

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Unaudited Consolidated Financial Statements**  
**As of September 30, 2007 and 2008**  
**With Independent Auditors' Review Report**

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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**English Translation of Report Originally Issued in Chinese**  
**Independent Auditors' Review Report**

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

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of September 30, 2007 and 2008 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our reviews in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of applying analytical review 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 generally accepted auditing standards, 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.

Base on our review, we are not aware of any material modifications that should be made to the consolidated financial statements as of and for the nine-month periods ended September 30, 2007 and 2008 in order for them to be in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles in the Republic of China.

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
October 20, 2008

**Notice to Readers**

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Unaudited consolidated balance sheets**  
**As of September 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

	Notes	September 30, 2007		September 30, 2008	
		NT \$	US \$	NT \$	US \$
<b>Assets</b>					
Cash and cash equivalents	2,4	\$439,710,203	\$13,459,143	\$368,782,346	\$11,442,207
Due from the Central Bank and call loans to banks		59,743,737	1,828,703	80,459,568	2,496,419
Financial assets at fair value through profit or loss	2,5	145,562,851	4,455,551	103,981,277	3,226,226
Securities purchased under agreements to resell		13,054,358	399,582	20,431,503	633,928
Receivables -net		89,315,879	2,733,881	78,756,181	2,443,568
Loans -net	2,6	1,275,995,320	39,057,096	1,391,628,276	43,178,041
Available-for-sale financial assets -net	2,7	481,430,105	14,736,153	469,690,526	14,573,085
Held-to-maturity financial assets -net	2,8	570,116,308	17,450,759	655,662,900	20,343,249
Investments under equity method	2,9	3,079,385	94,257	2,636,480	81,802
Other financial assets -net	2,10	48,188,389	1,475,004	41,490,420	1,287,323
Investments in debt securities with no active market		117,200,880	3,587,416	111,927,394	3,472,771
Separate account products assets		245,656,759	7,519,338	240,494,820	7,461,831
Investments in real estate	2,11	106,477,651	3,259,187	108,928,642	3,379,728
Property and equipment -net		38,841,227	1,188,896	40,251,423	1,248,881
Goodwill and intangible assets -net	2,13	840,358	25,723	7,786,810	241,601
Other assets -net		49,005,943	1,500,029	63,257,363	1,962,686
<b>Total assets</b>		<b>\$3,684,219,353</b>	<b>\$112,770,718</b>	<b>\$3,786,165,929</b>	<b>\$117,473,346</b>
<b>Liabilities &amp; stockholders' equity</b>					
<b>Liabilities</b>					
Due to the Central Bank and call loans from banks		\$57,050,697	\$1,746,272	\$79,009,716	\$2,451,434
Bankers acceptances and funds borrowed		1,628,500	49,847	642,600	19,938
Financial liabilities at fair value through profit or loss	2,14	68,684,806	2,102,381	87,306,221	2,708,849
Securities sold under agreements to repurchase	5,7	17,866,861	546,889	19,798,793	614,297
Payables		52,073,425	1,593,922	40,222,937	1,247,997
Deposits	15	1,028,205,689	31,472,473	1,082,609,199	33,590,109
Bonds payable	16	18,158,994	555,831	16,615,361	515,525
Reserve for operations and liabilities	2,17	1,935,689,630	59,249,759	2,045,319,041	63,460,101
Other financial liabilities	2,18	1,039,265	31,811	417,108	12,942
Separate account products liabilities		245,656,759	7,519,337	240,494,820	7,461,831
Other liabilities		13,831,919	423,383	12,854,823	398,846
<b>Total liabilities</b>		<b>3,439,886,545</b>	<b>105,291,905</b>	<b>3,625,290,619</b>	<b>112,481,869</b>
<b>Stockholders' Equity attributable to equity holders of the parent</b>					
<b>Stock</b>					
Common stock	19	92,770,192	2,839,614	97,375,372	3,021,265
Capital surplus	20	81,971,167	2,509,065	81,971,213	2,543,320
Retained earnings	21				
Legal reserve		9,245,862	283,008	12,320,672	382,273
Unappropriated retained earnings		37,809,225	1,157,307	8,650,962	268,413
<b>Other stockholders' equity</b>					
Land revaluation increment		2,106	65	2,106	65
Cumulative conversion adjustments		155,427	4,758	280,965	8,718
Unrealized gains or losses on financial instruments		23,406,229	716,444	(38,768,485)	(1,202,869)
Treasury stock	2,22	(4,140,047)	(126,723)	(4,140,047)	(128,453)
Net loss not yet recognized as net pension cost		(573)	(18)	(3,107)	(96)
<b>Total stockholder's equity attributable to equity holders of the parent</b>		<b>241,219,588</b>	<b>7,383,520</b>	<b>157,689,651</b>	<b>4,892,636</b>
<b>Minority interest</b>		<b>3,113,220</b>	<b>95,293</b>	<b>3,185,659</b>	<b>98,841</b>
<b>Total stockholders' equity</b>		<b>244,332,808</b>	<b>7,478,813</b>	<b>160,875,310</b>	<b>4,991,477</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$3,684,219,353</b>	<b>\$112,770,718</b>	<b>\$3,786,165,929</b>	<b>\$117,473,346</b>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 to US\$1.00, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Unaudited consolidated statements of income**  
**For the nine months ended September 30, 2007 and 2008**  
**(Expressed in thousands of dollars, except earning per share)**

	Notes	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008			
		NT \$	US \$	NT \$	US \$		
<b>Interest income</b>	2	\$83,303,084	\$2,549,834	\$88,434,107	\$2,743,844		
<b>Less: Interest expenses</b>	2	(15,355,121)	(470,007)	(15,775,582)	(489,469)		
<b>Net interest income</b>		67,947,963	2,079,827	72,658,525	2,254,375		
<b>Net income other than interest</b>							
Net commission and handling fee		3,756,217	114,975	7,629,698	236,727		
Net premiums from insurance business		80,860,562	2,475,071	52,721,139	1,635,778		
Gains (losses) on financial assets and liabilities at fair value through profit or loss		2,606,211	79,774	(25,356,574)	(786,738)		
Realized gains on available-for-sale financial assets		27,209,309	832,853	17,827,661	553,139		
Realized losses on held-to-maturity financial assets		(361,890)	(11,077)	(2,253,204)	(69,910)		
Losses (gains) on investments under equity method		(111,240)	(3,405)	321,493	9,975		
Gains on investments in real estate		4,810,907	147,258	3,892,019	120,758		
Gains (losses) on foreign exchange		1,243,062	38,049	(3,075,614)	(95,427)		
Impairment losses		(193,899)	(5,935)	(576,550)	(17,889)		
Provision for premiums reserve		(106,180,697)	(3,250,098)	(78,652,720)	(2,440,357)		
Net other non-interest income (losses)		365,915	11,200	(964,604)	(29,929)		
<b>Total income</b>		81,952,420	2,508,492	44,171,269	1,370,502		
<b>Bad debt expenses</b>		(2,993,794)	(91,637)	(1,147,167)	(35,593)		
<b>Operating expenses</b>							
Personnel expenses		(31,051,607)	(950,463)	(29,705,436)	(921,671)		
Depreciation and amortizations expenses		(3,065,393)	(93,829)	(2,805,042)	(87,032)		
Other general and administration expenses		(6,940,952)	(212,457)	(7,749,857)	(240,455)		
<b>Income from continuing operations before income taxes</b>		37,900,674	1,160,106	2,763,767	85,751		
<b>Income taxes (expense) benefit</b>	2,24	(4,774,032)	(146,129)	982,069	30,471		
<b>Income from continuing operations after income taxes</b>		33,126,642	1,013,977	3,745,836	116,222		
<b>Consolidated net income</b>		\$33,126,642	\$1,013,977	\$3,745,836	\$116,222		
<b>Include:</b>							
Parent company		\$32,979,363	\$1,009,469	\$3,787,051	\$117,501		
Minority interest		147,279	4,508	(41,215)	(1,279)		
Consolidated net income		\$33,126,642	\$1,013,977	\$3,745,836	\$116,222		
<b>Earnings per share (expressed in dollars) :</b>	25						
Primary earnings per share:							
		Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Income from continuing operations		\$3.93	\$3.43	\$0.12	\$0.10	\$0.29	\$0.39
Consolidated net income		\$3.93	\$3.43	\$0.12	\$0.10	\$0.29	\$0.39

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 to US\$1.00, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

Cathay Financial Holding Co., Ltd. and Subsidiaries  
 Unaudited consolidated statements of changes in stockholders' equity  
 For the nine months ended September 30, 2007 and 2008  
 (Expressed in thousands of dollars)

Summary	Stock				Retained earnings				Other stockholders' equity								Total								
	Common stock		Capital surplus		Legal reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not yet recognized as net pension cost		Minority interest						
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$					
<b>Balance on January 1, 2007</b>	\$92,068,174	\$2,818,126	\$78,867,213	\$2,414,056	\$8,188,136	\$250,632	\$19,710,210	\$603,312	\$2,106	\$65	\$105,170	\$3,219	\$21,345,473	\$653,366	\$(4,140,047)	\$(126,723)	\$(573)	\$(18)	\$2,879,875	\$88,151	\$219,025,737	\$6,704,186			
Minority interest																			86,066	2,634	86,066	2,634			
Appropriations and distribution for 2006																									
Legal reserve					1,057,726	32,376	(1,057,726)	(32,376)														-	-		
Cash dividends							(13,815,539)	(422,882)														(13,815,539)	(422,882)		
Remuneration paid to directors and supervisors							(5,700)	(174)														(5,700)	(174)		
Bonus paid to employees							(1,383)	(42)														(1,383)	(42)		
Convertible notes converted into common stock	702,018	21,488	3,104,004	95,011																		3,806,022	116,499		
Capital surplus			(87)	(3)																		(87)	(3)		
Cumulative conversion adjustments										50,257	1,539											50,257	1,539		
Unrealized gains or losses of financial instruments													2,060,756	63,078								2,060,756	63,078		
Other capital surplus			37	1																		37	1		
Consolidated net income for the nine months ended September 30, 2007							32,979,363	1,009,469														147,279	4,508	33,126,642	1,013,977
<b>Balance on September 30, 2007</b>	\$92,770,192	\$2,839,614	\$81,971,167	\$2,509,065	\$9,245,862	\$283,008	\$37,809,225	\$1,157,307	\$2,106	\$65	\$155,427	\$4,758	\$23,406,229	\$716,444	\$(4,140,047)	\$(126,723)	\$(573)	\$(18)	\$3,113,220	\$95,293	\$244,332,808	\$7,478,813			
<b>Balance on January 1, 2008</b>	\$92,770,192	\$2,878,380	\$81,971,213	\$2,543,320	\$9,245,862	\$286,871	\$35,577,963	\$1,103,877	\$2,106	\$65	\$183,766	\$5,702	\$10,955,521	\$339,917	\$(4,140,047)	\$(128,453)	\$(3,107)	\$(96)	\$3,326,309	\$103,205	\$229,889,778	\$7,132,788			
Minority interest																						(99,435)	(3,085)	(99,435)	(3,085)
Appropriations and distribution for 2007																									
Legal reserve					3,074,810	95,402	(3,074,810)	(95,402)															-	-	
Cash dividends							(23,025,898)	(714,424)														(23,025,898)	(714,424)		
Stock dividend	4,605,180	\$142,885					(4,605,180)	(142,885)															-	-	
Remuneration paid to directors and supervisors							(5,400)	(168)														(5,400)	(168)		
Bonus paid to employees							(2,764)	(86)														(2,764)	(86)		
Cumulative conversion adjustments										97,199	3,016											97,199	3,016		
Unrealized gains or losses of financial instruments													(49,724,006)	(1,542,786)								(49,724,006)	(1,542,786)		
Consolidated net income (losses) for the nine months ended September 30, 2008							3,787,051	117,501														(41,215)	(1,279)	3,745,836	116,222
<b>Balance on September 30, 2008</b>	\$97,375,372	\$3,021,265	\$81,971,213	\$2,543,320	\$12,320,672	\$382,273	\$8,650,962	\$268,413	\$2,106	\$65	\$280,965	\$8,718	\$(38,768,485)	\$(1,202,869)	\$(4,140,047)	\$(128,453)	\$(3,107)	\$(96)	\$3,185,659	\$98,841	\$160,875,310	\$4,991,477			

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NTS32.67 and NTS32.23 to US\$1.00, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Unaudited consolidated statements of cash flows**  
**For the nine months ended September 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated net income	\$33,126,642	\$1,013,977	\$3,745,836	\$116,222
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	3,065,393	93,829	2,805,042	87,032
Investment income recognized by equity method less than cash dividends received	366,986	11,233	259,016	8,037
Bad debt expenses	2,993,794	91,637	1,147,167	35,593
Provision for premiums reserve from insurance business	106,180,697	3,250,098	78,652,720	2,440,357
Gain on disposal of property and equipment	(1,224,245)	(37,473)	(437,025)	(13,560)
Impairment loss	193,899	5,935	576,550	17,889
Other adjustments	180,284	5,518	1,243,912	38,595
Decrease (increase) on operating assets and liabilities				
Decrease in receivables	62,242	1,905	836,553	25,956
Decrease (increase) in deferred income tax assets	2,151,155	65,845	(2,340,764)	(72,627)
Decrease in financial assets at fair value through profit or loss	10,018,802	306,667	55,322,843	1,716,502
Decrease in other financial assets	6,350,381	194,380	451,916	14,022
Increase in other assets	(375,337)	(11,488)	(10,251,558)	(318,075)
Increase in payables	9,084,004	278,053	11,566,097	358,861
Increase in financial liabilities at fair value through profit or loss	631,512	19,330	2,008,029	62,303
Increase (decrease) in deferred income tax liabilities	34,952	1,070	(257,414)	(7,987)
Increase (decrease) in other financial liabilities	121,993	3,734	(125,267)	(3,887)
(Decrease) increase in other liabilities	(5,131,745)	(157,078)	525,290	16,298
<b>Net cash provided by operating activities</b>	<b>167,831,409</b>	<b>5,137,172</b>	<b>145,728,943</b>	<b>4,521,531</b>
<b>Cash flows from investing activities</b>				
Increase (decrease) in restricted assets	2,750,000	84,175	(50,000)	(1,551)
Increase in loans	(68,020,303)	(2,082,042)	(85,237,010)	(2,644,648)
Increase in due from the Central Bank and call loans to banks	(8,251,217)	(252,563)	(21,501,470)	(667,126)
Increase in available-for-sale financial assets	(91,696,701)	(2,806,755)	(43,403,358)	(1,346,676)
Increase in held-to-maturity financial assets	(22,834,331)	(698,939)	(67,521,046)	(2,094,975)
Decrease in investments under equity method	199,662	6,111	72,765	2,258
Increase investments in real estate	(4,510,991)	(138,077)	(3,045,064)	(94,479)
Acquisition of property and equipment	(1,333,513)	(40,818)	(93,952)	(2,915)
Decrease (increase) in securities purchased under agreements to resell	34,947,299	1,069,706	(1,728,233)	(53,622)
(Increase) decrease in other financial assets	(44,236,523)	(1,354,041)	20,597,941	639,092
Increase in other assets	(662,931)	(20,291)	(1,291,742)	(40,079)
<b>Net cash used in investing activities</b>	<b>(203,649,549)</b>	<b>(6,233,534)</b>	<b>(203,201,169)</b>	<b>(6,304,721)</b>
<b>Cash flows from financing activities</b>				
(Decrease) increase in due to the Central Bank and call loans from banks	(43,414,589)	(1,328,883)	3,843,580	119,255
Increase in deposits	65,675,190	2,010,260	59,210,435	1,837,122
(Decrease) increase in securities sold under agreements to repurchase	(6,837,467)	(209,289)	5,163,370	160,204
Increase in banker's acceptances and funds borrowed	812,250	24,862	562,918	17,466
Decrease in bonds payable	(396,776)	(12,145)	(1,936,476)	(60,083)
Increase in other financial liabilities	955,566	29,249	3,540,103	109,839
Decrease in other liabilities	(201,681)	(6,173)	(1,980,147)	(61,438)
Cash dividends	(13,847,219)	(423,851)	(23,188,534)	(719,471)
Disposal of treasury stock	37	1	-	-
Remuneration paid to directors and supervisors	(5,700)	(174)	(5,400)	(168)
Bonus paid to employees	(1,383)	(42)	(2,764)	(86)
Increase in minority stockholders	-	-	202,935	6,296
<b>Net cash provided by financing activities</b>	<b>2,738,228</b>	<b>83,815</b>	<b>45,410,020</b>	<b>1,408,936</b>
<b>Effects of exchange rate changes</b>	<b>68,553</b>	<b>2,098</b>	<b>(742,750)</b>	<b>(23,046)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(33,011,359)</b>	<b>(1,010,449)</b>	<b>(12,804,956)</b>	<b>(397,300)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>472,721,562</b>	<b>14,469,592</b>	<b>381,587,302</b>	<b>11,839,507</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$439,710,203</b>	<b>\$13,459,143</b>	<b>\$368,782,346</b>	<b>\$11,442,207</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period (excluding capitalized interest)	\$14,382,279	\$440,229	\$13,797,822	\$428,105
Income tax paid	\$2,436,297	\$74,573	\$1,730,538	\$53,693
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$3,806,022	\$116,499	\$-	\$-

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 to US\$1.00, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
(Expressed in thousands of dollars except  
for share and per share data and unless otherwise stated)  
September 30, 2007 and 2008**

**1. Organization and business scope**

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on October 27, 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. Cathay United Bank absorption merged with Lucky Bank on January 1, 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007 to improve competitiveness. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of September 30, 2007 and 2008, the total numbers of the employees of the Company and Subsidiaries were 37,216 and 42,097, respectively.

As of and for the nine months ended September 30, 2007 and 2008, the consolidated financial statements include the following entities:



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Investor	Investee	Business	2007.9.30 Ownership interest	2008.9.30 Ownership interest	Notes
The Company	Cathay Life	Life insurance	100.00%	100.00%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Act (the "Company Act").
The Company	Cathay United Bank	Commercial banking operations	100.00%	100.00%	UWCCB was enfranchised by the ROC government on January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank absorption merged with Lucky Bank on January 1, 2007.
The Company	Cathay Century	Property and casualty insurance	100.00%	100.00%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on August 2, 2002.

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Investor	Investee	Business	2007.9.30 Ownership interest	2008.9.30 Ownership interest	Notes
The Company	Cathay Securities	Securities	100.00%	100.00%	Cathay Securities was incorporated on May 12, 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were transferred to Cathay Securities using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100.00%	100.00%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Act.
The Company、Cathay Life、Cathay United Bank、Cathay Century	Cathay Venture Capital Co., Ltd. (“Cathay Venture”)	Venture capital investment	67.00%	67.00%	Cathay Venture was incorporated on September 13, 2000, under the Company Act.
The Company	Cathay II Venture Capital Co., Ltd. (“Cathay II Venture”)	Venture capital investment	100.00%	100.00%	Cathay II Venture was incorporated on April 12, 2004, under the Company Act.
Cathay Life	Cathay Life Insurance Company (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50.00%	50.00%	Cathay Life (Shanghai) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (Shanghai).

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Investor	Investee	Business	2007.9.30 Ownership interest	2008.9.30 Ownership interest	Notes
Cathay Life 、 Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	100.00%	Symphox Information was incorporated on December 12, 1999, under the Company Act. Cathay Life and Cathay Venture own 60.12% and 39.88% interest in Symphox Information, respectively.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	-	100.00%	Cathay Life (Vietnam) was incorporated on November 21, 2007.
Cathay Life 、 Cathay Century	Cathay Insurance Company Limited. (Shanghai) (“Cathay Century (Shanghai)”)	Property and casualty insurance	-	100.00%	Cathay Century (Shanghai) was incorporated on September 26, 2008. Cathay Life and Cathay Century each owns 50% interest of Cathay Century (Shanghai).
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00%	50.00%	Indovina Bank was incorporated in Vietnam on October 29, 1992.
Cathay United Bank 、 Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99%	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.

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As of and for the nine months ended September 30, 2007 and 2008, the consolidated financial statements excluded following subsidiaries due to the respective total assets and operating revenues were considered immaterial to the Company.

Investor	Investee	Business	2007.9.30 Ownership interest	2008.9.30 Ownership interest	Notes
The Company	Cathay Capital Management Inc., (“Cathay Capital Management”)	Management consultant	100.00%	100.00%	Cathay Capital Management was incorporated on June 12, 2000.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100.00%	100.00%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.
Cathay life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment research analysis	100.00%	100.00%	Cathay Securities Investment Consulting was incorporated on November 25, 2002.
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100.00%	100.00%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100.00%	100.00%	Cathay Property Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100.00%	100.00%	Seaward Card was incorporated on April 9, 1999.
Cathay Capital Management	Cathay Pacific Partners Co., Ltd. (“Cathay Pacific Partners”)	Finance consultant	60.00%	60.00%	Cathay Pacific Partners was incorporated on October 15, 2002.

## **2. Summary of significant accounting policies**

The financial statements were prepared in accordance with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles. A summary of significant accounting policies is as follows:

### *(1) Principles of consolidation*

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

### *(2) Cash and cash equivalents*

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

### *(3) Financial assets and financial liabilities*

In accordance with the ROC SFAS No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Regulations Governing the Preparation of Financial Reports by Financial Holding Company”, financial assets are categorized as “financial assets at fair value through profit or loss”, “held-to-maturity financial assets”, “investments in debt securities with no active market”, “available-for-sale financial assets”, “derivative financial assets for hedging” or “financial assets carried at cost”. Upon initial recognition, financial assets are measured at fair value, plus in some cases, transaction costs that are directly attributable to the acquisition or issue of the financial assets. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging”, or “financial liabilities carried at cost”.

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

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

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading or financial assets or liabilities designated as at fair value through profit or loss. Such assets or liabilities are measured at fair value with changes in fair value recognized in profit or loss.

### B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets when the Company has both the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses from changes in fair values are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less any impairment loss or amount unrecoverable. The calculation of effective interest rate includes all fees and points paid or received between parties, transaction costs and all other premiums and discounts.

### C. Investments in debt securities with no active market

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

### D. Available-for-sale financial assets

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

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### E. Derivative financial assets or liabilities for hedging

Derivative financial assets or liabilities for hedging are derivative financial assets or liabilities that have been designated as hedging instruments and meet the criteria for hedge accounting. These assets or liabilities are measured at fair value.

### F. Financial assets carried at cost

Financial assets measured at cost are investments not measured at fair value because fair value cannot be reliably measured. They are either holdings in non-listed companies or emerging stocks, which have no significant influence or derivative assets that are linked to and must be settled by delivery of the above-mentioned equity instruments. If there is objective evidence that an impairment loss has been incurred on the investment, an impairment loss will be recognized. Such impairment loss shall not be reversed.

### G. Financial liabilities

The financial liabilities of the Company and its subsidiaries are subsequently measured at amortized cost after initial recognition, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging”, which are both measured at fair value

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

## *(4) Derecognition of financial assets and liabilities*

### A. Derecognition of financial assets

A financial asset (or a portion of the asset) is derecognized when the control over the asset (or a portion of the asset) is surrendered. Transferring or surrendering control over a financial asset (or a portion of the asset) in exchange of consideration received is deemed a sale.

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

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### B. Derecognition of financial liabilities

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

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

### *(5) Accounting for impairment of financial assets*

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

#### A. Financial assets carried at amortized cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurs after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the reversal date.

#### B. Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, then the amount of the loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss can not be reversed.



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### C. Available-for-sale financial assets

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

#### *(6) Derivative financial instruments*

The Company and Subsidiaries enter into derivative financial instrument transactions such as forward foreign exchange, interest rate swap, cross-currency swap, option and futures to hedge its risks associated with interest rates and foreign currency fluctuations. These derivative financial instruments are initially recognized at fair value on the date of which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss for the period.

