
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss-current				
Foreign exchange SWAP	61,846	61,846	1,898	1,898
December 31, 2007				
Item	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments:</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$2,396,187	\$2,396,187	\$73,888	\$73,888
Financial assets at fair value through profit or loss - current	717,239	717,239	22,117	22,117
Available-for-sale financial assets - current	3,154,483	3,154,483	97,271	97,271
Held-to-maturity financial assets-current	220,400	220,400	6,796	6,796
Financial assets carried at cost-current	24,000	24,000	740	740

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Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
<u>Assets</u>				
Investments in debt securities with no active				
market-current	\$125,889	\$125,889	\$3,882	\$3,882
Receivables	2,056,762	2,056,762	63,421	63,421
Claims recoverable from reinsurers	129,458	129,458	3,992	3,992
Due from reinsurers and ceding companies	53,653	53,653	1,654	1,654
Secured loans	2,241,869	2,241,869	69,129	69,129
Held-to-maturity financial assets- noncurrent	4,022,649	4,022,649	124,041	124,041
Financial assets carried at cost-noncurrent	36,000	36,000	1,110	1,110
Investments in debt securities with no active				
market – noncurrent	101,733	101,733	3,137	3,137
Long-term investments in stocks under the equity				
method	432,192	432,192	13,327	13,327
Guarantee deposits paid	432,741	432,741	13,344	13,344
<u>Liabilities</u>				
Claims outstanding	1,909	1,909	59	59
Due to reinsurers and ceding companies	377,353	377,353	11,636	11,636
Operating and liability reserve	10,713,149	10,713,149	330,347	330,347
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or				
loss-current				
Futures Contract	9,810	9,810	302	302
Options Contract	41	41	1	1
IRS	374	374	12	12
<u>Liabilities</u>				
Derivative financial liabilities for hedging-current				
Foreign exchange SWAP	41,437	41,437	1,278	1,278

- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

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- (a) The fair value of Cathay Century's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.
- (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- (c) Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Century uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (d) The fair value of Cathay Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- c. The following table summarizes the fair value information of Cathay Century's financial assets and liabilities at December 31, 2006 and 2007:

Item	December 31, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$502,961	\$15,433	\$-	\$-
Available-for-sale financial assets-current	2,548,140	78,188	-	-
Investment in debt securities with no active market-current	-	-	76,981	2,362
Held-to-maturity financial assets-noncurrent	-	-	3,749,347	115,046

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Item	December 31, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets carried at cost-noncurrent	\$-	\$-	\$60,000	\$1,841
Investment in debt securities with no active market-noncurrent	-	-	229,220	7,033
Long-term investments in stocks under the equity method	-	-	449,041	13,779
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	8,437	259	-	-
Option	285	9	-	-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	61,846	1,898	-	-
December 31, 2007				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$717,239	\$22,117	\$-	\$-
Available-for-sale financial assets-current	3,154,483	97,271	-	-
Held-to-maturity financial assets-current	-	-	220,400	6,796
Financial assets carried at cost-current	-	-	24,000	740
Investment in debt securities with no active market-current	-	-	125,889	3,882
Held-to-maturity financial assets-noncurrent	-	-	4,022,649	124,041
Financial assets carried at cost-noncurrent	-	-	36,000	1,110
Investment in debt securities with no active market-noncurrent	-	-	101,733	3,137
Long-term investments in stocks under the equity method	-	-	432,192	13,327

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Item	December 31, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit				
or loss-current				
Futures	\$9,810	\$302	\$-	\$-
Option	41	1	-	-
IRS	374	12	-	-
<u>Liabilities</u>				
Derivative financial liabilities for				
hedging-current				
Forward contracts	41,437	1,278	-	-

d. Information on financial risk

(a) Risk of interest rate

The following table summarizes the maturities of Cathay Century's financial instruments at December 31, 2006 and 2007:

Fixed interest rate

December 31, 2006

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$-	\$-	\$49,504	\$1,519	\$849,233	\$26,058	\$357,990	\$10,985
Investments in debt securities								
with no active market	76,981	2,362	125,889	3,863	103,331	3,170	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Held-to-maturity financial assets	\$461,154	\$14,150	\$2,031,466	\$62,334	\$3,749,347	\$115,046		
Investments in debt securities								
with no active market	-	-	-	-	306,201	9,395		

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December 31, 2007

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$220,400	\$6,796	\$846,449	\$26,101	\$-	\$-	\$-	\$-
Investments in debt securities								
with no active market	125,889	3,882	101,733	3,137	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$618,948	\$19,086	\$2,557,252	\$78,854	\$4,243,049	\$130,837
Investments in debt securities						
with no active market	-	-	-	-	227,622	7,019

(b) Credit risk

Cathay Century's exposure to credit risk is minimal.

e. Hedging activities

Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		December 31, 2006		December 31, 2007	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas investments in bonds	Foreign exchange SWAP	<u>\$(61,846)</u>	<u>\$(1,898)</u>	<u>\$(41,437)</u>	<u>\$(1,278)</u>

f. Hedged of derivative financial instruments related information

The following table summarizes the terms of Cathay Century's interest rate swap for bonds hedging at December 31, 2007:

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Cash flow hedges-IRS

① December 31, 2007

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,167	90 DCP + 0.90%	Each quarter	2014/9/30

The terms of interest rate swap agreements are established based on the terms of the bonds being hedged.

Cathay Century's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized loss on financial instruments were recognized in equity by NT\$374 (US\$12) as of December 31, 2007.

g. Financial risk management objectives policies

Cathay Century's primary financial instruments other than derivatives consists of cash and cash equivalents, current and noncurrent investments. The main purpose of holding these financial instruments is to manage cash flow. Cathay Century has other financial assets and liabilities such as notes receivable, due to and from reinsurers and ceding companies, reinsurance account, receivable and payable and secured loans, etc.

Cathay Century also conducts derivative transactions, primarily including futures, option contracts and forward currency contracts. The purpose is to manage the stock price fluctuation and currency exchange risks arising from Cathay Century's investment activities. Cathay Century does not conduct derivative transactions based on trading purpose.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, Cathay Century also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing Cathay Century's risks.

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Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock value risk and exchange rate risk, etc.. Cathay Century conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress test methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of Cathay Century's financial assets.

As a result of significant overseas designated purpose pecuniary trust funds, Cathay Century's balance sheet can be affected significantly by the fluctuation of the US\$/NT\$ exchange rates. Cathay Century utilizes forward currency contracts to hedge this exposure.

Cathay Century also has transactional currency exposures. Such exposure arise from reinsurance transactions. These transactions with foreign reinsurance company usually receive on time and the fluctuation of exchange rate is not significant. Thus Cathay Century did not seek to hedge this exposure.

Credit risk

Cathay Century only conducts business with recognized and creditworthy third parties. Customers are subject to credit verification procedures, and the collection of premium receivable and notes receivable are subsequently assessed. In addition, once the credit of the third party is impaired, Cathay Century will freeze the related contracts until the credit of the third party recovers. Thus Cathay Century has minimal bad debts.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Century has adopted and implemented the internal control regulations and sheets. Cathay Century is also commenced to develop the information systems to accommodate the aforementioned policies.

Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

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E. Cathay Securities

a. Information of fair value

	December 31, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$450,393	\$450,393	\$13,820	\$13,820
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	622,779	622,779	19,109	19,109
Operating securities – net	371,197	371,197	11,390	11,390
Receivable amount for margin loans	752,429	752,429	23,088	23,088
Securities refinancing margin deposits	443	443	14	14
Receivables – net	11,199	11,199	344	344
Restricted assets – current	650,000	650,000	19,945	19,945
Available-for-sale financial assets-noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,600	6,600
Settlement and clearance funds	46,734	46,734	1,434	1,434
Guarantee deposits paid	38,239	38,239	1,173	1,173
<u>Liabilities</u>				
Securities financial guarantee deposits-in	11,707	11,707	359	359
Deposit payable for securities financing	12,875	12,875	395	395
Payables	36,282	36,282	1,114	1,114
Guarantee deposits in	141	141	4	4
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and loss – current				
Margin for futures trading – own funds	308,568	308,568	9,468	9,468
<u>Liabilities</u>				
Financial liabilities at fair value through profit and loss – current				
Liabilities for issuance of call (put) warrants	4,200	4,200	129	129
Repurchase of issued call (put) warrants	(2,914)	(2,914)	(90)	(90)
Derivative financial instrument liabilities -GreTai (over-the-counter)	4,946	4,946	152	152
Other financial liabilities – current	175,703	175,703	5,392	5,392

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Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$230,455	\$230,455	\$7,106	\$7,106
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	540,791	540,791	16,676	16,676
Operating securities – net	1,090,181	1,090,181	33,616	33,616
Receivable amount for margin loans	1,053,680	1,053,680	32,491	32,491
Receivables – net	18,446	18,446	569	569
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,097	230,097	7,095	7,095
Settlement and clearance funds	50,550	50,550	1,559	1,559
Guarantee deposits paid	102,251	102,251	3,153	3,153
<u>Liabilities</u>				
Securities financing guarantee deposits-in	35,828	35,828	1,105	1,105
Deposit payable for securities financing	39,545	39,545	1,219	1,219
Payables	34,121	34,121	1,052	1,052
Guarantee deposits in	141	141	4	4
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	221,839	221,839	6,840	6,840
Derivative financial instrument assets-				
Gre Tai (over-the-counter)	640	640	20	20
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	130,200	130,200	4,015	4,015
Repurchase of issued call (put) warrants	(119,436)	(119,436)	(3,683)	(3,683)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	413	413	13	13
Other financial liabilities-current	158,821	158,821	4,897	4,897

