Cathay United Bank

Financial Statements

For The Nine-Month Periods Ended

September 30, 2007 and 2008

With Independent Auditors' Review Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of September 30, 2007 and 2008, and the related statements of income and cash flows for the nine-month periods ended September 30, 2007 and 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

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

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

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
October 17, 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 review such financial statements are those generally accepted and applied in the ROC.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

September 30, 2007 and 2008

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2007		September 30, 2008	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$23,268,187	$712,219	$36,638,332	$1,136,777
Due from the Central Bank and call loans to banks	IV and V	59,143,989	1,810,346	80,578,329	2,500,103
Financial assets at fair value through profit or loss	II and IV	42,350,391	1,296,308	36,818,712	1,142,374
Securities purchased under agreements to resell		626,000	19,161	1,029,846	31,953
Receivables, net	II, IV and V	44,972,047	1,376,555	44,423,361	1,378,323
Discounts and loans, net	II, IV and V	735,455,127	22,511,635	837,660,306	25,990,081
Available-for-sale financial assets, net	II and IV	58,357,622	1,786,276	65,111,511	2,020,215
Held-to-maturity financial assets, net	II and IV	4,505,039	137,895	2,916,974	90,505
Investments accounted for using equity method, net	II, IV and V	2,249,661	68,860	2,833,462	87,914
Other financial assets, net	II, IV and V	4,413,844	135,104	4,964,559	154,035
Investments in debt securities with no active market, ne	II and IV	279,572,898	8,557,481	208,433,959	6,467,079
Premises and equipment, net	II, IV, V and VII	25,245,498	772,742	26,773,237	830,693
Intangible assets, net	II, IV and V	373,022	11,418	6,927,786	214,948
Other assets, net	II, IV and V	10,236,324	313,325	8,937,038	277,290
TOTAL ASSETS		$1,290,769,649	$39,509,325	$1,364,047,412	$42,322,290

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

September 30, 2007 and 2008

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2007		September 30, 2008	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$56,223,665	$1,720,957	$77,553,560	$2,406,254
Funds borrowed from the Central Bank and other banks		1,628,500	49,847	642,600	19,938
Financial liabilities at fair value through profit or loss	II and IV	48,860,435	1,495,575	50,465,799	1,565,802
Securities sold under agreements to repurchase	IV and V	16,824,273	514,976	20,481,323	635,474
Payables	IV and V	27,115,544	829,983	30,233,490	938,054
Deposits and remittances	IV and V	1,037,111,293	31,745,066	1,083,917,357	33,630,697
Financial debentures payable	IV and X	18,158,994	555,831	16,615,361	515,525
Other financial liabilities	II and IV	717,576	21,964	282,124	8,753
Other liabilities	II, IV and V	1,818,179	55,653	2,695,208	83,624
TOTAL LIABILITIES		1,208,458,459	36,989,852	1,282,886,822	39,804,121
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,490,340	48,689,413	1,510,686
Capital reserves	IV	15,213,565	465,674	15,213,611	472,032
Retained earnings	IV				
Legal reserve		11,482,369	351,465	13,402,448	415,838
Special reserve		-	-	465,071	14,430
Undistributed earnings		7,053,276	215,895	4,544,066	140,989
Foreign currency translation adjustment	II	61,070	1,869	15,065	467
Unrealized gains or losses on financial instruments	II	(188,503)	(5,770)	(1,169,084)	(36,273)
TOTAL SHAREHOLDERS' EQUITY		82,311,190	2,519,473	81,160,590	2,518,169
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,290,769,649	$39,509,325	$1,364,047,412	$42,322,290

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the nine-month periods ended September 30, 2007 and 2008

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

(Reviewed, not audited)

		January 1 - September 30, 2007		January 1 - September 30, 2008	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	$29,961,354	$917,091	$30,189,065	$936,676
INTEREST EXPENSE	V	(14,160,551)	(433,442)	(14,779,149)	(458,553)
NET INTEREST INCOME		15,800,803	483,649	15,409,916	478,123
NONINTEREST INCOME					
Net fee income	II and V	3,640,217	111,424	3,960,707	122,889
Gains (losses) on financial assets and liabilities at fair value through profit or loss	II	207,759	6,359	(1,730,496)	(53,692)
Realized gains on available-for-sale financial assets	II	1,528,107	46,774	432,828	13,429
Realized gains (losses) on held-to-maturity financial assets	II	(133)	(4)	(632)	(20)
Investment income recognized by the equity method	II and IV	150,453	4,605	161,428	5,009
Foreign exchange gains, net	II	604,141	18,492	597,752	18,546
Impairment loss of assets	II	(16,931)	(518)	(48,156)	(1,494)
Impairment reversal (loss) on foreclosed properties		(19,170)	(587)	44,625	1,385
Gain on financial assets carried at cost		180,231	5,517	328,158	10,182
Gain (loss) on debt securities with no active market		8,728	267	(1,757,746)	(54,538)
Gains (losses) on disposal of foreclosed properties		(145)	(4)	180,251	5,593
Others	IVand V	145,842	4,464	712,054	22,093
NET NONINTEREST INCOME		6,429,099	196,789	2,880,773	89,382
NET OPERATING INCOME		22,229,902	680,438	18,290,689	567,505
BAD DEBT EXPENSE	II and IV	(2,993,794)	(91,637)	(1,147,167)	(35,593)
OPERATING EXPENSES					
Personnel	II and IV	(4,756,770)	(145,601)	(5,207,145)	(161,562)
Depreciation and amortization	II and IV	(1,016,704)	(31,120)	(959,041)	(29,756)
Other general and administrative expenses	V	(4,545,358)	(139,130)	(4,548,270)	(141,119)
TOTAL OPERATING EXPENSES		(10,318,832)	(315,851)	(10,714,456)	(332,437)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		8,917,276	272,950	6,429,066	199,475
INCOME TAX EXPENSE	II and IV	(1,864,000)	(57,055)	(1,885,000)	(58,486)
NET INCOME		$7,053,276	$215,895	$4,544,066	$140,989
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		$1.83	$0.056	$1.32	$0.041
INCOME TAX EXPENSE		(0.38)	(0.012)	(0.39)	(0.012)
NET INCOME		$1.45	$0.044	$0.93	$0.029

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank
Statements of cash flows
For the nine-month periods ended September 30, 2007 and 2008
(Expressed in thousands of dollars)
(Reviewed, not audited)