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

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is both attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction, and could affect profit or loss.
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

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At the inception of a hedge relationship, the Company and Subsidiaries formally designate and document hedge relationship to which the Company and Subsidiaries wish to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

### A. Fair value hedges

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

For fair value hedge relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

Hedging instruments are subsequently measured at fair value and the gains (losses) resulting from the exchange rate changes are recognized in current period profit or loss in accordance with the ROC SFAS No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements".

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### B. Cash flow hedges

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

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

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

### C. Hedges of a net investment in a foreign operation

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

#### *(7) Allowance for bad debts*

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

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### *(8) Investments-equity method*

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

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

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

### *(9) Investments in real estate*

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

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

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

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

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### *(10) Property and equipment*

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

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

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

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that continue to be in use after reaching its originally estimated useful life are depreciated based on the residual value and the newly estimated remaining useful lives.

### *(11) Intangible assets*

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

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

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

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

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### *(12) Accounting for Assets Impairment*

Pursuant to ROC SFAS No. 35, “Accounting for Asset Impairment” the Company and Subsidiaries assess indicators of impairment for all its assets within the scope of ROC SFAS No. 35 on each balance sheet date. If impairment indications exist, the Company and Subsidiaries shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

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

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

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

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

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

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

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

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

Under the Regulations for Financial Assets Securitization, Subsidiaries, with the assistance of a trustee securitized its financial assets for the purposes of offering asset-backed securities in the form of related beneficiary certificates through a special purpose trust. Due to Subsidiaries having surrendered the rights and control on these securitized financial assets, such financial assets are no longer recognized on the Subsidiaries’ accounts. The gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates for credit enhancement, which are classified as held-to-maturity financial assets and investments in debt securities with no active market due to lack of market quotes.

The gain or loss from securitization of the financial assets is determined based on the difference between the proceeds from securitization and carrying value of the securitized financial assets. The cost of each class of asset-backed securities which is determined based on the previous carrying value of the securitized financial assets, is allocated in proportion to the fair value of each class of the asset-backed securities and the retained interests on the date of transfer. Due to securitized financial assets not having 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) Reserves for operations and liabilities*

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

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### *(15) Treasury stock*

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

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

- A. In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose such treasury shares within this period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly.
- B. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities Exchange Act.

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



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### *(16) Recognition of interest income and service fees*

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

### *(17) Insurance premium income and expenses*

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

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

### *(18) Pension plan*

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

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

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### *(19) Foreign currency transactions*

#### A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss for the period. Non-monetary assets or liabilities denominated in foreign currencies that are measured at fair value 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 measured at fair value is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. Conversely, when a gain or loss on a non-monetary item measured at fair value is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary assets or liabilities denominated in foreign currencies that are measured in terms of historical cost shall be translated using the exchange rate at the date of the transaction.

#### B. Translation of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are translated into NT dollars on the following basis: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders' equity items are translated based on the historical rates except for the opening balance of retained earnings, which is the translated amount from prior period carried forward. Income statement items are translated using a weighted-average exchange rate of the fiscal year. Differences arising from above translation are recorded under cumulative translation adjustments under shareholders' equity.

### *(20) Income taxes*

The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, tax losses and investment tax credits. An allowance is provided based on an assessment of the realizability of deferred tax assets. Adjustment of prior years' income tax payable is included in the current period income tax expense.

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

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

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date when the shareholders resolve that the earnings shall be retained.

Effective from January 1, 2006, the Company and Subsidiaries have considered the impact of the "Alternative Minimum Tax Act" to estimate their income tax liabilities.

### *(21) Capital expenditure*

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

### *(22) Employee bonus and remuneration of directors*

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses and not distribution of earnings.

### *(23) The interim financial statement*

The interim financial statements are prepared according to the ROC SFAS No. 23, "Interim Financial Reporting and Disclosures".

### *(24) Translation to U.S. dollars*

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of September 30, 2007 and 2008 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.67 and NT\$32.23 provided by Federal Reserve Bank of New York of September 30, 2007 and 2008 are used for the translation.

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### 3. Change in accounting and its effects

The Company and Subsidiaries adopted the accounting principles prescribed in Article No.52 “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 Company and Subsidiaries’ net income and earnings per share by NT\$16,814 (US\$522) and NT\$0.002 (US\$-), respectively, for the nine months ended September 30, 2008.

### 4. Cash and cash equivalents

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Petty cash and cash on hand	\$10,428,282	\$319,201	\$10,935,979	\$339,310
Cash in banks	31,114,588	952,390	36,935,445	1,145,996
Time deposits	380,041,093	11,632,724	292,455,496	9,074,015
Cash equivalents	3,556,009	108,846	85,472	2,652
Checks for clearance	9,704,026	297,032	8,804,345	273,172
Due from commercial banks	4,866,205	148,950	19,565,609	607,062
Total	<u>\$439,710,203</u>	<u>\$13,459,143</u>	<u>\$368,782,346</u>	<u>\$11,442,207</u>

As of September 30, 2007 and 2008, the amounts of time deposits with maturities beyond one year were NT\$1,072,018 (US\$32,814) and NT\$1,136,403 (US\$35,259), respectively.

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

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Common stock	\$19,987,184	\$611,790	\$11,808,747	\$366,390
Beneficiary certificates	12,579,094	385,035	9,727,771	301,824
Exchange traded funds	219,326	6,713	78,444	2,434
Real estate investment trust	680,000	20,814	649,750	20,160
Commercial papers	12,077,569	369,684	10,242,157	317,783
Corporate bonds	3,710,563	113,577	4,739,079	147,039
Government bonds	3,059,531	93,650	783,847	24,320
Financial debentures	21,726,076	665,016	15,616,347	484,528
Overseas financial instruments	40,096,484	1,227,318	26,962,588	836,568
Derivative financial instruments	282,523	8,648	494,387	15,339
Structured time deposits	2,000,000	61,218	1,000,000	31,027
Valuation adjustment	29,144,501	892,088	21,878,160	678,814
Total	<u>\$145,562,851</u>	<u>\$4,455,551</u>	<u>\$103,981,277</u>	<u>\$3,226,226</u>

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- (1) As of September 30, 2007 and 2008, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$6,852,800 (US\$209,758) and NT\$5,523,500 (US\$171,378), respectively. Such repurchase agreements amounting to NT\$6,833,686 (US\$209,173) and NT\$5,505,736 (US\$170,826), respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to September 30, 2007 and 2008 are settled at NT\$6,836,839 (US\$209,270) and NT\$5,508,543 (US\$170,914) prior to November 30, 2007 and 2008, respectively.
- (2) Please refer to Note 26 for related information on the above financial assets at fair value through profit or loss as of September 30, 2007 and 2008 being pledged as collaterals.

**6. Loans-net**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Inward-outward documentary bills	\$482,995	\$14,784	\$607,656	\$18,854
Loans	1,278,161,947	39,123,415	1,395,335,273	43,293,059
Overdrafts	368,295	11,273	526,032	16,321
Delinquent accounts	8,763,929	268,256	5,711,037	177,196
Subtotal	1,287,777,166	39,417,728	1,402,179,998	43,505,430
Less: Allowance for bad debts	(11,781,846)	(360,632)	(10,551,722)	(327,389)
Total	\$1,275,995,320	\$39,057,096	\$1,391,628,276	\$43,178,041

**7. Available-for-sale financial assets-net**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Common stock	\$120,230,430	\$3,680,148	\$119,921,190	\$3,720,794
Beneficiary certificates	1,134,266	34,719	22,770,551	706,502
Collateralized loans obligation and collateralized bonds obligation	7,742,897	237,003	4,608,271	142,981
Exchange traded funds	4,101,003	125,528	4,175,790	129,562
Government bonds	69,689,200	2,133,125	87,017,828	2,699,901
Corporate bonds	35,202,642	1,077,522	73,512,854	2,280,883
Financial debentures	109,649,455	3,356,274	130,832,081	4,059,326
Overseas financial instruments	101,210,384	3,097,961	57,449,511	1,782,486
Real estate investment trust beneficiary	9,362,104	286,566	8,725,208	270,717
Valuation adjustment	23,107,724	707,307	(39,322,758)	(1,220,067)
Total	\$481,430,105	\$14,736,153	\$469,690,526	\$14,573,085

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- (1) As of September 30, 2007 and 2008, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$9,028,400 (US\$276,351) and NT\$13,445,800 (US\$417,183). Such repurchase agreements amounting to NT\$9,990,587 (US\$305,803) and NT\$14,975,587 (US\$464,647) were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to September 30, 2007 and 2008 are settled at NT\$10,017,972 (US\$306,641) and NT\$15,013,370 (US\$465,820) prior to March 31, 2008 and 2009, respectively.
- (2) Please refer to Note 26 for related information on the above available-for-sale financial assets as of September 30, 2007 and 2008 being pledged as collaterals.

### **8. Held-to-maturity financial assets-net**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Government bonds	\$20,968,296	\$641,821	\$18,085,967	\$561,153
Corporate bonds	5,833,907	178,571	3,969,184	123,152
Financial debentures	16,035,093	490,820	12,542,437	389,154
Overseas financial instruments	504,049,313	15,428,507	604,044,823	18,741,695
Collateralized loans obligation and collateralized bonds obligation	23,231,712	711,102	17,020,489	528,095
Subtotal	570,118,321	17,450,821	655,662,900	20,343,249
Less: Accumulated impairment	(2,013)	(62)	-	-
Total	<u>\$570,116,308</u>	<u>\$17,450,759</u>	<u>\$655,662,900</u>	<u>\$20,343,249</u>

Please refer to Note 26 for related information on the above held-to-maturity financial assets as of September 30, 2007 and 2008 being pledged as collaterals.

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**9. Investments under equity method**

Investee	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$141,475	\$4,330	\$159,434	\$4,947
Cathay Capital Management	60,823	1,862	63,096	1,958
Seaward Card	37,649	1,152	38,009	1,179
Cathay Property Insurance Agent	7,460	228	7,487	232
Cathay Life Insurance Agent	39,095	1,197	39,222	1,217
Cathay Insurance (Bermuda)	84,893	2,599	91,427	2,837
WK Technology Fund VI Co., Ltd	459,445	14,063	333,701	10,354
Vista Technology Venture Capital Corp.	55,413	1,696	55,371	1,718
Omnitek Venture Capital Corp.	253,712	7,766	177,935	5,521
Wa Tech Venture Capital Co., Ltd.	222,175	6,801	123,779	3,840
Taiwan Real-estate Management Corp.	36,612	1,121	44,972	1,395
Taiwan Finance Corp.	1,279,141	39,153	1,287,340	39,942
IBT Venture Capital Corp.	461,721	14,133	255,474	7,927
Cathay Securities Investment Trust Co., Ltd.	355,451	10,880	374,913	11,632
Subtotal	3,495,065	106,981	3,052,160	94,699
Less: Unrealized gain from intercompany transactions	(415,680)	(12,724)	(415,680)	(12,897)
Total	<u>\$3,079,385</u>	<u>\$94,257</u>	<u>\$2,636,480</u>	<u>\$81,802</u>

**10. Other financial assets-net**

Item	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Derivative financial assets for hedging	\$184,384	\$5,644	\$1,475,973	\$45,795
Financial assets carried at cost	27,237,051	833,702	27,290,631	846,746
Structured time deposits	17,250,000	528,007	10,600,000	328,886
Customer's margin accounts	886,240	27,127	2,072,728	64,311
Bills purchased	5,695	174	3,035	94
Other miscellaneous financial assets	4,485,769	137,306	1,868,793	57,983
Accumulated impairment	(1,860,750)	(56,956)	(1,820,740)	(56,492)
Total	<u>\$48,188,389</u>	<u>\$1,475,004</u>	<u>\$41,490,420</u>	<u>\$1,287,323</u>

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**11. Investments in real estate**

September 30, 2007										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$120,274,484	\$3,681,496	\$4,632	\$142	\$(15,002,499)	\$(459,213)	\$(195,923)	\$(5,997)	\$105,080,694	\$3,216,428
Construction	1,388,452	42,499	-	-	-	-	-	-	1,388,452	42,499
Prepayments										
for building										
and land	8,505	260	-	-	-	-	-	-	8,505	260
Total	<u>\$121,671,441</u>	<u>\$3,724,255</u>	<u>\$4,632</u>	<u>\$142</u>	<u>\$(15,002,499)</u>	<u>\$(459,213)</u>	<u>\$(195,923)</u>	<u>\$(5,997)</u>	<u>\$106,477,651</u>	<u>\$3,259,187</u>

September 30, 2008										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$123,892,173	\$3,844,002	\$4,370	\$135	\$(16,693,400)	\$(517,946)	\$(195,923)	\$(6,079)	\$107,007,220	\$3,320,112
Construction	1,770,504	54,933	-	-	-	-	-	-	1,770,504	54,933
Prepayments										
for building										
and land	153,970	4,777	-	-	(3,052)	(94)	-	-	150,918	4,683
Total	<u>\$125,816,647</u>	<u>\$3,903,712</u>	<u>\$4,370</u>	<u>\$135</u>	<u>\$(16,696,452)</u>	<u>\$(518,040)</u>	<u>\$(195,923)</u>	<u>\$(6,079)</u>	<u>\$108,928,642</u>	<u>\$3,379,728</u>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semiannually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collaterals as of September 30, 2007 and 2008.
- (4) Cathay Life had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building to the trust in the first half of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, “Accounting Treatment of Real Estate Securitization” and “Interpretation of the Accounting Treatment of Real Estate Securitization”, respectively. As a result, the gain on disposal of real estates on this transaction was NT\$1,193,535 (US\$36,533) for the nine months ended September 30, 2007.



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**12. Financial assets securitization**

During 2007, Cathay United Bank securitized a collateralized loans obligation (CLO) with a carry value of NT\$5,446,335 (US\$166,708) with Land Bank Co., Ltd. as the Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

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

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

(1) Key assumptions used in measuring retained interests:

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and the end of the year, 2008, 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)	3.00%	3.00%
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.20%	2.49%

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(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)	3.00%	3.00%
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 fair value with 10% adverse change	(4,335)	(135)
Impact on fair 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

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**13. Goodwill and intangible assets-net**

Item	January 1, 2007		Increase		Decrease		September 30, 2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Computer								
software	\$1,578,607	\$48,319	\$211,400	\$6,471	\$(2,556)	\$(78)	\$1,787,451	\$54,712
Land use right	16,132	494	3,542	108	-	-	19,674	602
Subtotal	1,594,739	48,813	214,942	6,579	(2,556)	(78)	1,807,125	55,314
Amortization and impairment								
Amortized	(697,771)	(21,357)	(271,552)	(8,312)	2,556	78	(966,767)	(29,591)
Book value	\$896,968	\$27,456	\$(56,610)	\$(1,733)	\$-	\$-	\$840,358	\$25,723
Item	January 1, 2008		Increase		Decrease		September 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,537,374	\$202,835	\$141,997	\$4,406	\$(6,288)	\$(195)	\$6,673,083	\$207,046
			(Note)		(Note)		(Note)	
Computer								
software	2,093,333	64,950	522,036	16,197	(149,368)	(4,635)	2,466,001	76,512
Land use right	19,630	609	-	-	-	-	19,630	609
Subtotal	8,650,337	268,394	664,033	20,603	(155,656)	(4,830)	9,158,714	284,167
Amortization and impairment								
Amortized	(1,070,670)	(33,220)	(301,468)	(9,354)	234	8	(1,371,904)	(42,566)
Impairment	(147,141)	(4,565)	(1,063)	(33)	148,204	4,598	-	-
Subtotal	(1,217,811)	(37,785)	(302,531)	(9,387)	148,438	4,606	(1,371,904)	(42,566)
Book value	\$7,432,526	\$230,609	\$361,502	\$11,216	\$(7,218)	\$(224)	\$7,786,810	\$241,601

Note: These are adjustment to the fair value during the purchase price allocation period.

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

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**14. Financial liabilities at fair value through profit or loss**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Derivative financial instruments	\$354,586	\$10,853	\$78,755	\$2,443
Financial debentures	39,700,000	1,215,182	39,700,000	1,231,772
Subordinated financial debentures	5,000,000	153,046	2,200,000	68,259
Valuation adjustment	23,630,220	723,300	45,327,466	1,406,375
Total	<u>\$68,684,806</u>	<u>\$2,102,381</u>	<u>\$87,306,221</u>	<u>\$2,708,849</u>

- (1) On May 23, 2002, Cathay United Bank issued a five-year subordinated financial debenture totaling NT\$5,000,000 (US\$155,135) which has matured. Subsequently on September 10, 2002, the Bank issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$155,135) which has matured. On September 19, 2008, Cathay United Bank issued seven-year subordinated financial debentures totaling NT\$2,200,000 (US\$68,259), with fixed interest rates. These subordinated financial debentures are repaid at maturity, and the interest is paid quarterly.
- (2) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.
- (3) On June 20, 2003, Cathay United Bank issued five-year and six-month dominant financial debentures amounting to NT\$5,000,000 (US\$155,135) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued five-year dominant financial debentures amounting to NT\$3,200,000 (US\$99,286), NT\$2,700,000 (US\$83,773) and NT\$1,800,000 (US\$55,849), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$62,054) with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

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- (4) On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$31,027), NT\$3,500,000 (US\$108,594), NT\$2,000,000 (US\$62,054), and NT\$1,000,000 (US\$31,027), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$77,567), NT\$1,500,000 (US\$46,540), NT\$1,500,000 (US\$46,540), NT\$2,500,000 (US\$77,567), NT\$1,500,000 (US\$46,540), NT\$2,500,000 (US\$77,567), NT\$1,000,000 (US\$31,027) and NT\$1,000,000 (US\$31,027), NT\$2,000,000 (US\$62,054), NT\$1,500,000 (US\$46,540), respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity and the interest is payable quarterly.
- (5) These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank.

**15. Deposits**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Check deposits	\$13,754,601	\$421,016	\$13,163,086	\$408,411
Demand deposits	117,811,821	3,606,116	127,868,382	3,967,372
Savings deposits	400,686,853	12,264,673	347,191,908	10,772,321
Time deposits	494,021,342	15,121,559	590,691,427	18,327,379
Outward remittances	-	-	3,165,113	98,204
Remittances payable	1,931,072	59,109	529,283	16,422
Total	<u>\$1,028,205,689</u>	<u>\$31,472,473</u>	<u>\$1,082,609,199</u>	<u>\$33,590,109</u>

**16. Bonds payable**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(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	<u>\$18,158,994</u>	<u>\$555,831</u>	<u>\$16,615,361</u>	<u>\$515,525</u>

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- (1) On April 28, 2003, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$72,913) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.
- (2) Cathay United Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semi-annually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures.
- (3) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

### **17. Reserve for operations and liabilities**

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Reserve for insurance business	\$1,935,483,134	\$59,243,438	\$2,044,986,229	\$63,449,775
Reserves for losses on guarantees	28,659	877	24,893	772
Reserves for losses on stock brokerage transactions	27,405	839	38,687	1,200
Reserves for losses on trading securities	150,432	4,605	269,232	8,354
Total	<u>\$1,935,689,630</u>	<u>\$59,249,759</u>	<u>\$2,045,319,041</u>	<u>\$63,460,101</u>

Reserves for operations included the following reserves:

Unearned premium reserve, Special reserve, and Claims reserve are provided in accordance with the “Regulations on Calculation of Various Insurance Reserves” by Article 0910751651, 0920751929 and 09602505761 of Ministry of Finance:

#### (1) Unearned premium reserve

Effective from December 24, 2002, Cathay Century Insurance unearned premium reserves should be provided based on assumed risks of different insurance products. The calculation of the reserve requires the involvement of actuaries as well as disclosures on the insurance product calculation statement which can not be changed unless approved by authorities. The unearned premium reserve should be reversed and then accrued at the next year end.

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

### (2) Special reserve

#### A. Catastrophe reserve :

- a. Addition: Catastrophe reserve should be accrued based on respective reserve rates of various insurance product categories.
- b. Reduction: The amount of assumed claims of catastrophe in excess of NT\$30 million should be deducted from the catastrophe reserve. In addition, the deducted amount is required to be reported to authorities.
- c. Recovery: Amount in the catastrophe reserve over 15 years should be reversed and then accrued for subject to approvals from relevant authorities.

#### B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.

- a. Addition: Prior to January 1, 2008, thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve. After January 1, 2008, fifteen percent instead should be provided for based on the method mentioned above.
- b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.
- c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance contingency reserve exceeds 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.

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- C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
- D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- E. The residential earthquake insurance product is in compliance of “Regulations for Method of insurance and Contingency allocation on Residential Earthquake”.

### (3) Claims reserve:

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

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



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### (4) Premiums deficiency reserve :

Effective from January 1, 2008, future benefit payments and expenses shall be estimated for unexpired insurance contracts or insurance risks. Premium deficiency reserve by category shall be recorded for the difference between the above estimated amount and the sum of unearned premium reserve and estimated future premium income.

## 18. Other financial liabilities

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Derivative financial liabilities for hedging	\$515,369	\$15,775	\$32,073	\$995
Borrowed funds	310,590	9,507	282,124	8,754
Others	213,306	6,529	102,911	3,193
Total	\$1,039,265	\$31,811	\$417,108	\$12,942

## 19. Common stock

- (1) As of September 30, 2007 and 2008, the authorized share capital amounted NT\$120,000,000 (US\$3,723,239), and the issued share capital amounted NT\$92,770,192 (US\$2,839,614) and NT\$97,375,372 (US\$3,021,265), respectively.
- (2) The recapitalization of undistributed earnings of NT\$4,605,180 (US\$142,885) thousand by issuing 460,518 thousand shares with par value of NT\$10 (US\$0.3) was approved by the Securities and Futures Bureau on July 10, 2008. The recapitalization record date was August 5, 2008.
- (3) On December 31, 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

## 20. Capital surplus

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$81,971,167 (US\$2,509,065) and NT\$81,971,213 (US\$2,543,320) as of September 30, 2007 and 2008, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted NT\$267,215 (US\$8,291) were included in the capital surplus as of September 30, 2007 and 2008.

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

### **21. Retained earnings**

#### (1) Legal reserve

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

#### (2) Undistributed earnings

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

B. On June 13, 2008, the shareholders' meeting resolved the distribution of earnings of NT\$3.0 (US\$0.10) per share for the year ended December 31, 2007. The cash and stock dividends with record dates are NT\$2.5 (US\$0.08) and NT\$0.5 (US\$0.02) on July 8 and August 5, 2008, respectively.

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

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- D. The Company is required to pay 10% surtax in the forthcoming tax year for undistributed earnings.
- E. In accordance with SFC regulations, in addition to the legal reserve retained, the Company is required to provide a special reserve in the amount equal to current year's contra account in shareholders' equity from current year's earnings after tax or prior year's undistributed earnings. However, contra accounts in prior year's accumulated shareholders' equity should only be provided from prior year's undistributed earnings. If a reversal of shareholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.
- F. In accordance with SFC regulations, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The costs of these shares are exempted from distributing as special reserve.
- G. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost expect for the special reserve since 2007.
- H. Dividends policy
- The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations. Excess cash from retained earnings after taking into account operating needs may be distributed in cash; moreover cash dividends must be a minimum of 10% of the total dividends declared.
- I. The accrual of employee bonus and remuneration of directors for the nine months of 2008 was NT\$16,814 (US\$522) thousands based on the average of actual distribution in the past three years and the net income after tax for the nine months of 2008 and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2009 fiscal year.
- J. The Company's and subsidiaries' distribution of 2007 retained earnings of NT\$20,470 (US\$627) and NT\$13,500 (US\$413) to employee and directors, respectively, has been approved by the board of directors and the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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K. Accounting to the regulations issued by SFC, the Company should assume the dividends for year 2007 would be appropriated to the employees, directors and supervisors, and pro-forma earnings per share for the previous year.

