

**Cathay United Bank**  
**Financial Statements**  
**For The Six-Month Periods Ended**  
**June 30, 2007 and 2008**  
**With Independent Auditors' Report**

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

English Translation of Report Originally Issued in Chinese

**Independent Auditors' Report**

The Board of Directors  
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of June 30, 2007 and 2008, and the related statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2007 and 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2007 and 2008, and the results of its operations and its cash flows for the six-month periods then ended in conformity with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

As discussed in Notes I and XI to the financial statements, the Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as a reorganization.

In addition, we have also audited the consolidated financial statements of the Bank as of and for the six-month periods ended June 30, 2007 and 2008, on which we have issued modified unqualified opinion and unqualified opinion, respectively.



ERNST & YOUNG  
Taipei, Taiwan  
The Republic of China  
August 11, 2008

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

June 30, 2007 and 2008

(Expressed in thousands of dollars)

ASSETS	NOTES	June 30, 2007		June 30, 2008	
		NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	\$26,983,076	\$821,903	\$16,091,365	\$530,019
Due from the Central Bank and call loans to banks	IV and V	37,932,008	1,155,407	54,874,468	1,807,459
Financial assets at fair value through profit or loss	II, IV and V	48,173,233	1,467,354	35,760,475	1,177,881
Securities purchase under agreements to resell		471,586	14,365	2,948,737	97,126
Receivables, net	II, IV and V	45,452,188	1,384,471	43,566,595	1,435,000
Discounts and loans, net	II, IV and V	723,545,164	22,039,146	800,553,833	26,368,703
Available-for-sale financial assets, net	II and IV	57,377,590	1,747,718	61,673,067	2,031,392
Held-to-maturity financial assets, net	II and IV	5,928,264	180,575	3,060,656	100,812
Investments accounted for using equity method, net	II and IV	2,187,755	66,639	2,410,333	79,392
Other financial assets, net	II and IV	4,486,166	136,648	4,427,776	145,842
Investments in debt securities with no active market, net	II and IV	275,971,712	8,406,083	222,669,938	7,334,320
Premises and equipment, net	II, IV, V and VII	25,354,838	772,307	26,682,655	878,875
Intangible assets, net	II, IV and V	400,421	12,197	6,954,485	229,067
Other assets, net	II, IV and V	10,912,477	332,393	9,138,286	300,998
<b>TOTAL ASSETS</b>		<b>\$1,265,176,478</b>	<b>\$38,537,206</b>	<b>\$1,290,812,669</b>	<b>\$42,516,886</b>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

June 30, 2007 and 2008

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	June 30, 2007		June 30, 2008	
		NT	US (Note II)	NT	US (Note II)
<b>LIABILITIES</b>					
Due to the Central Bank and call loans from banks	IV and V	\$64,386,977	\$1,961,224	\$78,108,650	\$2,572,749
Funds borrowed from the Central Bank and other banks		821,000	25,008	1,517,700	49,990
Financial liabilities at fair value through profit or loss	II, IV and V	48,161,048	1,466,983	45,907,298	1,512,098
Securities sold under agreements to repurchase	IV and V	19,225,421	585,605	28,113,798	926,015
Payables	IV and V	22,594,076	688,214	18,056,739	594,754
Deposits and remittances	IV and V	1,008,604,716	30,722,044	1,021,793,243	33,655,904
Financial debentures payable	IV and X	17,686,802	538,739	15,272,693	503,053
Other financial liabilities	II and IV	1,348,984	41,090	282,509	9,305
Other liabilities	II, IV and V	1,961,248	59,740	2,294,981	75,592
<b>TOTAL LIABILITIES</b>		<b>1,184,790,272</b>	<b>36,088,647</b>	<b>1,211,347,611</b>	<b>39,899,460</b>
<b>SHAREHOLDERS' EQUITY</b>					
Capital stock	IV	48,689,413	1,483,077	48,689,413	1,603,736
Capital reserves	IV	15,213,565	463,404	15,213,611	501,107
Retained earnings	IV				
Legal reserve		11,482,369	349,752	13,402,448	441,451
Special reserve		-	-	465,071	15,318
Undistributed earnings		4,385,094	133,570	3,003,958	98,945
Foreign currency translation adjustment	II	86,365	2,631	(200,583)	(6,607)
Unrealized gains or losses on financial instruments	II	529,400	16,125	(1,108,860)	(36,524)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>80,386,206</b>	<b>2,448,559</b>	<b>79,465,058</b>	<b>2,617,426</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$1,265,176,478</b>	<b>\$38,537,206</b>	<b>\$1,290,812,669</b>	<b>\$42,516,886</b>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For six-month periods ended June 30, 2007 and 2008

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

ITEMS	NOTES	January 1 - June 30, 2007		January 1 - June 30, 2008	
		NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	\$19,547,426	\$595,414	\$20,148,105	\$663,640
INTEREST EXPENSE	V	(9,373,984)	(285,531)	(9,650,992)	(317,885)
NET INTEREST INCOME		10,173,442	309,883	10,497,113	345,755
NONINTEREST INCOME					
Net fee income	II and V	2,241,022	68,261	2,652,874	87,381
Gain (loss) on financial assets and liabilities at fair value through profit or loss	II and V	131,376	4,002	(1,022,557)	(33,681)
Realized gain on available-for-sale financial assets	II	422,898	12,881	390,137	12,850
Realized loss on held-to-maturity financial assets	II	(134)	(4)	(632)	(21)
Investment income recognized by the equity method	II and IV	72,604	2,212	120,792	3,979
Gain on foreign currency exchange, net	II	393,436	11,984	674,268	22,209
Impairment (loss) reversal of assets	II	40,653	1,238	(48,156)	(1,586)
Impairment (loss) reversal on foreclosed properties		(19,086)	(581)	35,950	1,184
Gain on financial assets carried at cost		3,575	109	175,943	5,795
Gain (loss) on debt securities with no active market		8,180	249	(1,745,942)	(57,508)
Gain on disposal of foreclosed properties		-	-	184,253	6,069
Gain (loss) on disposal of premises and equipment		(22,549)	(687)	64,238	2,116
Others	II, IV and V	76,845	2,341	448,479	14,772
NET NONINTEREST INCOME		3,348,820	102,005	1,929,647	63,559
NET OPERATING INCOME		13,522,262	411,888	12,426,760	409,314
BAD DEBT EXPENSE	II and IV	(1,554,629)	(47,354)	(965,404)	(31,799)
OPERATING EXPENSES					
Personnel	II and IV	(3,086,532)	(94,016)	(3,408,947)	(112,284)
Depreciation and amortization	II and IV	(682,920)	(20,802)	(660,553)	(21,757)
Other general and administrative expenses	V	(2,654,087)	(80,843)	(2,877,898)	(94,793)
TOTAL OPERATING EXPENSES		(6,423,539)	(195,661)	(6,947,398)	(228,834)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		5,544,094	168,873	4,513,958	148,681
INCOME TAX EXPENSE	II and IV	(1,159,000)	(35,303)	(1,510,000)	(49,736)
NET INCOME		\$4,385,094	\$133,570	\$3,003,958	\$98,945
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		\$1.14	\$0.035	\$0.93	\$0.031
INCOME TAX EXPENSES		(0.24)	(0.007)	(0.31)	(0.010)
NET INCOME		\$0.90	\$0.028	\$0.62	\$0.020

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of changes in shareholders' equity

For the six-month periods ended June 30, 2007 and 2008

(Expressed in thousands of dollars)

ITEMS	NOTES	Retained earnings															
		Capital stock		Capital reserves		Legal reserve		Special reserve		Undistributed earnings (Deficit to be compensated)		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Total	
		NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)
Balance, January 1, 2007		\$46,420,518	\$1,413,967	\$13,464,276	\$410,121	\$15,271,236	\$465,161	\$-	\$-	\$(3,788,867)	\$(115,409)	\$70,197	\$2,138	\$704,223	\$21,451	\$72,141,583	\$2,197,429
Retroactive adjustments for merger	XI	2,268,895	69,110	1,749,376	53,286	-	-	-	-	-	-	-	-	(17,292)	(527)	4,000,979	121,869
Reserves used to make up deficit:	IV																
Legal reserve		-	-	-	-	(3,788,867)	(115,409)	-	-	3,788,867	115,409	-	-	-	-	-	-
Net income for the six-month period ended June 30, 2007		-	-	-	-	-	-	-	-	4,385,094	133,570	-	-	-	-	4,385,094	133,570
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	16,168	493	-	-	16,168	493
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	(87)	(3)	-	-	-	-	-	-	-	-	(49,100)	(1,496)	(49,187)	(1,499)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	(108,431)	(3,303)	(108,431)	(3,303)
Balance, June 30, 2007		\$48,689,413	\$1,483,077	\$15,213,565	\$463,404	\$11,482,369	\$349,752	\$-	\$-	\$4,385,094	\$133,570	\$86,365	\$2,631	\$529,400	\$16,125	\$80,386,206	\$2,448,559
Balance, January 1, 2008		\$48,689,413	\$1,603,736	\$15,213,611	\$501,107	\$11,482,369	\$378,207	\$-	\$-	\$6,400,265	\$210,812	\$51,248	\$1,688	\$(465,071)	\$(15,319)	\$81,371,835	\$2,680,231
Appropriation and distribution of 2007 earnings:	IV																
Legal reserve		-	-	-	-	1,920,079	63,244	-	-	(1,920,079)	(63,244)	-	-	-	-	-	-
Special reserve		-	-	-	-	-	-	465,071	15,318	(465,071)	(15,318)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(4,005,115)	(131,921)	-	-	-	-	(4,005,115)	(131,921)
Bonus to shareholders		-	-	-	-	-	-	-	-	(8,500)	(280)	-	-	-	-	(8,500)	(280)
Special bonus to employees		-	-	-	-	-	-	-	-	(1,500)	(49)	-	-	-	-	(1,500)	(49)
Net income for the six-month period ended June 30, 2008		-	-	-	-	-	-	-	-	3,003,958	98,945	-	-	-	-	3,003,958	98,945
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	(251,831)	(8,295)	-	-	(251,831)	(8,295)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	(1,829)	(60)	(1,829)	(60)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	(641,960)	(21,145)	(641,960)	(21,145)
Balance, June 30, 2008		\$48,689,413	\$1,603,736	\$15,213,611	\$501,107	\$13,402,448	\$441,451	\$465,071	\$15,318	\$3,003,958	\$98,945	\$(200,583)	\$(6,607)	\$(1,108,860)	\$(36,524)	\$79,465,058	\$2,617,426