ITEMS	NOTES	January 1-September 30, 2007 NT	January 1-September 30, 2007 US (Note II)	January 1-September 30, 2008 NT	January 1-September 30, 2008 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$7,053,276	$215,895	$4,544,066	$140,989
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	1,016,704	31,120	959,041	29,756
The differences between investment income recognized by the equity method and the cash dividends received	II	(74,533)	(2,281)	(12,282)	(381)
Impairment (reversal) loss on foreclosed properties	II	19,170	587	(44,625)	(1,385)
Bad debt expense	II and IV	2,993,794	91,637	1,147,167	35,593
Loss (Gain) on disposal of premises, equipment and foreclosed properties	II	23,074	706	(274,389)	(8,513)
Impairment loss of assets	II	16,931	518	48,156	1,494
Effects of exchange rate changes		(13,421)	(411)	(10,531)	(327)
(Increase) decrease in operating assets					
Increase in receivables		(257,976)	(7,896)	(1,998,413)	(62,005)
Decrease in deferred income tax assets		958,363	29,335	603,200	18,715
Decrease in financial assets at fair value through profit or loss		14,695,870	449,828	3,114,051	96,620
Increase in other assets		(115,701)	(3,542)	(56,563)	(1,755)
Increase (decrease) in operating liabilities					
Increase in payables		2,793,196	85,497	14,152,546	439,111
Increase (decrease) in financial liabilities at fair value through profit or loss		(6,536,266)	(200,069)	2,618,479	81,244
Increase (decrease) in tax payables		94,548	2,894	(86,746)	(2,691)
Increase (decrease) in other liabilities		(166,026)	(5,082)	430,728	13,364
Net cash provided by operating activities		22,501,003	688,736	25,133,885	779,829
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in discounts and loans		(21,469,213)	(657,154)	(81,490,988)	(2,528,420)
Increase in due from the Central Bank and call loans to banks		(7,972,440)	(244,029)	(22,876,531)	(709,790)
(Increase) decrease in securities purchased under agreements to resell		1,160,058	35,509	(703,846)	(21,838)
Increase in available-for-sale financial assets		(4,672,498)	(143,021)	(1,901,795)	(59,007)
Decrease in held-to-maturity financial assets		1,131,271	34,627	403,712	12,526
Acquisition of investments accounted for using equity method		-	-	(305,900)	(9,491)
Proceeds from disposal of premises, equipment and foreclosed properties		59,557	1,823	1,563,829	48,521
Acquisition of premises, equipment and foreclosed properties		(1,048,796)	(32,103)	(1,058,755)	(32,850)
Acquisition of intangible assets		(48,210)	(1,476)	(174,282)	(5,408)
(Increase) decrease in investments in debt securities with no active market		(21,735,018)	(665,290)	48,329,028	1,499,504
(Increase) decrease in other financial assets		18,687	572	(654,889)	(20,319)
Increase in other assets		(541,148)	(16,564)	(183,172)	(5,683)
Net cash used in investing activities		(55,117,750)	(1,687,106)	(59,053,589)	(1,832,255)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(43,778,689)	(1,340,027)	3,684,215	114,310
Increase (decrease) in securities sold under agreements to repurchase		(6,837,467)	(209,289)	5,845,900	181,381
Increase in deposits and remittances		71,524,513	2,189,303	52,351,844	1,624,320
Increase (decrease) in funds borrowed from the Central Bank and other banks		812,250	24,862	(981,600)	(30,456)
Increase (decrease) in financial debentures payable		23,175	710	(1,936,476)	(60,083)
Decrease in other financial liabilities		(58,146)	(1,780)	(26,606)	(826)
Increase (decrease) in other liabilities		(5,744)	(176)	14,939	464
Distribution of cash dividends	IV	-	-	(4,005,114)	(124,267)
Bonus to shareholders and special bonus to employees		-	-	(10,000)	(310)
Net cash provided by financing activities		21,679,892	663,603	54,937,102	1,704,533
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		6,215	190	(27,930)	(867)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(10,930,640)	(334,577)	20,989,468	651,240
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		34,198,827	1,046,796	15,648,864	485,537
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$23,268,187	$712,219	$36,638,332	$1,136,777
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$13,516,739	$413,736	$13,791,584	$427,911
Income tax paid		$548,446	$16,787	$502,897	$15,603

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 nine-month periods ended September 30, 2007 and 2008

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

(Reviewed, not audited)

I. Business

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

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

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

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

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

The board meeting on behalf of the Bank's shareholders resolved on August 25, 2006 to merge with Lucky Bank. Under this merger, 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 September 30, 2007 and 2008, the Bank employed 5,541 and 6,549 employees, respectively.

II. Summary of significant accounting policies

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

The significant accounting policies are summarized as follows:

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 effect interest method as interest income or expense over the relevant periods.

(5) Financial assets carried at cost

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

(6) Financial liabilities

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

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

4. Derivative financial instruments

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

5. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

6. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

7. Hedge accounting

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

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

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

(c) Hedges of net investments in foreign operations.

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

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

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

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

10. Premises and equipment

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

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

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

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

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

11. Intangible assets and goodwill

(1) Intangible assets

The Bank adopted the 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:

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

(2) Goodwill

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

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.

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

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

18. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

19. Recognition of dividend

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

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

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

20. Income tax

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

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

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

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

Cathay Financial 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 September 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$32.67 and NT$32.23 to US$1.00 on September 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 nine-month period ended September 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$1,125 (US$35), and there is no significant effects in earning per shares, for the nine-month period ended September 30, 2008.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	September 30,			
	2007		2008	
	NT	US	NT	US
Cash on hand	$9,945,212	$304,414	$10,412,457	$323,067
Checks for clearance	9,704,026	297,032	8,804,345	273,172
Due from commercial banks	3,618,949	110,773	17,421,530	540,538
Total	$23,268,187	$712,219	$36,638,332	$1,136,777

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

	September 30,			
	2007		2008	
	NT	US	NT	US
Call loans to banks － −Allowance for doubtful accounts NT$ 600,000(US$18,365) and NT$0(US$0), on September 30, 2007 and 2008, respectively.	$15,976,015	$489,012	$31,780,431	$986,051
Due from the Central Bank － Statutory reserve on deposits and general deposits	43,167,974	1,321,334	48,797,898	1,514,052
Total	$59,143,989	$1,810,346	$80,578,329	$2,500,103

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$28,682,622(US$877,950) and NT$32,244,059(US$1,000,436) as of September 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 September 30, 2007 and 2008, the balance of foreign-currency deposit reserves were NT$3,257,000(US$99,694) and NT$223,818(US$6,944), respectively.

3. Financial assets at fair value through profit or loss

	September 30,			
	2007		2008	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$3,195,623	$97,815	$1,186,925	$36,827
Mutual funds and beneficiary certificates	1,077,438	32,980	709,298	22,007
Commercial papers and certificates of deposit	12,076,966	369,665	10,241,905	317,776
Bonds	20,245,930	619,710	15,388,356	477,455
Overseas financial instruments	1,431,940	43,831	834,995	25,907
Derivative financial instruments	4,050,604	123,985	8,205,831	254,602
Subtotal	42,078,501	1,287,986	36,567,310	1,134,574
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	172,987	5,295	166,306	5,160
Bonds	98,903	3,027	85,096	2,640
Subtotal	271,890	8,322	251,402	7,800
Total	$42,350,391	$1,296,308	$36,818,712	$1,142,374

(1) NT$100,097 (US$3,064) and NT$85,096 (US$2,640) of the financial assets at fair value through profit or loss as of September 30, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of September 30, 2008, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$5,523,500 (US$171,378). Such repurchase agreements amounting to NT$5,505,736(US$170,826) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2008 was settled at NT$5,508,543(US$170,914) prior to November 30, 2008.

(3) As of September 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):

	September 30,	
	2007	2008
Forward foreign exchange and currency swap contracts	$17,118,058	$23,793,865
Interest rate swap contracts	12,108,048	12,906,554
Cross-currency swap contracts	638,924	700,911
Options	154,809	331,651
Credit derivative instrument contracts	140,000	140,000
Credit default swap contracts	2,456	21,556

(4) Net gains arising from financial assets at fair value through profit or loss for the nine-month periods ended September 30, 2007 and 2008 was NT$$5,290,983 (US$161,952) and NT$3,390,070 (US$105,184) , respectively.