	For the year 2007	
	(NT\$)	(US\$)
a. Distribution		
Bonus paid to employees-Cash	\$2,764	\$86
Bonus paid to employees-Stock	-	-
Remuneration paid to directors and supervisors	5,400	168
b. Earnings per share after income taxes (expressed in dollars)	\$3.34	\$0.10
Pro-forma earnings per share (expressed in dollars)	3.34	0.10

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

## 22. Treasury stock

The following is a summary of the movement of treasury stock as of September 30, 2007 and 2008:

Reason for acquisition	September 30, 2007									
	In thousands of shares				Book value		Book value per share		Market value per share	
	January 1, 2007	Increase	Decrease	September 30, 2007	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares acquired through share exchange from merger transaction	66,660	-	-	66,660	\$4,140,047	\$126,723	\$62.11	\$1.90	\$79.00	\$2.42
	September 30, 2008									
Reason for acquisition	In thousands of shares				Book value		Book value per share		Market value per share	
Reason for acquisition	January 1, 2008	Increase	Decrease	September 30, 2008	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares acquired through share exchange from merger transaction	66,660	-	-	66,660	\$4,140,047	\$128,453	\$62.11	\$1.93	\$43.15	\$1.34

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**23. Operating Expense**

For the nine months ended September 30, 2007 and 2008, personnel expense, depreciation and amortizations are summarized below:

	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Personnel expenses				
Salary and wages	\$27,626,083	\$845,610	\$25,715,581	\$797,877
Labor & health insurance expenses	1,493,192	45,705	1,625,526	50,436
Pension expenses	713,197	21,831	1,020,951	31,677
Other expenses	1,219,135	37,317	1,343,378	41,681
Depreciation	2,790,744	85,422	2,502,583	77,648
Amortization	274,649	8,407	302,459	9,384

**24. Estimated income taxes**

(1) Income tax expenses include the following:

	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
After adjusted income tax calculates on accounting income	\$115,930	\$3,549	\$318,096	\$9,870
Plus (Less): Tax of interest income on a separate basis	357,734	10,950	155,554	4,826
Extra 10% income tax on undistributed retained earning	55	2	15,799	490
Alternative minimum tax payable	1,476,749	45,202	841,997	26,125
Withholding tax for overseas investments	85,105	2,605	(18,426)	(572)
Tax effects under consolidated income tax	416,227	12,740	416,231	12,914
Deferred income tax expenses (benefits)	1,602,737	49,058	(2,653,303)	(82,324)
Adjustment of income tax	719,165	22,013	(53,643)	(1,664)
Income tax credit	(15,296)	(468)	(9,220)	(286)
Operating loss carry-forward	15,626	478	4,846	150
Total income tax expenses (benefits)	<u>\$4,774,032</u>	<u>\$146,129</u>	<u>\$(982,069)</u>	<u>\$(30,471)</u>

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(2) Deferred income tax liabilities and assets are as follows:

	September 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Total deferred tax assets	\$8,294,573	\$253,890	\$13,411,977	\$416,133
Total deferred tax liabilities	\$1,825,306	\$55,871	\$1,535,618	\$47,646
Allowance for deferred assets	\$592,452	\$18,134	\$1,140,376	\$35,382

	September 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Temporary differences:				
Pension expense	\$1,688,874	\$51,695	\$1,385,180	\$42,978
Unrealized exchange (gains) losses	(901,896)	(27,606)	2,991,493	92,817
(Gains) losses from valuation on financial assets and liabilities	(1,869,846)	(57,234)	17,809,003	552,560
Allowance for bad debts	6,140,014	187,940	3,230,670	100,238
Operating loss carry-forward	10,176,337	311,488	10,251,461	318,072
Other	1,245,833	38,134	1,227,424	38,083
Total	\$16,479,316	\$504,417	\$36,895,231	\$1,144,748

Tax effect under integrated income tax system	\$1,991,924	\$60,971	\$1,692,503	\$52,513
Deferred income tax assets of foreign branches	\$41,810	\$1,280	\$94,750	\$2,940
Investment tax credit	\$17,162	\$525	\$5,686	\$176
Deferred income tax assets of change in accounting principles	\$286,271	\$8,763	\$-	\$-

	September 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Deferred tax assets	\$8,294,573	\$253,890	\$13,411,977	\$416,133
Allowance for deferred tax assets	(592,452)	(18,134)	(1,140,376)	(35,382)
Net deferred tax assets	7,702,121	235,756	12,271,601	380,751
Deferred tax liabilities	(1,825,306)	(55,871)	(1,535,618)	(47,646)
Net offset balance of deferred tax assets	\$5,876,815	\$179,885	\$10,735,983	\$333,105

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

(2)Income tax returns:

		September 30, 2008
		Notes
	Income tax returns examined by tax authorities	
The Company	through 2003	The Company filed applications for re-examination of 2002 and 2003 tax returns.
Cathay Life	through 2003	Cathay Life filed applications for re-examination of 2002 and 2003 tax returns.
Cathay United Bank	through 2003	-
Cathay Century	through 2003	The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in year 1999, 2001 and 2002 tax returns, respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century has filed the dispute. Cathay Century also filed an application for re-examination of 2003 tax return.
Cathay Securities	through 2004	-
Cathay Pacific Venture	through 2003	-
Symphox Information	through 2006	-
Cathay Futures	through 2005	-
Cathay Venture	through 2005	-
Cathay II Venture	through 2004	-

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(3) Information related to imputation credit account:

A. Balance of imputation credit account

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
The Company	\$643,333	\$19,692	\$1,230,276	\$38,172
Cathay Life	981,143	30,032	596,252	18,500
Cathay United Bank	661,471	20,247	116,178	3,605
Cathay Century	10,579	324	3,994	124
Cathay Securities	6,312	193	6,050	188
Cathay Pacific Venture	111	3	1,004	31
Cathay Venture	1,509	46	13,827	429
Cathay II Venture	8,841	271	10,544	327
Cathay Futures	13,918	426	15,244	473

B. Imputation ratio

	For the nine months ended September 30,	
	2007	2008
	Actual	Actual
The Company-cash dividends	13.25%	12.98%
The Company-stock dividends	-	12.99%
Cathay Life	7.96%	5.62%
Cathay United Bank	-	9.78%
Cathay Century	1.62%	1.61%
Cathay Securities	14.76%	15.18%
Cathay Pacific Venture	1.11%	0.99%
Cathay Venture	1.40%	17.87%
Cathay II Venture	32.56%	5.45%
Cathay Futures	33.33%	33.33%

(4) Information relating of undistributed retained earnings:

Year	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Prior to 1997	\$267,215	\$8,179	\$267,215	\$8,291
After 1998	4,829,862	147,838	4,863,911	150,912
Total	\$5,097,077	\$156,017	\$5,131,126	\$159,203



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- A. Undistributed earnings post 1998 did not include the net income from January 1 to September 30, 2007 and 2008.
- B. The undistributed retained earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

### 25. Earnings per share

For the nine months ended September 30, 2007									
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Primary earnings per share:									
Income from continuing operations	\$37,900,674	\$1,160,106	\$33,126,642	\$1,013,977	9,653,966	<u>\$3.93</u>	<u>\$0.12</u>	<u>\$3.43</u>	<u>\$0.10</u>
Effect of potentially dilutive common stock:									
Convertible notes payable	<u>37,610</u>	<u>1,151</u>	<u>28,207</u>	<u>864</u>	<u>16,911</u>				
Fully-diluted earnings per share:									
Consolidated income	<u>\$37,938,284</u>	<u>\$1,161,257</u>	<u>\$33,154,849</u>	<u>\$1,014,841</u>	9,670,877	<u>\$3.93</u>	<u>\$0.12</u>	<u>\$3.43</u>	<u>\$0.10</u>
For the nine months ended September 30, 2008									
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Primary earnings per share:									
Consolidated income	<u>\$2,763,767</u>	<u>\$85,751</u>	<u>\$3,745,836</u>	<u>\$116,222</u>	9,670,877	<u>\$0.29</u>	<u>\$0.01</u>	<u>\$0.39</u>	<u>\$0.01</u>

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**26. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Pacific Venture	"
Cathay II Venture	"
Cathay Capital Management	"
Cathay Venture	"
Cathay Life (Shanghai)	Subsidiary of Cathay Life
Cathay Life (Vietnam)	"
Symphox Information	"
Cathay Insurance (Bermuda)	"
Cathay Securities Investment Consulting	"
Cathay Century (Shanghai)	Subsidiary of Cathay Life and Cathay Century
Indovina Bank	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent	"
Seaward Card	"
Cathay Property Insurance Agent	"
Cathay Futures	Subsidiary of Cathay Securities
Cathay Pacific Partners	Subsidiary of Cathay Capital Management
Cathay Securities Investment Trust Co., Ltd.	Investee accounted for under the equity method
Taiwan Finance Corp.	"
Taiwan Real-estate Management Corp.	"
Vista Technology Venture Capital Corp.	"
IBT Venture Capital Corp.	"
Cathay General Hospital	The chairman is also the Company's chairman
Lin Yuan Investment Co., Ltd.	The chairman is a second immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	"
Taiwan Asset Management Corporation	The representative of Cathay United Bank is the chairman of the corporation
Cathay Bond Fund etc.	The fund is managed by Cathay Securities Trust Co., Ltd.
Vietinbank	Joint venture partner of Indovina Bank

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Name	Relationship
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Seaward Leasing Ltd.	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Charity Foundation	"
Cathay Lin Yuan Security Co., Ltd.	"
Cathay Real Estate Management Co., Ltd.	"
Cathay Century Realty Co., Ltd.	"
Culture and Charity Foundation of the CUB	"
Other related parties	Includes chairmen, managers, their spouses and linear relatives of Subsidiaries

(2) Significant transactions with related parties:

Transactions with related parties less than NT\$3,000 (US\$93) thousands will no longer be disclosed after the first quarter of 2008.

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

Name	For the nine months ended September 30,							
	2007				2008			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$14,655	\$449	\$27	\$1	\$-	\$-	\$-	\$-

B. Call loans to other banks

Name	For the nine months ended September 30,							
	2007				2008			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$-	\$-	\$-	\$-	\$481,950	\$14,953	\$10,685	\$332

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C. Funds borrowed from other banks

Name	For the nine months ended September 30,							
	2007				2008			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$-	\$-	\$1,260	\$39	\$486,317	\$15,089	\$51,989	\$1,613

D. Financial assets at fair value through profit or loss

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$7,667,524	\$234,696	\$7,175,877	\$222,646

E. Receivables

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$10,994	\$337	\$8,825	\$274
Cathay Capital Management	14,995	459	-	-
Cathay General Hospital	3,512	107	3,474	108
Cathay Real Estate Development Co., Ltd.	435	13	-	-
Cathay Securities Investment Trust Co., Ltd.	4,700	144	-	-
Seaward Leasing Ltd.	3,371	103	3,819	118
Cathy Securities Investment Consulting	13,125	402	-	-
Other related parties	200	6	-	-
Total	\$51,332	\$1,571	\$16,118	\$500

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E. Loans

Name	For the nine months ended September 30, 2007			
	Ending	Ending	Interest	Interest
	Balance	Balance	Revenue	Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$2,140,000	\$65,504	\$31,911	\$977
Taiwan Real-estate Management Corp.	114,000	3,489	2,675	82
Cathay General Hospital	4,679,110	14,3224	116,978	3,581
Other related parties	569,739	17,439	10,473	320
<b>Total</b>	<b>\$7,502,849</b>	<b>\$229,656</b>	<b>\$162,037</b>	<b>\$4,960</b>

Name	For the nine months ended September 30, 2008			
	Ending	Ending	Interest	Interest
	Balance	Balance	Revenue	Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$2,923,630	\$90,712	\$49,857	\$1,547
Taiwan Real-estate Management Corp.	109,000	3,382	2,364	74
Cathay General Hospital	4,575,275	141,957	127,379	3,952
Other related parties	1,882,371	58,404	45,644	1,416
<b>Total</b>	<b>\$9,490,276</b>	<b>\$294,455</b>	<b>\$225,244</b>	<b>\$6,989</b>

F. Available-for-sale financial assets

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$1,011,672	\$30,966	\$603,152	\$18,714

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G. Deposit

Name	For the nine months ended September 30, 2007			
	Ending	Ending	Interest	Interest
	Balance	Balance	Expense	Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$576,096	\$17,634	\$7,005	\$215
Cathay Real Estate Development Co., Ltd.	172,112	5,268	166	5
Other related parties	2,505,050	76,677	31,372	960
<b>Total</b>	<b>\$3,253,258</b>	<b>\$99,579</b>	<b>\$38,543</b>	<b>\$1,180</b>

Name	For the nine months ended September 30, 2008			
	Ending	Ending	Interest	Interest
	Balance	Balance	Expense	Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$600,018	\$18,617	\$12,647	\$393
Cathay Real Estate Development Co., Ltd.	64,261	1,994	139	4
Other related parties	14,800,891	459,227	232,777	7,222
<b>Total</b>	<b>\$15,465,170</b>	<b>\$479,838</b>	<b>\$245,563</b>	<b>\$7,619</b>

H. Property transactions

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

Name	Item	For the nine months ended September 30, 2007	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	\$21,863	\$669
Lin Yuan Property Management Co., Ltd.	International Building etc.	153,534	4,700
	<b>Total</b>	<b>\$175,397</b>	<b>\$5,369</b>

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Name	Item	For the nine months ended September 30, 2008	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building etc.	\$167,265	\$5,190

The total amounts of contracted construction projects for real estate as of September 30, 2007 and 2008 between Cathay Life and San Ching Engineering Co., Ltd. were NT\$39,388 (US\$1,206) and NT\$33,130 (US\$1,028), respectively.

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

Name	Rental income			
	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$2,646	\$81	\$5,088	\$158
Cathay Capital Management	1,601	49	-	-
Cathay Real Estate Development Co., Ltd.	12,733	390	14,126	438
Cathay General Hospital	88,591	2,712	97,005	3,010
San Ching Engineering Co., Ltd.	5,930	181	6,318	196
Cathay Securities Investment Trust Co., Ltd.	9,786	299	14,181	440
Taiwan Asset Management Corporation	11,029	338	-	-
Culture and Charity Foundation of CUB	750	23	-	-
Seaward Leasing Ltd.	1,078	33	-	-
<b>Total</b>	<b>\$134,144</b>	<b>\$4,106</b>	<b>\$136,718</b>	<b>\$4,242</b>

Name	Guarantee deposits in			
	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$877	\$27	\$-	\$-
Cathay Capital Management	479	15	-	-
Cathay Real Estate Development Co., Ltd.	3,774	115	4,886	152
Cathay General Hospital	8,564	262	11,079	344
San Ching Engineering Co., Ltd.	1,709	52	-	-
Cathay Securities Investment Trust Co., Ltd.	2,738	84	4,872	151
Taiwan Asset Management Corporation	3,477	106	-	-
Seaward Leasing Ltd.	346	11	-	-
<b>Total</b>	<b>\$21,964</b>	<b>\$672</b>	<b>\$20,837</b>	<b>\$647</b>

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Lease periods are usually between 2 to 5 years and rental incomes are collected monthly.

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

Name	Rental expenses			
	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Real Estate Development Co., Ltd.	\$31,493	\$964	\$31,292	\$971
Lin Yuan Investment Co., Ltd.	1,465	45	-	-
Seaward Leasing Ltd.	11,251	344	10,888	338
Other	243	8	-	-
Total	<u>\$44,452</u>	<u>\$1,361</u>	<u>\$42,180</u>	<u>\$1,309</u>

Name	Guarantee deposits paid			
	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Real Estate Development Co., Ltd.	\$11,564	\$354	\$11,414	\$354
Lin Yuan Investment Co., Ltd.	628	19	-	-
Seaward Leasing Ltd.	33,393	1,022	33,395	1,036
Other	2	-	-	-
Total	<u>\$45,587</u>	<u>\$1,395</u>	<u>\$44,809</u>	<u>\$1,390</u>

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

### I. Other assets

#### Prepayment

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Lin Yuan Investment Co., Ltd.	\$419	\$13	\$-	\$-
Other	59	2	-	-
Total	<u>\$478</u>	<u>\$15</u>	<u>\$-</u>	<u>\$-</u>



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J. Securities sold under agreements to repurchase

Name	September 30,			
	Ending balance			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Wan Pao Development Co., Ltd.	\$461,104	\$14,114	\$169,146	\$5,248
Cathay Securities Investment Trust Co., Ltd.	-	-	10,030	311
Lin Yuan Investment Co., Ltd.	251,949	7,712	199,694	6,196
Other related parties	803,380	24,591	808,457	25,084
Total	<u>\$1,516,433</u>	<u>\$46,417</u>	<u>\$1,187,327</u>	<u>\$36,839</u>

Name	For the nine months ended September 30,			
	Interest expenses			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Wan Pao Development Co., Ltd.	\$28,923	\$885	\$5,785	\$179
Cathay Securities Investment Trust Co., Ltd.	-	-	1,097	34
Lin Yuan Investment Co., Ltd.	671	21	2,254	70
Other related parties	7,321	224	11,276	350
Total	<u>\$36,915</u>	<u>\$1,130</u>	<u>\$20,412</u>	<u>\$633</u>

K. Payables

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Seaward Card	\$38	\$1	\$27,024	\$839
Lin Yuan Property Management Co., Ltd.	64,242	1,966	78,878	2,447
Cathay Real Estate Development Co., Ltd.	5,381	165	-	-
San Ching Engineering Co., Ltd.	504	15	5,009	155
Seaward Leasing Ltd.	837	26	-	-
Cathay Securities Investment Consulting				
Other	13,362	409	-	-
Total	<u>\$84,364</u>	<u>\$2,582</u>	<u>\$110,911</u>	<u>\$3,441</u>

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L. Advance receipts

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Taiwan Asset Management Corporation	\$2,542	\$78	\$-	\$-

M. Net commission and handling fee

a. Handling fee income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$15,210	\$466	\$23,925	\$743
Cathay Securities Investment Consulting	1,925	59	5,166	160
Other	83	2	-	-
Total	\$17,218	\$527	\$29,091	\$903

b. Reinsurance handling fee income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$2,644	\$81	\$6,485	\$201

c. Reinsurance handling fee paid

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$-	\$-	\$8,400	\$261

d. Commissions expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life Insurance Agent	\$18,595	\$569	\$18,478	\$573
Cathay Property Insurance Agent	630	19	-	-
Total	\$19,225	\$588	\$18,478	\$573

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e. Reinsurance commissions expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$1,188	\$36	\$5,138	\$159

f. Reinsurance commissions income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$-	\$-	\$5,709	\$177

N. Net premiums from insurance business

a. Insurance income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay General Hospital	\$27,665	\$847	\$29,163	\$905
Cathay Real Estate Development Co., Ltd.	2,233	68	-	-
San Ching Engineering Co., Ltd.	945	29	-	-
Cathay Securities Investment Trust Co., Ltd.	826	25	-	-
Seaward Leasing Ltd.	10,432	319	9,239	287
Other related parties	308,231	9,435	281,345	8,729
Total	\$350,332	\$10,723	\$319,747	\$9,921

b. Reinsurance income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$90,291	\$2,764	\$108,292	\$3,360

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. Cathay Life assumes 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

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c. Reinsurance claims payment

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$3,843	\$118	\$94,737	\$2,939

O. Net other non-interest income

a. Sales

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay General Hospital	\$3,081	\$94	\$-	\$-
Cathay Securities Investment Trust Co., Ltd.	2,141	66	-	-
Other	2,809	86	-	-
Total	\$8,031	\$246	\$-	\$-

b. Service Income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay General Hospital	\$3,136	\$96	\$3,679	\$114
Lin Yuan Property Management Co., Ltd.	-	-	4,638	144
Other	2,439	75	-	-
Total	\$5,575	\$171	\$8,317	\$258

c. Miscellaneous income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$3,905	\$119	\$53,496	\$1,660
Cathay General Hospital	3,222	99	3,547	110
Other	2,188	67	-	-
Total	\$9,315	\$285	\$57,043	\$1,770

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Q. Operating expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$64,826	\$1,984	\$24,465	\$759
Seaward Card	238,735	7,308	243,475	7,554
Cathay Pacific Management	58,123	1,779	66,368	2,059
Cathay Pacific Partners	9,750	298	6,460	201
Lin Yuan Property Management Co., Ltd.	460,400	14,092	460,788	14,297
Cathay Real Estate Development Co., Ltd.	9,752	299	14,385	446
San Ching Engineering Co., Ltd.	4,075	125	3,813	118
Cathay General Hospital	3,925	120	4,893	152
Cathay Lin Yuan Security Co., Ltd.	3,427	105	-	-
Seaward Leasing Ltd.	7,128	218	6,977	217
Cathay charity foundation	-	-	223,483	6,934
Other	52	2	-	-
Total	<u>\$860,193</u>	<u>\$26,330</u>	<u>\$1,055,107</u>	<u>\$32,737</u>

R. Others Disclosures

- a. Cathay United Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taiyuan Branch totaling NT\$ 1,411,880 (US\$43,671), in 2006. Cathay United Bank paid the amount of NT\$259,042 (US\$7,929) and NT\$480,900 (US\$14,921) during the nine months 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. Cathay United Bank has paid decoration and fix fee to San Ching Engineering Corp. in the amount of NT\$3,400 (US\$104) and NT\$3,752 (US\$116) during the nine months periods ended September 30, 2007 and 2008, respectively.
- c. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$15,353 (US\$470) and NT\$14,464 (US\$449) during the nine months periods ended September 30, 2007 and 2008, respectively.

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

f. Cathay United Bank paid the amount of NT\$45,546 (US\$1,413) thousands to certain managers according to the intercession content regarding a dispute involving dissolving the construction contract on Shih-Hua Hills and repossessing the land.