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of cash flows

For the six-month periods ended June 30, 2007 and 2008

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-June 30, 2007		January 1-June 30, 2008	
		NT	US (Note II)	NT	US (Note II)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income		\$4,385,094	\$133,570	\$3,003,958	\$98,945
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	682,920	20,802	660,553	21,757
The differences between investment income recognized by the equity method and the cash dividends received	II	1,756	53	(100,855)	(3,322)
Impairment loss (reversal) on foreclosed properties	II	19,086	581	(35,950)	(1,184)
Bad debt expense	II and IV	1,554,629	47,354	965,404	31,799
Loss (gain) on disposal of premises, equipment and foreclosed properties	II	22,549	687	(248,491)	(8,185)
Impairment loss (reversal) of assets	II	(40,653)	(1,238)	48,156	1,586
Effects of exchange rate changes		(1,844)	(56)	24,938	821
(Increase) decrease in operating assets					
(Increase) decrease in receivables		1,091,882	33,259	(640,439)	(21,094)
Decrease in deferred income tax assets		650,505	19,814	447,241	14,731
Decrease in financial assets at fair value through profit or loss		8,873,029	270,272	4,172,289	137,427
(Increase) decrease in other assets		11,129	339	(14,809)	(488)
Increase (decrease) in operating liabilities					
Increase (decrease) in payables		(1,729,268)	(52,673)	1,861,830	61,325
Decrease in financial liabilities at fair value through profit or loss		(7,235,652)	(220,398)	(1,940,022)	(63,901)
Increase in tax payables		95,543	2,910	27,219	897
Increase (decrease) in other liabilities		(25,678)	(782)	15,035	495
Net cash provided by operating activities		8,355,027	254,494	8,246,057	271,609
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Net increase in discounts and loans		(10,048,525)	(306,078)	(44,574,751)	(1,468,207)
Decrease in due from the Central Bank and call loans to banks		13,339,541	406,322	2,827,330	93,127
(Increase) decrease in securities purchased under agreements to resell		1,314,472	40,039	(2,622,737)	(86,388)
(Increase) decrease in available-for-sale financial assets		(2,983,751)	(90,885)	1,598,701	52,658
(Increase) decrease in held-to-maturity financial assets		(291,954)	(8,893)	260,030	8,565
Proceeds from disposal of premises, equipment and foreclosed properties		52,777	1,608	1,449,841	47,755
Acquisition of premises, equipment and foreclosed properties		(873,658)	(26,612)	(699,865)	(23,052)
Acquisition of intangible assets		(25,725)	(784)	(169,209)	(5,573)
(Increase) decrease in investments in debt securities with no active market		(18,136,648)	(552,441)	34,093,049	1,122,959
(Increase) decrease in other financial assets		6,765	206	(118,106)	(3,890)
Increase in other assets		(1,029,463)	(31,357)	(192,392)	(6,337)
Net cash used in investing activities		(18,676,169)	(568,875)	(8,148,109)	(268,383)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Increase (decrease) in due to the Central Bank and call loans from banks		(35,615,377)	(1,084,843)	4,239,305	139,635
Increase (decrease) in securities sold under agreements to repurchase		(4,436,318)	(135,130)	13,478,375	443,952
Increase (decrease) in deposits and remittances		43,017,936	1,310,324	(9,772,271)	(321,880)
Increase (decrease) in funds borrowed from the Central Bank and other banks		4,750	145	(106,500)	(3,508)
Decrease in financial debentures payable		(449,016)	(13,677)	(3,279,144)	(108,009)
Increase (decrease) in other financial liabilities		573,262	17,462	(26,221)	(864)
Increase (decrease) in other liabilities		(3,023)	(92)	30,406	1,002
Distribution of cash dividends		-	-	(4,005,115)	(131,921)
Bonus to shareholders and special bonus to employees	IV	-	-	(10,000)	(329)
Net cash provided by financing activities		3,092,214	94,189	548,835	18,078
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		13,177	401	(204,282)	(6,729)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(7,215,751)	(219,791)	442,501	14,575
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		34,198,827	1,041,694	15,648,864	515,444
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		\$26,983,076	\$821,903	\$16,091,365	\$530,019
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>					
Interest expense paid		\$9,537,106	\$290,499	\$9,553,134	\$314,662
Income tax paid		\$286,826	\$8,737	\$213,182	\$7,022

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the six-month periods ended June 30, 2007 and 2008

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

I. Business

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

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

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



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

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

The board meeting on behalf of the Bank's shareholders resolved on August 25, 2006 to merge with Lucky Bank. Under this merger, on which the Bank was the surviving entity and Lucky Bank was the merged Bank. The merger date was January 1, 2007. The Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation ("CUTIC") on December 29, 2007. Please refer to Note XI for details.

As of June 30, 2007 and 2008, the Bank employed 5,260 and 6,280 employees, respectively.

## II. Summary of significant accounting policies

The financial statements were prepared in conformity with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

## English Translation of Financial Statements Originally Issued in Chinese

The significant accounting policies are summarized as follows:

### 1. Basis of presentation of financial statements

The accompanying financial statements include the accounts of the head office, domestic and foreign branches. All significant inter-branch and inter-office accounts and transactions have been eliminated when the financial statements are prepared.

### 2. Foreign-currency transaction and translation

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

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

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

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

3. Financial assets and financial liabilities

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

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

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

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

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

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

(5) Financial assets carried at cost

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

(6) Financial liabilities

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

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

4. Derivative financial instruments

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

5. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

6. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

7. Hedge accounting

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

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

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

Investments in other companies with voting rights of at least 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between the acquisitions cost and the Company's share of net assets of the associate is amortized in 5 years. However, effective from January 1, 2007, if such a difference is goodwill, then it is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level.

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

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

10. Premises and equipment

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



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

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

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

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

#### 11. Intangible assets and goodwill

##### (1) Intangible assets

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

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

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

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

##### (2) Goodwill

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

12. Foreclosed properties

Foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date. If there is an objective evidence of impairment, the impairment loss shall be recognized.

13. Financial assets securitization

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

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

14. Asset impairment

The Bank assesses impairment for all its assets within the scope of ROC SFAS No.35 if impairment indicators were found. The Bank shall compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of net fair values or usage value.

For recognized impairment losses, the Bank shall assess, at each balance sheet date, whether there is any evidence shows that it may no longer exist or decreased. If such evidence been found, the Bank shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank shall reverse the recognized impairment loss to the extent the carrying amount as if no impairment loss had been recognized to against the assets. Impairment loss (reversal) is charged to current income.

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

15. Reserves for possible losses on guarantees

Reserves for possible losses on guarantees are provided at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for customs duties, commodity taxes and contracts performance obligations.

16. Reserves for losses on trading securities

Pursuant to the “Regulations Governing Securities Firms”, a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT\$200 million. The reserve cannot be used for other purposes except to offset trading losses.

17. Pension plans

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

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The Labor Pension Act of the ROC (the “Act”), which adopts a defined contribution pension plan, is effective since July 1, 2005. In accordance with the Act, employees of the Bank may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Bank shall make monthly contributions to the employees’ individual pension accounts on a basis 6% of the employees’ monthly wages. Monthly contributions are recognized as pension costs.

The Bank adopted the ROC SFAS No. 18, “Accounting for Pensions”, which requires the actuarial determination of pension assets or obligations for the defined benefit plan. The unrecognized assets or obligations at transition are amortized by the straight-line method over the employees’ average remaining service period of 15 years.

### 18. Recognition of interest income and service fees

Interest income is recognized when incurred except for delinquent accounts and troubled accounts whose interest is recognized when received.

Service fees are recognized on an accrual basis.

### 19. Recognition of dividend

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

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

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

20. Income tax

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

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

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

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

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

21. Employee bonus and remuneration of directors

Pursuant to Interpretation 2007-052 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses instead of distribution of earnings.

22. Contingencies

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

23. The interim financial statement

The Bank has adopted the ROC SFAS No.23, “Interim Financial statement, Presentation and Disclosures” for its presentation and disclosures of interim financial statements.

24. Basis for converting financial statements

The Bank’s financial statements are stated in NT dollars. Translation of the June 30, 2007 and 2008 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT\$32.83 and NT\$30.36 to US\$1.00 on June 30, 2007 and 2008, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. Effective from January 1, 2007, the Bank adopted the ROC SFAS No.37, “Accounting for Intangible Assets”. The Bank has reassessed the useful lives and amortization methods of the intangible assets already recognized on the effective date. The adoption of the ROC SFAS No. 37 did not impact on the Bank’s financial statements as of and for the six-month period ended June 30, 2007.
2. The Bank adopted the accounting principles prescribed in Interpretation 2007-052 “Accounting for employee bonus and remuneration of directors” by the Accounting Research and Development Foundation on January 1, 2008.

The above change in accounting principles decreased the Bank’s net income by NT\$750 (US\$25), and there is no significant effects in earning per shares, for the six-month period ended June 30, 2008.

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IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	June 30,			
	2007		2008	
	NT	US	NT	US
Cash on hand	\$10,226,246	\$311,491	\$10,125,145	\$333,503
Checks for clearance	10,609,761	323,173	3,283,658	108,157
Due from commercial banks	6,147,069	187,239	2,682,562	88,359
Total	<u>\$26,983,076</u>	<u>\$821,903</u>	<u>\$16,091,365</u>	<u>\$530,019</u>

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

	June 30,			
	2007		2008	
	NT	US	NT	US
Call loans to banks	\$6,596,841	\$200,940	\$18,091,415	\$595,896
Due from the Central Bank —				
Statutory reserve on deposits and general deposits	31,335,167	954,467	36,783,053	1,211,563
Total	<u>\$37,932,008</u>	<u>\$1,155,407</u>	<u>\$54,874,468</u>	<u>\$1,807,459</u>

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT\$27,305,561 (US\$831,726) and NT\$27,851,807 (US\$917,385) as of June 30, 2007 and 2008, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of June 30, 2007 and 2008, the balance of foreign-currency deposit reserves were NT\$2,860,364 (US\$87,127) and NT\$103,204 (US\$3,399), respectively.

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3. Financial assets at fair value through profit or loss

	June 30,			
	2007		2008	
	NT	US	NT	US
Financial assets for trading :				
Stocks	\$6,389,164	\$194,613	\$1,598,825	\$52,662
Mutual funds and beneficiary certificates	1,100,818	33,531	1,303,712	42,942
Commercial papers and certificates of deposit	13,865,368	422,338	8,272,579	272,483
Bonds	21,581,821	657,381	16,794,313	553,172
Overseas financial instruments	1,484,532	45,219	1,241,661	40,898
Derivative financial instruments	3,374,886	102,799	6,308,776	207,799
Subtotal	<u>47,796,589</u>	<u>1,455,881</u>	<u>35,519,866</u>	<u>1,169,956</u>
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	272,379	8,297	158,339	5,215
Bonds	104,265	3,176	82,270	2,710
Subtotal	<u>376,644</u>	<u>11,473</u>	<u>240,609</u>	<u>7,925</u>
Total	<u>\$48,173,233</u>	<u>\$1,467,354</u>	<u>\$35,760,475</u>	<u>\$1,177,881</u>

(1) NT\$104,265 (US\$3,176) and NT\$ 86,215 (US\$2,840) of the financial assets at fair value through profit or loss as of June 30, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of June 30, 2007, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$9,073,200 (US\$276,369). Such repurchase agreements amounting to NT\$9,081,944 (US\$276,635) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2007 was settled at NT\$9,091,505 (US\$276,927) prior to July 31, 2007.

As of June 30, 2008, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$6,551,900 (US\$215,807). Such repurchase agreements amounting to NT\$6,532,399 (US\$215,165) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2008 was settled at NT\$6,536,093 (US\$215,286) prior to August 31, 2008.