4. Receivables, net

	September 30,			
	2007		2008	
	NT	US	NT	US
Accounts receivable	$36,338,701	$1,112,296	$32,259,329	$1,000,910
Interest receivable	4,336,292	132,730	4,198,316	130,261
Receivable to related party for allocation of linked-tax system	638,005	19,529	983,685	30,521
Foreign currency receivable	2,175,902	66,603	7,074,352	219,496
Acceptances	1,104,480	33,807	787,111	24,421
Tax refundable	747,465	22,879	771,957	23,951
Others	3,054,027	93,481	1,547,804	48,024
Total	48,394,872	1,481,325	47,622,554	1,477,584
Less: allowance for doubtful accounts	(3,422,825)	(104,770)	(3,199,193)	(99,261)
Net balance	$44,972,047	$1,376,555	$44,423,361	$1,378,323

Information on bad and doubtful accounts is as follows:

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

	January 1-September 30, 2008					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,400,248	$105,499	$71,960	$2,233	$3,472,208	$107,732
Provision of doubtful accounts	1,359,853	42,192	-	-	1,359,853	42,192
Write-offs	(2,259,670)	(70,111)	-	-	(2,259,670)	(70,111)
Debt counseling recoveries	99,306	3,081	-	-	99,306	3,081
Recoveries	529,273	16,422	-	-	529,273	16,422
Reclassifications	2,625	82	(2,625)	(82)	-	-
Classified as the decrease of other financial asset	(1,777)	(55)	-	-	(1,777)	(55)
Balance, end of the period	$3,129,858	$97,110	$69,335	$2,151	$3,199,193	$99,261

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

5. Discounts and loans, net

	September 30,			
	2007		2008	
	NT	US	NT	US
Outward documentary bills	$482,995	$14,784	$607,656	$18,854
Overdrafts	368,296	11,273	526,032	16,321
Short –term loans	163,371,095	5,000,646	190,260,273	5,903,204
Medium-term loans	205,468,338	6,289,205	239,238,534	7,422,853
Long-term loans	367,614,172	11,252,347	410,139,869	12,725,407
Delinquent accounts	8,355,136	255,743	5,199,110	161,313
Total	745,660,032	22,823,998	845,971,474	26,247,952
Less: allowance for doubtful accounts	(10,204,905)	(312,363)	(8,311,168)	(257,871)
Net balance	$735,455,127	$22,511,635	$837,660,306	$25,990,081

(1) As of September 30, 2007 and 2008, the accounts without interest accrued were NT$10,528,464 (US$322,267) and NT$6,937,609 (US$215,253), respectively. The non-accrued interest on such accounts amounted to NT$195,652 (US$5,989) and NT$125,603 (US$3,897) for the nine-month periods ended September 30, 2007 and 2008, respectively.

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

	January 1-September 30, 2008					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,139,802	$128,446	$5,606,808	$173,962	$9,746,610	$302,408
Reversal of doubtful accounts	(212,686)	(6,599)	-	-	(212,686)	(6,599)
Write-offs	(5,501,872)	(170,707)	-	-	(5,501,872)	(170,707)
Debt counseling recoveries	74,409	2,309	-	-	74,409	2,309
Recoveries	4,209,804	130,618	-	-	4,209,804	130,618
Reclassification	694,114	21,536	(694,114)	(21,536)	-	-
Effects of exchange rates change	-	-	(5,097)	(158)	(5,097)	(158)
Balance, end of the period	$3,403,571	$105,603	$4,907,597	$152,268	$8,311,168	$257,871

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

	September 30,			
	2007		2008	
	NT	US	NT	US
Stocks	$4,888,213	$149,624	$1,674,931	$51,968
Mutual funds and beneficiary securities	110,666	3,387	232,740	7,221
Bonds	44,358,530	1,357,776	55,869,618	1,733,467
Overseas financial instruments	9,000,213	275,489	7,334,222	227,559
Total	$58,357,622	$1,786,276	$65,111,511	$2,020,215

(1) NT$2,295,956 (US$70,277) and NT$3,713,837 (US$115,229) of the available-for-sale financial assets as of September 30, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of September 30, 2008, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$13,445,800 (US$417,183). Such repurchase agreements amounting to NT$14,975,587 (US$464,648) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2008 was settled at NT$15,013,370 (US$465,820) prior to March 31, 2009.

7. Held-to-maturity financial assets, net

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

	September 30, 2008			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,591,800	$49,389	$1,762,587	$54,688
Beneficiary certificates	576,335	17,882	576,335	17,882
Overseas financial instruments	579,232	17,972	578,052	17,935
Subtotal	$2,747,367	$85,243	$2,916,974	$90,505

As of September 30, 2007 and 2008, NT$100,990 (US$3,091) and NT$101,077 (US$3,136) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

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

	September 30, 2008				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,009	$1,179	100.00	$1,452	$45
Cathay Life Insurance Agent Co., Ltd	39,222	1,217	100.00	13,660	424
Cathay Property Insurance Agent Co., Ltd.	7,487	232	100.00	332	10
Indovina Bank	1,374,710	42,653	50.00	126,370	3,921
Taiwan Real-estate Management Corp.	44,972	1,396	30.15	2,376	74
Taiwan Finance Corp.	1,287,340	39,942	24.57	15,970	496
Vista Technology Venture Capital Corp.	7,527	234	4.76	(4)	-
Cathay Venture Capital Corp.	34,195	1,061	2.00	1,272	39
Total	$2,833,462	$87,914		$161,428	$5,009

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

(2) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the nine-month periods ended September 30, 2007 and 2008 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

9. Other financial assets, net

	September 30,			
	2007		2008	
	NT	US	NT	US
Derivative financial assets for hedging	$-	$-	$731,558	$22,698
Financial assets carried at cost, stocks	4,408,149	134,930	4,229,966	131,243
Bills purchased	5,695	174	3,035	94
Total	$4,413,844	$135,104	$4,964,559	$154,035

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 September 30, 2008, the above derivative financial assets for hedging applies for fair value hedge, and its fair value is NT$731,558 (US$22,698). The Bank has recognized gain in hedging in the amount of NT$142,557 (US$4,423) for the nine-month period ended September 30, 2008.

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

	September 30,			
	2007		2008	
	NT	US	NT	US
Preferred stocks	$549,730	$16,827	$549,730	$17,056
Certificates of deposit	214,365,000	6,561,524	168,085,000	5,215,172
Bonds	99,635	3,050	95,586	2,966
Beneficiary certificates	400,000	12,244	400,000	12,411
Overseas financial instruments	64,324,821	1,968,926	39,585,567	1,228,221
Subtotal	279,739,186	8,562,571	208,715,883	6,475,826
Less: accumulated impairment	(166,288)	(5,090)	(281,924)	(8,747)
Net balance	$279,572,898	$8,557,481	$208,433,959	$6,467,079

NT$15,100,000 (US$462,198) and NT$15,500,000 (US$480,918) of certificates of deposit as of September 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$166,708) with Land Bank Co., Ltd. as Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands dollars)	Interest rate
Senior tranche 1st	NT$3,335,000(US$102,082)	2.175%
Senior tranche 2nd	NT$315,000(US$9,642)	2.325%
Senior tranche 3rd	NT$340,000(US$10,407)	2.545%
Senior tranche 4th	NT$480,000(US$14,692)	2.945%
Subordinated tranche 5th	NT$200,000(US$6,122)	3.00%
Subordinated tranche 6th	NT$200,000(US$6,122)	3.20%
Subordinated tranche 7th	NT$576,335(US$17,641)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$29,885) and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to the Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests：

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

	Corporate Loans Securitization	
	May 28, 2007	September 30, 2008
Expected weighted-average life (in years)	2.212	0.889
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 September 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:

	September 30 , 2008	
	NT	US
Carrying amount of retained interests	$976,335	$30,293
Expected weighted-average life (in years)	0.889	0.889
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	(1,888)	(59)
Impact on fair value with 20% adverse change	(1,906)	(59)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(9,874)	(306)
Impact on fair value with 20% adverse change	(10,412)	(323)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on faire value with 10% adverse change	(4,335)	(135)
Impact on faire value with 20% adverse change	(8,650)	(268)

(3) Expected static pool credit losses:

As the securitized collateralized loans obligation do not have actual credit losses as of the balance sheet date, the expected static pool credit losses are, therefore, equal to the expected credit losses

(4) Cash flows:

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

	January 1-September 30,			
	2007		2008	
	NT	US	NT	US
The cash received from securitization	$4,470,000	$136,823	$-	$-
Servicing fees received	80	2	180	6
Other cash received on retained interests	12,356	378	22,133	687
Repayment of cash reserve	2,495	76	6,541	203

12. Premises and equipment, net

	September 30,			
	2007		2008	
	NT	US	NT	US
Cost:				
Land	$13,999,386	$428,509	$14,979,198	$464,759
Buildings	9,802,129	300,034	10,114,991	313,838
Office equipment	3,616,724	110,705	3,778,993	117,251
Transportation equipment	60,466	1,851	53,752	1,668
Other equipment	4,747,540	145,318	5,083,739	157,733
Construction in progress and prepayment for equipment	1,440,238	44,084	2,121,213	65,815
Subtotal	33,666,483	1,030,501	36,131,886	1,121,064
Accumulated depreciation:				
Buildings	(2,425,228)	(74,234)	(2,559,104)	(79,401)
Office equipment	(2,569,516)	(78,651)	(2,965,829)	(92,021)
Transportation equipment	(52,813)	(1,617)	(50,949)	(1,581)
Other equipment	(3,307,562)	(101,241)	(3,782,767)	(117,368)
Subtotal	(8,355,119)	(255,743)	(9,358,649)	(290,371)
Accumulated impairment	(65,866)	(2,016)	-	-
Net balance	$25,245,498	$772,742	$26,773,237	$830,693

13. Intangible assets, net

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

	January 1- September 30, 2008							
	January 1,		Additions/Amortization		Disposals		September 30,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$6,537,374	$202,835	$141,997 (Note)	$4,406 (Note)	$6,288 (Note)	$195 (Note)	$6,673,083	$207,046
Computer software	1,180,905	36,640	40,566	1,258	149,133	4,627	1,072,338	33,271
Amortization	(687,581)	(21,334)	(130,054)	(4,035)	-	-	(817,635)	(25,369)
Impairment	(147,141)	(4,565)	(1,063)	(33)	(148,204)	(4,598)	-	-
Net balance	$6,883,557	$213,576	$51,446	$1,596	$7,217	$224	$6,927,786	$214,948

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

14. Other assets, net

	September 30,			
	2007		2008	
	NT	US	NT	US
Prepayment	$228,608	$6,997	$498,964	$15,481
Temporary payments	630,666	19,304	58,830	1,825
Interbank settlement fund	1,300,152	39,797	1,299,729	40,327
Non-operating assets, net -Accumulated impairment NT$318,132 (US$9,738) and NT$327,800 (US$10,171), on September 30, 2007 and 2008, respectively)	1,526,789	46,734	2,260,891	70,149
Refundable deposits, net	1,245,453	38,122	1,309,346	40,625
Foreclosed properties, net	1,323,690	40,517	491,778	15,258
Deferred tax assets, net	3,935,092	120,450	2,970,655	92,171
Others	45,874	1,404	46,845	1,454
Total	$10,236,324	$313,325	$8,937,038	$277,290

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

	September 30,			
	2007		2008	
	NT	US	NT	US
Due to the Central Bank	$186,834	$5,719	$429,809	$13,336
Due to commercial banks	1,434,333	43,904	1,448,927	44,956
Due to Post Co., Ltd.	25,674,793	785,883	23,606,291	732,432
Overdrafts from banks	-	-	378,120	11,732
Call loans from banks	28,927,705	885,451	51,690,413	1,603,798
Total	$56,223,665	$1,720,957	$77,553,560	$2,406,254

16. Financial liabilities at fair value through profit or loss

	September 30,			
	2007		2008	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$4,843,548	$148,257	$8,490,683	$263,440
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,047,860	1,195,221	39,708,986	1,232,051
Subordinated financial debentures	4,969,027	152,097	2,266,130	70,311
Subtotal	44,016,887	1,347,318	41,975,116	1,302,362
Total	$48,860,435	$1,495,575	$50,465,799	$1,565,802

(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.

On September 19, 2008, the Bank issued seven-year subordinated financial debentures totaling NT$2,200,000, with fixed interest rates. These subordinated financial debentures are repaid at maturity, and the interest is paid quarterly.

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

On June 20, 2003, the Bank issued five-year and six-month dominant financial debentures amounting to NT$5,000,000 with inverse floating interest rate. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year dominant financial debentures amounting to NT$3,200,000, NT$2,700,000 and NT$1,800,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, the Bank issued six-year dominant financial debenture amounting to NT$2,000,000 with a floating interest rate. These dominant financial debentures are repaid at maturity, and the interest is paid 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 repaid at maturity, and the interest is paid 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 repaid at maturity, and the interest is paid 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$683,113 (US$20,909) and NT$75,116 (US$2,331) as of September 30, 2007 and 2008, respectively.

(3) Net losses arising from financial liabilities at fair value through profit or loss for the nine-month periods ended September 30, 2007 and 2008 were NT$5,083,224 (US$155,593) and NT$5,120,566 (US$158,876) , respectively.

17. Payables

	September 30,			
	2007		2008	
	NT	US	NT	US
Accounts payable	$11,056,874	$338,441	$10,035,482	$311,371
Accrued interest payable	4,693,427	143,662	5,146,647	159,685
Accrued expenses	2,036,380	62,332	1,994,024	61,868
Payable to related party for allocation of linked-tax system	242,973	7,437	739,666	22,950
Foreign currency payable	3,137,361	96,032	2,799,406	86,857
Acceptance	1,130,053	34,590	788,559	24,466
Tax payable	254,259	7,783	321,299	9,969
Receipts under custody	2,939,461	89,974	3,239,395	100,509
Others	1,624,756	49,732	5,169,012	160,379
Total	$27,115,544	$829,983	$30,233,490	$938,054

18. Deposits and remittances

	September 30,			
	2007		2008	
	NT	US	NT	US
Check deposits	$14,519,922	$444,442	$14,288,016	$443,314
Demand deposits	117,938,950	3,610,008	126,659,911	3,929,876
Demand savings deposits	397,307,167	12,161,223	348,403,777	10,809,922
Time deposits	249,360,800	7,632,715	312,757,478	9,703,924
Negotiable certificates of deposit	3,556,300	108,855	4,946,500	153,475
Time savings deposits	252,497,082	7,728,714	273,167,279	8,475,560
Outward remittances	1,575,985	48,240	308,475	9,571
Remittances payable	355,087	10,869	220,808	6,851
Trust unappropriated	-	-	3,165,113	98,204
Total	$1,037,111,293	$31,745,066	$1,083,917,357	$33,630,697

19. Financial debentures payable

	September 30,			
	2007		2008	
	NT	US	NT	US
Subordinated financial debentures	$18,635,000	$570,401	$16,065,000	$498,449
Discount in financial debentures	(98,889)	(3,027)	(87,821)	(2,725)
Valuation adjustment	(377,117)	(11,543)	638,182	19,801
Total	$18,158,994	$555,831	$16,615,361	$515,525

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 paid 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 repaid only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

20. Other financial liabilities

	September 30,			
	2007		2008	
	NT	US	NT	US
Derivative financial liabilities for hedging	$406,986	$12,457	$-	$-
Borrowed funds	310,590	9,507	282,124	8,753
Total	$717,576	$21,964	$282,124	$8,753

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

21. Other liabilities

	September 30,			
	2007		2008	
	NT	US	NT	US
Unearned receipts	$112,604	$3,447	$218,980	$6,794
Temporary receipts	802,952	24,578	1,420,458	44,073
Reserve for losses on guarantees	28,659	877	24,893	772
Reserve for losses on stock brokerage transactions	149,037	4,562	268,791	8,340
Guarantee deposits received	707,385	21,652	721,750	22,394
Reserve for land value increment tax	17,542	537	40,336	1,251
Total	$1,818,179	$55,653	$2,695,208	$83,624

22. Capital Stock

As of January 1, 2007, the Bank had issued and outstanding capital stock of NT$46,420,518 (US$1,420,891) 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$1,490,340) divided into 4,868,941 thousands common shares, with par value NT$10 per share. The above merger has been approved by the authority.