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

A. Cash in bank

		For the nine months ended September 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,512,356	4.375%~5.70%	\$137,180
	Cash in bank	1,519	0.02%~2.35%	8
	Total	\$3,513,875		\$,137,188

  

		For the nine months ended September 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$107,510	4.375%~5.70%	\$4,199
	Cash in bank	47	0.02%~2.35%	-
	Total	\$107,557		\$4,199

  

		For the nine months ended September 30, 2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$-	2.38%~4.57%	\$29,559
	Cash in bank	13,280	0.00%~1.70%	1,208
	Total	\$13,280		\$30,767

  

		For the nine months ended September 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$-	2.38%~4.57%	\$917
	Cash in bank	412	0.00%~1.70%	38
	Total	\$412		\$955

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B. Receivables

Name	Item	September 30,			
		2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	Interest Receivables due to consolidated income tax	\$243,016	\$7,439	\$739,669	\$22,950
Cathay Life	Receivables due to consolidated income tax	472,900	14,475	-	-
Cathay Century	Receivables due to consolidated income tax	224,937	6,885	231,159	7,172
Cathay Capital Management	Receivables due to consolidated income tax	14,995	459	12,210	379
Cathay Securities	Receivables due to consolidated income tax	12,953	396	-	-
Cathay II Venture	Receivables due to consolidated income tax	2,091	64	9,195	285
Total		<u>\$970,892</u>	<u>\$29,718</u>	<u>\$992,233</u>	<u>\$30,786</u>

C. Guarantee deposits paid:

Name	As of and For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	<u>\$4,864</u>	<u>\$149</u>	<u>\$5,940</u>	<u>\$184</u>

D. Payables

Name	Item	September 30,			
		2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	Receivables due to consolidated income tax	\$541,486	\$16,574	\$1,348,657	\$41,845
Cathay United Bank	Receivables due to consolidated income tax	638,005	19,529	983,685	30,521
Cathay Pacific Venture	Receivables due to consolidated income tax	2,468	76	-	-
Total		<u>\$1,181,959</u>	<u>\$36,179</u>	<u>\$2,332,342</u>	<u>\$72,366</u>

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E. Operating expenses

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$13,224	\$405	\$17,260	\$536
Lin Yuan Property Management Co., Ltd.	176	5	4,322	134
Symphox Information	719	22	-	-
Seaward Leasing Ltd.	783	24	-	-
Cathay General Hospital	70	2	-	-
Cathay Century	49	2	-	-
Cathay Charity Foundation	-	-	223,483	6,934
<b>Total</b>	<b>\$15,021</b>	<b>\$460</b>	<b>\$245,065</b>	<b>\$7,604</b>

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

A. Cathay Life

a. Cash in banks

		For the nine months ended September 30,2007		
Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United	Time deposit	\$5,663,050	1.15%~2.49%	\$35,920
Bank	Cash in bank	2,491,526	0.10%~2.35%	2,572
<b>Total</b>		<b>\$8,154,576</b>		<b>\$38,492</b>

		For the nine months ended September 30,2007		
Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United	Time deposit	\$173,341	1.15%~2.49%	\$1,099
Bank	Cash in bank	76,263	0.10%~2.35%	79
<b>Total</b>		<b>\$249,604</b>		<b>\$1,178</b>

		For the nine months ended September 30,2008		
Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United	Time deposit	\$5,338,601	2.25%~4.50%	\$49,495
Bank	Cash in bank	2,716,522	0.04%~1.85%	2,990
<b>Total</b>		<b>\$8,055,123</b>		<b>\$52,485</b>



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		For the nine months ended September 30,2008		
		Ending balance		Interest income
Name	Item	(US\$)	Rate	(US\$)
Cathay United Bank	Time deposit	\$165,641	2.25%~4.50%	\$1,535
	Cash in bank	84,285	0.04%~1.85%	93
	Total	\$249,926		\$1,628

b. Other Receivables

		September 30,			
		2007		2008	
Name		(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Financial Holding		\$68,719	\$2,103	\$1,348,657	\$41,845
Cathy Century		96,857	2,965	114,682	3,558
Total		\$165,576	\$5,068	\$1,463,339	\$45,403

c. Other financial assets – current

		For the nine months ended September 30,2007		
		Ending balance		Interest income
Name		(NT\$)	Rate	(NT\$)
Cathay United Bank		\$5,250,000	1.80%~3.17%	\$31,462

		For the nine months ended September 30,2007		
		Ending balance		Interest income
Name		(US\$)	Rate	(US\$)
Cathay United Bank		\$160,698	1.80%~3.17%	\$963

		For the nine months ended September 30,2008		
		Ending balance		Interest income
Name		(NT\$)	Rate	(NT\$)
Cathay United Bank		\$1,500,000	1.80%~4.06%	\$63,504

		For the nine months ended September 30,2008		
		Ending balance		Interest income
Name		(US\$)	Rate	(US\$)
Cathay United Bank		\$46,540	1.80%~4.06%	\$1,970

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d. Secured loans

For the nine months ended September 30,2007				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,449,654	\$4,420,965	3.44%~3.60%	\$111,299
Other related parties	272,775	234,923	2.10%~5.87%	4,576
<b>Total</b>	<b>\$4,722,429</b>	<b>\$4,655,888</b>		<b>\$115,875</b>

For the nine months ended September 30,2007				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$136,200	\$135,322	3.44%~3.60%	\$3,407
Other related parties	8,349	7,191	2.10%~5.87%	140
<b>Total</b>	<b>\$144,549</b>	<b>\$142,513</b>		<b>\$3,547</b>

For the nine months ended September 30,2008				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,388,030	\$4,317,275	3.57%~3.85%	\$122,212
Other related parties	310,925	268,135	2.20%~5.67%	5,990
<b>Total</b>	<b>\$4,698,955</b>	<b>\$4,585,410</b>		<b>\$128,202</b>

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For the nine months ended September 30, 2008				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$136,147	\$133,952	3.57%~3.85%	\$3,792
Other related parties	9,647	8,319	2.20%~5.67%	186
<b>Total</b>	<b>\$145,794</b>	<b>\$142,271</b>		<b>\$3,978</b>

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

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$7,499,121	\$229,542	\$6,332,055	\$196,465

f. Property transactions

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

Name	Item	For the nine months ended September 30, 2007	
		(NT\$)	(US\$)
Lin Yuan Property Management	International Building etc.	\$153,534	\$4,700

Name	Item	For the nine months ended September 30, 2008	
		(NT\$)	(US\$)
Lin Yuan Property Management	International Building etc.	\$167,265	\$5,190

The total amounts of contracted projects for real estate as of September 30, 2007 and 2008 between Cathay Life and San Ching Engineering Co., Ltd. were NT\$39,388 (US\$1,206) and NT\$33,130 (US\$1,028), respectively.

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g. Other overdue receivable

Name	September 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Life (Shanghai)	\$-	\$-	\$265,211	\$8,229

h. Repurchase bonds

Name	For the nine months ended September 30, 2008		
	Ending balance	Rate	Interest income
	(NT\$)		(NT\$)
Cathay United Bank	\$682,531	1.70%~1.76%	\$11,109

Name	For the nine months ended September 30, 2008		
	Ending balance	Rate	Interest income
	(US\$)		(US\$)
Cathay United Bank	\$21,177	1.70%~1.76%	\$345

i. Guarantee deposits paid

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Futures	\$364,700	\$11,163	\$1,080,090	\$33,512

As of September 30, 2007 and 2008, the imputed interest income from guarantee deposits paid to Cathay Futures were NT\$156 (US\$5) and NT\$409 (US\$13), respectively.

j. Rental income

Name	For the nine months ended September 30,			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Cathay United Bank	\$205,547	\$6,292	\$221,856	\$6,884

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k. Insurance income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008 (US\$)
Cathay United Bank	\$343,035	\$10,500	\$409,874	\$12,717
Other related parties	308,231	9,435	281,345	8,729
Total	<u>\$651,266</u>	<u>\$19,935</u>	<u>\$691,219</u>	<u>\$21,446</u>

l. Reinsurance income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008 (US\$)
Cathay Insurance (Bermuda)	<u>\$90,291</u>	<u>\$2,764</u>	<u>\$108,292</u>	<u>\$3,360</u>

Since April 1, 2000, Cathay Insurance (Bermuda) has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. Cathay Life assumes 90% of the reinsurance business from Cathay Insurance (Bermuda).

m. Miscellaneous income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Century	<u>\$548,806</u>	<u>\$16,798</u>	<u>\$671,584</u>	<u>\$20,837</u>

n. Operating expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	\$474,036	\$14,510	\$734,515	\$22,790
Symphox Information	185,033	5,664	190,153	5,900
Lin Yuan Property Management Co., Ltd.	<u>460,224</u>	<u>14,087</u>	<u>456,466</u>	<u>14,163</u>
Total	<u>\$1,119,293</u>	<u>\$34,261</u>	<u>\$1,381,134</u>	<u>\$42,853</u>

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### o. Other

As of September 30, 2007 and 2008, the notional amounts of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	September 30,	
	2007	2008
Forward foreign exchange contracts	USD773,623	USD1,235,410
CS contracts	USD1,352,782	USD1,169,937
Financial debentures	NTD200,000	NTD200,000
	(USD6,122)	(USD6,205)

During the nine months ended September 30, 2007 and 2008, Cathay Life had entered a credit assignment agreement with Cathay United Bank in amounts of NT\$1,030,000 (US\$31,527) and NT\$2,480,000 (US\$76,947), respectively.

## B. Cathay United Bank

### a. Loans and deposits

Account/Name	For the nine months ended September 30,							
	2007				2008			
	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward								
Leasing Ltd.	\$2,140,000	\$65,504	\$31,911	\$977	\$2,923,630	\$90,711	\$49,857	\$1,547
Taiwan								
Real-estate								
Management								
Corp.	114,000	3,489	2,675	82	109,000	3,382	2,364	73
Cathay General								
Hospital	258,145	7,902	5,679	174	258,000	8,005	5,167	160
Other related								
parties	309,393	9,470	5,568	170	1,591,600	49,383	39,144	1,215
Total	\$2,821,538	\$86,365	\$45,833	\$1,403	\$4,882,230	\$151,481	\$96,532	\$2,995

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For the nine months ended September 30,								
Account/Name	2007				2008			
	Ending Balance		Interest expense		Ending Balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$8,154,576	\$249,604	\$38,492	\$1,178	\$9,555,123	\$296,467	\$52,485	\$1,629
Cathay								
Financial								
Holding	3,846,452	117,737	137,188	4,199	13,280	412	30,767	955
Cathay Futures	1,039,621	31,822	11,880	364	1,928,617	59,839	21,922	680
Cathay								
Securities	621,486	19,023	9,529	292	166,633	5,170	3,087	96
Cathay Century	710,579	21,750	7,290	223	1,128,084	35,001	8,468	263
Cathay Pacific								
Venture	3,160	97	3,514	108	7,495	232	7	-
Cathay								
Securities								
Investment								
Trust Co.,								
Ltd.	576,096	17,634	7,005	214	600,018	18,617	12,647	392
Cathay Real								
Estate								
Development								
Co., Ltd.	172,112	5,268	166	5	64,261	1,994	139	4
Other related								
parties	2,505,050	76,677	31,368	960	14,800,891	459,227	232,773	7,222
<b>Total</b>	<b>\$17,629,132</b>	<b>\$539,612</b>	<b>\$246,432</b>	<b>\$7,543</b>	<b>\$28,264,402</b>	<b>\$876,959</b>	<b>\$362,295</b>	<b>\$11,241</b>

For the nine months ended September 30, 2007							
Account/Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$330,375	\$10,112	\$19,542	\$598	5.00%~7.70%	\$2,195	\$67
Due from commercial							
Indovina Bank	\$265,665	\$8,132	\$7,316	\$224	0.50%~2.16%	\$120	\$4
Call loans from banks							
Indovina Bank	\$430,957	\$13,191	\$325,700	\$9,969	2.40%~8.70%	\$(928)	\$(29)

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For the nine months ended September 30, 2008

Account/Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$3,406,183</u>	<u>\$105,684</u>	<u>\$1,188,810</u>	<u>\$36,885</u>	3.40%~26%	<u>\$37,719</u>	<u>\$1,170</u>
Due from commercial							
Indovina Bank	<u>\$393,134</u>	<u>\$12,198</u>	<u>\$2,137</u>	<u>\$66</u>	0.5%~2.4%	<u>\$116</u>	<u>\$4</u>
Call loans from banks							
Indovina Bank	<u>\$373,146</u>	<u>\$11,578</u>	<u>\$-</u>	<u>\$-</u>	4.5%~18%	<u>\$(683)</u>	<u>\$(21)</u>

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

### b. Securities sold under agreements to repurchase

Name	September 30,			
	Ending balance			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Lin Yuan Investment Co., Ltd.	\$251,949	\$7,712	\$199,694	\$6,196
Cathay Life	650,047	19,897	682,531	21,177
Wan Pao Development Co., Ltd.	461,104	14,114	169,146	5,248
Other related parties	803,380	24,591	808,457	25,084
Total	<u>\$2,166,480</u>	<u>\$66,314</u>	<u>\$1,859,828</u>	<u>\$57,705</u>

Name	For the nine months ended September 30,			
	Interest expense			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Lin Yuan Investment Co., Ltd.	\$671	\$21	\$2,254	\$70
Cathay Life	4,221	129	11,109	345
Wan Pao Development Co., Ltd.	28,923	885	5,785	179
Other related parties	7,321	224	11,276	350
Total	<u>\$41,136</u>	<u>\$1,259</u>	<u>\$30,424</u>	<u>\$944</u>



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c. Rental Expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$205,547	\$6,292	\$222,316	\$6,898

d. Handling fees income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$476,444	\$14,584	\$803,581	\$24,933

e. Payables

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$242,973	\$7,437	\$739,666	\$22,950

f. Accrued insurance expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$343,035	\$10,500	\$409,874	\$12,717

g. General expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Seaward Card	\$234,028	\$7,163	\$195,167	\$6,055
Symphox Information	305,558	9,353	345,000	10,704
Total	\$539,586	\$16,516	\$540,167	\$16,759

h. Receivables

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$638,005	\$19,529	\$983,685	\$30,521

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i. Financial assets at fair value through profit or loss-mutual fund.

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Trust Co., Ltd.	\$745,649	\$22,824	\$755,649	\$23,446

j. Other

(a) Cathay United Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taiyuan Branch totaling NT\$1,411,880 (US\$43,671), in 2006. Cathay United Bank paid the amount of NT\$259,042 (US\$7,929) and NT\$480,900 (US\$14,921) during the nine months 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) Cathay United Bank enters into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$1,030,000 (US\$31,527) and NT\$2,480,000 (US\$76,947) during the nine-month periods ended September 30, 2007 and 2008, respectively.

(c) The Cathay Life held the dominant financial debentures with notional amounts of NT\$200,000 (US\$6,205) which issued by Cathay United Bank in 2003.

C. Cathay Century

a. Cash in banks

		For the nine months ended September 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$248,129	0.10%	\$192
	Time deposits	462,450	2.16%~2.41%	7,098
Total		\$710,579		\$7,290

  

		For the nine months ended September 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$7,595	0.10%	\$6
	Time deposits	14,155	2.16%~2.41%	217
Total		\$21,750		\$223

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		For the nine months ended September 30, 2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$553,533	0.10%	\$261
	Time deposits	574,550	2.49%~2.72%	8,207
Total		<u>\$1,128,083</u>		<u>\$8,468</u>

		For the nine months ended September 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$17,174	0.10%	\$8
	Time deposits	17,827	2.49%~2.72%	255
Total		<u>\$35,001</u>		<u>\$263</u>

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

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$158,403</u>	<u>\$4,849</u>	<u>\$-</u>	<u>\$-</u>

c. Accrued marketing expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	<u>\$97,197</u>	<u>\$2,975</u>	<u>\$114,682</u>	<u>\$3,558</u>

d. Available-for-sale financial assets-beneficiary certificates

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$74,771</u>	<u>\$2,289</u>	<u>\$110,621</u>	<u>\$3,432</u>

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e. Other payables

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$224,937	\$6,885	\$231,159	\$7,172

f. Operating expense

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$604,231	\$18,495	\$739,016	\$22,929

g. Other

As of September 30, 2007 and 2008 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	For the nine months ended September 30,	
	2007	2008
Forward foreign exchange contracts	US\$21,054	US\$32,588
CS contracts	US\$34,550	US\$26,550
IRS	NT\$200,000 (USD\$6,122)	NT\$600,000 (US\$18,616)

D. Cathay Securities

a. Cash in bank

Name	Item	For the nine months ended September 30, 2007		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$42,538	0.10%~2.35%	\$74
	Negotiable certificates of deposit	505,000	1.50%~1.70%	9,014
	Time deposits	30,000	1.56%~1.66%	441
Total		\$577,538		\$9,529

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		For the nine months ended September 30, 2007		
Name	Item	Ending balance		Interest income
		(US\$)	Rate	(US\$)
Cathay United Bank	Cash in banks	\$1,302	0.10%~2.35%	\$2
	Negotiable certificates of deposit	15,458	1.50%~1.70%	276
	Time deposits	918	1.56%~1.66%	14
Total		<u>\$17,678</u>		<u>\$292</u>

		For the nine months ended September 30, 2008		
Name	Item	Ending balance		Interest income
		(NT\$)	Rate	(NT\$)
Cathay United Bank	Cash in banks	\$166,633	0.90%~2.68%	\$3,087

		For the nine months ended September 30, 2008		
Name	Item	Ending balance		Interest income
		(US\$)	Rate	(US\$)
Cathay United Bank	Cash in banks	\$5,170	0.90%~2.68%	\$96

As of September 30, 2008, NT\$55,000 (US\$1,706) in time deposits reflected premiums received or structured notes and issuance of warrants and were recognized under guarantee deposits paid.

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

		For the nine months ended September 30, 2007						
Name	Clearing and settlement fees	Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds		
		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Cathay Futures	\$520	\$16	\$733	\$22	\$90	\$3	\$221,014	\$6,765

		For the nine months ended September 30, 2008						
Name	Clearing and settlement fees	Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds		
		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Cathay Futures	\$-	\$-	\$-	\$-	\$-	\$-	\$219,381	\$6,807

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E. Cathay Pacific Venture

Available-for-sale financial assets

Name	September 30,			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Cathay Securities Investment Trust Co., Ltd.	449,525	13,760	330,230	10,246

F. Indovina Bank

a. Call Loans from Banks

Name	For the nine months ended September 30, 2007			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	345,242	10,568	2,855	87
Vietinbank	-	-	1,260	39
Total	345,242	10,568	4,115	126

Name	For the nine months ended September 30, 2008			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$-	\$-	683	21
Vietinbank	486,317	15,089	51,989	1,613
Total	486,317	15,089	52,672	1,634

b. Call Loans to Banks

Name	For the nine months ended September 30, 2008			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	1,188,810	36,885	37,719	1,170
Vietinbank	481,950	14,954	10,685	332
Total	1,670,760	51,839	48,404	1,502

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c. Dividends Payable

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	\$97,710	\$2,991	\$-	\$-

G. Cathay Futures

a. Cash in bank

		For the nine months ended September 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$285,000	1.49%~2.41%	\$12,028
	Cash in bank	1,775	0.02%~2.35%	8
	Total	\$286,775		\$12,036

		For the nine months ended September 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$8,724	1.49%~2.41%	\$368
	Cash in bank	54	0.02%~2.35%	-
	Total	\$8,778		\$368

		For the nine months ended September 30, 2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$300,500	1.56%~2.68%	\$4,245
	Cash in bank	12,546	0.04%~1.20%	6
	Total	\$313,046		\$4,251

		For the nine months ended September 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$9,324	1.56%~2.68%	\$132
	Cash in bank	389	0.04%~1.20%	-
	Total	\$9,713		\$132

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As of September 30, 2007 and 2008, Cathay Futures has time deposit amounting to NT\$60,000 (US\$1,862) in Cathay United Bank as the guaranty bond, in accordance with Article 14 of Rules Governing Futures Commission Merchants and Article 11 of Regulation Governing Futures Advisory Enterprises.

### b. Customer's margin accounts

Name	September 30,					
	2007			2008		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	\$752,668	\$23,039	0.02%~2.35%	\$1,615,571	\$50,126	0.04%~2.15%

### c. Futures customers' equity

Name	September 30,			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Cathay Life	\$364,700	\$11,163	\$1,080,090	\$33,512
Cathay Securities	221,014	6,765	219,381	6,807
Total	\$585,714	\$17,928	\$1,299,471	\$40,319

## H. Symphox Information

### a. Cash in bank

		For the nine months ended September 30,2007		
Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United	Time deposit	\$80,000	2.09%~2.16%	\$1,350
Bank	Cash in bank	16,865	0.10%	14
Total		\$96,865		\$1,364

		For the nine months ended September 30,2007		
Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United	Time deposit	\$2,449	2.09%~2.16%	\$41
Bank	Cash in bank	516	0.10%	-
Total		\$2,965		\$41



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		For the nine months ended September 30,2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$369,000	2.16%~2.68%	\$5,185
Bank	Cash in bank	6,550	0.10%	13
Total		<u>\$375,550</u>		<u>\$5,198</u>

		For the nine months ended September 30,2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$11,449	2.16%~2.68%	\$161
Bank	Cash in bank	203	0.10%	-
Total		<u>\$11,652</u>		<u>\$161</u>

b. Sales Revenue

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	<u>\$193,488</u>	<u>\$5,922</u>	<u>\$215,311</u>	<u>\$6,680</u>

c. service Income

Name	For the nine months ended September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$119,786	\$3,667	\$130,860	\$4,060
Cathay United Bank	116,320	3,560	129,690	4,024
Total	<u>\$236,106</u>	<u>\$7,227</u>	<u>\$260,550</u>	<u>\$8,084</u>

I. Cathay Venture

Available-for-sale financial assets

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$361,349</u>	<u>\$11,061</u>	<u>\$110,456</u>	<u>\$3,427</u>

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J. Cathay II Venture

Available-for-sale financial assets

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$126,027	\$3,858	\$-	\$-

K. Cathay Life (Shanghai)

Other payable

Name	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$-	\$-	\$286,845	\$8,900

**26. Pledged assets**

As of September 30, 2007 and 2008, the Company and Subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loan, other financial or leasing	910,940	27,883	915,590	28,408
Guarantee deposits paid	Government bonds	8,409,387	257,404	8,705,884	270,118
Financial assets at fair value through profit or loss	Business reserves and guarantees	802,168	24,554	760,918	23,609
Available-for-sale financial assets	Business reserves and guarantees	2,295,956	70,277	3,713,837	115,229
Held-to-maturity financial assets	Business reserves and guarantees	100,990	3,091	101,077	3,136
Investments in debt securities with no active market	Business reserves and guarantees	15,100,000	462,198	15,500,000	480,918
		<u>\$27,619,441</u>	<u>\$845,407</u>	<u>\$29,697,306</u>	<u>\$921,418</u>

**27. Commitment and contingent liabilities**

(1) Cathay United Bank

A. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constituted a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction and provisional measures against certain of Pacific SOGO's properties and the issuance of its own membership cards. As to the provisional measures, the Taipei District Court had adjudged in favor of Cathay United Bank on June 30, 2007. However, Pacific SOGO appealed against the decision and the appeal is currently being reviewed by the High Court. Furthermore, Cathay United Bank also filed an incidental civil procedures and claim, which is being reviewed by the Taipei District Court, against Pacific SOGO. Subsequently the Taipei District Court issued a judgment favoring Cathay United Bank on October 12, 2006, ordering Pacific SOGO to pay the punitive damages of NT\$400,000 (US\$12,411) thousands. Pacific SOGO had filed an appeal against such order and the appeal is currently being reviewed by the High Court.

B. Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court alleging that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by a former employee of Lee and Li Attorneys-at-Law, Eddie Liu, on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$2.8 million) and NT\$3.09 billion (US\$9.6 million), respectively. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for any claims has been made in these financial statements.

C. As of June 30, 2008, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$2,897,703 (US\$89,907) thousands with NT\$2,121,213 (US\$65,815) thousands of prepayment made.

(2) Cathay Century

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

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- (3) As of September 30, 2007 and 2008, Cathay United Bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	September 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Trust and security held for safekeeping	\$337,800,669	\$10,339,782	\$213,548,719	\$6,625,775
Travelers checks for sale	603,253	18,465	546,833	16,967
Bills for collection	46,274,258	1,416,414	44,812,088	1,390,384
Guarantees on duties and contracts	17,923,555	548,624	17,903,322	555,486
Unused commercial letters of credit	3,190,928	97,672	3,123,724	96,920
Irrevocable loan commitments	35,801,924	1,095,865	46,934,278	1,456,230
Credit card lines commitments	280,177,395	8,575,984	272,515,713	8,455,343
Stamp tax, securities and memorial currency consignments	1,727	53	1,727	54
Book-entry for government bonds and depository for short-term marketable securities under management	366,210,100	11,209,369	385,816,400	11,970,723
Entrusted financial management business	1,651,969	50,565	-	-

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

Periods	NT\$	US\$
July 1, 2008~September 30, 2009	\$789,970	\$24,510
July 1, 2009~September 30, 2013	1,762,096	54,673
Total	\$2,552,066	\$79,183

**28. Significant disaster losses:** None.

**29. Subsequent events:**

On November 6, 2008, the board's meeting resolved the issuance of a NTD\$20 billion subordinated bonds to strengthen the capital base, increase the capital adequacy ratio and invest in subsidiaries.

**30. Other significant matters**

(1) Pension related information

According to the ROC SFAS No. 23 “Interim Financial Reporting and Disclosures”, the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18 “Accounting for Pensions”.

(2) Disclosures information of CUTIC which was acquired by Cathay United Bank is as follow:

A. 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”) took CUTIC into receivership from March 30, 2007. CUTIC went into receivership due to the deteriorating financial and operating conditions and with net worth dipped into the red.