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- b. Methods and assumptions for estimating the fair value of the financial instruments are as follows:
- (a) Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, securities refinancing margin deposits, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities financing guarantee deposits in, deposit payable for securities financing, payables and guarantee deposits-in.
- (b) Available-for-sale financial assets – noncurrent are estimated based on market prices, if available. If available-for-sale financial assets – noncurrent of Cathay Securities is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.
- (c) If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, Cathay Securities assesses fair value by using pricing model. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value information of financial assets and liabilities as of December 31, 2006 and 2007:

Financial instruments	December 31, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$622,779	\$19,109	\$-	\$-
Operating securities – net	371,197	11,390	-	-
Margin for futures trading – own funds	308,568	9,468	-	-

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Financial instruments	December 31, 2006			
	Based on the quoted market		Based on pricing models	
	price			
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Liabilities</u>				
Financial liabilities at fair value through profit and loss – current				
Liabilities for issuance of call (put) warrants	\$4,200	\$129	\$-	\$-
Repurchase of issued call (put) warrants	(2,914)	(90)	-	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	-	4,946	152
Other financial liabilities – current	-	-	175,703	5,392
Financial instruments	December 31, 2007			
	Based on the quoted market		Based on pricing models	
	price			
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$540,791	\$16,676	\$-	\$-
Operating securities – net	1,090,181	33,616	-	-
Margin for futures trading – own funds	221,839	6,840	-	-
Derivative financial instruments assets-GreTai (over-the-counter)	-	-	640	20
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	130,200	4,015	-	-
Repurchase of issued call (put) warrants	(119,436)	(3,683)	-	-
Derivative financial instrument liabilities-GreTai (over-the-counter)	-	-	413	13
Other financial liabilities – current	-	-	158,821	4,897

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The above derivative financial instrument assets (liabilities)-GreTai (over-the-counter) and other financial liabilities-current are valued using “Monte Carlo Simulations” and “Interest Method”.

c. Financial risk management objectives and policies

(a) Market risk

Cathay Securities invests in equity securities that have active public market prices. When adverse market conditions exist, Cathay Securities is exposed to market risk as prices fluctuate. Although Cathay Securities controls and quantifies its market risk by establishing stop-loss limits and measuring Value-at-Risk, evaluates its risk utilizing historical prices and controls its overall investment portfolio, it is still exposed to market risk.

(b) Credit risk

In accordance with Cathay Securities’ policy, credit evaluations are required for all credit transactions. Credit limits are established based on customers’ credit ratings. Margin ratios are also evaluated continuously to control default risk.

The counterparties to Cathay Securities’ other financial assets (including cash and cash equivalents and all other current and non current investments) are all creditworthy and well-known financial institutions in the ROC. As a result, counterparty credit risk is relatively low.

(c) Liquidity risk

Cathay Securities believes its working capital is sufficient for its operations and that the risk of contract defaults resulting from a lack of capital is low.

The financial assets held by Cathay Securities all have active markets and can be sold at prices approximate to fair values. As the result, Cathay Securities believes there is no significant cash flow risk.

(d) Cash flow risk from interest rate fluctuations

Cathay Securities currently has no exposure to floating interest rates related to financial assets or liabilities and thus Cathay Securities believes there is no significant cash flow risk from interest rate fluctuations.

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Cathay Securities also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 5 years, and as a result, the risk is relatively lower. In addition, Cathay Securities will take appropriate actions with respect these certificates based on interest rate fluctuations.

d. Derivatives

(a) Issuance call warrants

Ⓐ Nominal principal or contract amount and credit risk

	December 31, 2006		December 31, 2007	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Issuance of call warrants	NT\$11,120 (US\$341)	NT\$- (US\$-)	NT\$377,020 (US\$11,625)	NT\$- (US\$-)

Cathay Securities collects premium from investors when issuing call warrants. Therefore, Cathay Securities believes it does not have any credit risk with respect to investors.

Ⓑ Market price risk

Market risk for call warrants issued arises from changes in prices of the underlying securities. Although market risk can be avoided by adjusting Cathay Securities warrant and hedging positions, certain market risk still exist.

Ⓒ Liquidity risk, cash flow risk and future cash requirements

When issuing call warrants, Cathay Securities utilizes existing holdings of underlying securities and premiums received in advance to establish hedging positions. Further, because underlying securities must meet specific regulatory requirements with respect to market price and shareholders diversification, Cathay Securities believes they can be easily sold at reasonable prices and that liquidity risk is low. Risk may arise from the need for capital when adjusting hedging position in response to prices changes of underlying securities. However, assuming strong market liquidity, Cathay Securities believes cash flow risk is low.

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The call warrants issued by Cathay Securities typically have contract periods of six months starting from the date when the warrants are listed. Except for the flow of cash related to hedging transactions, there are no other cash requirements.

④ Types, purposes, and strategies for financial derivatives

Cathay Securities hedging positions are not held for trading purposes but instead, are held to minimize the risk of investors exercising warrants. Cathay Securities hedging strategy is focused on avoiding market price risks. The value of the underlying securities for hedging are highly correlated to the fair value of the issued call warrants. Cathay Securities hedging positions are evaluated and adjusted periodically.

⑤ Financial statement presentation of derivative financial instruments

As of December 31, 2007, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

Balance sheet

	December 31, 2006	
	Financial liabilities at fair value through profit or loss-current	
	(NT\$)	(US\$)
Liabilities for issuance of call (put) warrants	\$4,200	\$129
Repurchase of issued call (put) warrants	(2,914)	(90)
Total	\$1,286	\$39

	December 31, 2007	
	Financial liabilities at fair value through profit or loss-current	
	(NT\$)	(US\$)
Liabilities for issuance of call (put) warrants	\$130,200	\$4,015
Repurchase of issued call (put) warrants	(119,436)	(3,683)
Total	\$10,764	\$332

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Statement of income

	For the year ended December 31, 2006		
	Profit from issuing call (put) warrants		Comments
	(NT\$)	(US\$)	
Liabilities for issuance of call (put)			
warrants	\$6,920	\$212	Fair value method
Repurchase of issued call (put) warrants			
-Loss on disposal	(1,865)	(57)	
-Loss from valuation	(3,505)	(107)	Fair value method
Total	\$1,550	\$48	
	For the years ended December 31, 2007		
	Profit from issuing call (put) warrants		Comments
	(NT\$)	(US\$)	
Liabilities for issuance of call (put)			
warrants	\$239,900	\$7,398	Fair value method
Repurchase of issued call (put) warrants			
-Loss on disposal	(93,512)	(2,884)	
-Loss from valuation	(154,440)	(4,762)	Fair value method
Gain from expiration of warrants issued	24,420	753	
Total	\$16,368	\$505	

(b) Structured notes transactions

Ⓐ Nominal principal or contract amount and credit risk

	December 31, 2006		December 31, 2007	
	Nominal principal	Credit risk	Nominal principal	Credit risk
Financial instruments	/contract amount	/contract amount	/contract amount	/contract amount
<u>For trading purposes</u>				
Equity-linked notes	NT\$-	NT\$-	NT\$10,000	NT\$-
	(US\$-)	(US\$-)	(US\$308)	(US\$-)
Principal guaranteed notes	NT\$177,900	NT\$-	NT\$149,300	NT\$-
	(US\$5,459)	(US\$-)	(US\$4,604)	(US\$-)

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Cathay Securities credit risk arises from a breach of contract by a counterparty. Cathay Securities believes it is not exposed to credit risk because contract amounts are collected in advance of structured notes being issued.

ⓑ Market risk

In structured notes transactions, Cathay Securities receives proceeds from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

ⓒ Risk from liquidity, cash flow and future cash requirements

In structured notes transactions, Cathay Securities receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. In order to provide investors with the ability for early redemption, Cathay Securities considers liquidity risk when investing in fixed income securities. As a result, Cathay Securities does not expect any significant cash requirements at expiration of the contract.

ⓓ Types, purposes, and strategies for financial derivatives

The structured notes transactions of Cathay Securities can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. Proceeds received by investors consist of returns from the fixed income products and value of the options at expiration.

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(c) Financial statement presentation of derivative financial instruments

As of December 31, 2006 and 2007, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

Balance sheet

	December 31, 2006		December 31, 2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Derivative financial instrument assets –				
GreTai (over-the-counter) (note 1)				
Structured notes transactions	\$-	\$-	\$640	\$20
Derivative financial instrument liabilities –				
GreTai (over-the-counter) (note 2)	4,946	152	413	13
Structured notes transactions				
Other financial liabilities – current				
Principal of structured notes	175,703	5,392	158,821	4,897

Note 1: Recorded as “Financial assets at fair value through profit or loss – current” in balance sheet.

Note 2: Recorded as “Financial liabilities at fair value through profit or loss – current” in balance sheet.

Statement of income

	For the year ended		For the year ended		Comments
	December 31, 2006		December 31, 2007		
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Loss from derivative financial instruments – Gre Tai (over the counter)					
Loss from structured notes	\$12,345	\$379	\$4,902	\$151	Fair value method

e. Futures and options transactions

As of December 31, 2006 and 2007, all of Cathay Securities’ unexercised futures and options transactions were exercised.

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(a) Nominal principal or contract amount and credit risk

Cathay Securities believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

(b) Market risk

Cathay Securities market risk from futures and options transactions arises from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range. However market risk still exists.

(c) Risk from liquidity, cash flow, and future cash requirements

Cathay Securities unexercised options could all be liquidated at reasonable prices in the market. As a result, Cathay Securities believes liquidity risk is low.