23. Capital reserves

	September 30,			
	2007		2008	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,949,303	$335,149	$10,949,303	$339,724
Additional paid-in capital	4,249,096	130,061	4,249,096	131,836
Others	15,166	464	15,212	472
Total	$15,213,565	$465,674	$15,213,611	$472,032

24. Retained earnings

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

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

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

(3) The estimation of employee bonus and remuneration of directors for the nine-month period ended September 30, 2008 was NT$1,125 (US$35) 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$115,974) 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$59,574) thousands as legal reserve；
(b) NT$465,071 (US$14,430) thousands as special reserve；
(c) NT$4,013,615 (US$124,530) thousands as dividends and bonus to shareholders；
(d) NT$1,500 (US$47) 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 nine-month periods ended September 30, 2007 and 2008.

	January 1- September 30,			
	2007		2008	
	NT	US	NT	US
Personnel expenses				
Salary	$3,838,033	$117,479	$4,147,709	$128,691
Insurance	415,763	12,726	501,420	15,557
Pension	256,231	7,843	284,287	8,821
Others	246,743	7,553	273,729	8,493
Depreciation expenses	865,161	26,481	828,987	25,721
Amortization expenses	151,543	4,639	130,054	4,035

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 expense for the nine-month periods ended September 30, 2007 and 2008 is as follows:

	January 1- September 30,			
	2007		2008	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$(605,755)	$(18,542)	$(1,382,193)	$(42,885)
Interest on separation tax (tax rate 20% or 6%)	(31,842)	(975)	(13,715)	(426)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(1,269,825)	(38,868)	(535,275)	(16,608)
Allowance for pledged assets taken-over (reversal)	4,793	147	(11,156)	(346)
Foreign investment income recognized by the equity method	(14,259)	(436)	2,130	66
Others	112,241	3,436	104,751	3,250
Valuation allowance	733,286	22,445	(220,706)	(6,848)
Operating loss carry-forward	(15,626)	(478)	-	-
Investment tax credits	5,688	174	-	-
Effect of foreign branches' income tax	(80,346)	(2,459)	18,426	572
Adjustment of prior period's income tax	(702,355)	(21,499)	152,738	4,739
Income tax expense	$(1,864,000)	$(57,055)	$(1,885,000)	$(58,486)

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

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

	September 30,			
	2007		2008	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$3,764,100	$115,216	$3,761,580	$116,711
Others	232,438	7,115	242,769	7,532
Deductible temporary differences:				
Allowance for bad debts	6,012,844	184,048	3,104,806	96,333
Unrealized impairment loss for pledged assets taken-over	100,338	3,071	46,209	1,434
Pension expenses exceed the limit of tax law	174,814	5,351	-	-
Valuation of financial instruments	3,770,210	115,403	4,318,688	133,996
Provisions for possible losses	238,456	7,299	238,456	7,399
Others	925,523	28,329	280,008	8,688
Operating loss carry-forward (expiration year:2011)	$10,150,658	$310,703	$8,925,820	$276,941
Investment tax credit (expiration year:2011)	$5,688	$174	$-	$-
Deferred income tax assets of foreign branches	$51,602	$1,579	$89,353	$2,772

(3) Deferred tax assets	$5,400,501	$165,305	$4,317,850	$133,970
Deferred tax liabilities	(999,135)	(30,583)	(1,001,087)	(31,061)
Valuation allowance	(466,274)	(14,272)	(346,108)	(10,738)
Net deferred tax assets	$3,935,092	$120,450	$2,970,655	$92,171

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

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

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

	September 30,			
	2007		2008	
	NT	US	NT	US
The Bank's imputation credit	$661,471	$20,247	$116,178	$3,605
Undistributed earnings	7,053,276	215,895	4,544,066	140,989

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

	January 1 – September 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	$8,917,276	$272,950	$7,053,276	$215,895	$6,429,066	$199,475	$4,544,066	$140,989
Earnings per share (in dollars)								
Net income	$1.83	$0.056	$1.45	$0.044	$1.32	$0.041	$0.93	$0.029

(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):

	2007
A. Distribution:	
Employees' bonus and contribution to welfare fund	$1,500
Directors and supervisors' remunerations	$-
B. Estimated earnings per share (in dollars) (Note)	$1.31

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

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

V. Related parties transactions

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

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiaries of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	〃
Cathay Securities Corp.	〃
Cathay Pacific Venture Capital Co., Ltd.	〃
Cathay 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.
Cathay Lin Yuan Security Co., Ltd.	Related Party disclosed according to the ROC SFAS No. 6

Name of related parties	Relationship
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.
Cathay Insurance Company Limited (Shanghai)	Subsidiaries of Cathay Life Insurance and Cathay Century Insurance Corp.
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
Lin Yuan Investment 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.

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

(1) Loans and Deposits

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

Accounts/Related parties	September 30, Account balance NT	US	% of Account	January 1- September 30, Interest income (expense) NT	US
2008					
Loans					
Seaward Leasing Ltd.	$2,923,630	$90,711	0.35%	$49,857	$1,547
Taiwan Real-estate Management Corp.	109,000	3,382	0.01%	2,364	73
Cathay General Hospital	258,000	8,005	0.03%	5,167	160
Others	1,591,600	49,383	0.19%	39,144	1,215
Total	$4,882,230	$151,481	0.58%	$96,532	$2,995
Deposits					
Cathay Life Insurance Co., Ltd.	$9,555,123	$296,467	0.88%	$(52,485)	$(1,629)
Cathay Financial Holding Co., Ltd.	13,280	412	-	(30,767)	(955)
Cathay Futures Corp.	1,928,617	59,839	0.18%	(21,922)	(680)
Cathay Securities Corp.	166,633	5,170	0.02%	(3,087)	(96)
Cathay Century Insurance Co., Ltd.	1,128,084	35,001	0.10%	(8,468)	(263)
Cathay Pacific Venture Capital Co., Ltd.	7,495	232	-	(7)	-
Cathay Securities Trust Co., Ltd.	600,018	18,617	0.05%	(12,647)	(392)
Cathay Real Estate Development Co., Ltd.	64,261	1,994	0.01%	(139)	(4)
Others	14,800,891	459,227	1.37%	(232,773)	(7,222)
Total	$28,264,402	$876,959	2.61%	$(362,295)	$(11,241)

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

Accounts / Related parties	January 1- September 30, Maximum balance NT	US	September 30, Account balance NT	US	January 1 – September 30, Interest income (expense) NT	US	Interest Rate(%)
2008							
Call loans to banks							
Indovina Bank	$3,406,183	$105,684	$1,188,810	$36,885	$37,719	$1,170	3.40~26.00%
Due from commercial banks							
Indovina Bank	393,134	12,198	2,137	66	116	4	0.50~2.40%
Call loans from banks							
Indovina Bank	373,146	11,578	-	-	(683)	(21)	4.50~18.00%
Due to commercial banks							
Indovina Bank	42,324	1,313	13,808	428	-	-	-

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

(2) Guarantees

Related Parties	January 1- September 30, Maximum balance NT	US	September 30, Account balance NT	US	January 1- September 30, Service fees NT	US
2007						
Indovina Bank	$1,884	$58	$-	$-	$7	$-
2008						
None						