B. 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, Cathay United Bank could provide customers with more convenient and diversifying financial services and to improve long-term profitability.

(b) Regulations: Transfer was governed by Article 9 and 18 of The Financial Institutions Merger Act, and Article 36 of the Security Exchange Act.

C. Effective date of the transfer: December 29, 2007.

D. Type, quantity, and amount of marketable securities issued for the transfer: None.

E. Accounting treatment for assets acquired and liabilities assumed:

(a) Accounting methods for the transfer: Cathay United Bank assumed the specific assets and liabilities 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.

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(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	<u>\$(6,673,083)</u>	<u>\$(207,046)</u>

On December 31, 2007, Cathay United Bank has received NT\$8,800 (US\$273) million as cash subsidies 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 months period ended September 30, 2008.

(3) Financial instruments related information

A. The Company

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$10,271,872	\$10,271,872	\$314,413	\$314,413
Receivables	2,202,667	2,202,667	67,422	67,422
Investments under equity method	228,860,698	228,860,698	7,005,225	7,005,225
Other financial assets	31,720	31,720	971	971
<u>Liabilities</u>				
Payables	2,258,081	2,258,081	69,118	69,118
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	704,619	704,619	21,568	21,568

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Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,222,953	\$1,222,953	\$37,945	\$37,945
Receivables	2,366,433	2,366,433	73,423	73,423
Investment under equity method	160,220,303	160,220,303	4,971,154	4,971,154
Other financial assets	31,720	31,720	984	984
<u>Liabilities</u>				
Payables	2,544,064	2,544,064	78,935	78,935
Other loans	3,860,000	3,860,000	119,764	119,764

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

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

Financial instruments	September 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$10,271,872	\$314,413
Receivables	-	-	2,202,667	67,422
Investments under equity method	-	-	228,860,698	7,005,225
Other financial assets	-	-	31,720	971
<u>Liabilities</u>				
Payables	-	-	2,258,081	69,118
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	-	-	704,619	21,568

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Financial instruments	September 30, 2008			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$1,222,953	\$37,945
Receivables	-	-	2,366,433	73,423
Investments under equity method	-	-	160,220,303	4,971,154
Other financial assets	-	-	31,720	984
<u>Liabilities</u>				
Payables	-	-	2,544,064	78,935
Other loans	-	-	3,860,000	119,764

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

### d. Information on financial risks

#### (a) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at September 30, 2007 and 2008:

① As of September 30, 2008, the Company's financial instruments were all redeemed, the Company's exposure to interest risk is minimal.

② September 30, 2007

#### Fixed interest rate

Item	September 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Financial liabilities at fair value</u>								
through profit or loss	\$-	\$-	\$-	\$-	\$704,619	\$21,568	\$-	\$-



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Item	September 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$704,619	\$21,568

### Floating interest rate

Item	September 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$704,619	\$21,568	\$-	\$-

Item	September 30, 2007					
	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$704,619	\$21,568

The interest rate of a financial instrument with floating interest rate is repriced within a year. The interest rate of a financial instrument with fixed interest rate is fixed until the due date. Financial instruments excluded from the tables above due to absence of interest risk are non-interest bearing financial instruments.

#### (b) Credit risk

The Company's exposure to credit risk is minimal.

#### e. Financial risk management objectives and policies

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

The Company enters into derivative transactions such as foreign currency options and cross currency swaps to protect against the risks from net investments in foreign operations arising from interest rate and exchange rate fluctuations. Derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

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

### Market Risk

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

### Credit Risk

Credit risk is the risk of loss arising from the potential default of the counter-party. An internal credit risk evaluation model for investments in financial instruments is created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.

### Operational Risk

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

### Liquidity Risk

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

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B. Cathay Life

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$226,574,039	\$226,574,039	\$6,935,232	\$6,935,232
Notes and accounts receivable	39,927,718	39,927,718	1,222,153	1,222,153
Financial assets at fair value through profit or loss - current	81,802,435	81,802,435	2,503,901	2,503,901
Available-for-sale financial assets - current	195,285,536	195,285,536	5,977,519	5,977,519
Held-to-maturity financial assets - current	7,923,309	7,921,427	242,526	242,468
Investments in debt securities with no active market - current	5,051,153	5,052,472	154,611	154,652
Other financial assets - current	4,000,000	4,000,000	122,436	122,436
Available-for-sale financial assets - noncurrent	223,161,080	223,161,080	6,830,765	6,830,765
Held-to-maturity financial assets - noncurrent	553,249,460	532,063,365	16,934,480	16,285,992
Financial assets carried at cost - noncurrent	19,412,750	-	594,207	-
Investments in debt securities with no active market - noncurrent	44,877,125	41,432,433	1,373,650	1,268,210
Long-term investments under the equity method	4,418,780	4,418,780	135,255	135,255
Other financial assets – noncurrent	22,500,000	22,500,000	688,705	688,705
Guarantee deposits paid	9,948,248	9,948,248	304,507	304,507
<u>Liabilities</u>				
Notes and accounts payable	22,524,010	22,524,010	689,440	689,440
Guarantee deposits received	1,467,075	1,467,075	44,906	44,906
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	45,899	45,899	1,405	1,405
Forward	18,804,085	18,804,085	575,576	575,576
IRS	128,007	128,007	3,918	3,918
Derivative financial assets for hedging - current				
IRS	184,384	184,384	5,644	5,644

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Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss -				
current				
Option	\$35,154	\$35,154	\$1,076	\$1,076
Forward	19,453,512	19,453,512	595,455	595,455
IRS	85,806	85,806	2,626	2,626
Derivative financial liabilities for hedging - current				
IRS	108,257	108,257	3,314	3,314
September 30, 2008				
Item	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$199,119,334	\$199,119,334	\$6,178,074	\$6,178,074
Notes and accounts receivable	29,243,559	29,243,559	907,340	907,340
Financial assets at fair value through profit or loss - current	44,012,846	44,012,846	1,365,586	1,365,586
Available-for-sale financial assets - current	137,944,650	137,944,650	4,280,008	4,280,008
Held-to-maturity financial assets - current	3,010,609	2,940,897	93,410	91,247
Investments in debt securities with no active market -				
current	3,422,799	3,422,799	106,199	106,199
Available-for-sale financial assets - noncurrent	262,979,339	262,979,339	8,159,458	8,159,458
Held-to-maturity financial assets - noncurrent	646,024,421	617,743,593	20,044,195	19,166,725
Financial assets carried at cost - noncurrent	19,377,737	-	601,233	-
Investments in debt securities with no active market -				
noncurrent	66,312,240	53,025,460	2,057,469	1,645,221
Long-term investments under the equity method	6,327,937	6,327,937	196,337	196,337
Other financial assets – noncurrent	12,100,000	12,100,000	375,427	375,427
Guarantee deposits paid	14,832,799	14,832,799	460,217	460,217
<u>Liabilities</u>				
Notes and accounts payable	6,111,076	6,111,076	189,608	189,608
Guarantee deposits received	1,527,452	1,527,452	47,392	47,392

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Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	\$566,580	\$566,580	\$17,579	\$17,579
Forward	20,843,387	20,843,387	646,708	646,708
IRS	149,028	149,028	4,624	4,624
Derivative financial assets for hedging - current				
IRS	736,804	736,804	22,861	22,861
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Forward	38,310,767	38,310,767	1,188,668	1,188,668
IRS	86,446	86,446	2,682	2,682
Derivative financial liabilities for hedging - current				
IRS	32,073	32,073	995	995

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

- (a) The fair value of Cathay Life's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
- (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- (c) Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Cathay Life's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Cathay Life. Cathay Life uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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- (d) The fair value of Cathay Life's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.
- (e) If no quoted market prices exist for Cathay Life's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- c. The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	September 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$211,153,880	\$6,463,235	\$15,420,159	\$471,997
Notes and accounts receivable	-	-	39,927,718	1,222,153
Financial assets at fair value through profit and loss - current	72,230,803	2,210,922	9,571,632	292,979
Available-for-sale financial assets - current	195,285,536	5,977,519	-	-
Held-to-maturity financial assets - current	7,177,736	219,704	743,691	22,764
Investment in debt securities with no active market - current	-	-	5,052,472	154,652
Other financial assets - current	-	-	4,000,000	122,436
Available-for-sale financial assets - noncurrent	208,834,151	6,392,230	14,326,929	438,535
Held-to-maturity financial assets - noncurrent	92,674,227	2,836,677	439,389,138	13,449,315
Investment in debt securities with no active market - noncurrent	3,450,296	105,610	37,982,137	1,162,600
Long-term investments under the equity method	-	-	4,418,780	135,255
Other financial assets - noncurrent	-	-	22,500,000	688,705
<u>Liabilities</u>				
Notes and accounts payable	-	-	22,524,010	689,440

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September 30, 2007				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and loss - current				
Option	\$4,125	\$126	\$41,774	\$1,279
Forward	-	-	18,804,085	575,576
IRS	-	-	128,007	3,918
Derivative financial assets for hedging - current				
IRS	-	-	184,384	5,644
<u>Liabilities</u>				
Financial liabilities at fair value through profit and loss - current				
Option	-	-	35,154	1,076
Forward	-	-	19,453,512	595,455
IRS	-	-	85,806	2,626
Derivative financial liabilities for hedging - current				
IRS	-	-	108,257	3,314
September 30, 2008				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$181,404,236	\$5,628,428	\$17,715,098	\$549,646
Notes and accounts receivable	-	-	29,243,559	907,340
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - current	40,528,909	1,257,490	3,483,937	108,096
Held-to-maturity financial assets - current	137,944,650	4,280,008	-	-
Investments in debt securities with no active market - current	1,311,144	40,681	1,629,753	50,566
Available-for-sale financial assets - noncurrent	-	-	3,422,799	106,199
	261,665,782	8,118,702	1,313,557	40,756

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Item	September 30, 2008			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets -				
noncurrent	\$76,530,602	\$2,374,514	\$541,212,991	\$16,792,211
Investment in debt securities with no active				
market – noncurrent	-	-	53,025,460	1,645,221
Long-term investments under the equity				
method	-	-	6,327,937	196,337
Other financial assets - noncurrent	-	-	12,100,000	375,427
<u>Liabilities</u>				
Notes and accounts payable	-	-	6,111,076	189,608
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit				
or loss - current				
Option	566,580	17,579	-	-
Forward	-	-	20,843,387	646,708
IRS	-	-	149,028	4,624
Derivative financial assets for hedging -				
current				
IRS	-	-	736,804	22,861
<u>Liabilities</u>				
Financial liabilities at fair value through				
profit or loss - current				
Forward	-	-	38,310,767	1,188,668
IRS	-	-	86,446	2,682
Derivative financial liabilities for hedging -				
current				
IRS	-	-	32,073	995

d. Information on financial risk

(a) Interest rate risk

The following table summarizes the maturities of Cathay Life's financial instruments at September 30, 2007 and 2008:



## English Translation of Financial Statements Originally Issued in Chinese

### Non-derivative financial instruments of fixed interest rate

Item	September 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$381,201	\$11,668	\$1,428,676	\$43,730	\$171,667	\$5,255	\$309,001	\$9,458
Available-for-sale financial assets	2,395,480	73,324	2,830,762	86,647	1,654,810	50,652	10,215,191	312,678
Held-to-maturity financial assets	7,047,010	215,703	6,319,727	193,441	10,002,033	306,153	15,262,218	467,163
Investments in debt securities with								
no active market	506,302	15,498	1,024,859	31,370	1,155,729	35,376	777,618	23,802

Item	September 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$3,351,735	\$102,594	\$15,522,396	\$475,127	\$21,164,676	\$647,832
Available-for-sale financial assets	9,845,965	301,376	87,464,814	2,677,221	114,407,022	3,501,898
Held-to-maturity financial assets	9,886,678	302,623	432,108,038	13,226,448	480,625,704	14,711,531
Investments in debt securities with						
no active market	1,190,982	36,455	34,174,593	1,046,054	38,830,083	1,188,555

### Non-derivative financial instruments of float interest rate

Item	September 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$7,370,447	\$225,603	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	117,978,396	3,611,215	-	-	-	-	-	-
Held-to-maturity financial assets	80,547,065	2,465,475	-	-	-	-	-	-
Investments in debt securities with								
no active market	11,098,195	339,706	-	-	-	-	-	-

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Item	September 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,370,447	\$225,603
Available-for-sale financial assets	-	-	-	-	117,978,396	3,611,215
Held-to-maturity financial assets	-	-	-	-	80,547,065	2,465,475
Investments in debt securities with						
no active market	-	-	-	-	11,098,195	339,706

### Derivative financial instruments

Item	September 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$18,874	\$578	\$61,488	\$1,882	\$6,566	\$201	\$3,742	\$114
Derivative financial assets for								
hedging	21,144	647	11,674	357	94,923	2,906	4,578	140
Financial liabilities at fair value								
through profit or loss	12,637	387	65,093	1,992	3,038	93	8,558	262
Derivative financial liabilities for								
hedging	26,813	821	5,611	172	7,752	237	14,506	444

Item	September 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$9,254	\$283	\$63,858	\$1,955	\$163,782	\$5,013
Derivative financial assets for						
hedging	-	-	52,065	1,594	184,384	5,644
Financial liabilities at fair value						
through profit or loss	11,756	360	19,878	608	120,960	3,702
Derivative financial liabilities for						
hedging	-	-	53,575	1,640	108,257	3,314

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### Non-derivative financial instruments of fixed interest rate

Item	September 30, 2008							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$479,878	\$14,889	\$1,715,561	\$53,229	\$-	\$-	\$3,513,279	\$109,006
Available-for-sale financial assets	2,352,774	73,000	688,252	21,354	7,432,589	230,611	7,208,930	223,671
Held-to-maturity financial assets	187,004,199	5,802,178	11,580,752	359,316	9,729,673	301,883	9,435,515	292,756
Investments in debt securities with no active market	522,799	16,221	1,134,309	35,194	959,079	29,757	1,837,590	57,015

Item	September 30, 2008					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$1,107,096	\$34,350	\$6,200,335	\$192,378	\$13,016,149	\$403,852
Available-for-sale financial assets	18,146,554	563,033	110,503,046	3,428,577	146,332,145	4,540,246
Held-to-maturity financial assets	3,873,281	120,176	329,931,499	10,236,782	551,554,919	17,113,091
Investments in debt securities with no active market	6,115,810	189,755	39,197,214	1,216,172	49,766,801	1,544,114

### Non-derivative financial instruments of float interest rate

Item	September 30, 2008							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$3,077,032	\$95,471	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	124,637,295	3,867,121	-	-	-	-	-	-
Held-to-maturity financial assets	97,480,110	3,024,514	-	-	-	-	-	-
Investments in debt securities with no active market	19,968,238	619,554	-	-	-	-	-	-

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Item	September 30, 2008					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$3,077,032	\$95,471
Available-for-sale financial assets	-	-	-	-	124,637,295	3,867,121
Held-to-maturity financial assets	-	-	-	-	97,480,110	3,024,514
Investments in debt securities with						
no active market	-	-	-	-	19,968,238	619,554

### Derivative financial instruments

Item	September 30, 2008							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$12,755	\$396	\$8	\$-	\$17,789	\$552	\$-	\$-
Derivative financial assets for								
hedging	953	30	36,789	1,141	6,213	193	-	-
Financial liabilities at fair value								
through profit or loss	11,395	354	-	-	52,743	1,636	-	-
Derivative financial liabilities for								
hedging	3,789	118	11,539	358	16,745	519	-	-

Item	September 30, 2008					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$81,072	\$2,515	\$37,404	\$1,161	\$149,028	\$4,624
Derivative financial assets for						
hedging	43,285	1,343	649,564	20,154	736,804	22,861
Financial liabilities at fair value						
through profit or loss	18,790	583	3,518	109	86,446	2,682
Derivative financial liabilities for						
hedging	-	-	-	-	32,073	995

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(b) Credit risk

Cathay Life's exposure to credit risk is minimal.

e. Hedge Accounting Disclosures

Cash flow hedges - IRS

The following table summarizes the terms of the Cathay life's interest rate SWAP for bonds hedging at September 30, 2007 and 2008:

a. September 30, 2007

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$500,000	\$15,305	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Half year	2007/10/10
500,000	15,305	7.05%-90BACP	Half year	2007/10/10
300,000	9,183	5.1%-6ml	Half year	2007/12/19
300,000	9,183	5.5%-6ml	Half year	2007/12/26
300,000	9,183	5.35%-6ml	Half year	2008/1/8
300,000	9,183	180DCP + 40bps	Half year	2008/3/24
500,000	15,305	4%-12ml	Yearly	2008/6/5
300,000	9,183	180DCP	Half year	2008/6/12
200,000	6,122	4.003%-6ml	Half year	2008/6/13
200,000	6,122	180DCP+18bps	Half year	2008/7/11
2,000,000	61,218	90DCP+75bps	Each quarter	2008/7/19
250,000	7,652	90DCP	Each quarter	2008/8/10
450,000	13,774	90DCP	Each quarter	2008/8/22
330,000	10,101	90DCP	Each quarter	2008/8/24
1,150,000	35,200	90DCP+30bps	Each quarter	2008/9/17
350,000	10,713	4.0005%-6ml	Half year	2008/9/26
100,000	3,061	180DCP+30bps	Half year	2008/12/18
300,000	9,183	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,122	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,122	5.85%-6ml	Half year	2009/1/13
50,000	1,530	If 6ml ≤ 1%, 6ml+0.2% If 1% < 6ml < 2%, 3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009/1/16
310,000	9,489	ARMS	Each quarter	2009/3/24
900,000	27,548	90DCP+100bps	Each quarter	2009/5/20
200,000	6,122	4.000%-6ml	Half year	2010/4/7
300,000	9,183	4.0002%-6ml	Half year	2010/4/7
500,000	15,305	4.0006%-6ml	Half year	2010/4/7
500,000	15,305	4.0007%-6ml	Half year	2010/4/7
200,000	6,122	4.0003%-6ml	Half year	2010/4/7
300,000	9,183	4.3%-12ml	Yearly	2010/6/20
900,000	27,548	90DCP	Each quarter	2010/8/18
600,000	18,365	90DCP	Each quarter	2010/8/19
200,000	6,122	6.3%-6ml	Yearly	2010/11/27
300,000	9,183	5.37%-6ml	Yearly	2011/3/15
200,000	6,122	0.5Y:3.8%, 3.0%*n/N if 6ml 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y:1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0%	Half year	2011/3/19
500,000	15,305	If 6ml < 1.1%, 6ml If 1.1% < 6ml < 2.0%, 3.8% If 6ml > 2.0%, Max(5.50%-6ml, 0)	Half year	2011/6/30
2,700,000	82,645	90DCP+25bps	Each quarter	2013/8/24
3,000,000	91,827	90DCP+26.5bps	Yearly	2013/11/03
500,000	15,305	90DCP+23bps	Yearly	2013/12/14
1,000,000	30,609	90DCP+26.5bps	Yearly	2013/12/14
1,500,000	45,914	90DCP+23bps	Yearly	2013/12/16
1,000,000	30,609	90DCP+26.5bps	Each quarter	2013/12/16
1,300,000	39,792	90DCP+45bps	Each quarter	2013/12/27

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b. September 30, 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$100,000	\$3,103	180DCP+30bps	Half year	2008/12/18
300,000	9,308	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml, 4.8%-6ml	Half year	2009/1/7
200,000	6,205	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml, 4.8%-6ml	Half year	2009/1/9
200,000	6,205	5.85%-6ml	Half year	2009/1/13
50,000	1,551	If 6ml ≤ 1%,6ml+0.2% If 1%<6ml<2%,3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009/1/16
247,500	7,679	ARMS	Each quarter	2009/3/24
900,000	27,924	90DCP+100bps	Each quarter	2009/5/20
200,000	6,205	4.000%-6ml	Half year	2010/4/7
300,000	9,308	4.0002%-6ml	Half year	2010/4/7
500,000	15,513	4.0006%-6ml	Half year	2010/4/7
500,000	15,513	4.0007%-6ml	Half year	2010/4/7
200,000	6,205	4.0003%-6ml	Half year	2010/4/7
300,000	9,308	4.3%-12ml	Yearly	2010/6/20
900,000	27,924	90DCP	Each quarter	2010/8/18
600,000	18,616	90DCP	Each quarter	2010/8/19
200,000	6,205	6.3%-6ml	Yearly	2010/11/27
300,000	9,308	5.37%-6ml	Yearly	2011/3/15
500,000	15,513	If 6ml<1.1%,6ml If 1.1% ≤ 6ml ≤ 2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011/6/30
2,000,000	62,054	90DCP	Yearly	2013/3/26
2,700,000	83,773	90DCP+25bps	Each quarter	2013/8/24
3,000,000	93,081	90DCP+26.5bps	Yearly	2013/11/3
2,000,000	62,054	90DCP	Yearly	2013/11/3
1,000,000	31,027	90DCP+26.5bps	Yearly	2013/12/14
500,000	15,513	90DCP+23bps	Yearly	2013/12/14
1,500,000	46,540	90DCP+23bps	Yearly	2013/12/16

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$1,000,000	\$31,027	90DCP+26.5bps	Yearly	2013/12/16
900,000	27,924	90DCP	Yearly	2014/3/12
1,000,000	31,027	90DCP	Yearly	2014/6/12
2,000,000	62,054	90DCP	Yearly	2014/6/29
5,000,000	155,135	90DCP	Yearly	2014/8/23
1,000,000	31,027	90DCP	Yearly	2014/9/20
3,200,000	99,286	90DCP	Yearly	2014/9/27
2,000,000	62,054	90DCP	Each quarter	2014/9/28
1,500,000	46,540	90DCP	Yearly	2014/9/29
2,500,000	77,567	90DCP	Yearly	2014/12/20
2,000,000	62,054	90DCP	Yearly	2014/12/24
-	24,000	6ml	Half year	2014/3/24

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

The forward currency contracts are considered to be highly effective hedges. Cathay Life's interest rate swap agreements are considered to be highly effective cash flow hedges. Unrealized gains (losses) on these financial instruments recognized in equity are NT\$125,322 (US\$3,836) and NT\$763,958 (US\$23,703) as of September 30, 2007 and 2008.

f. Financial risk management objectives and policies

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

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



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

### Market Risk

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

### Credit Risk

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

Cathay Life has taken the credit concentration index of each conglomerate into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by Cathay Life before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees.

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

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

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### Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Life has adopted and implemented the internal control regulations and procedures.

### Liquidity Risk

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

### Country Risk

Country risk is the risk of market price fluctuation or default of the issuers due to the political or economical issues in the country where investments are located.

Cathay Life categorizes and manages the investment risk based on country or region and minimizes the country risk by monitoring the concentration of country risk regularly.