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(3) As of June 30, 2007 and 2008, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets/liabilities) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

	June 30,	
	2007	2008
Forward foreign exchange and currency swap contracts	\$20,050,593	\$21,325,301
Interest rate swap contracts	11,009,153	13,110,346
Cross-currency swap contracts	575,289	770,027
Options	58,466	474,571
Futures	30,000	-
Credit derivative instrument contracts	200,000	140,000
Credit default swap contracts	225,000	-

(4) Net gains arising from financial assets at fair value through profit or loss for the six-month periods ended June 30, 2007 and 2008 was NT\$3,697,878 (US\$112,637) and NT\$1,403,511 (US\$46,229), respectively.

4. Receivables, net

	June 30,			
	2007		2008	
	NT	US	NT	US
Notes receivable	\$-	\$-	\$134,075	\$4,416
Accounts receivable	36,995,303	1,126,875	33,835,357	1,114,471
Interest receivable	4,744,544	144,518	4,678,450	154,099
Receivable to related party for allocation of linked-tax system	638,005	19,434	253,007	8,334
Foreign currency receivable	1,542,836	46,995	675,017	22,234
Acceptances	1,248,231	38,021	936,786	30,856
Tax refundable	747,465	22,768	770,505	25,379
Others	2,282,743	69,532	5,637,490	185,688
Total	48,199,127	1,468,143	46,920,687	1,545,477
Less: allowance for doubtful accounts	(2,746,939)	(83,672)	(3,354,092)	(110,477)
Net balance	\$45,452,188	\$1,384,471	\$43,566,595	\$1,435,000

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Information on bad and doubtful accounts is as follows:

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

	January 1-June 30, 2008					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$3,400,248	\$111,998	\$71,960	\$2,370	\$3,472,208	\$114,368
Provision of doubtful accounts	987,853	32,538	-	-	987,853	32,538
Write-offs	(1,527,551)	(50,315)	-	-	(1,527,551)	(50,315)
Debt counseling recoveries	70,645	2,327	-	-	70,645	2,327
Recoveries	350,937	11,559	-	-	350,937	11,559
Reclassification	7,541	248	(7,541)	(248)	-	-
Balance, end of the period	<u>\$3,289,673</u>	<u>\$108,355</u>	<u>\$64,419</u>	<u>\$2,122</u>	<u>\$3,354,092</u>	<u>\$110,477</u>

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

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5. Discounts and loans, net

	June 30,			
	2007		2008	
	NT	US	NT	US
Outward documentary bills	\$719,491	\$21,916	\$488,270	\$16,083
Discounts	85,447	2,603	-	-
Overdrafts	515,868	15,713	434,422	14,309
Short-term loans	165,659,260	5,045,972	185,901,284	6,123,231
Medium-term loans	202,400,333	6,165,103	219,052,870	7,215,180
Long-term loans	357,493,068	10,889,219	398,311,974	13,119,630
Delinquent accounts	8,576,475	261,239	5,647,276	186,010
Total	735,449,942	22,401,765	809,836,096	26,674,443
Less: allowance for doubtful accounts	(11,904,778)	(362,619)	(9,282,263)	(305,740)
Net balance	<u>\$723,545,164</u>	<u>\$22,039,146</u>	<u>\$800,553,833</u>	<u>\$26,368,703</u>

- (1) As of June 30, 2007 and 2008, the accounts without interest accrued were NT\$10,919,131 (US\$332,596) and NT\$ 7,063,711 (US\$232,665), respectively. The non-accrued interest on such accounts amounted to NT\$148,152 (US\$4,513) and NT\$109,380 (US\$3,603) for the six-month periods ended June 30, 2007 and 2008, respectively.
- (2) For the six-month periods ended June 30, 2007 and 2008, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.
- (3) Please refer to Note X.8 (2) for details on loans by industries and geographic regions.
- (4) Information on bad and doubtful accounts is as follows:

	January 1-June 30, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$3,121,934	\$95,094	\$13,389,809	\$407,853	\$16,511,743	\$502,947
Reversal of doubtful accounts	(1,205,260)	(36,712)	-	-	(1,205,260)	(36,712)
Write-offs	(6,309,356)	(192,183)	-	-	(6,309,356)	(192,183)
Debt counseling recoveries	14,036	428	-	-	14,036	428
Recoveries	2,892,972	88,120	-	-	2,892,972	88,120
Reclassification	3,024,138	92,115	(3,024,138)	(92,115)	-	-
Effects of exchange rates change	-	-	643	19	643	19
Balance, end of the period	<u>\$1,538,464</u>	<u>\$46,862</u>	<u>\$10,366,314</u>	<u>\$315,757</u>	<u>\$11,904,778</u>	<u>\$362,619</u>

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	January 1-June 30, 2008					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$4,139,802	\$136,357	\$5,606,808	\$184,678	\$9,746,610	\$321,035
Reversal of doubtful accounts	(22,449)	(739)	-	-	(22,449)	(739)
Write-offs	(3,781,467)	(124,555)	-	-	(3,781,467)	(124,555)
Debt counseling recoveries	52,069	1,715	-	-	52,069	1,715
Recoveries	3,323,659	109,475	-	-	3,323,659	109,475
Reclassification	99,241	3,269	(99,241)	(3,269)	-	-
Effects of exchange rates change	-	-	(36,159)	(1,191)	(36,159)	(1,191)
Balance, end of the period	<u>\$3,810,855</u>	<u>\$125,522</u>	<u>\$5,471,408</u>	<u>\$180,218</u>	<u>\$9,282,263</u>	<u>\$305,740</u>

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

6. Available-for-sale financial assets, net

	June 30,			
	2007		2008	
	NT	US	NT	US
Stocks	\$7,421,669	\$226,064	\$2,330,562	\$76,764
Mutual funds and beneficiary securities	119,587	3,643	272,955	8,991
Bonds	46,687,882	1,422,110	51,017,994	1,680,434
Overseas financial instruments	3,148,452	95,901	8,051,556	265,203
Total	<u>\$57,377,590</u>	<u>\$1,747,718</u>	<u>\$61,673,067</u>	<u>\$2,031,392</u>

(1) NT\$966,964 (US\$29,454) and NT\$ 4,531,286 (US\$149,252) of the available-for-sale financial assets as of June 30, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of June 30, 2008, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$19,664,000 (US\$647,694). Such repurchase agreements amounting to NT\$21,581,399 (US\$710,850) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to June 30, 2008 was settled at NT\$21,617,841 (US\$712,050) prior to December 31, 2008.

7. Held-to-maturity financial assets, net

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

	June 30, 2008			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	\$1,612,800	\$53,123	\$1,789,218	\$58,934
Beneficiary certificates	576,335	18,983	576,335	18,983
Overseas financial instruments	696,666	22,947	695,103	22,895
Subtotal	2,885,801	95,053	3,060,656	100,812
Less: accumulated impairment	-	-	-	-
Net balance	<u>\$2,885,801</u>	<u>\$95,053</u>	<u>\$3,060,656</u>	<u>\$100,812</u>

As of June 30, 2007 and 2008, NT\$1,544,930(US\$47,058) and NT\$101,095(US\$3,330) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

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8. Investments accounted for using equity method, net

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

	June 30, 2008				
	Carrying value		% of ownership	Investment income (loss)	
	NT	US		NT	US
Seaward Card Co., Ltd.	\$37,561	\$1,237	100.00	\$1,004	\$33
Cathay Life Insurance Agent Co., Ltd	32,797	1,080	100.00	7,235	238
Cathay Property Insurance Agent Co., Ltd.	7,396	244	100.00	241	8
Cathay Venture Capital Corp.	32,099	1,057	2.00	1,005	33
Vista Technology Venture Capital Corp.	7,528	248	4.76	(3)	-
Taiwan Finance Corp.	1,284,883	42,322	24.57	13,514	445
Taiwan Real-estate Management Corp.	43,660	1,438	30.15	1,064	35
Indovina Bank	964,409	31,766	50.00	96,732	3,187
<b>Total</b>	<b>\$2,410,333</b>	<b>\$79,392</b>		<b>\$120,792</b>	<b>\$3,979</b>

(1) The equity method of accounting was applied to Cathay Venture Capital Corp. and Vista Technology Venture Capital Corp. due to the fact that the Bank and its related parties held more than 20% of such companies' common stock.

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- (2) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the six-month periods ended June 30, 2007 and 2008 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.
- (3) The accounts of the Bank and Indovina Bank are included in the Bank's consolidated financial statements as of and for the six-month periods ended June 30, 2007 and 2008. As the individual total asset or operating income of the other subsidiaries of the Bank are immaterial to the Bank financial statements, the accounts of these other subsidiaries, which are not included in the Bank's consolidated financial statements.

9. Other financial assets, net

	June 30,			
	2007		2008	
	NT	US	NT	US
Derivative financial assets for hedging	\$-	\$-	\$179,189	\$5,902
Financial assets carried at cost,				
stocks	4,482,076	136,524	4,245,466	139,837
Bills purchased	4,090	124	3,121	103
Total	<u>\$4,486,166</u>	<u>\$136,648</u>	<u>\$4,427,776</u>	<u>\$145,842</u>

Due to the recurring losses incurred by Taipei Financial Center Corp., New Century InfoComm Co., Ltd., Chan Sheng Investment Development Co., Ltd., (liquidated in 2007) Strategic Value Fund, Limited Partnership, Waterland Securities Co., Ltd., Mondex Taiwan Inc., and Victor Taichung Machinery Works Co., Ltd., the Bank has recognized losses for these investees based on their net equity.

As of June 30, 2008, the above derivative financial assets for hedging applies for fair value hedge, and its fair value is NT\$179,189 (US\$5,902). The Bank has recognized gain in hedging in the amount of NT\$47,616 (US\$1,568) for the six-month period ended June 30, 2008.

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

	June 30,			
	2007		2008	
	NT	US	NT	US
Preferred stocks	\$549,730	\$16,744	\$549,730	\$18,107
Certificates of deposit	209,935,000	6,394,609	182,065,000	5,996,871
Bonds	99,635	3,035	95,586	3,148
Beneficiary certificates	400,000	12,184	400,000	13,175
Overseas financial instruments	65,157,427	1,984,692	39,831,247	1,311,965
Subtotal	276,141,792	8,411,264	222,941,563	7,343,266
Less: accumulated impairment	(170,080)	(5,181)	(271,625)	(8,946)
Net balance	<u>\$275,971,712</u>	<u>\$8,406,083</u>	<u>\$222,669,938</u>	<u>\$7,334,320</u>

NT\$15,000,000(US\$456,899) and NT\$15,000,000(US\$494,071) of certificates of deposit as of June 30, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

11. Financial assets securitization

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

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



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

(1) Key assumptions used in measuring retained interests:

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and June 30, 2008, respectively, were as follows:

	Corporate Loans Securitization	
	May 28, 2007	June 30, 2008
Expected weighted-average life (in years)	2.210	1.051
Prepayment rate (annual rate)	3%	3%
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.2%	2.49%

(2) Sensitivity analysis:

As of June 30, 2008, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	June 30, 2008	
	NT	US
Carrying amount of retained interests	\$976,335	\$32,159
Expected weighted-average life (in years)	1.051	1.051
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	(2,008)	(66)
Impact on fair value with 20% adverse change	(2,037)	(67)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(12,181)	(401)
Impact on fair value with 20% adverse change	(13,798)	(454)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on fair value with 10% adverse change	(4,911)	(162)
Impact on fair value with 20% adverse change	(9,796)	(323)

(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.