Cathay Securities trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, Cathay Securities has sufficient working capital to meet its requirements, and hence Cathay Securities believes funding risk and cash flow risk are low. With respect to Cathay Securities trading in options, prior to any transaction Cathay Securities pays or receives option premium. If Cathay Securities sells call options and the counterparty exercises its option, Cathay Securities has sufficient working capital to cover the exercise and hence Cathay Securities believes funding risk and cash flow risk are low.

(d) Types, purposes, and strategies for financial derivatives

Cathay Securities purpose in trading futures and options is to increase the scope of its investment activities and improve its capital efficiency.

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(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “financial assets at fair value through profit or loss – current (margin for futures trading – own funds) on the balance sheet. For the years ended December 31, 2006 and 2007, the related gain (loss) of futures and options on the statement of income were as follows:

Item	For the year ended December 31, 2006		For the year ended December 31, 2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain from derivative financial instruments – futures				
Gain on futures contracts - realized	\$12,327	\$378	\$14,959	\$461
Gain on futures contracts - unrealized	799	25	967	30
Gain from options transactions - realized	1,942	60	5,811	179
Gain from options transactions - unrealized	1,246	38	1,448	45
Total	<u>\$16,314</u>	<u>\$501</u>	<u>\$23,185</u>	<u>\$715</u>

Item	For the year ended December 31, 2006		For the year ended December 31, 2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loss from derivative financial instruments - futures				
Loss on futures contracts - realized	\$6,701	\$206	\$6,332	\$195
Loss on futures contracts – unrealized	799	24	967	30
Loss from options transactions – realized	916	28	1,416	44
Loss from options transactions - unrealized	1,246	38	1,448	44
Total	<u>\$9,662</u>	<u>\$296</u>	<u>\$10,163</u>	<u>\$313</u>

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F. Cathay Pacific Venture

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$518,313	\$518,313	\$15,904	\$15,904
Other receivables (contain transactions with related parties)	3,894	3,894	119	119
Other current assets	2,439	2,439	75	75
Available-for-sale financial assets-noncurrent	181,097	181,097	5,557	5,557
Financial assets carried at cost	88,971	88,971	2,730	2,730
<u>Liabilities</u>				
Other payables	8,935	8,935	274	274

Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$28,742	\$28,742	\$886	\$886
Available-for-sale financial assets-current	411,763	411,763	12,697	12,697
Available-for-sale financial assets-noncurrent	226,013	226,013	6,969	6,969
Financial assets carried at cost	62,882	62,882	1,939	1,939
<u>Liabilities</u>				
Other payables	2,571	2,571	79	79

b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

- (a) The fair value of Cathay Pacific Venture short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, other receivables (contain transactions with related parties), other current assets and accrued expenses.

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(b) Quoted market price, if available, are utilized as estimates of the fair value of available-for-sale financial assets.

(c) Financial assets carried at cost are unlisted stock. Since these stocks have no quoted market prices in an active market and their fair value cannot be reliably measured, their fair values are based on their carrying values.

G. Cathay Futures

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$227,802	\$227,802	\$6,990	\$6,990
Customers' margin accounts	972,500	972,500	29,840	29,840
Futures trading deposits receivable	628	628	19	19
Accounts receivable – related parties	71	71	2	2
Other receivables (contain transactions with related parties)	3,458	3,458	106	106
Available-for-sale financial assets-noncurrent	30,500	30,500	936	936
Operating deposits	60,000	60,000	1,841	1,841
Settlement and clearance funds	57,000	57,000	1,749	1,749
Guarantee deposits paid	1,247	1,247	38	38
<u>Liabilities</u>				
Futures customers' equity	972,302	972,302	29,834	29,834
Payables (contain transactions with related parties)	2,068	2,068	63	63
Advance receipts	178	178	5	5
Other payable (contain transactions with related parties)	1,791	1,791	55	55

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Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$226,605	\$226,605	\$6,988	\$6,988
Customers' margin accounts	1,165,984	1,165,984	35,954	35,954
Futures trading deposits receivable	448	448	14	14
Accounts receivable-related parties	36	36	1	1
Other receivable (contain transactions with related parties)	4,708	4,708	145	145
Available-for-sale financial assets-noncurrent	30,500	30,500	940	940
Operating deposits	60,000	60,000	1,850	1,850
Settlement and clearance funds	66,000	66,000	2,035	2,035
Guarantee deposits paid	1,279	1,279	39	39
<u>Liabilities</u>				
Futures customers' equity	1,165,684	1,165,684	35,945	35,945
Payables (contain transactions with related parties)	2,584	2,584	80	80
Advance receipts	246	246	8	8
Other payable (contain transactions with related parties)	1,535	1,535	47	47

b. Methods and assumptions applied in estimating the fair value of financial instruments are as follows:

- (a) The carrying amounts of the financial instruments such as cash and cash equivalent, customers' margin accounts, futures trading deposits receivable, accounts receivable-related parties, other receivable, operation deposits, settlement and clearance funds, guarantee deposits paid, futures customers' equity, payables, advance receipts under custody and other payable, approximate their fair values because of the short maturities of these instruments.
- (b) The fair value of available-for-sale financial assets-noncurrent is valued at market price or other financial information when available.

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- (c) The fair value of financial assets and financial liabilities is determined by pricing models.

c. Information on financial risk

- (a) The fair values of the shares on listed companies or derivative instruments held by Cathay Futures fluctuate along with the related stock market factors.
- (b) Credit risk – Appropriate credit evaluation processes and continuous monitor of credit-lines are in place for all customers of the brokerage department. In addition, all transactions conducted by proprietary trading department go through Taiwan Futures Exchange and therefore no significant credit risk is expected.
- (c) Liquidity risk and cash flow risk – Cathay Futures has sufficient working capital for its operation and there is no liquidity risk on default. In addition, except for the financial assets carried at cost and long term investment under equity method which are embedded of liquidity risks due to lack of active market, all other stocks Cathay Futures held are able to be disposed rapidly at prices close to fair values.

The realized gains or losses on the derivatives (TSIF and TSIO - proprietary) of Cathay Futures for December 31, 2006 and 2007 are as follows:

	December 31,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain on derivatives	\$6,783	\$208	\$-	\$-
Losses on derivatives	(3,764)	(115)	-	-
Net	<u>\$3,019</u>	<u>\$93</u>	<u>\$-</u>	<u>\$-</u>

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H. Symphox Information

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$84,203	\$84,203	\$2,584	\$2,584
Financial assets at fair value through profit or loss-current	223,500	223,500	6,858	6,858
Receivables (contain transactions with related parties)	139,472	139,472	4,280	4,280
Guarantee deposits paid	10,184	10,184	312	312
<u>Liabilities</u>				
Payables (contain transactions with related parties)	111,882	111,882	3,433	3,433
Guarantee deposits in	85	85	3	3
Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$312,232	\$312,232	\$9,628	\$9,628
Financial assets at fair value through profit or loss-current	141,993	141,993	4,378	4,378
Receivables (contain transactions with related parties)	84,842	84,842	2,616	2,616
Guarantee deposits paid	7,518	7,518	232	232
<u>Liabilities</u>				
Payables (contain transactions with related parties)	106,658	106,658	3,289	3,289
Guarantee deposits in	79	79	2	2

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b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

(a) The fair value of Symphox Information short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, financial assets at fair value through profit or loss-current, receivables and payables.

(b) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.

I. Cathay Venture Capital

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$2,733	\$2,733	\$84	\$84
Available-for-sale financial assets- current	585,860	585,860	17,977	17,977
Available-for-sale financial assets- noncurrent	295,644	295,644	9,072	9,072
Financial assets carried at cost - noncurrent	696,257	696,257	21,364	21,364
Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$473	\$473	\$15	\$15
Financial assets at fair value through profit or loss-current	33,506	33,506	1,033	1,033
Available-for-sale financial assets- current	104,247	104,247	3,215	3,215
Available-for-sale financial assets- noncurrent	292,284	292,284	9,013	9,013
Financial assets carried at cost - noncurrent	1,068,072	1,068,072	32,935	32,935

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b. The methods and assumptions used to estimate the fair value of the financial instruments are as following:

(a) The fair value of short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.

(b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.

(c) The fair value of financial instruments is valued at market price or other financial information when available.

c. The fair value of the Cathay Venture Capital financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

Item	December 31,							
	2006				2007			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
Financial assets at fair value								
through profit or								
loss-current	\$-	\$-	\$-	\$-	\$33,506	\$1,033	\$-	\$-
Available-for-sale financial								
assets-current	585,860	17,977	-	-	104,247	3,215	-	-
Available-for-sale financial								
assets-noncurrent	295,644	9,072	-	-	292,284	9,013	-	-
Financial assets carried at								
cost - noncurrent	696,257	21,364	-	-	1,068,072	32,935	-	-

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I. Cathay II Venture Capital

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$13,226	\$13,226	\$406	\$406
Available-for-sale financial				
assets- current	80,346	80,346	2,465	2,465
Available-for-sale financial				
assets- noncurrent	322,798	322,798	9,905	9,905
Financial assets carried at cost-noncurrent	415,121	415,121	12,738	12,738

Item	December 31, 2007			
	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$748	\$748	\$23	\$23
Financial assets at fair value through profit or				
loss-current	16,125	16,125	497	497
Available-for-sale financial				
assets- current	90,065	90,065	2,777	2,777
Available-for-sale financial				
assets- noncurrent	173,586	173,586	5,353	5,353
Financial assets carried at cost-noncurrent	571,972	571,972	17,637	17,637

b. The methods and assumptions used to estimate the fair value of the financial instruments are as following:

- (a) The fair value of short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.

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(b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.