## C. Cathay United Bank

### a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$38,299,787	\$38,299,787	\$1,172,323	\$1,172,323
Available-for-sale financial assets	58,357,622	58,357,622	1,786,276	1,786,276
Held-to-maturity financial assets	284,077,937	284,002,362	8,695,376	8,693,063

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Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Investment accounted for using equity method	\$2,249,661	\$2,249,661	\$68,860	\$68,860
Others	869,124,647	869,124,647	26,603,142	26,603,142
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	44,016,887	44,016,887	1,347,318	1,347,318
Financial debentures payable	18,158,994	18,158,994	555,831	555,831
Others	1,139,921,250	1,139,921,250	34,891,988	34,891,988
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	1,066,035	1,066,035	32,630	32,630
Non-delivery forward	45,027	45,027	1,378	1,378
Currency swap	1,665,107	1,665,107	50,967	50,967
Interest rate swap	1,208,638	1,208,638	36,995	36,995
Cross currency swap	2,046	2,046	63	63
Options	53,728	53,728	1,645	1,645
Credit derivative instruments	10,390	10,390	318	318
Credit default swap	(367)	(367)	(11)	(11)
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Forward	1,923,240	1,923,240	58,869	58,869
Non-delivery forward	45,789	45,789	1,401	1,401
Currency swap	698,088	698,088	21,368	21,368
Interest rate swap	1,922,044	1,922,044	58,832	58,832
Cross currency swap	460,358	460,358	14,091	14,091
Options	53,685	53,685	1,643	1,643
Credit derivative instruments	147,855	147,855	4,526	4,526
Credit default swap	(525)	(525)	16	16

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Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$28,612,881	\$28,612,881	\$887,772	\$887,772
Available-for-sale financial assets	65,111,511	65,111,511	2,020,215	2,020,215
Held-to-maturity financial assets	211,350,933	211,357,731	6,557,584	6,557,795
Investment accounted for using equity method	2,833,462	2,833,462	87,914	87,914
Others	1,005,872,521	1,005,872,521	31,209,199	31,209,199
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	41,975,116	41,975,116	1,302,362	1,302,362
Financial debentures payable	16,615,361	16,615,361	515,525	515,525
Others	1,213,832,204	1,213,832,204	37,661,564	37,661,564
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	4,488,764	4,488,764	139,273	139,273
Non-delivery forward	272,415	272,415	8,452	8,452
Currency swap	678,972	678,972	21,067	21,067
Interest rate swap	3,236,859	3,236,859	100,430	100,430
Cross currency swap	79,266	79,266	2,459	2,459
Options	183,787	183,787	5,702	5,702
Credit derivative instruments	(2,674)	(2,674)	(83)	(83)
<u>Liabilities</u>				
Forward	655,457	655,457	20,337	20,337
Non-delivery forward	262,803	262,803	8,154	8,154
Currency swap	4,525,015	4,525,015	140,398	140,398
Interest rate swap	2,359,913	2,359,913	73,221	73,221
Cross currency swap	84,023	84,023	2,607	2,607
Options	184,810	184,810	5,734	5,734
Credit derivative instruments	418,715	418,715	12,991	12,991
Credit default swap	(53)	(53)	(2)	(2)

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

The carrying values of these financial assets are amounts recoverable after deducting off allowance for doubtful accounts, as such the carrying values approximate fair values.

- (d) The values of debt securities with no active market, financial assets carried at cost and investments accounted for using equity method are determined using pricing models. A pricing model incorporates all information that market participants would consider in setting a price that are available to Cathay United Banks. If fair value of equity securities can not be reliably measured, it will be taken as approximating the carrying value.
- (e) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to determine the fair value of such instrument.

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- (f) The fair value of derivative financial instruments is based on the quoted market price in an active market. If a quoted market price does not exist, Cathay United Bank determines the fair value of the derivative by using pricing models, which generally take into account the unrealized gains or losses made on the derivative.
- c. The fair values of Cathay United Bank's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	September 30, 2007			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$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
Other assets	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	44,016,887	1,347,318
Financial debentures payable	-	-	18,158,994	555,831
Other liabilities	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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 derivatives instruments	-	-	10,390	318
Credit default swap	-	-	(367)	(11)
<u>Liabilities</u>				
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 derivatives instruments	-	-	147,855	4,526
Credit default swap	-	-	(525)	(16)

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Item	September 30, 2008			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$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	170,436,246	5,288,124	40,921,485	1,269,671
Other assets	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	41,975,116	1,302,362
Financial debentures payable	-	-	16,615,361	515,525
Other liabilities	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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)
<u>Liabilities</u>				
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 the equity method, therefore their carrying values approximate their fair values. As such their fair values are not determined by quoted market price or pricing models

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- d. Losses recognized for the changes in fair values of financial assets or liabilities determined by pricing models were NT\$353,573(US\$10,823) and NT\$ 795,189(US\$24,672) for the nine months periods ended September 30, 2007 and 2008, respectively.
- e. The interest income arising from financial assets or liabilities not at fair value through profit or loss for the nine months 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..
- f. Cathay United Bank recognized 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. Realized gains of NT\$1,295,578 (US\$39,657) and NT\$346,576 (US\$10,753) in income statements, for the nine months periods ended September 30, 2007 and 2008, respectively.
- g. Interest income from financial assets which were impaired amount to NT\$27(US\$1) and NT\$0(US\$0) for the nine-month periods ended September 30, 2007 and 2008, respectively. Interest income of such financial assets is determined by discounting future cash flows using certain discount rate.
- h. Information on financial risk

### (a) Market risk

Market risk is the exposure to potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity security prices

Cathay United Bank has a dedicated team managing the Bank's exposure to market risk; there is also a Market Risk Management Committee supervising the overall market risk management. Cathay United Bank regularly assesses the level of its assets and liabilities and reviews its deposits pricing policy and medium to long term financing strategies.

### Ⓐ Interest rate risk

Government bonds and corporate bonds owned by Cathay United Bank are exposed to interest rate risk. If the market interest rate rises, the fair values of Cathay United Bank's fixed-rate bond investments may decline.



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### ⓑ Foreign exchange risk

Cathay United Bank manages foreign exchange risk by matching assets and liabilities denominated in foreign currency. Cathay United 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 Cathay United Bank's commercial positions. As most of assets and liabilities denominated foreign currency are matched, the foreign exchange risk is insignificant.

### ⓒ Equity securities price risk

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

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

January 1 ~ September 30, 2007						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$122,096	\$3,737	\$191,605	\$5,865	\$43,942	\$1,345
Foreign exchange	135,734	4,155	388,037	11,877	3,842	118
Equity Securities price	142,348	4,357	250,352	7,663	59,724	1,828

January 1 ~ September 30, 2008						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(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

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

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Market risk factor sensitivity is one of the tools used to manage market risk. Market risk factor sensitivity 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 currency risks each foreign currency portfolio is exposed to, caused by the underlying currency exchange rate at the balance sheet date.

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

Equity factor sensitivities (“Equity delta”) represent the change in value of the equity portfolio caused by movements in the underlying stocks prices. Cathay United Bank equity portfolios include stocks and equity index options.

	(In thousands of US dollars)	
	Currency	September 30, 2008
<u>FX factor sensitivity (FX Delta)</u>		
	USD	\$(11,478)
	JPY	102
	NTD	13,053
	HKD	(3,223)
<u>Interest rate factor sensitivity (PVBP)</u>		
	USD	(1,071)
	JPY	(1)
	NTD	(876)
	HKD	(3)
<u>Equity factor sensitivity (Equity Delta)</u>		
	NTD	957

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(b) Credit risk

Cathay United Bank's exposure to credit risk represents the risk of loss arising from the potential defaults of counterparty

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

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

- Ⓐ The credit risk amounts are assessed for all contracts with positive fair value on balance sheet date and off-balance-sheet commitment and guarantee contracts. The maximum credit risk exposure amounts of various financial instruments are the same as carrying value except for items disclosed below:

Item	September 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
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	284,077,937	8,695,376
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

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September 30, 2007				
Item	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
	Guarantees on duties and contracts	\$-	\$-	\$17,923,555
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
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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				
Item	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
	<u>Non-derivative financial instruments</u>			
Financial assets at fair value through profit or loss	\$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
<u>Derivative financial instruments</u>				
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

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

	September 30,			
	2007		2008	
Loans, customers' liabilities under acceptances, bill purchased and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
<b>Industry type</b>				
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
<b>Total</b>	<b>764,693,762</b>	<b>23,406,604</b>	<b>864,664,942</b>	<b>26,827,953</b>
Valuation allowance	(10,204,905)	(312,363)	(8,311,168)	(257,870)
<b>Maximum credit risk exposed</b>	<b>\$754,488,857</b>	<b>\$23,094,241</b>	<b>\$856,353,774</b>	<b>\$26,570,083</b>

	September 30,			
	2007		2008	
Loans, customers' liabilities under acceptances, bill purchased and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
<b>Geographic Region</b>				
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
<b>Total</b>	<b>764,693,762</b>	<b>23,406,604</b>	<b>864,664,942</b>	<b>26,827,953</b>
Valuation allowance	(10,204,905)	(312,363)	(8,311,168)	(257,870)
<b>Maximum credit risk exposed</b>	<b>\$754,488,857</b>	<b>\$23,094,241</b>	<b>\$856,353,774</b>	<b>\$26,570,083</b>

### (c) Liquidity risk

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

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

Cathay United Bank's assets and liabilities management committee is responsible for overall liquidity risk management. Cathay United Bank's liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning. Cathay United Bank manages liquidity risks across all classes of assets and liabilities; when there are or expected to be significant changes to the liquidity risk faced by Cathay United Bank, the board of directors will be notified immediately.

The liquidity risk rate was 25.30%. Capital and working capital of Cathay United Bank is sufficient to satisfy all contractual obligations. Cathay United Bank assesses the liquidity risk by analyzing assets and liabilities which are categorized appropriately.

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

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

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

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

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Financial instruments	Effective interest rate (%)	
	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

### i. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets (liabilities) fair value			
		September 30, 2007		September 30, 2008	
		(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, Cathay United Bank can expect changes in the fair value of the hedged item that are attributable to the hedged risk to be almost fully offset by the changes in the fair value of the hedging instrument and actual results are within a range of 80~125 percent.

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D. Cathay Century

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$1,655,790	\$1,655,790	\$50,682	\$50,682
Financial assets at fair value through profit or loss -				
current	908,179	908,179	27,798	27,798
Available-for-sale financial assets - current	3,374,997	3,374,997	103,306	103,306
Held-to-maturity financial assets-current	31,112	31,112	952	952
Investments in debt securities with no active				
market-current	126,209	126,209	3,863	3,863
Receivables	1,715,208	1,715,208	52,501	52,501
Prepaid reinsurance premiums ceded	996,049	996,049	30,488	30,488
Claims recoverable from reinsurers	1,152,182	1,152,182	35,267	35,267
Due from reinsurers and ceding companies	63,274	63,274	1,937	1,937
Accounts receivable-reinsurance	35,420	35,420	1,084	1,084
Secured loans	2,318,109	2,318,109	70,955	70,955
Held-to-maturity financial assets- noncurrent	4,222,682	4,222,682	129,253	129,253
Financial assets carried at cost-noncurrent	60,000	60,000	1,837	1,837
Investments in debt securities with no active market -				
noncurrent	102,136	102,136	3,126	3,126
Long-term investments under equity method	445,273	445,273	13,629	13,629
Guarantee deposits paid	425,133	425,133	13,013	13,013
<u>Liabilities</u>				
Claims outstanding	34,494	34,494	1,056	1,056
Due to reinsurers and ceding companies	346,262	346,262	10,599	10,599
Accounts payable-reinsurance	626,745	626,745	19,184	19,184
Operating and liability reserve	12,301,613	12,301,613	376,542	376,542
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss -				
current				
Options Contract	573	573	18	18
Foreign exchange SWAP	9,762	9,762	299	299
<u>Liabilities</u>				
Derivative financial liabilities for hedging-current				
IRS	126	126	4	4



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Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$3,502,089	\$3,502,089	\$108,659	\$108,659
Financial assets at fair value through profit or loss -				
current	335,620	335,620	10,413	10,413
Available-for-sale financial assets - current	2,666,498	2,666,498	82,733	82,733
Held-to-maturity financial assets - current	415,115	415,115	12,880	12,880
Financial assets carried at cost - current	24,000	24,000	745	745
Investments in debt securities with no active market -				
current	100,534	100,534	3,119	3,119
Receivables	2,092,106	2,092,106	64,912	64,912
Prepaid reinsurance premiums ceded	1,274,239	1,274,239	39,536	39,536
Claims recoverable from reinsurers	1,192,249	1,192,249	36,992	36,992
Due from reinsurers and ceding companies	205,375	205,375	6,372	6,372
Account receivable - reinsurance	69,258	69,258	2,149	2,149
Secured loans	1,615,412	1,615,412	50,121	50,121
Held-to-maturity financial assets - noncurrent	3,174,841	3,174,841	98,506	98,506
Financial assets carried at cost-noncurrent	36,000	36,000	1,117	1,117
Long-term investments under equity method	1,292,136	1,292,136	40,091	40,091
Guarantee deposits paid	460,465	460,465	14,287	14,287
<u>Liabilities</u>				
Claims outstanding	18,432	18,432	572	572
Due to reinsurers and ceding companies	482,423	482,423	14,968	14,968
Account payable - reinsurance	646,907	646,907	20,072	20,072
Operating and liabilities reserve	13,734,945	13,734,945	426,154	426,154
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Derivative financial assets for hedging				
IRS	7,611	7,611	236	236
<u>Liabilities</u>				
Derivative financial liabilities for hedging - current				
Foreign Exchange swap	226,387	226,387	7,024	7,024

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

(a) The fair value of Cathay Century's short-term financial instruments approximates carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables, prepaid reinsurance premiums ceded, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.

(b) The fair value of the guarantee deposits paid and guarantee deposits received approximates the carrying amount.

(c) Quoted market prices, if available, are used to determine the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century's held-to-maturity financial assets, the fair value of financial assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Century. Cathay Century uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

(d) The fair value of Cathay Century's current and noncurrent financial asset or liabilities is based on market prices at the reporting date. When market prices are not available, their fair values are estimated based on their carrying amounts and any other relevant financial information.

c. The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	September 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit				
or loss-current	\$908,179	\$27,798	\$-	\$-
Available-for-sale financial assets-current	3,374,997	103,306	-	-
Held to-maturity financial asset-current	-	-	31,112	952

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September 30, 2007				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Investment in debt securities with no active market-current	\$-	\$-	\$126,209	\$3,863
Held-to-maturity financial assets-noncurrent	-	-	4,222,682	129,253
Financial assets carried at cost-noncurrent	-	-	60,000	1,837
Investment in debt securities with no active market-noncurrent	-	-	102,136	3,126
Long-term investments in stocks under the equity method	-	-	445,273	13,629
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Option	573	18	-	-
Foreign exchange swap	9,762	299	-	-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
IRS	126	4	-	-
September 30, 2008				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$335,620	\$10,413	\$-	\$-
Available-for-sale financial assets-current	2,666,498	82,733	-	-
Held-to-maturity financial assets-current	-	-	415,115	12,880
Financial assets carried at cost-current	-	-	24,000	745
Investment in debt securities with no active market-current	-	-	100,534	3,119
Held-to-maturity financial assets-noncurrent	-	-	3,174,841	98,506
Financial assets carried at cost-noncurrent	-	-	36,000	1,117
Long-term investments under equity method	--	-	1,292,136	40,091
Other financial asset-noncurrent	-	-	-	-

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September 30, 2008

Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Derivative financial assets for				
hedging-current	\$7,611	\$236	\$-	\$-
IRS				
<u>Liabilities</u>				
Financial liabilities at fair value through				
profit or loss-current				
Foreign exchange SWAP	226,387	7,024	-	-

### d. Information on financial risk

#### (a) Interest rate risk

The following table summarizes the maturities of Cathay Century's financial instruments at September 30, 2007 and 2008:

#### Fixed interest rate

September 30, 2007

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$31,112	\$952	\$1,044,330	\$31,966	\$-	\$-	\$163,244	\$4,997
Investments in debt securities								
with no active market	126,209	3,863	102,136	3,126	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Held-to-maturity financial assets	\$792,926	\$24,271	\$2,222,182	\$68,019	\$4,253,794	\$130,205		
Investments in debt securities								
with no active market	-	-	-	-	228,345	6,989		

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September 30, 2008

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$415,115	\$12,880	\$-	\$-	\$-	\$-	\$353,296	\$10,962
Investments in debt securities								
with no active market	100,534	3,119	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$238,951	\$7,414	\$2,582,594	\$80,130	\$3,589,956	\$111,386
Investments in debt securities						
with no active market	-	-	-	-	100,534	3,119

### (b) Credit risk

Cathay Century's exposure to credit risk is minimal.

### e. Hedging activities

#### Fair value hedges

Cathay Century's overseas bonds investments are exposed to potentially significant changes in fair value caused by fluctuations in foreign exchange rates. Therefore Cathay Century has purchased foreign currency contract for hedging purposes.

The following table summarizes the terms of Cathay Century's foreign exchange swap for overseas bonds hedging at September 30, 2008:

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		September 30, 2007		September 30, 2008	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas bonds	Foreign exchange SWAP	\$9,762	\$299	\$(226,387)	\$(7,024)

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### f. Cash flow hedges-IRS

The following table summarizes the terms of Cathay Century's interest rate swap for bonds hedging at September 30, 2008:

#### Cash flow hedges-IRS

① September 30, 2008

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,205	2.65%	Each quarter	2014/9/30
200,000	6,205	2.40%	Each quarter	2012/9/28
200,000	6,205	2.785%	Each quarter	2015/4/30

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

Cathay Century's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized loss on the interest rate swap agreements were recognized in equity in the amount of NT\$7,611 (US\$236) as of September 30, 2008.

### g. Financial risk management objectives policies

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

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

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. The risk management policies approved by the board of directors are as follows:

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### Market Risk

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

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

Cathay Century also has foreign currency exposures arising from transactions not denominated in functional currency. Such exposures arise from reinsurance transactions. These transactions with foreign reinsurance companies are usually settled on time and are of short durations; as such the fluctuation of exchange rate is not significant. Thus Cathay Century did not seek to hedge this exposure.

### Credit risk

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

Cathay Century maintains a strict policy to evaluate customers' credit ratings when providing loan commitments. Customers are required to provide appropriate collateral for the related loans, and Cathay Century retains the legal right to foreclose on or liquidate the collateral.

The counterparties for Cathay Century's other financial assets (including cash and cash equivalents, current or noncurrent investments) are all reputable domestic or international financial institutions; therefore the credit risk is minimal.

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### Operational Risk

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

### Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

## E. Cathay Securities

### a. Information of fair value

Item	September 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$598,354	\$598,354	\$18,315	\$18,315
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	170,145	170,145	5,208	5,208
Operating securities – net	1,039,788	1,039,788	31,827	31,827
Receivable amount for margin loans	1,207,761	1,207,761	36,969	36,969
Receivables	24,046	24,046	736	736
Investment Under equity method	718,652	718,652	21,997	21,997
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,097	230,097	7,043	7,043
Settlement and clearance funds	50,550	50,550	1,547	1,547
Guarantee deposits paid	49,185	49,185	1,506	1,506
<u>Liabilities</u>				
Securities financing guarantee deposits-in	18,467	18,467	565	565
Deposit payable for securities financing	21,158	21,158	648	648
Payables	44,007	44,007	1,347	1,347
Guarantee deposits-in	141	141	4	4



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Item	September 30, 2007			
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	\$221,014	\$221,014	\$6,765	\$6,765
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	62,140	62,140	1,902	1,902
Repurchase of issued call (put) warrants	(28,382)	(28,382)	(869)	(869)
Put options-futures	794	794	24	24
Derivative financial instrument liabilities -GreTai (over-the-counter)	2,213	2,213	68	68
Other financial liabilities – current	213,306	213,306	6,529	6,529

Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$327,313	\$327,313	\$10,156	\$10,156
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	572,041	572,041	17,749	17,749
Operating securities – net	1,260,055	1,260,055	39,096	39,096
Receivable amount for margin loans	644,625	644,625	20,001	20,001
Receivables – net	33,122	33,122	1,027	1,027
Restricted assets – current	50,000	50,000	1,551	1,551
Investment under equity method	734,906	734,906	22,802	22,802
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,139	7,139
Settlement and clearance funds	51,519	51,519	1,599	1,599
Guarantee deposits paid	62,251	62,251	1,931	1,931

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Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities</u>				
Securities financing guarantee deposits-in	\$14,345	\$14,345	\$445	\$445
Deposit payable for securities financing	15,856	15,856	492	492
Payables	119,833	119,833	3,718	3,718
Guarantee deposits-in	141	141	4	4
 <u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options-futures	1,378	1,378	42	42
Margin for futures trading – own funds	219,381	219,381	6,807	6,807
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	509,305	509,305	15,802	15,802
Repurchase of issued call (put) warrants	(441,243)	(441,243)	(13,690)	(13,690)
Put options-futures	1,081	1,081	34	34
Derivative financial instrument liabilities -GreTai (over-the-counter)	(1,351)	(1,351)	(42)	(42)
Other financial liabilities – current	102,911	102,911	3,193	3,193

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

- (a) Short-term financial instruments are stated at their carrying amounts on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts will approximate their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, securities refinancing margin deposits, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities financing guarantee deposits in, deposit payable for securities financing, payables and guarantee deposits-in.

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- (b) The fair value of available-for-sale financial assets – noncurrent are determined based on quoted market prices, if available. If quoted market price does not exist, the carrying amount on the balance sheet date is used to estimate the fair value.
- (c) If quoted market prices on the open market exist for the financial assets and liabilities, then the quoted market prices are regarded as their fair values. If quoted market prices do not exist then Cathay Securities determine the fair value of the financial asset or liability using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price..

The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	September 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$170,145	\$5,208	\$-	\$-
Operating securities – net	1,039,788	31,827	-	-
Margin for futures trading – own funds	221,014	6,765	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	62,140	1,902	-	-
Repurchase of issued call (put) warrants	(28,382)	(869)	-	-
Put options-futures	794	24	-	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	-	2,213	68
Other financial liabilities – current	-	-	213,306	6,529

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Financial instruments	Based on the quoted market			
	price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$572,041	\$17,749	\$-	\$-
Operating securities – net	1,260,055	39,096	-	-
Call options-futures	1,378	42	-	-
Margin for futures trading – own funds	219,381	6,807	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	509,305	15,802	-	-
Repurchase of issued call (put) warrants	(441,243)	(13,690)	-	-
Put option futures	1,081	34	-	-
Derivative financial instrument liabilities-GreTai (over-the-counter)	-	-	(1,351)	(42)
Other financial liabilities – current	-	-	102,911	3,193

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

c. Financial risk management objectives and policies

(a) Market risk

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

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### (b) Credit risk

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

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

### (c) Liquidity risk

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

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

### (d) Cash flow risk from interest rate fluctuations

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

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

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d. Derivatives

(a) Issuance call warrants

Ⓐ Nominal principal or contract amount and credit risk

	September 30, 2007		September 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Issuance of call warrants	NT\$113,920 <u>(US\$3,487)</u>	NT\$- <u>(US\$-)</u>	NT\$2,100,082 <u>(US\$65,159)</u>	NT\$- <u>(US\$-)</u>

Cathay Securities collects premiums from investors when issuing call warrants.

Therefore, Cathay Securities believes it does not have any credit risk with respect of these investors.

Ⓑ Market price risk

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

Ⓒ Liquidity risk, cash flow risk and future cash requirements

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

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

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### ④ Types, purposes, and strategies for financial derivatives

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

### ⑤ Financial statement presentation of derivative financial instruments

As of September 30, 2007 and 2008, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

#### **Balance sheet**

	September 30, 2007		September 30, 2008	
	Financial liabilities at fair value through profit or loss-current	Financial liabilities at fair value through profit or loss-current	Financial liabilities at fair value through profit or loss-current	Financial liabilities at fair value through profit or loss-current
	(NT\$)	(US\$)	(NT\$)	(US\$)
Liabilities for issuance of call (put) warrants	\$62,140	\$1,902	\$509,305	\$15,802
Repurchase of issued call (put) warrants	(28,382)	(869)	(441,243)	(13,690)
Total	\$33,758	\$1,033	\$68,062	\$2,112

#### **Statement of income**

	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008		Comments
	Profit from issuing call (put) warrants	Profit from issuing call (put) warrants	Profit from issuing call (put) warrants	Profit from issuing call (put) warrants	
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Liabilities for issuance of call (put) warrants	\$44,860	\$1,373	\$1,343,956	\$41,699	Fair value method
Repurchase of issued call (put) warrants					
- Loss on disposal	(17,925)	(549)	(1,646,967)	(51,101)	
- Loss from valuation	(29,475)	(902)	(566,291)	(17,570)	Fair value method
Gain from expiration of warrants issued	11,120	341	937,401	29,085	
Trading securities-hedging					
- Loss on disposal	(4,062)	(124)	(44,823)	(1,391)	
- Gain (loss) from valuation	321	9	(17,941)	(557)	Fair value method
Total	\$4,839	\$148	\$5,335	\$165	

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(b) Structured notes transactions

Ⓐ Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2007		September 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Principal guaranteed notes	\$214,400 (US\$6,563)	\$- (US\$-)	\$105,600 (US\$3,276)	\$- (US\$-)

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

Ⓑ Market risk

Cathay Securities enters into structured notes transactions in which it receives proceeds from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range and, as a result, it is not exposed to significant market risk.