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(4) Cash flows:

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

	January 1-June 30,			
	2007		2008	
	NT	US	NT	US
The cash received from securitization	\$4,470,000	\$136,156	\$-	\$-
Servicing fees received	20	1	120	4
Other cash received on retained interests	3,211	98	14,842	489
Repayment of cash reserve	747	23	5,155	170

12. Premises and equipment, net

	June 30,			
	2007		2008	
	NT	US	NT	US
Cost:				
Land	\$13,999,386	\$426,421	\$14,979,198	\$493,386
Buildings	9,802,129	298,572	10,114,991	333,168
Office equipment	3,875,052	118,034	3,730,707	122,882
Transportation equipment	61,822	1,883	54,654	1,800
Leasehold improvements	-	-	14,591	481
Other equipment	4,720,969	143,800	5,023,301	165,458
Construction in progress and prepayment for equipment	1,338,423	40,768	1,934,238	63,710
Subtotal	33,797,781	1,029,478	35,851,680	1,180,885
Accumulated depreciation:				
Buildings	(2,378,237)	(72,441)	(2,507,747)	(82,601)
Office equipment	(2,755,337)	(83,927)	(2,872,428)	(94,612)
Transportation equipment	(52,842)	(1,610)	(50,859)	(1,675)
Leasehold improvements	-	-	(3,785)	(125)
Other equipment	(3,190,661)	(97,187)	(3,695,580)	(121,725)
Subtotal	(8,377,077)	(255,165)	(9,130,399)	(300,738)
Accumulated impairment	(65,866)	(2,006)	(38,626)	(1,272)
Net balance	\$25,354,838	\$772,307	\$26,682,655	\$878,875

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13. Intangible assets, net

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

  

	January 1- June 30, 2008							
	January 1,		Additions/Amortization		Disposals		June 30,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	\$6,537,374	\$215,329	\$141,997	\$4,677	\$6,288	\$207	\$6,673,083	\$219,799
			(Note)	(Note)	(Note)	(Note)		
Computer software	1,180,905	38,897	27,212	896	159,845	5,265	1,048,272	34,528
Amortization	(687,581)	(22,648)	(98,281)	(3,237)	(20,052)	(661)	(765,810)	(25,224)
Impairment	(147,141)	(4,847)	-	-	(146,081)	(4,811)	(1,060)	(36)
Net balance	<u>\$6,883,557</u>	<u>\$226,731</u>	<u>\$70,928</u>	<u>\$2,336</u>	<u>\$-</u>	<u>\$-</u>	<u>\$6,954,485</u>	<u>\$229,067</u>

Note: Adjustment of the fair value during the purchase price allocation period.

14. Other assets, net

	June 30,			
	2007		2008	
	NT	US	NT	US
Prepayment	\$270,535	\$8,240	\$179,713	\$5,919
Temporary payments	412,954	12,578	72,940	2,403
Interbank settlement fund	1,302,556	39,676	1,299,733	42,811
Non-operating assets, net	1,527,384	46,524	2,338,706	77,033
(Accumulated impairment NT\$318,132 (US\$9,690) and NT\$355,272 (US\$11,702), on June 30, 2007 and 2008, respectively)				
Refundable deposits, net	1,780,957	54,248	1,318,566	43,431
Foreclosed properties, net	1,330,501	40,527	491,786	16,198
Deferred tax assets, net	4,242,950	129,240	3,126,614	102,985
Others	44,640	1,360	310,228	10,218
Total	<u>\$10,912,477</u>	<u>\$332,393</u>	<u>\$9,138,286</u>	<u>\$300,998</u>

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

	June 30,			
	2007		2008	
	NT	US	NT	US
Due to the Central Bank	\$186,506	\$5,681	\$97,543	\$3,213
Due to commercial banks	1,410,375	42,960	1,501,098	49,443
Due to Post Co., Ltd.	27,009,400	822,705	23,706,779	780,856
Overdrafts from banks	333,114	10,147	255,276	8,408
Call loans from banks	35,447,582	1,079,731	52,547,954	1,730,829
Total	\$64,386,977	\$1,961,224	\$78,108,650	\$2,572,749

16. Financial liabilities at fair value through profit or loss

	June 30,			
	2007		2008	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	\$4,326,185	\$131,775	\$6,476,725	\$213,331
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	38,877,684	1,184,212	39,430,573	1,298,767
Subordinated financial debentures	4,957,179	150,996	-	-
Subtotal	43,834,863	1,335,208	39,430,573	1,298,767
Total	\$48,161,048	\$1,466,983	\$45,907,298	\$1,512,098

(1) On May 23, 2002, the Bank issued a five-year subordinated financial debenture totaling NT\$5,000,000 which has matured. Subsequently on September 10, 2002, the Bank issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 which has matured.

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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On June 20, 2003, the Bank issued five-year and six-month dominant financial debentures amounting to NT\$5,000,000 with inverse floating interest rate. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year dominant financial debentures amounting to NT\$3,200,000, NT\$2,700,000 and NT\$1,800,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, the Bank issued six-year dominant financial debenture amounting to NT\$2,000,000 with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

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

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

- (2) The difference between the carrying amount of the financial liabilities designated at fair value through profit or loss and the amount the Bank would be contractually required to pay at maturity to the holder of the obligation are NT\$269,429 (US\$8,207) and NT\$865,137 (US\$28,496) as of June 30, 2007 and 2008, respectively.
- (3) Net losses arising from financial liabilities at fair value through profit or loss for the six-month periods ended June 30, 2007 and 2008 were NT\$3,566,502 (US\$108,635) and NT\$2,426,068 (US\$79,910), respectively.

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17. Payables

	June 30,			
	2007		2008	
	NT	US	NT	US
Accounts payable	\$11,727,758	\$357,227	\$4,309,556	\$141,948
Accrued interest payable	3,886,493	118,382	4,420,016	145,587
Accrued expenses	1,722,152	52,456	1,856,732	61,157
Payable to related party for allocation of linked-tax system	109,660	3,340	-	-
Foreign currency payable	1,777,246	54,135	4,610,192	151,851
Acceptance	1,279,737	38,981	941,995	31,027
Tax payable	255,254	7,775	435,263	14,337
Receipts under custody	629,311	19,169	258,629	8,519
Others	1,206,465	36,749	1,224,356	40,328
Total	<u>\$22,594,076</u>	<u>\$688,214</u>	<u>\$18,056,739</u>	<u>\$594,754</u>

18. Deposits and remittances

	June 30,			
	2007		2008	
	NT	US	NT	US
Check deposits	\$15,929,490	\$485,212	\$12,304,892	\$405,300
Demand deposits	109,985,090	3,350,140	115,845,206	3,815,718
Demand savings deposits	384,519,742	11,712,450	345,803,775	11,390,111
Time deposits	241,247,453	7,348,384	274,941,716	9,056,051
Negotiable certificates of deposit	3,431,400	104,520	2,613,900	86,097
Time savings deposits	252,822,655	7,700,964	262,980,136	8,662,060
Outward remittances	512,615	15,614	333,433	10,983
Remittances payable	156,271	4,760	200,778	6,613
Trust unappropriated	-	-	6,769,407	222,971
Total	<u>\$1,008,604,716</u>	<u>\$30,722,044</u>	<u>\$1,021,793,243</u>	<u>\$33,655,904</u>

19. Financial debentures payable

	June 30,			
	2007		2008	
	NT	US	NT	US
Subordinated financial debentures	\$18,770,000	\$571,733	\$15,177,000	\$499,901
Discount in financial debentures	(102,163)	(3,112)	(85,365)	(2,812)
Valuation adjustment	(981,035)	(29,882)	181,058	5,964
Total	<u>\$17,686,802</u>	<u>\$538,739</u>	<u>\$15,272,693</u>	<u>\$503,053</u>

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On April 28, 2003, the former Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 with a stated interest rate of 2% which has matured.

The Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. The Bank can redeem the bond after 10 years by exercising the call option. As discussed in Note X.9, the Bank has adopted hedge accounting to account for its subordinated financial debentures.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

20. Other financial liabilities

	June 30,			
	2007		2008	
	NT	US	NT	US
Derivative financial liabilities for hedging	\$1,038,134	\$31,621	\$-	\$-
Borrowed funds	310,850	9,469	282,509	9,305
Total	<u>\$1,348,984</u>	<u>\$41,090</u>	<u>\$282,509</u>	<u>\$9,305</u>

As of June 30, 2007, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT\$1,038,134 (US\$31,622). The Bank has recognized losses in hedging in the amount of NT\$85,009 (US\$2,589) for the six-month period ended June 30, 2007.

21. Other liabilities

	June 30,			
	2007		2008	
	NT	US	NT	US
Unearned receipts	\$98,388	\$2,997	\$184,038	\$6,062
Temporary receipts	957,485	29,165	1,026,167	33,800
Reserve for losses on guarantees	28,690	874	28,403	936
Reserve for losses on stock brokerage transactions	149,037	4,540	268,791	8,853
Guarantee deposits received	710,106	21,630	737,216	24,282
Reserve for land value increment tax	17,542	534	50,366	1,659
Total	<u>\$1,961,248</u>	<u>\$59,740</u>	<u>\$2,294,981</u>	<u>\$75,592</u>

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22. Capital Stock

As of January 1, 2007, the Bank had issued and outstanding capital stock of NT\$46,420,518 (US\$1,413,966) divided into 4,642,052 thousands common shares, with par value NT\$10 per share.

The Bank's board of directors on behalf of the shareholders resolved to have a merger with Lucky Bank by issuing 226,889 thousands common shares on January 1, 2007. After the merger, the issued and outstanding capital stock amounted to NT\$48,689,413 (US\$1,483,077) divided into 4,868,941 thousands common shares, with par value NT\$10 per share. The above merger has been approved by the authority.

23. Capital reserves

	June 30,			
	2007		2008	
	NT	US	NT	US
Capital reserves from the merger				
Bank	\$10,949,303	\$333,515	\$10,949,303	\$360,649
Additional paid-in capital	4,249,096	129,427	4,249,096	139,957
Others	15,166	462	15,212	501
Total	<u>\$15,213,565</u>	<u>\$463,404</u>	<u>\$15,213,611</u>	<u>\$501,107</u>

24. Retained earnings

(1) The Bank's articles of incorporation provide that its annual net income shall be appropriated and distributed in the following order:

- (a) 30% thereof shall be set aside as legal reserve;
- (b) special reserves;
- (c) regular dividends; and
- (d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.

(2) The government's regulations stipulate that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the reserve may be transferred to capital stock.



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- (3) The estimation of employee bonus and remuneration of directors for the six-month period ended June 30, 2008 was NT\$750 (US\$25) based on the average actual payment over the past three year and recognized as operating expense. Resolution approved at the 2009 shareholders' meeting might differ from the estimation mentioned above and the difference will be recognized as income in 2009.
- (4) On April 26, 2007, the following are appropriations and distribution approved by the Bank's board of directors (According to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors) :

Make up deficit in 2006:

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

- (5) On April 29, 2008, the following are appropriations and distribution approved by the Bank's board of directors (According to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors) :

The appropriation and distribution of earnings in 2007 :

(a) NT\$1,920,079 (US\$63,244) thousands as legal reserve ;

(b) NT\$465,071 (US\$15,318) thousands as special reserve ;

(c) NT\$4,013,615 (US\$132,201) thousands as dividends and bonus to shareholders ;

(d) NT\$1,500 (US\$49) thousands as bonus to employees.