(c) The fair value of financial instruments is valued at market price or other financial information when available.

c. The fair value of the Cathay II Venture Capital financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

Item	December 31,							
	2006				2007			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through								
profit or loss-current	\$-	\$-	\$-	\$-	\$16,125	\$497	\$-	\$-
Available-for-sale financial								
assets-current	80,346	2,465	-	-	90,065	2,777	-	-
Available-for-sale financial								
assets-noncurrent	322,798	9,905	-	-	173,586	5,353	-	-
Financial assets carried at								
cost-noncurrent	-	-	415,121	12,738	-	-	571,972	17,637

K. Cathay Life (Shanghai)

a. Information of fair value

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,579,733	\$1,579,733	\$48,473	\$48,473
Financial assets at fair value through				
profit or loss-current	385,259	385,259	11,821	11,821

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Item	December 31,2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-current	\$61,272	\$61,272	\$1,880	\$1,880
Held-to-maturity financial assets-current	41,777	41,777	1,282	1,282
Premium receivable	1,087	1,087	33	33
Available-for-sale financial assets-noncurrent	211,010	211,010	6,475	6,475
Held-to-maturity financial assets-noncurrent	248,818	248,818	7,635	7,635
Investment in debt securities with no active market-noncurrent	1,203,707	1,203,707	36,935	36,935
Guarantee deposits paid	683,862	683,862	20,984	20,984
<u>Liabilities</u>				
Guarantee deposits in	773	773	24	24
Item	December 31,2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$2,384,576	\$2,384,576	\$73,530	\$73,530
Financial assets at fair value through profit or loss-current	300,253	300,253	9,258	9,258
Available-for-sale financial assets-current	1,126,972	1,126,972	34,751	34,751
Premium receivable	8,071	8,071	248	248
Other financial assets-currents	95,936	95,936	2,958	2,958
Available-for-sale financial assets-noncurrent	1,185,491	1,185,491	36,555	36,555
Held-to-maturity financial assets-noncurrent	396,666	396,666	12,231	12,231
Investment in debt securities with no active market-noncurrent	1,563,702	1,563,702	48,218	48,218
Guarantee deposits paid	725,476	725,476	22,371	22,371
<u>Liabilities</u>				
Guarantee deposits in	2,328	2,328	72	72

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- b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:
- (a) The fair value of Cathay Life (Shanghai) short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents and premium receivables.
 - (b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.
 - (c) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.
- c. The fair value of the Cathay life (Shanghai) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	December 31,							
	2006				2007			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents	\$1,579,733	\$48,473	\$-	\$-	\$2,384,576	\$73,530	\$-	\$-
Financial assets at fair value through profit or loss-current	385,259	11,821	-	-	\$300,253	\$9,258	-	-
Available-for-sale financial assets-current	61,272	1,880	-	-	1,126,972	34,751	-	-
Held-to-maturity financial assets-current	41,777	1,282	-	-	-	-	-	-
Premium receivable	-	-	-	-	8,071	248	-	-
Other financial assets-current	-	-	-	-	95,936	2,958	-	-
Available-for-sale financial assets-noncurrent	211,010	6,475	-	-	1,185,491	36,555	-	-
Held-to-maturity financial assets-noncurrent	248,818	7,635	-	-	396,666	12,231	-	-
Investment in debt securities with no active market- noncurrent	-	-	1,203,707	36,935	-	-	1,563,702	48,218
Guarantee deposits paid	683,862	20,984	-	-	725,476	22,371	-	-
<u>Liabilities</u>								
Guarantee deposits in	773	24	-	-	2,328	72	-	-

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(3) Discretionary account management

Item	December 31, 2006			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$6,828,317	\$209,522	\$6,828,317	\$209,522
Repurchase bonds	3,971,896	121,875	3,974,041	121,941
Short-term notes	10,004	307	10,004	307
Bonds	1,278,125	39,218	1,278,125	39,218
Cash in banks	408,610	12,538	408,614	12,538
Net other assets less liabilities	1,284	39	1,284	39
Total	\$12,498,236	\$383,499	\$12,500,385	\$383,565

Item	December 31, 2007			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$11,955,226	\$368,647	\$12,463,703	\$384,326
Repurchase bonds	7,759,126	239,258	7,765,549	239,456
Short-term notes	70,534	2,175	70,534	2,175
Cash in banks	719,593	22,189	719,609	22,190
Net other assets less liabilities	14,962	461	14,962	461
Total	\$20,519,441	\$632,730	\$21,034,357	\$648,608

As of December 31, 2006 and 2007, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$ 10,300,000(US\$316,048), and NT\$ 17,850,000(US\$550,416), respectively.

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(4) Capital adequacy ratio on a consolidated basis:

A. Capital adequacy ratios

As of December 31, 2006

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	215,718,784	6,619,171	208,398,312	6,394,548
Cathay United Bank	100.00%	91,879,740	2,819,262	59,644,358	1,830,143
Lucky Bank	81.35%	4,077,724	125,122	2,830,017	86,837
Cathay Securities	100.00%	2,920,723	89,620	485,342	14,892
Cathay Life	100.00%	116,475,475	3,573,964	68,268,162	2,094,758
Cathay Century	100.00%	4,786,937	146,883	1,819,098	55,817
Cathay Pacific Venture	100.00%	766,911	23,532	397,359	12,193
Cathay Venture	15.00%	264,640	8,120	133,297	4,090
Cathay II Venture	100.00%	826,704	25,367	415,746	12,757
Cathay Capital Management	100.00%	57,764	1,772	36,328	1,115
Less: Item		(224,965,167)	(6,902,889)	(205,492,604)	(6,305,388)
Subtotal		(A) 212,810,235	6,529,924	(B) 136,935,415	4,201,762
Consolidated capital adequacy ratios			(C)=(A)/(B)		155.41%

As of December 31, 2007

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	225,852,718	6,964,315	218,072,750	6,724,414
Cathay United Bank	100.00%	88,350,241	2,724,337	63,507,313	1,958,289
Cathay Securities	100.00%	2,877,995	88,745	534,402	16,479
Cathay Life	100.00%	121,644,676	3,750,992	80,571,274	2,484,467
Cathay Century	100.00%	5,355,528	165,141	2,122,236	65,440
Cathay Pacific Venture	100.00%	730,356	22,521	364,700	11,246
Cathay Venture	15.00%	254,568	7,850	128,398	3,959
Cathay II Venture	100.00%	842,784	25,988	426,248	13,144
Cathay Capital Management	100.00%	68,117	2,100	43,640	1,346
Less: Item		(232,004,889)	(7,154,021)	(214,115,082)	(6,602,377)
Subtotal		(A) 213,972,094	6,597,968	(B) 151,655,879	4,676,407
Consolidated capital adequacy ratios			(C)=(A)/(B)		141.09%

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B. Eligible capital

As of December 31 2006

Item	(NT\$)	(US\$)
Common Stock	92,068,174	2,825,044
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	-	-
Capital collected in advance	-	-
Capital surplus	78,867,213	2,419,982
Legal reserve	8,188,136	251,247
Special reserve	-	-
Accumulated profit	19,710,210	604,793
Equity adjustments	21,452,176	658,244
Less : Goodwill	-	-
Less : Deferred assets	(427,078)	(13,105)
Less : Treasury stock	(4,140,047)	(127,034)
Consolidated eligible capital	215,718,784	6,619,171

As of December 31, 2007

Item	(NT\$)	(US\$)
Common Stock	92,770,192	2,860,629
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	-	-
Capital collected in advance	-	-
Capital surplus	81,971,213	2,527,635
Legal reserve	9,245,862	285,102
Special reserve	-	-
Accumulated profit	35,577,963	1,097,069
Equity adjustments	11,138,286	343,456
Less : Goodwill	-	-
Less : Deferred assets	(710,751)	(21,916)
Less : Treasury stock	(4,140,047)	(127,661)
Consolidated eligible capital	225,852,718	6,964,314

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(5) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please find Note 5 (business with stakeholders) for your reference.

B. Integrate business activities:

By integrating the insurance, securities, banking and other diversified financial institutions, the Company has become a full-functioning financial platform. Through the branches and professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

C. Cross utilization of information:

With respect to customers' confidentiality, the Company FHC has established related regulations to ensure the safety and confidentiality of customer information.

D. Locations and business utilities:

The Company has established national presence to provide customers with one-stop services not only in insurance but also in banking and securities services. Since July 2002, The Company has built up four flagship stores of wealth management in Taipei, Taichung and Kaohsiung. In November 2002, we upgraded 5 insurance branches into wealth management service locations.

E. Allocation on revenues, costs, expenses, profits and losses:

Allocated to each subsidiaries by business features.

(6) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the years ended December 31, 2006 have been reclassified in order to be comparable with those in the consolidated financial statements for the years ended December 31, 2007.

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31. Information regarding investment in Mainland China

- (1) On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of December 31, 2007, Cathay Life's remittances to this company totaled approximately US\$48,330.
- (2) On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay life to remit US\$26,390 as the registered capital to establish a China-based general insurance subsidiary. Cathay life has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund has not been wired out as of December 31, 2007. On June 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to remit US\$28,960 as the registered capital to establish a China-based general insurance subsidiary. Cathay Century has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund has not been wired out as of December 31, 2007.