Ⓒ Risk from liquidity, cash flow and future cash requirements

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

Ⓓ Types, purposes, and strategies for financial derivatives

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



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

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

### (c) Financial statement presentation of derivative financial instruments

As of September 30, 2007 and 2008, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

#### **Balance sheet**

	September 30, 2007		September 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Derivative financial instrument assets –				
GreTai (over-the-counter) (note 1)				
Structured notes transactions	\$2,213	\$68	\$(1,351)	\$(42)
Other financial liabilities – current				
Principal of structured notes	213,306	6,529	102,911	3,193

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

#### **Statement of income**

	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008		Comments
	(NT\$)	(US\$)	(NT\$)	(US\$)	
	(Loss) gain from structured notes	\$(6,929)	\$(212)	\$1,016	
Trading securities-hedging					
-Gain (Loss) on disposal	6,213	190	(4,051)	(126)	
-Loss from valuation	(183)	(6)	(188)	(6)	Fair value method
Loss from structured notes	<u>\$(899)</u>	<u>\$(28)</u>	<u>\$(3,223)</u>	<u>\$(100)</u>	

### e. Futures and options transactions

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As of September 30, 2007 and 2008, the Cathay Securities' unexercised options were as follows:

September 30, 2007

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment receipt of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	TAIEX futures	Buy	88	\$166,446	\$5,095	\$167,059	\$5,114
Options	TXO-Put	Sell	410	\$(991)	\$(30)	\$794	\$24

September 30, 2008

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment receipt of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	Mini-TAIEX	Buy	1	\$1,173	\$36	\$1,109	\$34
Options	TXO-Call	Buy	173	\$694	\$22	\$123	\$3
Options	TXO-Put	Buy	120	\$815	\$25	\$1,255	\$39
Options	TXO-Call	Sell	149	\$(273)	\$(8)	\$176	\$6
Options	TXO-Put	Sell	96	\$(265)	\$(8)	\$905	\$28

(a) Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2007	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TAIEX futures	\$166,446 (US\$5,095)	\$-
TXO	\$991(US\$30)	\$-

## **English Translation of Financial Statements Originally Issued in Chinese**

Financial instruments	September 30, 2008	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
Mini- TAIEX futures	\$1,173(US\$36)	\$-
TXO	\$2,047(US\$63)	\$-

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

### (b) Market risk

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

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

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

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

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

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

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(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “financial assets at fair value through profit or loss – current (margin for futures trading – own funds) on the balance sheet. For the nine months ended September 30, 2007 and 2008, the related gain (loss) of futures and options on the statement of income were as follows:

Item	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain from derivative financial instruments - futures				
Gain on futures contracts - realized	\$14,959	\$458	\$6,290	\$195
Gain on futures contracts - unrealized	773	23	315	10
Gain from options transactions - realized	2,248	69	5,571	173
Gain from options transactions - unrealized	1,209	37	1,024	32
Total	<u>\$19,189</u>	<u>\$587</u>	<u>\$13,200</u>	<u>\$410</u>

Item	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loss from derivative financial instruments - futures				
Loss on futures contracts - realized	\$5,087	\$156	\$7,573	\$235
Loss on futures contracts - unrealized	160	5	379	12
Loss from options transactions - realized	1,416	43	3,787	117
Loss from options transactions - unrealized	1,012	31	1,698	53
Total	<u>\$7,675</u>	<u>\$235</u>	<u>\$13,437</u>	<u>\$417</u>

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F. Cathay Pacific Venture

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$3,180	\$3,180	\$97	\$97
Available-for-sale financial assets-current	830,692	830,692	25,427	25,427
Other receivables (contain transactions with related parties)	2,468	2,468	76	76
Other current assets	2,066	2,066	63	63
<u>Liabilities</u>				
Other payables (contain transactions with related parties)	139	139	4	4

Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$8,230	\$8,230	\$255	\$255
Available-for-sale financial assets-current	430,519	430,519	13,358	13,358
Other receivables (contain transactions with related parties)	2,677	2,677	83	83
<u>Liabilities</u>				
Other payables	165	165	5	5

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

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

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(b) Quoted market prices, if available, are used to determine the fair values of available-for-sale financial assets.

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

c. The following table summarizes the basis of determining fair value of financial assets and liabilities as of September 30, 2007 and 2008:

Item	September 30, 2007			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-current	\$830,692	\$25,427	\$-	\$-
Item	September 30, 2008			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-current	\$430,519	\$13,358	\$-	\$-

d. Information on financial risk

(a) Market risk

Market risk is the exposure to potential loss arising from adverse movements of market price, such as interest rates or foreign exchange rates. Cathay Pacific assesses the impact of market risk on financial assets and liabilities to be limited.

(b) Credit risk

A credit risk is the risk of loss arising from counterparty or a debtor defaulting on their contractual obligations. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivable of financial instruments. Cathay Pacific believes the maximum credit exposure amount of financial instruments is equal to their carrying values.

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(c) Liquidity risk

Cathay Pacific has sufficient working capital for its operation therefore there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital. In addition, except for the financial assets carried at cost (unquoted equity securities) which may be exposed to significant liquidity risks due to lack of active market, all other stocks Cathay Pacific held are able to be disposed rapidly at prices close to fair values.

G. Cathay Futures

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$226,826	\$226,826	\$6,943	\$6,943
Customers' margin accounts	886,240	886,240	27,127	27,127
Futures trading deposits receivable	750	750	23	23
Accounts receivable-related parties	90	90	3	3
Other receivable (contain transactions with related parties)	4,111	4,111	126	126
Available-for-sale financial assets-noncurrent	30,500	30,500	934	934
Operating deposits	60,000	60,000	1,837	1,837
Settlement and clearance funds	66,000	66,000	2,020	2,020
Guarantee deposits paid	1,279	1,279	39	39
<u>Liabilities</u>				
Futures customers' equity	886,038	886,038	27,121	27,121
Payables (contain transactions with related parties)	1,359	1,359	42	42
Advance receipts	249	249	8	8
Other payable (contain transactions with related parties)	4,507	4,507	138	138

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Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$253,097	\$253,097	\$7,853	\$7,853
Customers' margin accounts	2,072,728	2,072,728	64,311	64,311
Futures trading deposits receivable	310	310	10	10
Accounts receivable-related parties	93	93	3	3
Other receivable (contain transactions with related parties)	6,918	6,918	215	215
Available-for-sale financial assets-noncurrent	30,500	30,500	946	946
Operating deposits	60,000	60,000	1,862	1,862
Settlement and clearance funds	66,000	66,000	2,048	2,048
Guarantee deposits paid	1,279	1,279	40	40
<u>Liabilities</u>				
Futures customers' equity	2,071,699	2,071,699	64,279	64,279
Payables (contain transactions with related parties)	5,159	5,159	160	160
Advance receipts	336	336	10	10
Other payable (contain transactions with related parties)	3,574	3,574	111	111

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

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



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- c. The fair value of Cathay Futures financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	September 30, 2007			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-noncurrent	\$30,500	\$934	\$-	\$-

Item	September 30, 2008			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-non-current	\$30,500	\$946	\$-	\$-

d. Information on financial risk

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

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H. Symphox Information

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$96,969	\$96,969	\$2,968	\$2,968
Financial assets at fair value through profit or loss-current	210,713	210,713	6,450	6,450
Receivables (contain transactions with related parties)	153,109	153,109	4,687	4,687
Guarantee deposits paid	7,938	7,938	243	243
<u>Liabilities</u>				
Payables (contain transactions with related parties)	78,285	78,285	2,396	2,396
Guarantee deposits in	79	79	2	2
Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$376,203	\$376,203	\$11,672	\$11,672
Financial assets at fair value through profit or loss-current	100,304	100,304	3,112	3,112
Receivables (contain transactions with related parties)	145,838	145,838	4,525	4,525
Guarantee deposits paid	10,229	10,229	317	317
<u>Liabilities</u>				
Payables (contain transactions with related parties)	106,086	106,086	3,292	3,292
Guarantee deposits in	80	80	2	2

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

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

(b) The fair value of the guarantee deposits paid and guarantee deposits in also approximates the carrying amount.

c. The fair value of Symphox Information financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	September 30, 2007			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$210,713	\$6,450	\$-	\$-
Item	September 30, 2008			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$100,304	\$3,112	\$-	\$-

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### I. Cathay Venture

#### a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$24,286	\$24,286	\$743	\$743
Financial assets at fair value through profit or loss-current	12,875	12,875	394	394
Available-for-sale financial assets- current	361,349	361,349	11,061	11,061
Available-for-sale financial assets- noncurrent	254,541	254,541	7,791	7,791
Financial assets carried at cost - noncurrent	862,965	862,965	26,415	26,415
Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$11,631	\$11,631	\$361	\$361
Financial assets at fair value through profit or loss-current	29,748	29,748	923	923
Available-for-sale financial assets- current	110,456	110,456	3,427	3,427
Available-for-sale financial assets- noncurrent	165,197	165,197	5,126	5,126
Financial assets carried at cost - noncurrent	1,033,887	1,033,887	32,078	32,078

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

- (a) The fair value of short-term financial instruments approximates on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.
- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However fair value is estimated using pricing model if an active market does not exist.

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(c) When financial assets are quoted on an active market, the fair value is the market price. However fair value is estimated based on their carrying amount or other relevant financial information if an active market does not exist.

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

Item	September 30,							
	2007				2008			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through								
profit or loss-current	\$12,875	\$394	\$-	\$-	\$29,748	\$923	\$-	\$-
Available-for-sale financial								
assets-current	361,349	11,061	-	-	110,456	3,427	-	-
Available-for-sale financial								
assets-noncurrent	254,541	7,791	-	-	165,197	5,126	-	-
Financial assets carried at cost -								
noncurrent	-	-	862,965	26,415	-	-	1,033,887	32,078

d. Information on financial risk

(a) Market risk – Cathay Venture invests in financial instruments relating to equity securities and the fair value of such investments will move based on fluctuations in the market price. As such there is no market risk.

(b) Credit risk – Cathay Venture has appropriate credit approval process and transaction limits in place, furthermore it only transacts with creditworthy individual or company. Therefore the credit risk is minimized.

(c) Liquidity risk – Cathay Venture has sufficient working capital for its operation and there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital.

(d) Cash flow risk from fluctuations in interest rate – Cathay Venture does not have interest-bearing financial instruments, as such there is no cash flow risk resulting from fluctuations in interest rate.

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I. Cathay II Venture

a. Information of fair value

Item	September 30, 2007			
	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$27,530	\$27,530	\$843	\$843
Available-for-sale financial assets- current	126,027	126,027	3,858	3,858
Available-for-sale financial assets- noncurrent	180,687	180,687	5,531	5,531
Financial assets carried at cost-noncurrent	527,609	527,609	16,150	16,150

Item	September 30, 2008			
	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$5,884	\$5,884	\$183	\$183
Financial assets at fair value through profit or loss-current	13,920	13,920	432	432
Available-for-sale financial assets- current	51,845	51,845	1,609	1,609
Available-for-sale financial assets- noncurrent	81,155	81,155	2,518	2,518
Financial assets carried at cost-noncurrent	614,978	614,978	19,081	19,081

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

(a) The fair value of Cathay II Venture's short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.

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- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However fair value is estimated using pricing model if an active market does not exist.
- (c) When financial assets are quoted on an active market, the fair value is the market price. However fair value is estimated based on their carrying amount or other relevant financial information if an active market does not exist.
- c. The fair value of the Cathay II Venture financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

Item	September 30,							
	2007				2008			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss-current	\$-	\$-	\$-	\$-	\$13,920	\$432	\$-	\$-
Available-for-sale financial assets-current	126,027	3,858	-	-	51,845	1,609	-	-
Available-for-sale financial assets-noncurrent	180,687	5,531	-	-	83,155	2,580	-	-
Financial assets carried at cost-noncurrent	-	-	527,609	16,150	-	-	614,978	19,081

d. Information on financial risk

- (a) Market risk – Cathay II Venture invests in financial instruments relating to equity securities and the fair value of such investments will move based on fluctuations in the market price. As such there is no market risk.
- (b) Credit risk – Cathay II Venture has appropriate credit approval process and transaction limits in place, furthermore it only transacts with creditworthy individual or company. Therefore the credit risk is minimized.
- (c) Liquidity risk – Cathay II Venture has sufficient working capital for its operation and there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital.

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(d) Cash flow risk from fluctuations in interest rate – Cathay II Venture does not have interest-bearing financial instruments, as such there is no cash flow risk resulting from fluctuations in interest rate.

K. Cathay Life (Shanghai)

a. Information of fair value

Item	September 30,2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$2,899,048	\$2,899,048	\$88,737	\$88,737
Financial assets at fair value through profit or loss-current	262,128	262,128	8,024	8,024
Available-for-sale financial assets-current	846,843	846,843	25,921	25,921
Held-to-maturity financial assets-current	91,897	91,897	2,813	2,813
Available-for-sale financial assets-noncurrent	916,166	916,166	28,043	28,043
Held-to-maturity financial assets-noncurrent	389,425	389,425	11,920	11,920
Investment in debt securities with no active market-noncurrent	1,520,173	1,520,173	46,531	46,531
Guarantee deposits paid	705,522	705,522	21,595	21,595
Other financial assets-currents	159,076	159,076	4,869	4,869
<u>Liabilities</u>				
Guarantee deposits in	1,793	1,793	55	55



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Item	September 30,2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,509,784	\$1,509,784	\$46,844	\$46,844
Financial assets at fair value through profit or loss-current	1,427,528	1,427,528	44,292	44,292
Available-for-sale financial assets-current	168,854	168,854	5,239	5,239
Available-for-sale financial assets-noncurrent	2,854,675	2,854,675	88,572	88,572
Held-to-maturity financial assets-noncurrent	421,367	421,367	13,074	13,074
Investment in debt securities with no active market-noncurrent	1,438,100	1,438,100	44,620	44,620
Guarantee deposits paid	769,767	769,767	23,884	23,884
<u>Liabilities</u>				
Guarantee deposits in	4,399	4,399	136	136

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

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

(b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Life (Shanghai). Cathay Life (Shanghai) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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(c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.

c. The fair value of the Cathay life (Shanghai) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	September 30,							
	2007				2008			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value								
through profit or								
loss-current	\$262,128	\$8,024	\$-	\$-	\$1,038,041	\$32,207	\$389,487	\$12,085
Available-for-sale financial								
assets-current	846,843	25,921	-	-	168,854	5,239	-	-
Held-to-maturity financial								
assets-current	91,897	2,813	-	-	-	-	-	-
Available-for-sale financial								
assets-noncurrent	916,166	28,043	-	-	138,944	4,311	2,715,731	84,261
Held-to-maturity financial								
assets-noncurrent	389,425	11,920	-	-	-	-	421,367	13,074
Investment in debt securities								
with no active market-								
noncurrent	-	-	1,520,173	46,531	-	-	1,438,100	44,620

(4) Discretionary account management

Item	September 30, 2007			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$18,676,038	\$571,657	\$18,676,038	\$571,657
Repurchase bonds	9,679,921	296,294	9,679,921	296,294
Short-term notes	318,578	9,751	318,578	9,751
Cash in banks	823,963	25,221	823,963	25,221
Net other assets less liabilities	2,118	65	2,118	65
Total	\$29,500,618	\$902,988	\$29,500,618	\$902,988

## English Translation of Financial Statements Originally Issued in Chinese

Item	September 30, 2008			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$6,743,101	\$209,218	\$6,743,101	\$209,218
Repurchase bonds	9,795,484	303,925	9,795,484	303,925
Cash in banks	676,413	20,987	676,413	20,987
Net other assets less liabilities	4,199	130	4,199	130
Total	<u>\$17,219,197</u>	<u>\$534,260</u>	<u>\$17,219,197</u>	<u>\$534,260</u>

As of September 30, 2007 and 2008, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$ 22,350,000(US\$684,114), and NT\$ 17,300,000(US\$536,767), respectively.

(5) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please refer Note 5 (business with stakeholders) for further details.

B. Integrate business activities:

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

C. Cross utilization of information:

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

D. Locations and business utilities:

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

Revenue, costs, expenses, profits or losses arising from integrate business activities between the subsidiaries are allocated to each subsidiary based on the related business features.

(6) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the nine months ended September 30, 2007 have been reclassified in order to be comparable with those in the consolidated financial statements for the nine months ended September 30, 2008.

### **31. Information regarding investment in Mainland China**

- (1) On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30, 2008, Cathay Life's remittances to this company totaled approximately US\$48,330.
- (2) On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay life to remit US\$26,390 as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized Cathay life to increase the remittances from US\$26,390 to US\$28,960. As of September 30, 2008, Cathay life's remittances to this general insurance company totaled approximately US\$28,140.

On September 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to remit US\$28,960 as the registered capital to establish a China-based general insurance subsidiary. Cathay Century has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund has been wired out US\$27,820 as of September 30, 2008.

**English Translation of Financial Statements Originally Issued in Chinese**

**32. Segment information**

For the nine months ended September 30, 2007

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	16,217,093	51,459,323	288,551	38,743	(55,747)	67,947,963
Non income other than interest	5,587,419	111,002,247	3,432,151	246,301	(82,964)	120,185,154
Provision for premiums reserve	-	(105,330,272)	(850,425)	-	(106,180,697)	(106,180,697)
Total income	21,804,512	57,131,298	2,870,277	285,044	(138,711)	81,952,420
Bad debt expenses-Loan	(2,993,794)	-	-	-	-	(2,993,794)
Operating expenses	(8,885,298)	(30,366,433)	(942,098)	(248,632)	(615,491)	(41,057,952)
Income from continuing operations before income taxes	9,925,420	26,764,865	1,928,179	36,412	(754,202)	37,900,674
Income taxes (expense) benefit	(1,929,027)	(2,378,462)	(254,345)	(14,694)	(197,504)	(4,774,032)
Consolidated income	7,996,393	24,386,403	1,673,834	21,718	(951,706)	33,126,642

For the nine months ended September 30, 2007

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Others division (US \$)	Total (US \$)
Net interest income	496,391	1,575,124	8,832	1,186	(1,706)	2,079,827
Non income other than interest	171,026	3,397,682	105,055	7,539	(2,539)	3,678,763
Provision for premiums reserve	-	(3,224,067)	(26,031)	-	-	(3,250,098)
Total income	667,417	1,748,739	87,856	8,725	(4,245)	2,508,492
Bad debt expenses-Loan	(91,637)	-	-	-	-	(91,637)
Operating expenses	(271,971)	(929,490)	(28,837)	(7,611)	(18,840)	(1,256,749)
Income from continuing operations before income taxes	303,809	819,249	59,019	1,114	(23,085)	1,160,106
Income taxes (expense) benefit	(59,046)	(72,803)	(7,785)	(450)	(6,045)	(146,129)
Consolidated income	244,763	746,446	51,234	664	(29,130)	1,013,977

## English Translation of Financial Statements Originally Issued in Chinese

For the nine months ended September 30, 2008

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other divisions (NT\$)	Total (NT\$)
Net interest income	16,049,427	56,145,298	323,457	62,516	77,827	72,658,525
Non income other than interest	192,214	47,434,063	2,672,899	167,562	(301,274)	50,165,464
Provision for premiums reserve	-	(78,102,387)	(550,333)	-	-	(78,652,720)
Total income	16,241,641	25,476,974	2,446,023	230,078	(223,447)	44,171,269
Bad debt expenses	(1,147,167)	-	-	-	-	(1,147,167)
Operating expenses	(9,555,311)	(26,818,765)	(2,749,684)	(289,100)	(847,475)	(40,260,335)
Income from continuing operations before income taxes	5,539,163	(1,341,791)	(303,661)	(59,022)	(1,070,922)	2,763,767
Income taxes (expense) benefit	(1,947,594)	3,087,309	(185,726)	6,102	21,978	982,069
Consolidated income	3,591,569	1,745,518	(489,387)	(52,920)	(1,048,944)	3,745,836

For the nine months ended September 30, 2008

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Other divisions (US\$)	Total (US\$)
Net interest income	497,965	1,742,020	10,036	1,939	2,415	2,254,375
Non income other than interest	5,964	1,471,737	82,932	5,199	(9,348)	1,556,484
Provision for premiums reserve	-	(2,423,282)	(17,075)	-	-	(2,440,357)
Total income	503,929	790,475	75,893	7,138	(6,933)	1,370,502
Bad debt expenses	(35,593)	-	-	-	-	(35,593)
Operating expenses	(296,473)	(832,106)	(85,314)	(8,970)	(26,295)	(1,249,158)
Income from continuing operations before income taxes	171,863	(41,631)	(9,421)	(1,832)	(33,228)	85,751
Income taxes (expense) benefit	(60,428)	95,790	(5,762)	189	682	30,471
Consolidated income	111,435	54,159	(15,183)	(1,643)	(32,546)	116,222

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Unaudited Balance Sheets**

**As of September 30, 2007 and 2008**

**(Expressed in thousands of dollars)**

	September 30, 2007		September 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Assets</b>				
Cash and cash equivalents	\$10,271,872	\$314,413	\$1,222,953	\$37,945
Receivables -net	2,202,667	67,422	2,366,433	73,423
Investments-equity method	228,860,698	7,005,225	160,220,303	4,971,154
Other financial assets -net	31,720	971	31,720	984
Property and equipment -net	4,356	133	2,989	93
Goodwill and intangible assets -net	1,226	37	666	21
Other assets -net	2,921,957	89,439	271,571	8,426
<b>Total assets</b>	<b>\$244,294,496</b>	<b>\$7,477,640</b>	<b>\$164,116,635</b>	<b>\$5,092,046</b>
<b>Liabilities &amp; stockholders' equity</b>				
Financial liabilities at fair value through profit or loss	704,619	21,568	-	-
Payables	2,258,081	69,118	2,544,064	78,935
Other loans	-	-	3,860,000	119,764
Other liabilities	112,208	3,434	22,920	711
<b>Total liabilities</b>	<b>3,074,908</b>	<b>94,120</b>	<b>6,426,984</b>	<b>199,410</b>
<b>Stockholders' equity</b>				
Capital stock				
Common stock	92,770,192	2,839,614	97,375,372	3,021,265
Capital surplus	81,971,167	2,509,065	81,971,213	2,543,320
Retained earnings				
Legal reserve	9,245,862	283,008	12,320,672	382,273
Undistributed earnings	37,809,225	1,157,307	8,650,962	268,413
Other stockholders' equity				
Unrealized revaluation increments	2,106	65	2,106	65
Cumulative translation adjustments	155,427	4,758	280,965	8,718
Unrealized gains or losses on financial instruments	23,406,229	716,444	(38,768,485)	(1,202,869)
Treasury stock	(4,140,047)	(126,723)	(4,140,047)	(128,453)
Net loss not recognized as pension cost	(573)	(18)	(3,107)	(96)
<b>Total stockholders' equity</b>	<b>241,219,588</b>	<b>7,383,520</b>	<b>157,689,651</b>	<b>4,892,636</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$244,294,496</b>	<b>\$7,477,640</b>	<b>\$164,116,635</b>	<b>\$5,092,046</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Unaudited Statements of Income**