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

### 25. Pension

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

### 26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the six-month periods ended June 30, 2007 and 2008.

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	January 1- June 30,			
	2007		2008	
	NT	US	NT	US
Personnel expenses				
Salary	\$2,475,278	\$75,397	\$2,711,564	\$89,314
Insurance	271,458	8,269	328,106	10,807
Pension	167,931	5,115	184,237	6,068
Others	171,865	5,235	185,040	6,095
Depreciation expenses	581,261	17,705	562,272	18,520
Amortization expenses	101,659	3,097	98,281	3,237

27. Income tax

Under a directive issued by the Ministry of Finance (“MOF”), a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable. The ROC SFAS No.22 remains applicable to the Bank.

- (1) The reconciliation between income tax payable and income tax benefit (expense) for the six-month periods ended June 30, 2007 and 2008 is as follows:

	January 1- June 30,			
	2007		2008	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$ (309,398)	\$ (9,424)	\$ (1,087,481)	\$ (35,820)
Interest on separation tax (tax rate 20% or 6%)	(23,787)	(725)	(8,130)	(268)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(986,719)	(30,055)	(184,474)	(6,076)
Allowance for pledged assets taken-over (reversal)	4,772	145	(8,987)	(296)
Foreign investment income recognized by the equity method	977	30	10,558	348
Others	93,459	2,847	(77,610)	(2,556)
Valuation allowance	763,641	23,260	(238,525)	(7,856)
Operating loss carry-forward	(15,626)	(476)	-	-
Investment tax credits	3,224	98	-	-
Effect of foreign branches’ income tax	(51,123)	(1,557)	21,033	693
Adjustment of prior period’s income tax	(638,420)	(19,446)	63,616	2,095
Income tax expense	<u>\$ (1,159,000)</u>	<u>\$ (35,303)</u>	<u>\$ (1,510,000)</u>	<u>\$ (49,736)</u>

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

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

	June 30,			
	2007		2008	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	\$4,152,001	\$126,470	\$5,457,604	\$179,763
Others	171,495	5,224	209,057	6,886
Deductible temporary differences:				
Allowance for bad debts	7,145,265	217,644	4,508,010	148,485
Unrealized impairment loss for pledged assets taken-over	100,254	3,054	54,884	1,808
Pension expenses exceed the limit of tax law	174,814	5,325	-	-
Valuation of financial instruments	4,174,706	127,161	5,271,585	173,636
Provisions for possible losses	238,456	7,263	238,456	7,854
Others	833,801	25,398	293,691	9,674
Operating loss carry-forward (expiration year:2011)	10,150,658	309,188	8,925,820	293,999
Investment tax credit (expiration year:2011)	3,224	98	-	-
Deferred income tax assets of foreign branches	52,030	1,585	84,095	2,770
(3) Deferred tax assets	\$5,759,743	\$175,441	\$4,907,206	161,634
Deferred tax liabilities	(1,080,874)	(32,923)	(1,416,665)	(46,662)
Valuation allowance	(435,919)	(13,278)	(363,927)	(11,987)
Net deferred tax assets	<u>\$4,242,950</u>	<u>\$129,240</u>	<u>\$3,126,614</u>	<u>\$102,985</u>

(4) The Bank's income tax returns for the years prior to 2003 have been assessed by the tax authority.

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(5) Lucky Bank's income tax returns for the years prior to 2004 have been assessed by the tax authority.

(6) The related information on shareholders' deductible income tax is as follows:

	June 30,			
	2007		2008	
	NT	US	NT	US
The Bank's imputation credit	\$552,402	\$16,826	\$58,753	\$1,935
Undistributed earnings	4,385,094	133,570	3,003,958	98,945

The following is the rate of tax credit available for dividends to the Bank's shareholders for the years 2006 and 2007:

	2006	2007
Cash dividends	-	9.78%

28. Earnings per share

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

	January 1 – June 30,	
	In thousands of shares	
	2007	2008
Weighted-average shares outstanding	4,868,941	4,868,941

	January 1 – June 30,							
	2007				2008			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	\$5,544,094	\$168,873	\$4,385,094	\$133,570	\$4,513,958	\$148,681	\$3,003,958	\$98,945
Earnings per share (in dollars)								
Net income	\$1.14	\$0.035	\$0.90	\$0.028	\$0.93	\$0.031	\$0.62	\$0.020

(2) According to the regulations issued by the Securities and Futures Bureau, the Bank should assume that the dividends of the year 2006 and 2007 would be appropriated to the employee, directors and supervisors, and estimate earnings per share for the current year. However, the Bank had deficit for the year 2006. Consequently, no dividend will be distributed for the year. The assumption of year 2007 is shown as below (in NT dollars):

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	<u>2007</u>
A. Distribution:	
Employees' bonus and contribution to welfare fund	<u>\$1,500</u>
Directors and supervisors' remunerations	<u>\$-</u>
B. Estimated earnings per share (in dollars) (Note)	<u>\$0.62</u>

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

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

V. Related parties transactions

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

<u>Name of related parties</u>	<u>Relationship</u>
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiaries of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	//
Cathay Securities Corp.	//
Cathay Pacific Venture Capital Co., Ltd.	//
Cathay Venture Capital Corp.	//
Cathay II Venture Capital Corp.	//
Cathay Capital Management Inc.	//
Cathay Life Insurance Co., Ltd. (Shanghai)	Subsidiaries of Cathay Life Insurance
Cathay Life Insurance (Vietnam) Co., Ltd.	//
Cathay Insurance (Bermuda) Co., Ltd.	//
Symphox Information Co., Ltd.	//
Cathay Securities Investment Consulting Co., Ltd.	//
Indovina Bank	Subsidiaries
Cathay Life Insurance Agent Co., Ltd.	//
Cathay Property Insurance Agent Co., Ltd.	//
Seaward Card Co., Ltd.	//
Cathay Futures Corp.	Subsidiaries of Cathay Securities Corp.
Cathay Pacific Partners Co., Ltd.	Subsidiaries of Cathay Capital Management Inc.

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Name of related parties	Relationship
Cathay Lin Yuan Security Co., Ltd.	Related Party disclosed according to the ROC SFAS No. 6
Cathay Securities Trust Co., Ltd.	The investee by Cathay Life Insurance Co., Ltd. is accounted for using the equity method
Cathay Global Money Market Fund etc.	The funds which are managed by Cathay Securities Trust Co., Ltd.
Li Yuan Property Management and Maintenance Co., Ltd.	Related Party disclosed according to the ROC SFAS No. 6
Cathay General Hospital	Their chairman is the same with Cathay Financial Holding Co., Ltd.
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to the ROC SFAS No. 6
San Ching Engineering Corp.	//
Seaward Leasing Ltd.	//
Cathay Life Charity Foundation	//
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	//
Cathay Century Realty Co., Ltd.	Related Party disclosed according to the ROC SFAS No. 6
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Cathay Real-estate Management Corp.	Related Party disclosed according to the ROC SFAS No. 6
Taiwan Asset Management Corporation	The representative of the Bank is the chairman of the corporation
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the parent company's chairman
Cathay Cultural Foundation	Related Party disclosed according to the ROC SFAS No. 6
Others	Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager and etc.

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

(1) Loans and Deposits

Accounts/Related parties	June 30, Account balance			January 1- June 30, Interest income (expense)	
	NT	US	% of Account	NT	US
<u>2007</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$2,120,000	\$64,575	0.29%	\$20,063	\$611
Taiwan Real-estate Management Corp.	125,000	3,807	0.02%	1,796	54
Cathay General Hospital	288,969	8,802	0.04%	3,832	117
Others	297,828	9,072	0.04%	3,902	119
Total	<u>\$2,831,797</u>	<u>\$86,256</u>	<u>0.39%</u>	<u>\$29,593</u>	<u>\$901</u>
<u>Deposits</u>					
Cathay Life Insurance Co., Ltd.	\$5,578,377	\$169,917	0.55%	\$(17,493)	\$(533)
Cathay Financial Holding Co., Ltd.	3,796,044	115,627	0.38%	(91,376)	(2,783)
Cathay Futures Corp.	1,082,581	32,975	0.11%	(7,277)	(222)
Cathay Securities Corp.	707,981	21,565	0.07%	(7,098)	(216)
Cathay Century Insurance Co., Ltd.	642,296	19,564	0.06%	(4,809)	(146)
Cathay Pacific Venture Capital Co., Ltd.	228,648	6,965	0.02%	(2,975)	(91)
Cathay Securities Trust Co., Ltd.	375,474	11,437	0.04%	(4,184)	(127)
Cathay Real Estate Development Co., Ltd.	72,636	2,213	0.01%	(99)	(3)
Others	2,512,861	76,542	0.25%	(21,007)	(640)
Total	<u>\$14,996,898</u>	<u>\$456,805</u>	<u>1.49%</u>	<u>\$(156,318)</u>	<u>\$(4,761)</u>

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Accounts/Related parties	June 30,			January 1- June 30,	
	Account balance		% of Account	Interest income (expense)	
	NT	US			NT
<u>2008</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$2,942,280	\$96,913	0.37%	\$33,194	\$1,093
Taiwan Real-estate Management Corp.	109,000	3,590	0.01%	1,579	52
Cathay General Hospital	258,000	8,498	0.03%	3,411	112
Others	371,626	12,241	0.05%	4,906	162
Total	<u>\$3,680,906</u>	<u>\$121,242</u>	<u>0.46%</u>	<u>\$43,090</u>	<u>\$1,419</u>
<u>Deposits</u>					
Cathay Life Insurance Co., Ltd.	\$4,793,818	\$157,899	0.47%	\$(19,851)	\$(654)
Cathay Financial Holding Co., Ltd.	4,819,505	158,745	0.47%	(26,241)	(864)
Cathay Futures Corp.	1,590,263	52,380	0.16%	(13,579)	(447)
Cathay Securities Corp.	309,516	10,195	0.03%	(2,118)	(70)
Cathay Century Insurance Co., Ltd.	897,983	29,578	0.09%	(5,487)	(181)
Cathay Pacific Venture Capital Co., Ltd.	4,433	146	-	(6)	-
Cathay Securities Trust Co., Ltd.	539,871	17,782	0.05%	(8,814)	(290)
Cathay Real Estate Development Co., Ltd.	81,761	2,693	0.01%	(104)	(4)
Others	4,388,891	144,562	0.43%	(40,988)	(1,350)
Total	<u>\$17,426,041</u>	<u>\$573,980</u>	<u>1.71%</u>	<u>\$(117,188)</u>	<u>\$(3,860)</u>



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

<u>Accounts / Related parties</u>	January 1- June 30,		June 30,		January 1 – June 30,		Interest Rate(%)
	Maximum balance		Account balance		Interest income (expense)		
	NT	US	NT	US	NT	US	
<u>2008</u>							
<u>Call loans to banks</u>							
Indovina Bank	\$3,217,904	\$105,992	\$1,770,564	\$58,319	\$25,957	\$855	2.56%~26%
<u>Due from commercial banks</u>							
Indovina Bank	371,403	12,233	3,861	127	110	4	0.5%~2.4%
<u>Call loans from banks</u>							
Indovina Bank	352,545	11,612	-	-	(645)	(21)	4.5%~18%
<u>Due to commercial banks</u>							
Indovina Bank	40,929	1,348	17,314	570	-	-	-