32. Segment information

For the year ended December 31, 2006

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	24,886,051	62,564,168	311,901	9,751	(746,311)	87,025,560
Non-interest income	7,043,859	150,361,064	3,388,752	287,318	679,884	161,760,877
Provision for premiums reserve	-	(166,629,622)	(1,153,010)	-	-	(167,782,632)
Total income	31,929,910	46,295,610	2,547,643	297,069	(66,427)	81,003,805
Provision for loan losses	(25,666,274)	-	-	-	-	(25,666,274)
Operating expenses	(11,064,130)	(37,764,847)	(1,195,651)	(296,546)	(901,424)	(51,222,598)
Income from continuing operations before income taxes	(4,800,494)	8,530,763	1,351,992	523	(967,851)	4,114,933
Income taxes (expense) benefit	2,188,257	1,814,601	(178,615)	(10,304)	(441,234)	3,372,705
Cumulative effect of changes in accounting principles	726,679	3,319,319	60,141	29	(856,845)	3,249,323
Consolidated income	(1,885,558)	13,664,683	1,233,518	(9,752)	(2,265,930)	10,736,961

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For the year ended December 31, 2006

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Others division (US\$)	Total (US\$)
Net interest income	763,610	1,919,735	9,571	299	(22,900)	2,670,315
Non-interest income other than interest	216,136	4,613,718	103,981	8,816	20,862	4,963,513
Provision for premiums reserve	-	(5,112,907)	(35,379)	-	-	(5,148,286)
Total income	979,746	1,420,546	78,173	9,115	(2,038)	2,485,542
Provision for loan losses	(787,551)	-	-	-	-	(787,551)
Operating expenses	(339,495)	(1,158,786)	(36,688)	(9,099)	(27,659)	(1,571,727)
Income from continuing operations before income taxes	(147,300)	261,760	41,485	16	(29,697)	126,264
Income taxes (expense) benefit	67,145	55,680	(5,481)	(316)	(13,539)	103,489
Cumulative effect of changes in accounting principles	22,298	101,851	1,845	1	(26,292)	99,703
Consolidated income	(57,857)	419,291	37,849	(299)	(69,528)	329,456

For the year ended December 31, 2007

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	21,724,737	69,570,285	364,263	61,710	(39,717)	91,681,278
Non income other than interest	3,164,013	129,893,845	4,483,203	288,438	264,553	138,094,052
Provision for premiums reserve	-	(134,881,610)	(1,236,452)	-	-	(136,118,062)
Total income	24,888,750	64,582,520	3,611,014	350,148	224,836	93,657,268
Bad debt expenses-Loan	(4,085,730)	-	-	-	-	(4,085,730)
Operating expenses	(12,042,183)	(40,850,227)	(1,316,616)	(329,487)	(805,845)	(55,344,358)
Income from continuing operations before income taxes	8,760,837	23,732,293	2,294,398	20,661	(581,009)	34,227,180
Income taxes (expense) benefit	(1,801,901)	(1,013,809)	(264,894)	(12,741)	(370,909)	(3,464,254)
Consolidated income	6,958,936	22,718,484	2,029,504	7,920	(951,918)	30,762,926

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For the year ended December 31, 2007

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Others division (US\$)	Total (US\$)
Net interest income	669,896	2,145,245	11,232	1,903	(1,225)	2,827,051
Non income other than interest	97,564	4,005,361	138,242	8,894	8,158	4,258,219
Provision for premiums reserve	-	(4,159,161)	(38,127)	-	-	(4,197,288)
Total income	767,460	1,991,445	111,347	10,797	6,933	2,887,982
Bad debt expenses-Loan	(125,986)	-	-	-	-	(125,986)
Operating expenses	(371,328)	(1,259,643)	(40,599)	(10,160)	(24,849)	(1,706,579)
Income from continuing operations before income taxes	270,146	731,802	70,748	637	(17,916)	1,055,417
Income taxes (expense) benefit	(55,563)	(31,261)	(8,168)	(393)	(11,437)	(106,822)
Consolidated income	214,583	700,541	62,580	244	(29,353)	948,595

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Cathay Financial Holding Co., Ltd.

Audited Balance sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

	December 31, 2006		December 31, 2007	
	NT \$	US \$	NT \$	US \$
Assets				
Cash and cash equivalents	\$13,249,833	\$406,561	\$10,262,917	\$316,464
Receivables -net	2,035,749	62,466	2,490,453	76,795
Investments under equity method	205,492,604	6,305,388	214,115,082	6,602,377
Other financial assets -net	31,720	973	31,720	978
Property and equipment -net	4,422	136	4,240	131
Goodwill and intangible assets -net	1,666	51	1,080	33
Other assets -net	3,033,012	93,066	3,320,417	102,387
Total assets	\$223,849,006	\$6,868,641	\$230,225,909	\$7,099,165
Liabilities & stockholders' equity				
Financial liabilities at fair value through profit and loss	\$1,013,833	\$31,109	\$444,155	\$13,696
Payables	2,341,369	71,843	3,051,760	94,103
Bonds payable	4,273,209	131,120	-	-
Other payable	74,733	2,293	166,525	5,135
Total liabilities	7,703,144	236,365	3,662,440	112,934
Stockholders' equity				
Capital stock				
Common stock	92,068,174	2,825,044	92,770,192	2,860,629
Capital surplus	78,867,213	2,419,982	81,971,213	2,527,635
Retained earnings				
Legal reserve	8,188,136	251,247	9,245,862	285,102
Unappropriated retained earnings	19,710,210	604,793	35,577,963	1,097,069
Equity adjustments				
Reserve for land revaluation increment	2,106	65	2,106	65
Cumulative conversion adjustments	105,170	3,227	183,766	5,667
Unrealized gains or losses on financial instruments	21,345,473	654,970	10,955,521	337,821
Treasury stock	(4,140,047)	(127,034)	(4,140,047)	(127,661)
Net loss not yet recognized as net pension cost	(573)	(18)	(3,107)	(96)
Total stockholders' equity	216,145,862	6,632,276	226,563,469	6,986,231
Total liabilities and stockholders' equity	\$223,849,006	\$6,868,641	\$230,225,909	\$7,099,165

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Cathay Financial Holding Co., Ltd.

Audited Statements of Income

For the years ended December 31, 2006 and 2007

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

	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT \$	US \$	NT \$	US \$
Income				
Gain on investment-equity method	\$12,505,905	\$383,734	\$30,667,388	\$945,649
Gain on financial assets and liabilities at fair value through profit or loss	131,252	4,027	569,678	17,566
Other operating income	33,014	1,013	46,375	1,430
Total income	12,670,171	388,774	31,283,441	964,645
Expenses and loss				
Interest income	1,095,537	33,616	1,122,694	34,619
Less: interest expenses	(1,663,377)	(51,039)	(984,746)	(30,365)
Net interest income	(567,840)	(17,423)	137,948	4,254
Losses on foreign exchange	(23,475)	(720)	(97,135)	(2,995)
Operating expenses	(234,966)	(7,210)	(225,702)	(6,960)
Income from continuing operations before income taxes	11,843,890	363,421	31,098,552	958,944
Income taxes expense	(407,816)	(12,514)	(350,451)	(10,806)
Cumulative effect of changes in accounting principles	(858,814)	(26,352)	-	-
Net income	\$10,577,260	\$324,555	\$30,748,101	\$948,138
Earnings per share (expressed in dollars)				
Primary earnings per share:				
Net income from continuing operations	\$1.32	\$1.27	\$0.04	\$0.04
Cumulative effect of changes in accounting principles	(0.13)	(0.09)	-	-
Net income	\$1.19	\$1.18	\$0.04	\$0.04

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Cathay Financial Holding Co., Ltd.

Audited Statements of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity										Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Unrealized revaluation increments		Cumulative translation adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
Balance on January 1, 2006	\$85,242,234	\$2,615,595	\$68,092,037	\$2,089,354	\$6,009,431	\$184,395	\$226,579	\$6,952	\$28,146,255	\$863,647	\$3,048	\$94	\$81,154	\$2,490	\$(68,263)	\$(2,095)	\$-	\$-	\$(1,837)	\$(57)	\$187,730,638	\$5,760,375
Effect on first time of adoption of unrealized gains on financial instruments															10,485,096	321,728					10,485,096	321,728
Appropriations and distribution for 2005																						
Legal reserve					2,178,705	66,852			(2,178,705)	(66,852)												
Special reserve							(226,579)	(6,952)	226,579	6,952												
Cash dividends									(12,790,330)	(392,462)											(12,790,330)	(392,462)
Stock dividend	4,263,443	130,821							(4,263,443)	(130,821)												
Remuneration paid to directors and supervisors									(5,700)	(175)											(5,700)	(175)
Bonus paid to employees									(1,706)	(51)											(1,706)	(51)
Convertible notes converted into common stock	1,743,056	53,484	7,693,643	236,074																	9,436,699	289,558
Reserve for land revaluation increment											(942)	(29)									(942)	(29)
Capital surplus			(549)	(17)																	(549)	(17)
Cumulative translation adjustments													24,016	737							24,016	737
Unrealized gains or losses of financial instruments															10,928,640	335,337					10,928,640	335,337
Shares exchange	819,441	25,144	3,082,082	94,571																	3,901,523	119,715
Share premium			0	0																		0
Treasury stock																	(4,140,047)	(127,034)			(4,140,047)	(127,034)
Net income for the years ended December 31, 2006									10,577,260	324,555											10,577,260	324,555
Net loss not recognized as pension cost																			1,264	39	1,264	39
Balance on December 31, 2006	<u>\$92,068,174</u>	<u>\$2,825,044</u>	<u>\$78,867,213</u>	<u>\$2,419,982</u>	<u>\$8,188,136</u>	<u>\$251,247</u>	<u>\$-</u>	<u>\$-</u>	<u>\$19,710,210</u>	<u>\$604,793</u>	<u>\$2,106</u>	<u>\$65</u>	<u>\$105,170</u>	<u>\$3,227</u>	<u>\$21,345,473</u>	<u>\$654,970</u>	<u>\$(4,140,047)</u>	<u>\$(127,034)</u>	<u>\$(573)</u>	<u>\$(18)</u>	<u>\$216,145,862</u>	<u>\$6,632,276</u>
Balance on January 1, 2007	\$92,068,174	\$2,838,982	\$78,867,213	\$2,431,921	\$8,188,136	\$252,486	\$-	\$-	\$19,710,210	\$607,777	\$2,106	\$65	\$105,170	\$3,243	\$21,345,473	\$658,201	\$(4,140,047)	\$(127,661)	\$(573)	\$(18)	\$216,145,862	\$6,664,996
Appropriations and distribution for 2006																						
Legal reserve					1,057,726	32,616			(1,057,726)	(32,616)												
Cash dividends									(13,815,539)	(426,011)											(13,815,539)	(426,011)
Remuneration paid to directors and supervisors									(5,700)	(176)											(5,700)	(176)
Bonus paid to employees									(1,383)	(43)											(1,383)	(43)
Convertible notes converted into common stock	702,018	21,647	3,104,004	95,714																	3,806,022	117,361
Capital surplus			(41)	(1)																	(41)	(1)
Cumulative translation adjustments													78,596	2,424							78,596	2,424
Unrealized gains or losses of financial instruments															(10,389,952)	(320,380)					(10,389,952)	(320,380)
Other capital surplus			37	1																	37	1
Net income for the years ended December 31, 2007									30,748,101	948,138											30,748,101	948,138
Net loss not recognized as pension cost																			(2,534)	(78)	(2,534)	(78)
Balance on December 31, 2007	<u>\$92,770,192</u>	<u>\$2,860,629</u>	<u>\$81,971,213</u>	<u>\$2,527,635</u>	<u>\$9,245,862</u>	<u>\$285,102</u>	<u>\$-</u>	<u>\$-</u>	<u>#REF!</u>	<u>#REF!</u>	<u>\$2,106</u>	<u>\$65</u>	<u>\$183,766</u>	<u>\$5,667</u>	<u>\$10,955,521</u>	<u>\$337,821</u>	<u>\$(4,140,047)</u>	<u>\$(127,661)</u>	<u>\$(3,107)</u>	<u>\$(96)</u>	<u>\$226,563,469</u>	<u>\$6,986,231</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Audited Statements of cash flows