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	September 30, Account balance NT	US	January 1- September 30, Interest expense NT	US
2007				
Securities sold under agreements to repurchase				
Lin Yuan Investment Co., Ltd.	$251,949	$7,712	$(671)	$(21)
Cathay Life Insurance Co., Ltd.	650,047	19,897	(4,221)	(129)
Wan Pao Development Co., Ltd.	461,104	14,114	(28,923)	(885)
Cathay Securities Trust Co., Ltd.	-	-	(522)	(16)
Others	803,380	24,591	(7,321)	(224)
Total	$2,166,480	$66,314	$(41,658)	$(1,275)

Accounts/Related parties	September 30, Account balance NT	US	January 1- September 30, Interest expense NT	US
2008				
Securities sold under agreements to repurchase				
Lin Yuan Investment Co., Ltd.	$199,694	$6,196	$(2,254)	$(70)
Cathay Life Insurance Co., Ltd.	682,531	21,177	(11,109)	(345)
Wan Pao Development Co., Ltd.	169,146	5,248	(5,785)	(179)
Cathay Securities Trust Co., Ltd.	10,030	311	(1,097)	(34)
Others	808,457	25,084	(11,276)	(350)
Total	$1,869,858	$58,016	$(31,521)	$(978)

(4) Lease

Accounts/Related parties	January 1- September 30, 2007 NT	2007 US	2008 NT	2008 US
Rental income				
Seaward Leasing Ltd.	$129	$4	$129	$4
Culture and Charity Foundation of Cathay United Bank	750	23	750	23
Cathay Securities Corp.	3,945	121	4,127	128
Cathay Life Insurance Co., Ltd.	5,354	164	8,200	254
Cathay Century Insurance Co., Ltd.	180	6	230	7
Rental expense				
Cathay Life Insurance Co., Ltd.	205,547	6,292	222,316	6,898
Cathay Real Estate Development Co., Ltd.	8,490	260	8,490	263
Seaward Leasing Ltd.	8,945	274	10,888	338

Account/Related parties	September 30, 2007 NT	2007 US	2008 NT	2008 US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$33,393	$1,022	$33,395	$1,036
Cathay Life Insurance Co., Ltd.	63,822	1,954	69,003	2,141
Cathay Real Estate Development Co., Ltd.	2,635	81	2,635	82

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

	September 30,			
	2007		2008	
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Securities Corp.	$1,325	$41	$1,325	$41
Cathay Life Insurance Co., Ltd.	2,078	64	2,430	75
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.

	January 1- September 30,			
	2007		2008	
Accounts/Related parties	NT	US	NT	US
(5) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$476,444	$14,584	$803,581	$24,933
Cathay Securities Co., Ltd.	3,554	109	2,868	89
Cathay Securities Trust Co., Ltd.	15,210	466	23,925	742
Cathay Century Insurance Co., Ltd.	32,246	987	61,226	1,900
Cathay Securities Investment Consulting Co., Ltd.	1,925	59	5,166	160
(6) Other operating income				
Cathay Century Insurance Co., Ltd.	1,081	33	17,708	549
(7) Operating expenses				
Seaward Card Co., Ltd.	234,028	7,163	195,167	6,055
Cathay Life Insurance Co., Ltd.	88,978	2,724	93,366	2,897
Cathay Century Insurance Co., Ltd.	584	18	597	19
Symphox Information Co., Ltd.	305,558	9,353	345,000	10,704
Cathay Securities Corp.	3,624	111	1,800	56
Cathay Real Estate Development Co., Ltd.	5,478	168	9,264	287
Cathay Lin Yuan Security Co., Ltd.	2,259	69	1,778	55
Cathay General Hospital	-	-	4,893	152
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	343,035	10,500	409,874	12,717
Cathay Century Insurance Co., Ltd.	96,227	2,945	87,670	2,720

Accounts/Related parties	September 30, 2007 NT	2007 US	2008 NT	2008 US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$638,005	$19,529	$983,685	$30,521
(10) Other receivables- cash dividends				
Indovina Bank	97,710	2,991	-	-
(11) Financial assets at fair value through profit or loss-mutual funds				
Cathay Securities Trust Co., Ltd. (Note)	745,649	22,824	755,649	23,446

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

Accounts/Related parties	September 30, 2007 NT	2007 US	2008 NT	2008 US
(12) Refundable deposit				
Cathay Futures Corp.	39,292	1,203	39,292	1,219
(13) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	242,973	7,437	739,666	22,950
(14) Accrued expenses				
Seaward Card Co., Ltd.	-	-	21,587	670
(15) Accounts payable				
Symphox Information Co., Ltd.	35,968	1,101	46,537	1,444
Cathay Securities Corp.	200	6	200	6
Cathay Century Insurance Co., Ltd.	19,688	603	8,582	266
Cathay Life Insurance Co., Ltd.	8,725	267	-	-
Cathay Real Estate Development Co., Ltd.	4,181	128	-	-

(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$7,929) and NT$480,900 (US$14,921) during the nine-month periods ended September 30, 2007 and 2008. As of September 30, 2007 and 2008, the accumulated paid amount was NT$349,592 (US$10,701) and NT$1,042,723(US$32,353), respectively.

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$3,400(US$104) and NT$3,752(US$116) during the nine-month periods ended September 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$15,353 (US$470) and NT$14,464 (US$449) during the nine-month periods ended September 30, 2007 and 2008, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$19,740 (US$604) and NT$0 (US$0) during the nine-month periods ended September 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 nine-month periods ended September 30, 2007 and 2008. As of September 30, 2007 and 2008, the bonus points which not converting amount was NT$25,641 (US$785) and NT$28,518(US$885), respectively.

f. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT$1,030,000 (US$31,527) and NT$2,480,000 (US$76,947) during the nine-month periods ended September 30, 2007 and 2008, respectively.

g. The Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT$200,000 (US$6,205) which issued by the Bank in 2003.

h. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the service fees NT$10,500 (US$326) and NT$4,578 (US$142) were included in disposal gains of foreclosed properties, premises and equipment, respectively, for the nine-month period ended September 30, 2008.

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

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.

(17) Transactions of derivative financial instruments

			Notional amount		Valuation gains (losses)	
Related parties	Category of agreements	Term of agreements	NT	US	NT	US
September 30, 2007						
Cathay Life						
Insurance Co., Ltd.	Forward	2007.1.9-2008.4.28	$25,066,635	$767,268	$794,486	$24,319
	Non-delivery forward	2007.8.30-2007.10.5	130,280	3,988	(5,510)	(169)
	Currency swap	2007.5.7-2008.7.23	44,060,097	1,348,641	(671,290)	(20,548)
	Interest rate swap	2006.1.20-2017.7.10	5,250,000	160,698	(8,512)	(261)
Cathay Century						
Insurance Co., Ltd.	Forward	2006.11.10-2007.12.13	479,036	14,663	13,325	408
	Non-delivery forward	2006.11.10-2007.11.20	206,676	6,326	(3,193)	(98)
	Currency swap	2007.3.5-2008.7.17	1,125,294	34,444	62,526	1,914
	Interest rate swap	2007.9.29-2014.9.30	200,000	6,122	125	4
The funds which are						
managed by Cathay	Forward	2007.8.31-2007.11.2	965,375	29,549	(67,549)	(2,068)
Securities Trust Co.,	Non-delivery forward	2007.9.4-2007.11.2	1,331,462	40,755	(23,593)	(722)
Ltd.	Currency swap	-	-	-	(144)	(4)
September 30, 2008						
Cathay Life						
Insurance Co., Ltd.	Forward	2008.5.19-2009.6.10	39,693,738	1,231,577	1,515,053	47,008
	Currency swap	2007.11.9-2009.5.29	37,590,077	1,166,307	100,105	3,106
	Interest rate swap	2007.6.4-2017.6.4	1,500,000	46,540	(108,887)	(3,378)
Cathay Century						
Insurance Co., Ltd.	Forward	2007.11.16-2009.9.16	582,085	18,060	11,502	357
	Non-delivery forward	2007.11.16-2009.1.20	464,977	14,427	35,740	1,109
	Currency swap	2008.3.24-2009.3.24	853,052	26,468	(3,110)	(96)
	Interest rate swap	2007.9.29-2015.4.30	600,000	18,616	(8,292)	(257)
The funds which are						
managed by Cathay	Forward	2008.9.3-2008.10.7	1,966,096	61,002	36,479	1,132
Securities Trust Co.,	Non-delivery forward	2008.9.3-2008.10.6	64,260	1,994	4,269	132
Ltd.	Currency swap	2008.9.4-2008.10.16	311,661	9,670	4,126	128