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

(2) Guarantees

<u>Related Parties</u>	January 1- June 30,		June 30,		January 1- June 30,	
	Maximum balance		Account balance		Service fees	
	NT	US	NT	US	NT	US
<u>2007</u>						
Indovina Bank	\$1,884	\$57	\$959	\$29	\$3	\$0.1

2008

None

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(3) Transactions under resale and repurchase agreements

Accounts/Related parties	June 30,		January 1- June 30,	
	Account balance		Interest expense	
	NT	US	NT	US
<u>2007</u>				
<u>Securities sold under agreements to repurchase</u>				
Wan Pao Development Co., Ltd.	\$4,203,527	\$128,039	\$24,368	\$742
Others	820,917	25,005	7,696	235
Total	<u>\$5,024,444</u>	<u>\$153,044</u>	<u>\$32,064</u>	<u>\$977</u>
<u>2008</u>				
<u>Securities sold under agreements to repurchase</u>				
Wan Pao Development Co., Ltd.	\$646,779	\$21,304	\$4,353	\$143
Others	1,409,757	46,434	17,224	568
Total	<u>\$2,056,536</u>	<u>\$67,738</u>	<u>\$21,577</u>	<u>\$711</u>

(4) Lease

Accounts/Related parties	January 1- June 30,			
	2007		2008	
	NT	US	NT	US
<u>Rental income</u>				
Seaward Leasing Ltd.	\$86	\$3	\$86	\$3
Culture and Charity Foundation of Cathay United Bank	500	15	500	16
Cathay Securities Corp.	2,601	79	2,712	89
Cathay Life Insurance Co., Ltd.	3,377	103	5,431	179
Cathay Century Insurance Co., Ltd.	120	4	142	5
<u>Rental expense</u>				
Cathay Life Insurance Co., Ltd.	136,276	4,151	147,303	4,852
Cathay Real Estate Development Co., Ltd.	5,660	172	5,660	186
Seaward Leasing Ltd.	6,111	186	7,206	237

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Account/Related parties	June 30,			
	2007		2008	
	NT	US	NT	US
<u>Refundable deposits</u>				
Seaward Leasing Ltd. (Note)	\$33,393	\$1,017	\$33,395	\$1,100
Cathay Life Insurance Co., Ltd.	63,669	1,939	67,224	2,214
Cathay Real Estate Development Co., Ltd.	2,635	80	2,635	87

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

Account/Related parties	June 30,			
	2007		2008	
	NT	US	NT	US
<u>Guarantee deposit received</u>				
Cathay Securities Corp.	\$1,325	\$40	\$1,325	\$44
Cathay Life Insurance Co., Ltd.	1,744	53	2,430	80
Cathay Century Insurance Co., Ltd.	60	2	88	3

Transaction terms with the related parties are similar to those with third parties. Contract prices for related-party contracts are consistent with market prices, and payments are duly made and received in accordance with the terms of the contracts.

Accounts/Related parties	January 1- June 30,			
	2007		2008	
	NT	US	NT	US
<u>(5) Commissions and handling fees income</u>				
Cathay Life Insurance Co., Ltd.	\$136,122	\$4,146	\$508,478	\$16,748
Cathay Securities Corp.	2,749	84	1,944	64
Cathay Securities Trust Co., Ltd.	9,609	293	10,503	346
Cathay Century Insurance Co., Ltd.	20,062	611	40,046	1,319
Cathay Securities Investment Consulting Co., Ltd.	954	29	1,693	56

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Accounts/Related parties	January 1- June 30,			
	2007		2008	
	NT	US	NT	US
<u>(6) Other operating income</u>				
Cathay Century Insurance Co., Ltd.	\$337	\$10	\$8,868	\$292
<u>(7) Operating expenses</u>				
Seaward Card Co., Ltd.	169,797	5,172	137,887	4,542
Cathay Life Insurance Co., Ltd.	62,466	1,903	39,540	1,302
Cathay Century Insurance Co., Ltd.	294	9	382	13
Symphox Information Co., Ltd.	231,823	7,061	236,301	7,783
Cathay Securities Corp.	3,024	92	1,200	40
Cathay Real Estate Development Co., Ltd.	3,645	111	7,428	245
Cathay Lin Yuan Security Co., Ltd.	1,154	35	1,610	53
<u>(8) Insurance expenses paid</u>				
Cathay Life Insurance Co., Ltd.	222,268	6,770	267,006	8,795
Cathay Century Insurance Co., Ltd.	66,646	2,030	60,778	2,002
Accounts/Related parties	June 30,			
	2007		2008	
	NT	US	NT	US
<u>(9) Receivable to related party for allocation of linked-tax system</u>				
Cathay Financial Holding Co., Ltd.	\$638,005	\$19,434	\$253,007	\$8,334
<u>(10) Other receivables- cash dividends</u>				
Indovina Bank	98,520	3,001	129,005	4,249
<u>(11) Financial assets at fair value through profit or loss-mutual funds</u>				
Cathay Securities Trust Co., Ltd. (Note)	745,649	22,712	775,649	25,548

Note: The Bank invested in the funds which are managed by Cathay Securities Trust Co., Ltd.

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Accounts/Related parties	June 30,			
	2007		2008	
	NT	US	NT	US
(12) <u>Refundable deposit</u>				
Cathay Futures Corp.	\$39,292	\$1,197	\$39,292	\$1,294
(13) <u>Payable to related party for allocation of linked-tax system</u>				
Cathay Financial Holding Co., Ltd.	109,660	3,340	-	-
(14) <u>Accrued expenses</u>				
Seaward Card Co., Ltd.	9,914	302	21,800	718
(15) <u>Accounts payable</u>				
Symphox Information Co., Ltd.	65,607	1,998	94,089	3,099
Cathay Securities Corp.	200	6	200	7
Cathay Century Insurance Co., Ltd.	11,504	350	8,979	296

(16) Others

- a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$43,671), in 2006. The Bank paid the amount of NT\$259,042 (US\$7,890) and NT\$360,591 (US\$11,877) during the six-month periods ended June 30, 2007 and 2008. As of June 30, 2007 and 2008, the accumulated paid amount was NT\$349,592 (US\$10,649) and NT\$922,414(US\$30,383), respectively.
- b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT\$2,203 (US\$67) and NT\$2,501 (US\$82) during the six-month periods ended June 30, 2007 and 2008, respectively.
- c. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT\$8,935(US\$272) and NT\$11,096 (US\$365) during the six-month periods ended June 30, 2007 and 2008, respectively.

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- d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT\$8,740 (US\$266) and NT\$0 (US\$0) during the six-month periods ended June 30, 2007 and 2008, respectively.
- e. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the six-month periods ended 30, 2007 and 2008. As of June 30, 2007 and 2008, the bonus points which not converting amount was NT\$22,928 (US\$698) and NT\$28,181(US\$928), respectively.
- f. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$344,050 (US\$10,480) and NT\$2,480,000 (US\$81,686) during the six-month periods ended June 30, 2007 and 2008, respectively.
- g. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the service fees NT\$10,500 (US\$346) and NT\$4,004 (US\$132) were included in disposal gains of foreclosed properties, premises and equipment, respectively, for the six-month period June 30, 2008
- h. The Bank paid the amount of NT\$45,546 (US\$1,500) to certain managers according to the intercession content which dissolving the construction contract on Shih-Hua Hills and repossessed the land by mediation.
- i. The Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT\$200,000 (US\$6,588) which issued by the Bank in 2003.

The terms of the foregoing transactions with related parties are similar to those with third parties.

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

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(17) Transactions of derivative financial instruments

Related parties	Category of agreements	Term of agreements	Notional amount		Valuation gains (losses)	
			NT	US	NT	US
<u>June 30, 2007</u>						
Cathay Life Insurance Co., Ltd.	Forward	2006.8.14~2008.1.14	\$37,655,010	\$1,146,970	\$187,247	\$5,704
	Non-delivery forward	2007.3.5~2007.9.27	5,837,092	177,798	(88,452)	(2,694)
	Currency swap	2007.3.16~2008.2.29	48,387,725	1,473,887	(116,938)	(3,562)
	Interest rate swap	2007.1.18~2017.6.4	2,450,000	74,627	26	1
Cathay Century Insurance Co., Ltd.	Forward	2006.11.10~2007.12.13	483,007	14,712	7,284	222
	Non-delivery forward	2006.11.10~2007.11.20	208,390	6,348	(5,901)	(180)
	Currency swap	2007.3.5~2008.5.15	1,134,622	34,561	351	11
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2007.6.1~2007.8.3	2,374,661	72,332	5,644	172
	Non-delivery forward	2007.6.1~2007.8.2	2,057,098	62,659	(47,476)	(1,446)
<u>June 30, 2008</u>						
Cathay Life Insurance Co., Ltd.	Forward	2006.5.19~2009.6.10	16,112,124	530,702	235,582	7,760
	Currency swap	2007.7.23~2009.5.29	37,487,190	1,234,756	(1,201,369)	(39,571)
	Interest rate swap	2007.6.4~2017.6.4	1,500,000	49,407	(22,955)	(756)
Cathay Century Insurance Co., Ltd.	Forward	2007.11.16~2009.1.20	672,653	22,156	23,387	770
	Non-delivery forward	2007.11.16~2008.11.20	36,425	1,200	4,859	160
	Currency swap	2007.7.6~2009.3.24	945,090	31,129	(38,133)	(1,256)
	Interest rate swap	2007.9.29~2015.4.30	600,000	19,763	8,943	295
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2008.6.4~2008.8.5	3,745,077	123,356	(8,506)	(280)
	Non-delivery forward	2008.6.30~2008.8.5	326,002	10,738	772	25
	Currency swap	2008.6.5~2008.7.2	461,381	15,197	753	25

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2008, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	<u>NT</u>	<u>US</u>
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	\$210,177,300	\$6,922,836
Travelers checks for sale	515,543	16,981
Bills for collection	47,295,997	1,557,839
Book-entry for government bonds and depository for short-term marketable securities under management	347,129,400	11,433,775
Entrusted financial management business	2,492,318	82,092
Guarantees on duties and contracts	17,495,216	576,259
Unused commercial letters of credit	4,982,176	164,103
Irrevocable loan commitments	45,642,543	1,503,378
Credit card lines commitments	274,216,214	9,032,155
Stamp tax, securities and memorial currency consignments	1,727	57

2. As of June 30, 2008, the Bank had various lawsuits and proceedings. The significant ones are summarized below:

(1) On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which the Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with the Bank. The Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. About provisional measures, the Taipei District Court and the High Court adjudged that the Bank win the lawsuit. However, Pacific SOGO appealed and the appeal is being reviewed by the Supreme Court. Furthermore, the Bank also filed an incidental civil procedures and claim, which is being review by the Taipei District Court, against Pacific SOGO. Then the Taipei District Court issued a judgment favoring the Bank in October, 2006 ordering Pacific SOGO to pay the punitive damages of NT\$400,000 (US\$13,175). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.