For the years ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Net income	\$10,577,260	\$324,555	\$30,748,101	\$948,138
Adjustments:				
Amortizations	53	2	586	18
Depreciation	1,267	39	1,060	33
Investment income recognized by equity method excess of cash dividends received	3,805,516	116,769	(18,936,982)	(583,934)
Increase (Decrease) in bonds payable redemption premium	376,445	11,551	(47,237)	(1,457)
Effects of exchange rate changes	55,471	1,702	(109,135)	(3,365)
Cumulative effect of changes in accounting principles	858,814	26,352	-	-
Changes in operating assets and liabilities				
Decrease (increase) in accounts receivable	968,254	29,710	(454,704)	(14,021)
Decrease (increase) in deferred income tax assets	61,901	1,899	(284,258)	(8,765)
Decrease in other financial assets	68,280	2,095	-	-
Decrease (increase) in other assets	22	1	(10,282)	(317)
Decrease in accounts payable	(536,128)	(16,451)	(587,929)	(18,129)
(Decrease) in financial liabilities at fair value through profit and loss	(131,252)	(4,027)	(569,678)	(17,566)
(Decrease) increase in income tax payable	(462,698)	(14,198)	1,298,320	40,034
Increase in deferred income tax liabilities	57,193	1,755	89,650	2,764
Increase in other liabilities	7,824	240	2,714	84
Net cash provided by operating activities	15,708,222	481,994	11,140,226	343,517
Cash flows from investing activities				
Acquisition of property and equipment	(714)	(22)	(877)	(27)
Acquisition of computer software	(1,600)	(49)	-	-
Decrease in other assets	20,400	626	7,136	220
Net cash used in investing activities	18,086	555	6,259	193
Cash flows from financing activities				
(Decrease) in bonds payable	(71,707)	(2,201)	(419,951)	(12,949)
Remuneration paid to directors and supervisors	(5,700)	(175)	(5,700)	(176)
Bonus paid to employees	(1,706)	(51)	(1,383)	(43)
Cash dividends	(12,790,330)	(392,462)	(13,815,539)	(426,011)
Disposal of treasury stock	-	-	37	1
Net cash used in financing activities	(12,869,443)	(394,889)	(14,242,536)	(439,178)
Effects of exchange rate changes	(55,471)	(1,702)	109,135	3,365
Increase in cash and cash equivalents	2,801,394	85,958	(2,986,916)	(92,103)
Cash and cash equivalents at the beginning of year	10,448,439	320,603	13,249,833	408,567
Cash and cash equivalents at the end of year	\$13,249,833	\$406,561	\$10,262,917	\$316,464
Supplemental disclosure of cash flows information				
Interest paid during the period	\$1,271,083	\$39,002	\$1,067,334	\$32,912
Interest paid (excluding capitalized interest)	\$1,271,083	\$39,002	\$1,067,334	\$32,912
Income tax paid	\$320,414	\$9,832	\$42,646	\$1,315
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$9,436,699	\$289,558	\$3,806,022	\$117,361
Acquisition through share exchange	\$3,901,523	\$119,715	\$-	\$-

33. The major subsidiaries' condensed balance sheets and statements of income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$596,103,080	\$18,290,981	\$529,250,772	\$16,319,790
Loans	482,913,569	14,817,845	537,128,973	16,562,719
Funds and investments	874,487,050	26,832,987	1,011,633,692	31,194,378
Property and equipment	12,808,115	393,008	13,059,470	402,697
Intangible assets	329,989	10,126	470,923	14,521
Other assets	174,122,384	5,342,816	263,346,454	8,120,458
Total assets	\$2,140,764,187	\$65,687,763	\$2,354,890,284	\$72,614,563
Liabilities				
Current liabilities	\$28,001,298	\$859,199	\$22,639,159	\$698,093
Long-term liabilities	1,686,763	51,757	1,354,514	41,767
Other liabilities	1,991,255,218	61,100,191	2,207,545,813	68,071,101
Total liabilities	2,020,943,279	62,011,147	2,231,539,486	68,810,961
Stockholders' equity				
Capital stock	50,686,158	1,555,267	50,686,158	1,562,940
Capital surplus	9,648	296	9,648	298
Retained earnings	48,865,298	1,499,395	61,351,237	1,891,805
Others	20,259,804	621,658	11,303,755	348,559
Total stockholders' equity	119,820,908	3,676,616	123,350,798	3,803,602
Total liabilities and stockholders' equity	\$2,140,764,187	\$65,687,763	\$2,354,890,284	\$72,614,563

**Cathay Life Insurance Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except earnings per share)**

Item	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$606,216,208	\$18,601,295	\$817,468,315	\$25,207,164
Operating costs	(587,335,325)	(18,021,949)	(783,050,532)	(24,145,869)
Operating gross profit	18,880,883	579,346	34,417,783	1,061,295
Operating expenses	(10,386,235)	(318,694)	(11,223,421)	(346,082)
Non-operating revenues & gains	1,669,619	51,231	1,453,911	44,832
Non-operating expenses & losses	(247,291)	(7,588)	(298,921)	(9,217)
Income from continuing operations before income taxes	\$9,916,976	\$304,295	\$24,349,352	\$750,828
Cumulative effect of changes in accounting principles	\$3,315,855	\$101,744	\$-	\$-
Net income	\$15,047,432	\$461,719	\$23,468,521	\$723,667
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$1.96	\$0.06	\$4.63	\$0.14
Cumulative effect of changes in accounting principles	\$0.66	\$0.02	\$-	\$-
Net income	\$2.97	\$0.09	\$4.63	\$0.14

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Condensed Balance Sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$7,376,662	\$226,347	\$9,059,407	\$279,353
Loans	2,095,268	64,292	2,241,869	69,129
Funds and investments	4,487,608	137,699	4,592,574	141,615
Fixed assets	45,578	1,399	77,144	2,379
Intangible assets	7,085	217	15,747	486
Other assets	663,765	20,367	632,624	19,507
Total assets	\$14,675,966	\$450,321	\$16,619,365	\$512,469
Liabilities				
Current liabilities	\$1,747,589	\$53,623	\$1,964,289	\$60,570
Long-term liabilities	3,405	105	14,706	454
Other liabilities	9,353,386	287,002	10,770,470	332,114
Total liabilities	11,104,380	340,730	12,749,465	393,138
Stockholders' equity				
Capital stock	2,317,006	71,096	2,317,006	71,446
Capital surplus	1,929	59	1,929	60
Retained earnings	1,073,623	32,943	1,463,165	45,118
Others	179,028	5,493	87,800	2,707
Total stockholders' equity	3,571,586	109,591	3,869,900	119,331
Total liabilities and stockholders' equity	\$14,675,966	\$450,321	\$16,619,365	\$512,469

Cathay Century Insurance Co., Ltd.