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

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

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$213,548,719	$6,625,775
Travelers checks for sale	546,833	16,967
Bills for collection	44,812,088	1,390,384
Book-entry for government bonds and depository for short-term marketable securities under management	385,816,400	11,970,723
Guarantees on duties and contracts	17,903,322	555,486
Unused commercial letters of credit	3,123,724	96,920
Irrevocable loan commitments	46,934,278	1,456,230
Credit card lines commitments	272,515,713	8,455,343
Stamp tax, securities and memorial currency consignments	1,727	54

2. As of September 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$12,411). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

(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$2.8 million) and NT$3.09 billion (US$9.6 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 September 30, 2008, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$2,897,703(US$89,907) with prepayments of NT$2,121,213 (US$65,815).

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

Periods	NT	US
2008.10.1~2009.9.30	$612,756	$19,012
2009.10.1~2010.9.30	439,327	13,631
2010.10.1~2011.9.30	329,428	10,221
2011.10.1~2012.9.30	310,565	9,636
2012.10.1~2013.9.30	122,910	3,814

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

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

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

	September 30, 2008			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$28,612,881	$887,772	$28,612,881	$887,772
Available-for-sale financial assets	65,111,511	2,020,215	65,111,511	2,020,215
Held-to-maturity financial assets and debt securities with no active market	211,350,933	6,557,584	211,357,731	6,557,795
Investment accounted for using equity method	2,833,462	87,914	2,833,462	87,914
Others	1,005,872,521	31,209,199	1,005,872,521	31,209,199
Liabilities				
Financial liabilities at fair value through profit or loss	41,975,116	1,302,362	41,975,116	1,302,362
Financial debentures payable	16,615,361	515,525	16,615,361	515,525
Others	1,213,832,204	37,661,564	1,213,832,204	37,661,564

	September 30, 2008			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$4,488,764	$139,273	$4,488,764	$139,273
Non-delivery forward	272,415	8,452	272,415	8,452
Currency swap	678,972	21,067	678,972	21,067
Interest rate swap	3,236,859	100,430	3,236,859	100,430
Cross currency swap	79,266	2,459	79,266	2,459
Options	183,787	5,702	183,787	5,702
Credit default swap	(2,674)	(83)	(2,674)	(83)
Liabilities				
Forward	655,457	20,337	655,457	20,337
Non-delivery forward	262,803	8,154	262,803	8,154
Currency swap	4,525,015	140,398	4,525,015	140,398
Interest rate swap	2,359,913	73,221	2,359,913	73,221
Cross currency swap	84,023	2,607	84,023	2,607
Options	184,810	5,734	184,810	5,734
Credit derivative instruments	418,715	12,991	418,715	12,991
Credit default swap	(53)	(2)	(53)	(2)

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

(1) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, Guarantee deposits, borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.

(2) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of the Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.

(3) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

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

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

(5) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments.

(6) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, the Bank assesses fair value by using pricing models.

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

	September 30, 2007			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$36,694,860	$1,123,198	$1,604,927	$49,125
Available-for-sale financial assets	49,845,325	1,525,722	8,512,297	260,554
Held-to-maturity financial assets and debt securities without active market	217,227,627	6,649,147	66,774,735	2,043,916
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	44,016,887	1,347,318
Financial debentures payable	-	-	18,158,994	555,831
Others	(Note)	(Note)	(Note)	(Note)

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

	September 30, 2008			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$27,611,580	$856,704	$1,001,301	$31,068
Available-for-sale financial assets	57,777,289	1,792,656	7,334,222	227,559
Held-to-maturity financial assets and debt securities without active market	170,436,246	5,288,124	40,921,485	1,269,671
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	41,975,116	1,302,362
Financial debentures payable	-	-	16,615,361	515,525
Others	(Note)	(Note)	(Note)	(Note)

	September 30,2008			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$-	$-	$4,488,764	$139,273
Non-delivery forward	-	-	272,415	8,452
Currency swap	-	-	678,972	21,067
Interest rate swap	-	-	3,236,859	100,430
Cross currency swap	-	-	79,266	2,459
Options	-	-	183,787	5,702
Credit default swap	-	-	(2,674)	(83)
Liabilities				
Forward	-	-	655,457	20,337
Non-delivery forward	-	-	262,803	8,154
Currency swap	-	-	4,525,015	140,398
Interest rate swap	-	-	2,359,913	73,221
Cross currency swap	-	-	84,023	2,607
Options	-	-	184,810	5,734
Credit derivative instruments	-	-	418,715	12,991
Credit default swap	-	-	(53)	(2)

Note: Most of such assets and liabilities are investment accounted for cost or using equity method. The amount of fair value is not determined by quoted market price or pricing models but estimated face value.

4. Losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT$353,573(US$10,823) and NT$795,189(US$24,672) for the nine-month periods ended September 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 nine-month periods ended September 30, 2007 and 2008 were NT$29,103,753 (US$890,840) and NT$29,537,910 (US$916,473), and expenses were NT$$13,676,460 (US$418,624) and NT$14,242,021 (US$441,887), respectively.

6. The Bank recognized an unrealized gains of NT$482,474 (US$14,768) and loss of NT$357,437 (US$11,090) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$1,295,578 (US$39,657) and NT$346,576 (US$10,753) in income statements, for the nine-month periods ended September 30, 2007 and 2008, respectively.

7. Interest income of NT$27(US$1) and NT$0(US$0) from financial assets were impaired which were assessed by discount rate of cash flow for the nine-month periods ended September 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 Band adopts many methodologies to manage its market risk. Value-at-risk (VAR) is one of the methodologies. VAR is statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

September 30, 2008						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$151,322	$4,695	$248,646	$7,715	$71,356	$2,214
Foreign exchange	245,642	7,622	434,482	13,481	143,629	4,456
Equity Securities price	137,870	4,278	208,847	6,480	88,708	2,752

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

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

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

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

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

(In thousands of US dollars)

	Currency	September 30, 2008
FX factor sensitivity (FX Delta)		
	USD	$(11,478)
	JPY	102
	NTD	13,053
	HKD	(3,223)
Interest rate factor sensitivity (PVBP)		
	USD	(1,071)
	JPY	(1)
	NTD	(876)
	HKD	3
Equity factor sensitivity (Equity Delta)		
	NTD	957

(2) Credit risk

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

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

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

① Information on concentrations of credit risk:

	September 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$38,299,787	$1,172,323	$38,299,787	$1,172,323
Available-for-sale financial assets	58,357,622	1,786,276	58,357,622	1,786,276
Held-to-maturity financial assets and debt securities with no active market	284,002,362	8,693,063	284,002,362	8,693,063
Investment accounted for using equity method	2,249,661	68,860	2,249,661	68,860
Others	869,124,647	26,603,142	869,124,647	26,603,142
Guarantees on duties and contracts	-	-	17,923,555	548,625
Unused commercial letters of credit	-	-	3,190,928	97,672
Irrevocable loan commitments	-	-	35,801,924	1,095,865
Credit card line commitments	-	-	280,177,395	8,575,984