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- (2) Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$29 million) and NT\$3.09 billion (US\$101 million), respectively. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.
3. As of June 30, 2008, the Bank had entered into certain contracts to purchase premises and equipment totaling NT\$2,681,370 (US\$88,319) with prepayments of NT\$1,875,059 (US\$61,761).
4. According to the operating leases agreement, rentals for lease should be paid in future are as follows:

<u>Periods</u>	<u>NT</u>	<u>US</u>
2008.7.1~2009.6.30	\$859,150	\$28,299
2009.7.1~2010.6.30	667,338	21,981
2010.7.1~2011.6.30	562,385	18,524
2011.7.1~2012.6.30	531,952	17,521
2012.7.1~2013.6.30	337,577	11,119

### VIII. Significant disaster losses

None.

### IX. Significant subsequent event

None.

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X. Disclosure of financial instruments information

1. Information of fair value

	June 30, 2007			
	Book value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$44,798,347	\$1,364,555	\$44,798,347	\$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets	5,928,264	180,575	5,867,072	178,711
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Others	1,116,622,856	34,012,271	1,116,622,856	34,012,271
Liabilities				
Financial liabilities at fair value through profit or loss	43,834,863	1,335,208	43,834,863	1,335,208
Financial debentures payable	17,686,802	538,739	17,686,802	538,739
Others	1,116,653,146	34,013,194	1,116,653,146	34,013,194
<u>Derivative financial instruments</u>				
Assets				
Forward	1,603,961	48,857	1,603,961	48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Futures	(12,905)	(393)	(12,905)	(393)
Options	12,910	393	12,910	393
Credit derivative instruments	22,900	698	22,900	698
Credit default swap	(67)	(2)	(67)	(2)
Liabilities				
Forward	1,311,014	39,933	1,311,014	39,933
Non-delivery forward	277,005	8,438	277,005	8,438
Currency swap	672,599	20,487	672,599	20,487
Interest rate swap	1,468,070	44,717	1,468,070	44,717
Cross currency swap	557,266	16,974	557,266	16,974
Options	12,354	376	12,354	376
Credit derivative instruments	28,158	858	28,158	858
Credit default swap	(281)	(8)	(281)	(8)

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	June 30, 2008			
	Book value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$29,451,699	\$970,082	\$29,451,699	\$970,082
Available-for-sale financial assets	61,673,067	2,031,392	61,673,067	2,031,392
Held-to-maturity financial assets	3,060,656	100,812	2,977,259	98,065
Investment accounted for using equity method	2,410,333	79,392	2,410,333	79,392
Others	1,146,272,089	37,755,998	1,146,272,089	37,755,998
Liabilities				
Financial liabilities at fair value through profit or loss	39,430,573	1,298,767	39,430,573	1,298,767
Financial debentures payable	15,272,693	503,053	15,272,693	503,053
Others	1,148,609,855	37,832,999	1,148,609,855	37,832,999
<u>Derivative financial instruments</u>				
Assets				
Forward	340,881	11,228	340,881	11,228
Non-delivery forward	107,814	3,551	107,814	3,551
Currency swap	4,111,348	135,420	4,111,348	135,420
Interest rate swap	1,653,798	54,473	1,653,798	54,473
Cross currency swap	3,766	124	3,766	124
Options	90,812	2,991	90,812	2,991
Credit derivative instruments	357	12	357	12
Liabilities				
Forward	3,372,998	111,100	3,372,998	111,100
Non-delivery forward	106,462	3,507	106,462	3,507
Currency swap	647,706	21,334	647,706	21,334
Interest rate swap	1,635,076	53,856	1,635,076	53,856
Cross currency swap	215,573	7,101	215,573	7,101
Options	90,777	2,990	90,777	2,990
Credit derivative instruments	408,133	13,443	408,133	13,443

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

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- (1) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, guarantee deposits, borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.
- (2) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of the Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
- (3) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.

- (4) The value of debt securities with no active market, financial assets carried at cost and investments accounted for using equity method is determined by pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. If fair value of equity security can not reliable measurement, fair value is equal to carrying value.
- (5) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments.
- (6) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, the Bank assesses fair value by using pricing models.

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

	June 30, 2007			
	Value determined by quoted		Value determined by pricing	
	market price		models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$43,041,436	\$1,311,040	\$1,756,911	\$53,515
Available-for-sale financial assets	54,717,055	1,666,678	2,660,535	81,040
Held-to-maturity financial assets	3,770,908	114,862	2,096,164	63,849
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	43,834,863	1,335,208
Financial debentures payable	-	-	17,686,802	538,739
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
Assets				
Forward	-	-	1,603,961	48,857
Non-delivery forward	-	-	280,436	8,542
Currency swap	-	-	444,494	13,539
Interest rate swap	-	-	1,023,157	31,165
Futures	(12,905)	(393)	-	-
Options	578	18	12,332	375
Credit derivative instruments	-	-	22,900	698
Credit default swap	-	-	(67)	(2)
Liabilities				
Forward	-	-	1,311,014	39,933
Non-delivery forward	-	-	277,005	8,438
Currency swap	-	-	672,599	20,487
Interest rate swap	-	-	1,468,070	44,717
Cross currency swap	-	-	557,266	16,974
Options	22	1	12,332	375
Credit derivative instruments	-	-	28,158	858
Credit default swap	-	-	(281)	(8)

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	June 30, 2008			
	Value determined by quoted market		Value determined by pricing	
	price		models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$28,051,700	\$923,969	\$1,399,999	\$46,113
Available-for-sale financial assets	53,621,512	1,766,189	8,051,555	265,203
Held-to-maturity financial assets	1,789,218	58,933	1,188,041	39,132
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	39,430,573	1,298,767
Financial debentures payable	-	-	15,272,693	503,053
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
Assets				
Forward	-	-	340,881	11,228
Non-delivery forward	-	-	107,814	3,551
Currency swap	-	-	4,111,348	135,420
Interest rate swap	-	-	1,653,798	54,473
Cross currency swap	-	-	3,766	124
Options	-	-	90,812	2,991
Credit derivative instruments	-	-	357	12
Liabilities				
Forward	-	-	3,372,998	111,100
Non-delivery forward	-	-	106,462	3,507
Currency swap	-	-	647,706	21,334
Interest rate swap	-	-	1,635,076	53,856
Cross currency swap	-	-	215,573	7,101
Options	-	-	90,777	2,990
Credit derivative instruments	-	-	408,133	13,443

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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4. Gains or losses recognized for the changes in fair value of financial assets or liabilities determined by pricing models were gain NT\$277,982 (US\$8,467) and loss NT\$129,194 (US\$4,255) for the six-month periods ended June 30, 2007 and 2008, respectively.
5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the six-month periods ended June 30, 2007 and 2008 were NT\$18,961,671 (US\$577,571) and NT\$19,711,957 (US\$649,274), and expenses were NT\$9,028,325 (US\$275,002) and NT\$9,328,737 (US\$307,271), respectively.
6. The Bank recognized an unrealized gains of NT\$261,307 (US\$7,959) and losses of NT\$251,823 (US\$8,295) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$369,738 (US\$11,262) and NT\$390,137 (US\$12,850) in income statements, for the six-month periods ended June 30, 2007 and 2008, respectively.
7. Interest income of NT\$18 (US\$0) and NT\$0 (US\$0) from financial assets were impaired which were assessed by discount rate of cash flow for the six-month periods ended June 30, 2007 and 2008.
8. Information on financial risk

### (1) Market risk

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

#### ① Interest rate risk

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

#### ② Foreign exchange risk

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

③ Equity securities price risk

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

The 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.

The last twelve-month period ended June 30, 2008						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT	US	NT	US	NT	US
Interest rate	\$144,458	\$4,758	\$191,605	\$6,311	\$71,356	\$2,350
Foreign exchange	216,594	7,134	361,216	11,898	126,382	4,163
Equity Securities price	142,935	4,708	208,847	6,879	88,708	2,922

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

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

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

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

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



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(In thousands of US dollars)

	Currency	June 30, 2008
<u>FX factor sensitivity (FX Delta)</u>		
	JPY	(140)
	USD	(23,495)
	NTD	19,828
	HKD	(771)
<u>Interest rate factor sensitivity (PVBP)</u>		
	JPY	(2)
	USD	(1,215)
	NTD	(895)
	HKD	(3)
<u>Equity factor sensitivity (Equity Delta)</u>		
	NTD	1,065

(2) Credit risk

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

To centralize risk management functions currently handled by different departments, the Bank's board of directors resolved that a risk management department would be established to manage the credit risks. The objectives of credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balance loan portfolio. The Bank's board of directors sets the counterparty credit limits, which are then implemented by credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

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

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① Information on concentrations of credit risk.

Financial assets	June 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$44,798,347	\$1,364,555	\$44,798,347	\$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets	5,928,264	180,575	5,928,264	180,575
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Others	1,116,622,856	34,012,271	1,116,622,856	34,012,271
Guarantees on duties and contracts	-	-	17,431,844	530,973
Unused commercial letters of credit	-	-	4,268,673	130,024
Irrevocable loan commitments	-	-	33,314,917	1,014,771
Credit card line commitments	-	-	281,247,456	8,566,782
<u>Derivative financial instruments</u>				
Forward	\$1,603,961	\$48,857	\$1,603,961	\$48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Options	12,910	393	12,910	393
Credit derivative instruments	22,900	698	22,900	698
June 30, 2008				
Financial assets	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$29,451,699	\$970,082	\$29,451,699	\$970,082
Available-for-sale financial assets	61,673,067	2,031,392	61,673,067	2,031,392
Held-to-maturity financial assets	3,060,656	100,812	3,060,656	100,812
Investment accounted for using equity method	2,410,333	79,392	2,410,333	79,392
Others	1,146,272,089	37,755,998	1,146,272,089	37,755,998
Guarantees on duties and contracts	-	-	17,495,216	576,259
Unused commercial letters of credit	-	-	4,982,176	164,103
Irrevocable loan commitments	-	-	45,642,543	1,503,378
Credit card line commitments	-	-	274,216,214	9,032,155
<u>Derivative financial instruments</u>				
Forward	\$340,881	\$11,228	\$340,881	\$11,228
Non-delivery forward	107,814	3,551	107,814	3,551
Currency swap	4,111,348	135,420	4,111,348	135,420
Interest rate swap	1,653,798	54,473	1,653,798	54,473
Cross currency swap	3,766	124	3,766	124
Options	90,812	2,991	90,812	2,991
Credit derivative instruments	357	12	357	12

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- ② The Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, the Bank is likely to be exposed to region or industry concentration risk. The Banks' information of concentration of credit risk is as follows:

	June 30,			
	2007		2008	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	\$107,316,059	\$3,268,841	\$124,940,179	\$4,115,289
Financial institutions and insurance	48,150,828	1,466,672	49,673,518	1,636,150
Leasing and real estate	67,827,910	2,066,034	78,724,981	2,593,050
Individuals	412,576,972	12,567,072	430,050,382	14,165,032
Others	118,262,338	3,602,264	144,882,158	4,772,140
Total	754,134,107	22,970,883	828,271,218	27,281,661
Valuation allowance	(11,904,778)	(362,619)	(9,282,263)	(305,740)
Maximum credit risk exposed	<u>\$742,229,329</u>	<u>\$22,608,264</u>	<u>\$818,988,955</u>	<u>\$26,975,921</u>
Geographic Region				
Domestic	\$704,933,640	\$21,472,240	\$757,600,215	\$24,953,894
South East Asia	12,367,268	376,706	21,814,670	718,533
North East Asia	133,330	4,061	170,357	5,611
America	10,227,417	311,527	13,313,633	438,526
Others	26,472,452	806,349	35,372,343	1,165,097
Total	754,134,107	22,970,883	828,271,218	27,281,661
Valuation allowance	(11,904,778)	(362,619)	(9,282,263)	(305,740)
Maximum credit risk exposed	<u>\$742,229,329</u>	<u>\$22,608,264</u>	<u>\$818,988,955</u>	<u>\$26,975,921</u>

(3) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations.

Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believe the Bank can generate within that period. As part of our liquidity risk management, the Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

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

The liquidity risk rate was 25.30%. Capital and working capitals of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2008, there is no significant change in these dates.

As of June 30, 2007 and 2008, respectively, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

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Financial instruments	Effective interest rate (%)	
	June 30, 2007	June 30, 2008
Available-for-sale financial assets		
Bonds	1.6676-6.8334	1.7063-6.8119
Overseas financial instruments	4.501-5.735	0-2.9959
Held-to-maturity financial assets		
Bonds	1.6495-6.95	2.2233-6.9480
Overseas financial instruments	3.45-6.65	2.38-3.77
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.79-3	2.05-2.496
Overseas financial instruments	0-7.51	0-7.007
Financial debentures payable	2-5.593	2-5.593

9. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets (liabilities) fair value			
		June 30, 2007		June 30, 2008	
		NT	US	NT	US
Financial debentures payable	Interest rate swap	\$(1,038,134)	\$(31,622)	\$179,189	\$5,902

The hedge is regarded as highly effective, at inception and throughout the life of the hedge, the Bank can expect changes in the fair value of the hedged item that are attributable to the hedged risk to be almost fully offset by the changes in the fair value of the hedging instrument and actual results are within a range of 80-125 percent.

XI. Others

1. Disclosures information of CUTIC which was acquired by the Bank is as follow:

(1) Brief introduction to transferor:

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

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

- (2) Purpose of the transfer of assets and liabilities and related regulations:
- (a) Purpose: To create a successful branch networking profit through 20 branch channels in the future. Furthermore, by expanding the branch channel, the Bank could provide customers more convenient and diversifying financial services to gain long-term profitability.
  - (b) Regulations: Pursuant to Article 9 and 18 of The Financial Institutions Merger Act, and Article 36 of the Security Exchange Act.
- (3) Effective date of the transfer: December 29, 2007.
- (4) Type, quantity, and amount of marketable securities issued for the transfer: None.
- (5) Accounting treatment for assets acquired and liabilities assumed:
- (a) Accounting methods for the transfer: the Bank assumed the specific assets and liabilities including operations of CUTIC and the difference in the amount of money received from Financial Restructuring Fund (the “FRF”) and net fair value of identifiable net assets acquired is recognized as goodwill.
  - (b) Relevant accounts and amounts of assets and liabilities assumed through the transfer:

	Amount	
	NT	US
Assets	\$59,212,341	\$1,950,340
Liabilities	74,549,715	2,455,524
Net	(15,337,374)	(505,184)
Add: Received from the FRF and CDIC	8,800,000	289,855
Adjustment of purchase price	(135,709)	(4,470)
Goodwill arising on acquisition	<u>\$ (6,673,083)</u>	<u>\$ (219,799)</u>

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On December 31, 2007, the Bank has received NT\$8,800 (US\$268) million as cash subsidy from the FRF and CDIC, and will settle the rest amount pursuant to contract. The initial purchase price allocations may be adjusted within one year of the acquired date for changes in estimates of the fair value of assets acquired and liabilities assumed. The purchase price was adjusted to NT\$135,709 (US\$4,470) for the six-month period ended June 30, 2008 by the contract.

2. Average balances and average interest rates of interest-earning assets and interest-bearing liabilities

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

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	January 1-June 30, 2008		
	Average balance		Average rate
	NT	US	(%)
<b>Assets</b>			
Due from the Central Bank	\$27,056,488	\$891,189	1.38%
Time certificates, discounted bills and others	212,782,595	7,008,649	2.19%
Due from commercial banks and call loans to banks	28,533,561	939,841	3.19%
Discounts and loans	763,404,759	25,145,084	3.48%
Bills purchased	5,640	186	2.43%
Government, corporate bonds and financial debentures	128,073,872	4,218,507	3.88%
Receivables-credit card revolving balance	20,637,195	679,750	13.98%
Securities purchase under agreements to resell	2,088,324	68,785	1.71%
<b>Liabilities</b>			
Due to banks	72,689,734	2,394,260	2.96%
Demand deposits	111,554,801	3,674,401	0.38%
Saving deposits	615,518,661	20,274,001	1.26%
Time deposits	287,153,884	9,458,297	2.49%
Negotiable certificates of deposit	2,641,358	87,001	1.77%
Securities sold under agreements to repurchase	22,794,717	750,814	1.76%
Financial debentures	58,607,405	1,930,415	2.61%
Funds borrowed from the Central Bank and other banks	1,861,072	61,300	3.13%

3. Regulatory capital ratio

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

As of June 30, 2007 and 2008, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 11.80% and 10.02%, respectively.



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

The Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as a reorganization and recorded at the book value of both entities' assets and liabilities. The financial statements of the Bank should be retroactively restated assuming the Lucky Bank had been merged at the beginning of each of the periods presented. The net assets, amounted to NT\$4,000,979 (US\$121,870) based on the book value of Lucky Bank, acquired by the Bank through a share swap (at ratio of 0.7212 shares and issued 226,889 thousands new shares of the Bank) transaction. The net assets acquired by the Bank are as follows :

Items	NT	US
Cash and cash equivalents	\$6,461,558	\$212,831
Due from the Central Bank and call loans to banks	2,410,995	79,414
Available-for-sale financial assets, net	528,186	17,397
Receivables, net	299,492	9,865
Discounts and loans, net	53,668,319	1,767,731
Premises and equipment, net	1,633,660	53,810
Other financial assets, net	23,495,274	773,889
Other assets	506,457	16,682
Call loans from banks	(145,219)	(4,783)
Payables	(1,695,272)	(55,839)
Deposits and remittances	(82,958,055)	(2,732,479)
Other liabilities	(204,416)	(6,733)
Subtotal	4,000,979	131,785
Issued shares for the merger	(2,268,895)	(74,733)
Unrealized gain on financial instrument	17,292	569
Capital reserves from the merger	\$1,749,376	\$57,621

The Bank currently does not have the plan to dispose any significant assets acquired mentioned above, because most of them will be used by the Bank for its operating activity.

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

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Balance Sheet Based on Trust  
June 30, 2007

	Trust Assets			Trust Liabilities	
	NT	US		NT	US
Bank deposits	\$3,871,066	\$117,912	Payables	\$11,434	\$348
Bonds	78,293,075	2,384,803	Taxes payable	112	3
Common stock	2,786,565	84,879	Custody securities payable	97,308,843	2,964,022
Mutual funds	92,711,572	2,823,989	Trust capital	183,462,042	5,588,244
Structure product	165,500	5,041	Accumulated Earnings		
Short-term bills or repurchase investment	5,192	158	Earnings distribution	(33,148)	(1,009)
Receivables	2,322	71	Net income	44,624	1,359
Real estate			Retained earnings	37,513	1,143
Land	5,452,726	166,090			
Buildings	166,251	5,064	Net assets		
Construction in progress	68,242	2,079	Distributable revenue	(66)	(2)
Custody securities	97,308,843	2,964,022			
Total	<u>\$280,831,354</u>	<u>\$8,554,108</u>	Total	<u>\$280,831,354</u>	<u>\$8,554,108</u>

Balance Sheet Based on Trust  
June 30, 2008

	Trust Assets			Trust Liabilities	
	NT	US		NT	US
Bank deposits	\$5,224,657	\$172,090	Payables	\$11,772	\$388
Bonds	128,322,518	4,226,697	Taxes payable	23	1
Common stock	3,269,833	107,702	Custody securities payable	113,796,126	3,748,226
Mutual funds	138,113,575	4,549,195	Trust capital	287,739,546	9,477,587
Insurance product	862,547	28,411	Accumulated Earnings		
Structure product	25,800	850	Earnings distribution	(40,396)	(1,331)
Short-term bills or repurchase investment	175,025	5,765	Net income	20,748	683
Receivables	116	4	Retained earnings	28,205	929
Real estate					
Land	11,939,617	393,268	Net assets		
Buildings	20,239	667	Capital account	489,489	16,123
Construction in progress	298,672	9,838	Distributable revenue	3,212	106
Custody securities	113,796,126	3,748,225			
Total	<u>\$402,048,725</u>	<u>\$13,242,712</u>	Total	<u>\$402,048,725</u>	<u>\$13,242,712</u>

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Income Statement Based on Trust

Items	January 1-June 30, 2007	
	NT	US
Trust revenue		
Interest income	\$6,349	\$193
Rental income	168	5
Cash dividend income	4,784	146
Investment income-bonds	524	16
Investment income-stock	33,610	1,024
Investment income-funds	4,736	144
Subtotal	50,171	1,528
Trust expense		
Management fee	4,053	124
Supervisor fee	14	-
Taxes	771	23
Processing fee	253	8
Service fee	146	4
Investment loss-stock	320	10
Investment loss-funds	2	-
Others	4	-
Subtotal	5,563	169
Net income before tax	44,608	1,359
Income equalization	16	-
Net income	\$44,624	\$1,359

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Items	January 1-June 30, 2008	
	NT	US
Trust revenue		
Interest income	\$19,086	\$628
Rental income	139	5
Cash dividend income	11,017	363
Investment income-bonds	-	-
Investment income-stock	1,211	40
Investment income-funds	4,168	137
Investment income-benefiting securities	754	25
Subtotal	36,375	1,198
Trust expense		
Management fee	5,413	178
Supervisor fee	93	3
Custody fee	6	-
Taxes	1,339	44
Processing fee	125	4
Service fee	164	5
Investment loss-stock	197	7
Investment loss-funds	7,516	248
Others	290	10
Subtotal	15,143	499
Net income before tax	21,232	699
Income equalization	(484)	(16)
Net income	\$20,748	\$683

Details of Trust Properties

Items	June 30, 2008	
	NT	US
Bonds	\$128,322,518	\$4,226,697
Common stock	3,269,833	107,702
Mutual fund	138,113,575	4,549,195
Insurance product	862,547	28,411
Short-term bills or repurchase investment	175,025	5,765
Structure product	25,800	850
Real estate		
Land	11,939,617	393,268
Buildings	20,239	667
Construction in progress	298,672	9,838
Custody securities	113,796,126	3,748,225
Total	\$396,823,952	\$13,070,618

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7. The bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of June 30, 2008 is as follows:

Items	June 30, 2008	
	NT	US
Special trust of money that invest in foreign securities	\$211,821,913	\$6,977,006
Special trust money that invest in domestic securities	52,687,626	1,735,429
Trust of money-custody securities	113,796,126	3,748,225
Trust of real estate	12,497,181	411,633
Trust of insurance claims	39,396	1,298
Trust of personnel property	4,714,451	155,285
Trust of business employee's savings	2,760,889	90,938
Trust of securities	3,177,565	104,663
Collective investment trust funds	505,552	16,652
Others	48,026	1,583
Total	<u>\$402,048,725</u>	<u>\$13,242,712</u>