Condensed Statements of Income

For the years ended December 31, 2006 and 2007

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

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$16,380,514	\$502,624	\$18,491,305	\$570,192
Operating costs	(13,608,104)	(417,555)	(14,995,591)	(462,399)
Operating gross profit	2,772,410	85,069	3,495,714	107,793
Operating expenses	(1,927,756)	(59,151)	(2,201,762)	(67,893)
Non-operating revenues	3,652	112	17,349	535
Non-operating expenses	(65)	(2)	(76)	(2)
Income from continuing operations before income taxes	\$848,241	\$26,028	\$1,311,225	\$40,433
Cumulative effect of changes in accounting principles	\$60,141	\$1,845	\$-	\$-
Net income	\$729,766	\$22,392	\$1,046,331	\$32,264
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$3.66	\$0.11	\$5.66	\$0.17
Cumulative effect of changes in accounting principles	\$0.26	\$0.01	\$-	\$-
Net income	\$3.15	\$0.10	\$4.52	\$0.14

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Ltd.(Shanghai)

Condensed Balance Sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$2,213,924	\$67,933	\$4,036,276	\$124,461
Loans	447	14	2,121	65
Funds and investments	2,192,245	67,267	3,145,859	97,005
Fixed assets	46,565	1,429	86,057	2,654
Intangible assets	3,012	92	3,122	96
Other assets	687,087	21,083	990,455	30,541
Total assets	\$5,143,280	\$157,818	\$8,263,890	\$254,822
Liabilities				
Current liabilities	57,886	1,776	593,860	18,312
Other liabilities	2,042,432	62,671	4,280,634	131,996
Total liabilities	2,100,318	64,447	4,874,494	150,308
Stockholders' equity				
Capital stock	3,257,376	99,950	3,257,376	100,443
Retained earnings	(291,560)	(8,946)	(633,674)	(19,540)
Others	77,146	2,367	765,694	23,611
Total stockholders' equity	3,042,962	93,371	3,389,396	104,514
Total liabilities and stockholders' equity	\$5,143,280	\$157,818	\$8,263,890	\$254,822

Cathay Life Insurance Ltd.(Shanghai)

Condensed Statements of Income

For the years ended December 31, 2006 and 2007

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

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$1,581,369	\$48,523	\$3,109,988	\$95,899
Operating costs	(1,393,236)	(42,750)	(2,786,766)	(85,932)
Operating gross profit	188,133	5,773	323,222	9,967
Operating expenses	(297,047)	(9,115)	(542,642)	(16,733)
Non-operating revenues	5,985	184	10,331	319
Non-operating expenses	(84)	(3)	(48)	(2)
Loss from continuing operations before income taxes	\$(103,013)	\$(3,161)	\$(209,137)	\$(6,449)
Cumulative effect of changes in accounting principles	\$3,467	\$106	\$-	\$-
Net loss	\$(99,546)	\$(3,054)	\$(342,115)	\$(10,549)
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

Note : Cathay Life Insurance (Shanghai) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.(Vietnam)

Condensed Balance Sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$-	\$-	\$1,946,580	\$60,024
Total assets	\$-	\$-	\$1,946,580	\$60,024
Stockholders' equity				
Capital stock	-	-	1,940,080	59,824
Others	-	-	6,500	200
Total stockholders' equity	\$-	\$-	1,946,580	60,024

Note : Cathay Life Insurance (Vietnam) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$34,198,828	\$1,049,366	\$15,648,864	\$482,543
Due from the Central Bank and call loans to banks	51,271,549	1,573,229	57,701,798	1,779,272
Financial assets at fair value through profit or loss	57,046,262	1,750,422	39,932,764	1,231,353
Securities purchased under agreements to resell	1,786,058	54,804	326,000	10,052
Receivables-net	49,104,156	1,506,725	43,784,801	1,350,133
Loans and advances to customers-net	712,391,913	21,859,218	755,956,633	23,310,411
Available-for-sale financial assets -net	54,500,543	1,672,309	63,913,728	1,970,821
Held-to-maturity financial assets-net	5,636,310	172,946	3,320,686	102,396
Investments-equity method	2,334,860	71,643	2,513,001	77,490
Investments in debt securities with no active market	257,786,881	7,909,999	256,829,635	7,919,508
Other financial assets-net	4,492,931	137,862	4,309,670	132,891
Property and equipment-net	25,461,215	781,259	27,656,434	852,804
Intangible assets-net	476,355	14,617	6,883,557	212,259
Other assets-net	10,247,816	314,447	9,413,861	290,282
Total assets	\$1,266,735,677	\$38,868,846	\$1,288,191,432	\$39,722,215
Liabilities				
Due to the Central Bank and call loans from banks	\$100,002,354	\$3,068,498	\$73,869,345	\$2,277,809
Funds borrowed from the Central and other banks	816,250	25,046	1,624,200	50,083
Deposits and remittances	965,586,780	29,628,315	1,031,565,513	31,808,989
Financial liabilities at fair value through profit or loss	55,396,700	1,699,807	47,847,320	1,475,403
Securities sold under agreements to repurchase	23,661,740	726,043	14,635,423	451,293
Payables	24,227,802	743,412	16,167,690	498,541
Financial debentures payable	18,135,818	556,484	18,551,837	572,058
Other financial liabilities	775,722	23,802	308,730	9,520
Other liabilities	1,989,949	61,060	2,249,539	69,366
Total liabilities	1,190,593,115	36,532,467	1,206,819,597	37,213,062
Shareholders' equity				
Capital stock	48,689,413	1,493,999	48,689,413	1,501,369
Capital reserves	15,213,652	466,820	15,213,611	469,122
Retained earnings	11,482,369	352,328	17,882,634	551,423
Others	757,128	23,232	(413,823)	(12,761)
Total shareholders' equity	76,142,562	2,336,379	81,371,835	2,509,153
Total liabilities and shareholders' equity	\$1,266,735,677	\$38,868,846	\$1,288,191,432	\$39,722,215

**Cathay United Bank Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Net interest income	\$24,536,730	\$752,891	\$21,164,320	\$652,616
Non-interest income	7,362,033	225,899	5,055,622	155,893
Net operating income	31,898,763	978,790	26,219,942	808,509
Provision for loan losses	(26,073,600)	(800,049)	(4,085,730)	(125,986)
Operating expenses	(12,302,658)	(377,498)	(14,007,947)	(431,944)
Income from continuing operations before income taxes	<u>\$(6,477,495)</u>	<u>\$(198,757)</u>	<u>\$8,126,265</u>	<u>\$250,579</u>
Cumulative effect of changes in accounting principles	\$726,679	\$22,298	\$-	\$-
Net income	<u>\$(3,486,944)</u>	<u>\$(106,994)</u>	<u>\$6,400,265</u>	<u>\$197,356</u>
Earnings per share (in dollars)				
Income from continuing operations before income taxes	<u>\$(1.33)</u>	<u>\$(0.04)</u>	<u>\$1.67</u>	<u>\$0.05</u>
Cumulative effect of changes in accounting principles	<u>\$0.15</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Net income	<u>\$(0.72)</u>	<u>\$(0.02)</u>	<u>\$1.31</u>	<u>\$0.04</u>

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$1,040,215	\$31,918	\$3,833,776	\$118,217
Due from the Central Bank and call loans to banks	477,910	14,664	1,693,715	52,227
Financial assets at fair value through profit or loss	131,522	4,036	187,662	5,787
Investments in debt securities with no active market	318,401	9,770	316,330	9,754
Receivables-net	68,791	2,111	91,531	2,822
Loans and advances to customers-net	8,931,424	274,054	11,210,084	345,670
Premises and equipment-net	94,806	2,909	175,583	5,414
Intangible assets-net	38,524	1,182	41,133	1,269
Other assets-net	263	8	423	13
Total assets	\$11,101,856	\$340,652	\$17,550,237	\$541,173
Liabilities				
Due to the Central Bank and call loans from banks	\$646,973	\$19,852	\$206,978	\$6,382
Payables	89,319	2,741	127,325	3,926
Deposits and remittances	8,567,886	262,899	12,815,108	395,162
Other liabilities	239,473	7,348	2,262,085	69,753
Total liabilities	9,543,651	292,840	15,411,496	475,223
Shareholders' equity				
Capital stock	1,118,158	34,310	1,605,418	49,504
Retained earnings	412,742	12,664	514,399	15,862
Others	27,305	838	18,924	584
Total shareholders' equity	1,558,205	47,812	2,138,741	65,950
Total liabilities and shareholders' equity	\$11,101,856	\$340,652	\$17,550,237	\$541,173

Indovina Bank Limited
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except per share information)

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Net interest income	\$363,598	\$11,157	\$561,854	\$17,325
Non-interest income	169,381	5,197	35,454	1,093
Net operating revenue	532,979	16,354	597,308	18,418
Provision for loan losses	(25,777)	(791)	(30,004)	(925)
Operating expenses	(149,607)	(4,590)	(195,388)	(6,025)
Income from continuing operations before income taxes	\$357,595	\$10,973	\$371,916	\$11,468
Net income	\$281,981	\$8,652	\$296,015	\$9,128
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

Note : Indovina Bank is a subsidiary of foreign bank. Thus, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$3,168,646	\$97,227	\$3,156,916	\$97,345
Funds and investments	719,687	22,083	719,518	22,187
Property and equipment	96,425	2,959	71,721	2,212
Intangible assets	15,266	468	8,749	270
Other assets	311,453	9,557	405,211	12,495
Total assets	\$4,311,477	\$132,294	\$4,362,115	\$134,509
Liabilities				
Current liabilities	\$249,234	\$7,648	\$286,564	\$8,837
Long-term liabilities	469	14	868	27
Other liabilities	20,244	621	32,279	995
Total liabilities	269,947	8,283	319,711	9,859
Stockholders' equity				
Capital stock	3,700,000	113,532	3,700,000	114,092
Capital surplus	258,434	7,930	258,434	7,969
Retained earnings	83,096	2,549	83,970	2,589
Total stockholders' equity	4,041,530	124,011	4,042,404	124,650
Total liabilities and stockholders' equity	\$4,311,477	\$132,294	\$4,362,115	\$134,509

**Cathay Securities Corporation
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Revenue	\$390,704	\$11,989	\$472,762	\$14,578
Expenses	(354,376)	(10,874)	(440,808)	(13,593)
Income (loss) from continuing operations before income taxes	\$36,328	\$1,115	\$31,954	\$985
Cumulative effect of changes in accounting principles	\$173	\$5	\$-	\$-
Net income (loss)	\$26,197	\$804	\$19,212	\$592
Earnings per share (in dollars)				
Income (loss) from continuing operations before income taxes	\$0.10	\$-	\$0.09	\$-
Net income (loss)	\$0.07	\$-	\$0.05	\$-

Cathay Pacific Venture Capital Co., Ltd.