	September 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Derivative financial instruments				
Forward	$1,066,035	$32,630	$1,066,035	$32,630
Non-delivery forward	45,027	1,378	45,027	1,378
Currency swap	1,665,107	50,967	1,665,107	50,967
Interest rate swap	1,208,638	36,995	1,208,638	36,995
Cross currency swap	2,046	63	2,046	63
Options	53,728	1,645	53,728	1,645
Credit derivative instruments	10,390	318	10,390	318

	September 30, 2008			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$28,612,881	$887,772	$28,612,881	$887,772
Available-for-sale financial assets	65,111,511	2,020,215	65,111,511	2,020,215
Held-to-maturity financial assets and debt securities with no active market	211,350,933	6,557,584	211,350,933	6,557,584
Investment accounted for using equity method	2,833,462	87,914	2,833,462	87,914
Others	1,005,872,521	31,209,199	1,005,872,521	31,209,199
Guarantees on duties and contracts	-	-	17,903,322	555,486
Unused commercial letters of credit	-	-	3,123,724	96,920
Irrevocable loan commitments	-	-	46,934,278	1,456,230
Credit card line commitments	-	-	272,515,713	8,455,343
Derivative financial instruments				
Forward	$4,488,764	139,273	$4,488,764	139,273
Non-delivery forward	272,415	8,452	272,415	8,452
Currency swap	678,972	21,067	678,972	21,067
Interest rate swap	3,236,859	100,430	3,236,859	100,430
Cross currency swap	79,266	2,459	79,266	2,459
Options	183,787	5,702	183,787	5,702

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

	September 30,			
	2007		2008	
	NT	US	NT	US
Loans, customers' liabilities under acceptances,				
bill purchased and guarantees account				
Industry type				
Manufacturing	$107,264,059	$3,283,259	$141,634,541	$4,394,494
Financial institutions and insurance	48,166,044	1,474,320	46,658,377	1,447,669
Leasing and real estate	69,533,930	2,128,373	85,535,771	2,653,918
Individuals	414,822,733	12,697,359	435,501,533	13,512,303
Others	124,906,996	3,823,293	155,334,720	4,819,569
Total	764,693,762	23,406,604	864,664,942	26,827,953
Valuation allowance	(10,204,905)	(312,363)	(8,311,168)	(257,870)
Maximum credit risk exposed	$754,488,857	$23,094,241	$856,353,774	$26,570,083
Geographic Region				
Domestic	$709,539,211	$21,718,372	$774,999,666	$24,045,909
South East Asia	16,416,240	502,487	23,572,244	731,376
North East Asia	141,842	4,342	181,194	5,622
America	13,185,461	403,595	17,246,779	535,116
Others	25,411,008	777,808	48,665,059	1,509,930
Total	764,693,762	23,406,604	864,664,942	26,827,953
Valuation allowance	(10,204,905)	(312,363)	(8,311,168)	(257,870)
Maximum credit risk exposed	$754,488,857	$23,094,241	$856,353,774	$26,570,083

(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 23.20%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

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

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

	Effective interest rate (%)	
Financial instruments	September 30, 2007	September 30, 2008
Available-for-sale financial assets		
Bonds	1.6727-6.8334	1.7029-6.6852
Overseas financial instruments	2.9278-6.988	1.0600-7.5500
Held-to-maturity financial assets		
Bonds	1.6727-6.9525	2.1844-6.9539
Overseas financial instruments	3.45-6.65	2.38
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.858-3	2.07-2.496
Overseas financial instruments	0-8.26	0-6.014
Financial debentures payable	2-5.593	5.593

9. Fair value hedge

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

		Hedging instruments			
		Financial assets (liabilities) fair value			
	Derivative designated as	September 30, 2007		September 30, 2008	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$(406,986)	$(12,457)	$731,558	$22,698

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

XI. Others

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

(1) Brief introduction to transferor:

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

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

(2) Purpose of the transfer of assets and liabilities and related regulations:

(a) Purpose: To create a successful branch networking profit through 20 branch channels in the future. Furthermore, by expanding the branch channel, the Bank could provide customers more convenient and diversifying financial services to gain long-term profitability.

(b) Regulations: Pursuant to Article 9 and 18 of The Financial Institutions Merger Act, and Article 36 of the Security Exchange Act.

(3) Effective date of the transfer: December 29, 2007.

(4) Type, quantity, and amount of marketable securities issued for the transfer: None.

(5) Accounting treatment for assets acquired and liabilities assumed:

(a) Accounting methods for the transfer: the Bank assumed the specific assets and liabilities including operations of CUTIC and the difference in the amount of money received from Financial Restructuring Fund (the "FRF") and net fair value of identifiable net assets acquired is recognized as goodwill.

(b) Relevant accounts and amounts of assets and liabilities assumed through the transfer:

	Amount	
	NT	US
Assets	$59,212,341	$1,837,181
Liabilities	74,549,715	2,313,054
Net	(15,337,374)	(475,873)
Add: Received from the FRF and CDIC	8,800,000	273,038
Adjustment of purchase price	(135,709)	(4,211)
Goodwill arising on acquisition	$(6,673,083)	$(207,046)

On December 31, 2007, the Bank has received NT$8,800 (US$273) 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$4,211) for the nine-month period ended September 30, 2008 by the contract.

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

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

	January 1-September 30, 2008		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$27,998,945	$868,723	1.36%
Time certificates, discounted bills and others	200,777,932	6,229,536	2.20%
Due from commercial banks and call loans to banks	27,733,314	860,481	3.35%
Discounts and loans	782,380,931	24,274,928	3.45%
Bills purchased	5,153	160	2.43%
Government, corporate bonds and financial debentures	125,552,100	3,895,504	3.87%
Receivables-credit card revolving balance	20,307,531	630,082	13.99%
Securities purchased under agreements to resell	2,449,663	76,006	1.74%
Liabilities			
Due to banks	76,734,400	2,380,838	2.99%
Demand deposits	111,498,356	3,459,459	0.39%
Saving deposits	612,379,609	19,000,298	1.29%
Time deposits	290,057,379	8,999,608	2.48%
Negotiable certificates of deposit	2,773,054	86,040	1.80%
Securities sold under agreements to repurchase	24,351,793	755,563	1.76%
Financial debentures	57,557,966	1,785,851	2.78%
Funds borrowed from the Central Bank and other banks	1,849,848	57,395	2.98%

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.

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

   The Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as reorganization and recorded at the book value of both entities' assets and liabilities. The financial statements of the Bank should be retroactively restated assuming the Lucky Bank had been merged at the beginning of each of the periods presented. The net assets, amounted to NT$4,000,979 (US$122,466) based on the book value of Lucky Bank, acquired by the Bank through a share swap (at ratio of 0.7212 shares and issued 226,889 thousands new shares of the Bank) transaction. The net assets acquired by the Bank are as follows：

Items	NT	US
Cash and cash equivalents	$6,461,558	$197,783
Due from the Central Bank and call loans to banks	2,410,995	73,798
Available-for-sale financial assets, net	528,186	16,167
Receivables, net	299,492	9,167
Discounts and loans, net	53,668,319	1,642,740
Premises and equipment, net	1,633,660	50,005
Other financial assets, net	23,495,274	719,170
Other assets	506,457	15,502
Call loans from banks	(145,219)	(4,445)
Payables	(1,695,272)	(51,891)
Deposits and remittances	(82,958,055)	(2,539,273)
Other liabilities	(204,416)	(6,257)
Subtotal	4,000,979	122,466
Issued shares for the merger	(2,268,895)	(69,448)
Unrealized gain on financial instrument	17,292	529
Capital reserves from the merger	$1,749,376	$53,547

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

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

6. As of September 30, 2007 and 2008, the assets and liabilities managed under the Bank's trust were NT$198,264,775 (US$6,068,711) and NT$391,590,370 (US$12,149,872), respectively.