Condensed Balance Sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$524,650	\$16,098	\$444,032	\$13,692
Funds and investments	270,068	8,287	288,895	8,908
Total assets	<u>\$794,718</u>	<u>\$24,385</u>	<u>\$732,927</u>	<u>\$22,600</u>
Liabilities				
Current liabilities	\$27,807	\$853	\$2,571	\$79
Total liabilities	<u>27,807</u>	<u>853</u>	<u>2,571</u>	<u>79</u>
Stockholders' equity				
Capital stock	600,000	18,410	600,000	18,501
Retained earnings	53,347	1,637	26,271	810
Equity adjustment	113,564	3,485	104,085	3,210
Total stockholders' equity	<u>766,911</u>	<u>23,532</u>	<u>730,356</u>	<u>22,521</u>
Total liabilities and stockholders' equity	<u>\$794,718</u>	<u>\$24,385</u>	<u>\$732,927</u>	<u>\$22,600</u>

Cathay Pacific Venture Capital Co., Ltd.

Condensed Statements of Income

For the years ended December 31, 2006 and 2007

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

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$8,314	\$255	\$64,259	\$1,982
Operating costs	(10,783)	(331)	(33,032)	(1,019)
Operating gross profit	(2,469)	(76)	31,227	963
Operating expenses	(23,471)	(720)	(14,981)	(462)
Non-operating revenues	129,977	3,988	3,230	100
Non-operating expenses	(709)	(22)	(773)	(24)
Income from continuing operations before income taxes	<u>\$103,328</u>	<u>\$3,170</u>	<u>\$18,703</u>	<u>\$577</u>
Net income	<u>\$84,387</u>	<u>\$2,589</u>	<u>\$20,924</u>	<u>\$645</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$1.72</u>	<u>\$0.05</u>	<u>\$0.31</u>	<u>\$0.01</u>
Net income	<u>\$1.41</u>	<u>\$0.04</u>	<u>\$0.35</u>	<u>\$0.01</u>

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Capital Co., Ltd.
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$588,593	\$18,061	\$138,226	\$4,262
Funds and investments	1,188,705	36,474	1,573,743	48,528
Total assets	<u>\$1,777,298</u>	<u>\$54,535</u>	<u>\$1,711,969</u>	<u>\$52,790</u>
Liabilities				
Current liabilities	\$13,032	\$400	\$14,846	\$458
Total liabilities	<u>13,032</u>	<u>400</u>	<u>14,846</u>	<u>458</u>
Stockholders' equity				
Capital stock	1,500,000	46,026	1,500,000	46,253
Retained earnings	107,277	3,292	125,845	3,881
Equity adjustment	156,989	4,817	71,278	2,198
Total stockholders' equity	<u>1,764,266</u>	<u>54,135</u>	<u>1,697,123</u>	<u>52,332</u>
Total liabilities and stockholders' equity	<u>\$1,777,298</u>	<u>\$54,535</u>	<u>\$1,711,969</u>	<u>\$52,790</u>

**Cathay Venture Capital Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$176,641	\$5,420	\$213,496	\$6,583
Operating costs	(29,829)	(915)	(56,376)	(1,738)
Operating gross profit	146,812	4,505	157,120	4,845
Operating expenses	(30,076)	(923)	(29,463)	(909)
Non-operating revenues	-	-	149	5
Non-operating expenses	(3)	-	-	-
Income from continuing operations before income taxes	<u>\$116,733</u>	<u>\$3,582</u>	<u>\$127,806</u>	<u>\$3,941</u>
Net income	<u>\$108,372</u>	<u>\$3,325</u>	<u>\$114,569</u>	<u>\$3,533</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.78</u>	<u>\$0.02</u>	<u>\$0.85</u>	<u>\$0.03</u>
Net income	<u>\$0.72</u>	<u>\$0.02</u>	<u>\$0.76</u>	<u>\$0.02</u>

English Translation of Financial Statements Originally Issued in Chinese

**Cathay II Venture Capital Co., Ltd.
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$93,572	\$2,871	\$106,937	\$3,297
Funds and investments	737,919	22,643	745,558	22,990
Total assets	<u>\$831,491</u>	<u>\$25,514</u>	<u>\$852,495</u>	<u>\$26,287</u>
Liabilities				
Current liabilities	\$4,787	\$147	\$9,711	\$299
Total liabilities	<u>4,787</u>	<u>147</u>	<u>9,711</u>	<u>299</u>
Stockholders' equity				
Capital stock	600,000	18,411	600,000	18,502
Retained earnings	107,443	3,297	197,698	6,096
Equity adjustment	119,261	3,659	45,086	1,390
Total stockholders' equity	<u>826,704</u>	<u>25,367</u>	<u>842,784</u>	<u>25,988</u>
Total liabilities and stockholders' equity	<u>\$831,491</u>	<u>\$25,514</u>	<u>\$852,495</u>	<u>\$26,287</u>

**Cathay II Venture Capital Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$112,810	\$3,462	\$134,176	\$4,137
Operating costs	-	-	(9,054)	(279)
Operating gross profit	112,810	3,462	125,122	3,858
Operating expenses	(10,550)	(324)	(25,557)	(788)
Non-operating revenues	14	-	132	4
Income from continuing operations before income taxes	<u>\$102,274</u>	<u>\$3,138</u>	<u>\$99,697</u>	<u>\$3,074</u>
Net income	<u>\$102,073</u>	<u>\$3,132</u>	<u>\$90,257</u>	<u>\$2,783</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$1.70</u>	<u>\$0.05</u>	<u>\$1.66</u>	<u>\$0.05</u>
Net income	<u>\$1.70</u>	<u>\$0.05</u>	<u>\$1.50</u>	<u>\$0.05</u>

English Translation of Financial Statements Originally Issued in Chinese

**Symphox Information Co., Ltd.
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$518,888	\$15,922	\$561,068	\$17,301
Fixed assets	158,259	4,856	111,544	3,439
Intangible assets	7,380	226	7,736	239
Other assets	14,899	457	22,421	691
Total assets	\$699,426	\$21,461	\$702,769	\$21,670
Liabilities				
Current liabilities	\$261,944	\$8,037	\$250,994	\$7,740
Other liabilities	86	3	80	2
Total liabilities	262,030	8,040	251,074	7,742
Stockholders' equity				
Capital stock	499,000	15,311	499,000	15,387
Retained earnings	(61,604)	(1,890)	(47,305)	(1,459)
Total stockholders' equity	437,396	13,421	451,695	13,928
Total liabilities and stockholders' equity	\$699,426	\$21,461	\$702,769	\$21,670

**Symphox Information Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$877,909	\$26,938	\$1,035,446	\$31,929
Operating costs	(808,237)	(24,800)	(923,465)	(28,476)
Operating gross profit	69,672	2,138	111,981	3,453
Operating expenses	(82,517)	(2,532)	(102,460)	(3,160)
Non-operating revenues	3,308	101	5,504	170
Non-operating expenses	(660)	(20)	(726)	(22)
Income from continuing operations before income taxes	\$(10,197)	\$(313)	\$14,299	\$441
Cumulative effect of changes in accounting principles	\$1,809	\$56	\$-	\$-
Net income	\$(8,388)	\$(257)	\$14,299	\$441
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$(0.21)	\$(0.01)	\$0.29	\$0.01
Cumulative effect of changes in accounting principles	\$0.04	\$-	\$-	\$-
Net income	\$(0.17)	\$(0.01)	\$0.29	\$0.01

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Corp.
Condensed Balance Sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)**

Items	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$1,204,848	\$36,970	\$1,398,569	\$43,126
Funds and investments	30,500	936	30,500	940
Fixed assets	331,664	10,177	325,474	10,036
Intangible assets	11,438	351	9,270	286
Other assets	124,844	3,830	133,876	4,128
Total assets	\$1,703,294	\$52,264	\$1,897,689	\$58,516
Liabilities				
Current liabilities	\$976,427	\$29,961	\$1,170,137	\$36,082
Other liabilities	7,130	219	7,985	246
Total liabilities	983,557	30,180	1,178,122	36,328
Stockholders' equity				
Capital stock	650,000	19,944	650,000	20,043
Retained earnings	69,737	2,140	69,567	2,145
Total stockholders' equity	719,737	22,084	719,567	22,188
Total liabilities and stockholders' equity	\$1,703,294	\$52,264	\$1,897,689	\$58,516

**Cathay Futures Corp.
Condensed Statements of Income
For the years ended December 31, 2006 and 2007
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ December 31, 2006		January 1 ~ December 31, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$73,703	\$2,262	\$59,356	\$1,830
Operating costs	(26,155)	(803)	(24,622)	(759)
Operating gross profit	47,548	1,459	34,734	1,071
Operating expenses	(61,197)	(1,878)	(53,814)	(1,660)
Non-operating revenues	32,558	999	20,745	640
Non-operating expenses	(9,816)	(301)	(653)	(20)
Income from continuing operations before income taxes	\$9,093	\$279	\$1,012	\$31
Cumulative effect of changes in accounting principles	\$159	\$5	\$-	\$-
Net income	\$9,264	\$284	\$1,011	\$31
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$0.14	\$-	\$0.02	\$-
Net income	\$0.14	\$-	\$0.02	\$-