**For the nine months ended September 30, 2007 and 2008**

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

	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Income</b>				
Gain on investment-equity method	\$32,987,573	\$1,009,721	\$4,396,645	\$136,415
Gain on financial assets and liabilities at fair value through profit or loss	309,214	9,465	323,565	10,039
Other operating income	9,329	285	50,603	1,570
<b>Total income</b>	<b>33,306,116</b>	<b>1,019,471</b>	<b>4,770,813</b>	<b>148,024</b>
<b>Expenses and loss</b>				
Interest income	861,186	26,360	465,548	14,445
Less: interest expenses	(780,698)	(23,897)	(357,654)	(11,097)
Net interest income	80,488	2,463	107,894	3,348
Losses on foreign exchange	(36,620)	(1,121)	(716,914)	(22,244)
Operating expenses	(183,418)	(5,614)	(421,002)	(13,062)
<b>Income from continuing operations before income taxes</b>	<b>33,166,566</b>	<b>1,015,199</b>	<b>3,740,791</b>	<b>116,066</b>
<b>Income taxes (expense) benefits</b>	<b>(187,203)</b>	<b>(5,730)</b>	<b>46,260</b>	<b>1,435</b>
<b>Net income</b>	<b>\$32,979,363</b>	<b>\$1,009,469</b>	<b>\$3,787,051</b>	<b>\$117,501</b>

**Earnings per share (expressed in dollars)**

Primary earnings per share:	2007		2008		2007		2008	
	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Net income from continuing operations	\$3.44	\$3.42	\$0.11	\$0.10	\$0.39	\$0.39	\$0.01	\$0.01
Net income	\$3.44	\$3.42	\$0.11	\$0.10	\$0.39	\$0.39	\$0.01	\$0.01



English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Unaudited Statements of Changes in Stockholders' Equity

For the nine months ended September 30, 2007 and 2008

(Expressed in thousands of dollars)

Summary	Retained earnings								Other stockholders' equity												
	Common stock		Capital surplus		Legal reserve		Undistributed earnings		Unrealized revaluation increments		Cumulative translation adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost		Total		
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	
<b>Balance on January 1, 2007</b>	\$92,068,174	\$2,818,126	\$78,867,213	\$2,414,056	\$8,188,136	\$250,632	\$19,710,210	\$603,312	\$2,106	\$65	\$105,170	\$3,219	\$21,345,473	\$653,366	\$ (4,140,047)	\$ (126,723)	\$ (573)	\$ (18)	\$216,145,862	\$6,616,035	
Appropriations and distribution for 2006																					
Legal reserve					1,057,726	32,376	(1,057,726)	(32,376)												-	-
Cash dividends							(13,815,539)	(422,882)												(13,815,539)	(422,882)
Remuneration paid to directors and supervisors							(5,700)	(174)												(5,700)	(174)
Bonus paid to employees							(1,383)	(42)												(1,383)	(42)
Convertible notes converted into common stock	702,018	21,488	3,104,004	95,011																3,806,022	116,499
Cumulative capital surplus increment			(87)	(3)																(87)	(3)
Cumulative translation adjustments											50,257	1,539								50,257	1,539
Unrealized gains or losses of financial instruments													2,060,756	63,078						2,060,756	63,078
Other capital surplus			37	1																37	1
Net income for the nine months ended September 30, 2007							32,979,363	1,009,469												32,979,363	1,009,469
<b>Balance on September 30, 2007</b>	\$92,770,192	\$2,839,614	\$81,971,167	\$2,509,065	\$9,245,862	\$283,008	\$37,809,225	\$1,157,307	\$2,106	\$65	\$155,427	\$4,758	\$23,406,229	\$716,444	\$ (4,140,047)	\$ (126,723)	\$ (573)	\$ (18)	\$241,219,588	\$7,383,520	
<b>Balance on January 1, 2008</b>	\$92,770,192	\$2,878,380	\$81,971,213	\$2,543,320	\$9,245,862	\$286,871	\$35,577,963	\$1,103,877	\$2,106	\$65	\$183,766	\$5,702	\$10,955,521	\$339,917	\$ (4,140,047)	\$ (128,453)	\$ (3,107)	\$ (96)	\$226,563,469	\$7,029,583	
Appropriations and distribution for 2007																					
Legal reserve					3,074,810	95,402	(3,074,810)	(95,402)												-	-
Cash dividends							(23,025,898)	(714,424)												(23,025,898)	(714,424)
Stock dividends	4,605,180	142,885					(4,605,180)	(142,885)												-	-
Remuneration paid to directors and supervisors							(5,400)	(168)												(5,400)	(168)
Bonus paid to employees							(2,764)	(86)												(2,764)	(86)
Cumulative translation adjustments											97,199	3,016								\$97,199	3,016
Unrealized gains or losses of financial instruments													(49,724,006)	(1,542,786)						(49,724,006)	(1,542,786)
Net income for the nine months ended September 30, 2008							3,787,051	117,501												\$3,787,051	117,501
<b>Balance on September 30, 2008</b>	\$97,375,372	\$3,021,265	\$81,971,213	\$2,543,320	\$12,320,672	\$382,273	\$8,650,962	\$268,413	\$2,106	\$65	\$280,965	\$8,718	\$ (38,768,485)	\$ (1,202,869)	\$ (4,140,047)	\$ (128,453)	\$ (3,107)	\$ (96)	\$157,689,651	\$4,892,636	

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.  
Unaudited Statements of Cash Flows  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$32,979,363	\$1,009,469	\$3,787,051	\$117,501
Adjustments:				
Amortizations	440	14	413	13
Depreciation	799	25	678	21
Losses on disposal of property and equipment	-	-	240	8
Investment income from equity method (in excess of) less than cash dividends received	(21,257,168)	(650,663)	19,267,974	597,827
Decrease in bonds payable redemption premium	(47,237)	(1,446)	-	-
Effects of exchange rate changes	34,620	1,060	712,914	22,120
Changes in operating assets and liabilities				
Decrease (Increase) in accounts receivable	(166,919)	(5,109)	124,020	3,848
Decrease in deferred income tax assets	128,208	3,924	455,628	14,137
Increase in other assets	(10,288)	(315)	(1,306)	(41)
(Decrease) increase in accounts payable	(1,046,605)	(32,036)	616,365	19,124
Decrease in financial liabilities at fair value through profit or loss	(309,215)	(9,465)	(444,155)	(13,781)
Increase (decrease) in income tax payable	963,318	29,486	(1,124,061)	(34,876)
Increase (decrease) in deferred income tax liabilities	35,749	1,094	(146,835)	(4,556)
Increase in other liabilities	1,727	53	3,229	100
<b>Net cash provided by operating activities</b>	<b>11,306,792</b>	<b>346,091</b>	<b>23,252,155</b>	<b>721,445</b>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(733)	(23)	(631)	(19)
Disposal of property and equipment	-	-	964	30
(Increase) decrease in other assets	(6,864)	(210)	2,594,524	80,500
<b>Net cash (used in) provided by investing activities</b>	<b>(7,597)</b>	<b>(233)</b>	<b>2,594,857</b>	<b>80,511</b>
<b>Cash flows from financing activities</b>				
Increase in other loans	-	-	3,860,000	119,765
Decrease in bonds payable	(419,951)	(12,854)	-	-
Remuneration paid to directors and supervisors	(5,700)	(174)	(5,400)	(168)
Bonus paid to employees	(1,383)	(42)	(2,764)	(86)
Cash dividends	(13,815,539)	(422,882)	(23,025,898)	(714,424)
Increase in investments under equity method	-	-	(15,000,000)	(465,405)
Disposal of treasury stock	37	1	-	-
<b>Net cash used in financing activities</b>	<b>(14,242,536)</b>	<b>(435,951)</b>	<b>(34,174,062)</b>	<b>(1,060,318)</b>
<b>Effects of exchange rate changes</b>	<b>(34,620)</b>	<b>(1,060)</b>	<b>(712,914)</b>	<b>(22,120)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(2,977,961)</b>	<b>(91,153)</b>	<b>(9,039,964)</b>	<b>(280,482)</b>
<b>Cash and cash equivalents at the beginning of the periods</b>	<b>13,249,833</b>	<b>405,566</b>	<b>10,262,917</b>	<b>318,427</b>
<b>Cash and cash equivalents at the end of the periods</b>	<b>\$10,271,872</b>	<b>\$314,413</b>	<b>\$1,222,953</b>	<b>\$37,945</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$859,107	\$26,297	\$415,222	\$12,883
Income tax paid	\$38,640	\$1,183	\$17,737	\$550
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$3,806,022	\$116,499	\$-	\$-

### 33.1 The major subsidiaries' condensed balance sheets and statements of income

#### English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**  
**Condensed Balance Sheets**  
**As of September 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$581,390,693	#####	\$446,420,997	\$13,851,101
Loans	527,306,824	16,140,399	538,716,925	16,714,767
Funds and investments	974,096,846	29,816,249	1,121,899,398	34,809,165
Property and equipment	12,864,081	393,758	12,541,073	389,112
Intangible assets	381,951	11,691	591,607	18,356
Other assets	260,385,477	7,970,171	266,585,836	8,271,357
<b>Total assets</b>	<u>#####</u>	<u>#####</u>	<u>#####</u>	<u>\$74,053,858</u>
<b>Liabilities</b>				
Current liabilities	\$42,338,402	\$1,295,941	\$44,676,708	\$1,386,184
Long-term liabilities	1,493,247	45,707	1,380,880	42,844
Other liabilities	2,175,686,879	66,595,864	2,269,973,478	70,430,453
<b>Total liabilities</b>	<u>2,219,518,528</u>	<u>67,937,512</u>	<u>2,316,031,066</u>	<u>71,859,481</u>
<b>Stockholders' equity</b>				
Capital stock	50,686,158	1,551,459	52,686,158	1,634,693
Capital surplus	9,648	295	13,009,648	403,650
Retained earnings	63,148,027	1,932,906	42,066,451	1,305,196
Others	23,063,511	705,954	(37,037,487)	(1,149,162)
<b>Total stockholders' equity</b>	<u>136,907,344</u>	<u>4,190,614</u>	<u>70,724,770</u>	<u>2,194,377</u>
<b>Total liabilities and stockholders' equity</b>	<u>#####</u>	<u>#####</u>	<u>#####</u>	<u>\$74,053,858</u>

**Cathay Life Insurance Co., Ltd.**  
**Condensed Statements of Income**  
**For the nine months ended September 30, 2007 and 2008**  
**(Expressed in thousands of dollars, except earnings per share)**

Item	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$604,415,654	#####	\$698,345,384	\$21,667,558
Operating costs	(569,911,815)	(17,444,500)	(694,769,633)	#####
Operating gross profit	34,503,839	1,056,132	3,575,751	110,945
Operating expenses	(7,721,367)	(236,344)	(7,802,070)	(242,075)
Non-operating revenues & gains	1,050,023	32,140	1,030,429	31,971
Non-operating expenses & losses	(188,722)	(5,776)	(546,870)	(16,968)
Income from continuing operations before income taxes	<u>\$27,643,773</u>	<u>\$846,152</u>	<u>\$(3,742,760)</u>	<u>\$(116,127)</u>
Net income (loss)	<u>\$25,265,311</u>	<u>\$773,349</u>	<u>\$(638,313)</u>	<u>\$(19,805)</u>
Earnings per share (in dollars)				
Income from continuing operations before income taxes	<u>\$5.45</u>	<u>\$0.17</u>	<u>\$(0.73)</u>	<u>\$(0.02)</u>
Net income (loss)	<u>\$4.98</u>	<u>\$0.15</u>	<u>\$(0.12)</u>	<u>\$-</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Century Insurance Co., Ltd.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$10,105,542	\$309,322	\$11,993,270	\$372,115
Loans	2,318,109	70,955	1,615,412	50,121
Funds and investments	4,830,091	147,845	4,502,977	139,714
Fixed assets	40,159	1,229	167,320	5,191
Intangible assets	6,317	193	14,423	448
Other assets	657,021	20,111	714,898	22,181
<b>Total assets</b>	<b>\$17,957,239</b>	<b>\$549,655</b>	<b>\$19,008,300</b>	<b>\$589,770</b>
<b>Liabilities</b>				
Current liabilities	\$1,611,616	\$49,330	\$1,978,403	\$61,384
Long-term liabilities	3,405	104	15,172	471
Other liabilities	12,433,153	380,568	13,878,281	430,601
<b>Total liabilities</b>	<b>14,048,174</b>	<b>430,002</b>	<b>15,871,856</b>	<b>492,456</b>
<b>Stockholders' equity</b>				
Capital stock	2,317,006	70,921	2,317,006	71,890
Capital surplus	1,929	59	1,929	60
Retained earnings	1,411,098	43,193	1,043,546	32,377
Others	179,032	5,480	(226,037)	(7,013)
<b>Total stockholders' equity</b>	<b>3,909,065</b>	<b>119,653</b>	<b>3,136,444</b>	<b>97,314</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$17,957,239</b>	<b>\$549,655</b>	<b>\$19,008,300</b>	<b>\$589,770</b>

**Cathay Century Insurance Co., Ltd.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$14,878,472	\$455,417	\$15,870,691	\$492,420
Operating costs	(12,052,035)	(368,902)	(13,330,190)	(413,596)
Operating gross profit	2,826,437	86,515	2,540,501	78,824
Operating expenses	(1,580,130)	(48,366)	(1,837,682)	(57,018)
Non-operating revenues	2,359	72	6,700	208
Non-operating expenses	(57)	(2)	(1,714)	(53)
Income from continuing operations before income taxes	\$1,248,609	\$38,219	\$707,805	\$21,961
Net income	\$994,264	\$30,434	\$522,079	\$16,198
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$5.39	\$0.16	\$3.05	\$0.09
Net income	\$4.29	\$0.13	\$2.25	\$0.07

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Company(Shanghai)  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$4,382,841	\$134,155	\$3,274,953	\$101,612
Loans	1,550	47	7,998	248
Funds and investments	2,825,764	86,494	4,714,142	146,266
Fixed assets	58,093	1,778	254,164	7,886
Intangible assets	2,957	91	156,843	4,866
Other assets	720,328	22,049	1,112,510	34,518
<b>Total assets</b>	<b>\$7,991,533</b>	<b>\$244,614</b>	<b>\$9,520,610</b>	<b>\$295,396</b>
<b>Liabilities</b>				
Current liabilities	\$1,105,416	\$33,836	\$484,260	\$15,025
Other liabilities	3,432,961	105,080	6,455,163	200,284
<b>Total liabilities</b>	<b>4,538,377</b>	<b>138,916</b>	<b>6,939,423</b>	<b>215,309</b>
<b>Stockholders' equity</b>				
Capital stock	3,257,376	99,705	3,257,376	101,067
Retained earnings	(322,976)	(9,886)	(1,030,307)	(31,967)
Others	518,756	15,879	354,118	10,987
<b>Total stockholders' equity</b>	<b>3,453,156</b>	<b>105,698</b>	<b>2,581,187</b>	<b>80,087</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$7,991,533</b>	<b>\$244,614</b>	<b>\$9,520,610</b>	<b>\$295,396</b>

**Cathay Life Insurance Company(Shanghai)  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$1,946,499	\$59,581	\$4,332,523	\$134,425
Operating costs	(1,646,726)	(50,405)	(4,133,710)	(128,256)
Operating gross profit	299,773	9,176	198,813	6,169
Operating expenses	(334,867)	(10,250)	(639,119)	(19,830)
Non-operating revenues	3,682	112	43,705	1,356
Non-operating expenses	(4)	-	(32)	(1)
Loss from continuing operations before income taxes	\$(31,416)	\$(962)	\$(396,633)	\$(12,306)
Net income	\$(31,416)	\$(962)	\$(396,633)	\$(12,306)
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.(Vietnam)  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$-	\$-	\$264,933	\$8,220
Funds and investments	-	-	1,665,373	51,671
Fixed assets	-	-	15,991	496
Intangible assets	-	-	47,081	1,461
Other assets	-	-	25,767	800
<b>Total assets</b>	<b>\$-</b>	<b>\$-</b>	<b>\$2,019,145</b>	<b>\$62,648</b>
<b>Liabilities</b>				
Current liabilities	-	-	\$87,797	\$2,724
Other liabilities	-	-	1,972	61
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>89,769</b>	<b>2,785</b>
<b>Stockholders' equity</b>				
Capital stock	-	-	1,940,080	60,195
Retained earnings	-	-	44,049	1,367
Others	-	-	(54,753)	(1,699)
<b>Total stockholders' equity</b>	<b>-</b>	<b>-</b>	<b>1,929,376</b>	<b>59,863</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$-</b>	<b>\$-</b>	<b>\$2,019,145</b>	<b>\$62,648</b>

**Cathay Life Insurance Co., Ltd.(Vietnam)  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$-	\$-	\$4,233	\$131
Operating costs	-	-	(4,749)	(147)
Operating gross profit	-	-	(516)	(16)
Operating expenses	-	-	(42,163)	(1,308)
Non-operating revenues	-	-	125,404	3,891
Non-operating expenses	-	-	(21,538)	(669)
Loss from continuing operations before income taxes	\$-	\$-	\$61,187	\$1,898
Net income	\$-	\$-	\$44,049	\$1,367
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Century Insurance Co., Ltd.(Shanghai)**

**Condensed Balance Sheets**

**As of September 30, 2007 and 2008**

**(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$-	\$-	\$1,777,675	\$55,156
Funds and investments	-	-	1,952	61
Other assets	-	-	1,292	40
<b>Total assets</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,780,919</b>	<b>\$55,257</b>
<b>Liabilities</b>				
Current liabilities	\$-	\$-	\$425	\$13
Other liabilities	-	-	163	5
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>588</b>	<b>18</b>
<b>Stockholders' equity</b>				
Capital stock	-	-	1,745,942	54,172
Retained earnings	-	-	(91,186)	(2,829)
Others	-	-	125,575	3,896
<b>Total stockholders' equity</b>	<b>-</b>	<b>-</b>	<b>1,780,331</b>	<b>55,239</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,780,919</b>	<b>\$55,257</b>

**Cathay Century Insurance Co., Ltd.(Shanghai)**

**Condensed Statements of Income**

**For the nine months ended September 30, 2007 and 2008**

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

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$-	\$-	\$35,734	\$1,109
Operating costs	-	-	(81,614)	(2,532)
Operating gross profit	-	-	(45,880)	(1,423)
Operating expenses	-	-	(45,306)	(1,406)
Loss from continuing operations before income taxes	\$-	\$-	\$(91,186)	\$(2,829)
<b>Net income</b>	<b>\$-</b>	<b>\$-</b>	<b>\$(91,186)</b>	<b>\$(2,829)</b>
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay United Bank Co., Ltd.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$23,268,187	\$712,219	\$36,638,332	\$1,136,777
Due from the Central Bank and call loans to banks	59,143,989	1,810,346	80,578,329	2,500,103
Financial assets at fair value through profit or loss	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	44,972,047	1,376,555	44,423,361	1,378,323
Loans and advances to customers-net	735,455,127	22,511,635	837,660,306	25,990,081
Available-for-sale financial assets -net	58,357,622	1,786,276	65,111,511	2,020,215
Held-to-maturity financial assets-net	4,505,039	137,895	2,916,974	90,505
Investments-equity method	2,249,661	68,860	2,833,462	87,914
Investments in debt securities with no active market	279,572,898	8,557,481	208,433,959	6,467,079
Other financial assets-net	4,413,844	135,104	4,964,559	154,035
Property and equipment-net	25,245,498	772,742	26,773,237	830,693
Intangible assets-net	373,022	11,418	6,927,786	214,948
Other assets-net	10,236,324	313,325	8,937,038	277,290
<b>Total assets</b>	<b>\$1,290,769,649</b>	<b>\$39,509,325</b>	<b>\$1,364,047,412</b>	<b>\$42,322,290</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$56,223,665	\$1,720,957	\$77,553,560	\$2,406,254
Funds borrowed from the Central and other banks	1,628,500	49,847	642,600	19,938
Financial liabilities at fair value through profit or loss	48,860,435	1,495,575	50,465,799	1,565,802
Securities sold under agreements to repurchase	16,824,273	514,976	20,481,323	635,474
Payables	27,115,544	829,983	30,233,490	938,054
Deposits and remittances	1,037,111,293	31,745,066	1,083,917,357	33,630,697
Financial debentures payable	18,158,994	555,831	16,615,361	515,525
Other financial liabilities	717,576	21,964	282,124	8,753
Other liabilities	1,818,179	55,653	2,695,208	83,624
<b>Total liabilities</b>	<b>1,208,458,459</b>	<b>36,989,852</b>	<b>1,282,886,822</b>	<b>39,804,121</b>
<b>Shareholders' equity</b>				
Capital stock	48,689,413	1,490,340	48,689,413	1,510,686
Capital reserves	15,213,565	465,674	15,213,611	472,032
Retained earnings	18,535,645	567,360	18,411,585	571,257
Others	(127,433)	(3,901)	(1,154,019)	(35,806)
<b>Total shareholders' equity</b>	<b>82,311,190</b>	<b>2,519,473</b>	<b>81,160,590</b>	<b>2,518,169</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,290,769,649</b>	<b>\$39,509,325</b>	<b>\$1,364,047,412</b>	<b>\$42,322,290</b>

**Cathay United Bank Co., Ltd.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Net interest income	\$15,800,803	\$483,649	\$15,409,916	\$478,123
Non-interest income	6,429,099	196,789	2,880,773	89,382
Net operating income	22,229,902	680,438	18,290,689	567,505
Provision for loan losses	(2,993,794)	(91,637)	(1,147,167)	(35,593)
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
Net income	\$7,053,276	\$215,895	\$4,544,066	\$140,989
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$1.83	\$0.06	\$1.32	\$0.04
Net income	\$1.45	\$0.04	\$0.93	\$0.03



**English Translation of Financial Statements Originally Issued in Chinese**

**Indovina Bank Limited**  
**Condensed Balance Sheets**  
**As of September 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$1,427,203	\$43,685	\$2,399,795	\$74,459
Due from the Central Bank and call loans to banks	945,570	28,943	1,070,049	33,200
Financial assets at fair value through profit or loss	213,161	6,525	89,746	2,785
Investments in debt securities with no active market	316,380	9,684	304,762	9,456
Securities purchased under agreements to resell	-	-	276,126	8,567
Receivables-net	141,202	4,322	153,881	4,775
Loans and advances to customers-net	10,677,493	326,829	13,395,154	415,611
Premises and equipment-net	101,464	3,106	189,454	5,878
Intangible assets-net	51,823	1,586	37,120	1,152
Other assets-net	202	6	460	14
<b>Total assets</b>	<b>\$13,874,498</b>	<b>\$424,686</b>	<b>\$17,916,547</b>	<b>\$555,897</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$1,190,822	\$36,450	\$2,658,774	\$82,494
Payables	523,410	16,021	474,092	14,710
Deposits and remittances	10,544,919	322,771	12,034,004	373,379
<b>Total liabilities</b>	<b>12,259,151</b>	<b>375,242</b>	<b>15,166,870</b>	<b>470,583</b>
<b>Shareholders' equity</b>				
Capital stock	1,118,158	34,226	2,248,018	69,749
Retained earnings	434,354	13,295	521,945	16,194
Others	62,835	1,923	(20,286)	(629)
<b>Total shareholders' equity</b>	<b>1,615,347</b>	<b>49,444</b>	<b>2,749,677</b>	<b>85,314</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$13,874,498</b>	<b>\$424,686</b>	<b>\$17,916,547</b>	<b>\$555,897</b>

**Indovina Bank Limited**  
**Condensed Statements of Income**  
**For the nine months ended September 30, 2007 and 2008**  
**(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Net interest income	\$417,218	\$12,771	\$474,312	\$14,717
Non-interest income	41,724	1,277	82,810	2,569
Net operating revenue	458,942	14,048	557,122	17,286
Provision for loan losses	(1,432)	(44)	(13,315)	(413)
Operating expenses	(137,292)	(4,202)	(215,006)	(6,671)
Income from continuing operations before income taxes	\$320,218	\$9,802	\$328,801	\$10,202
Net income	\$225,191	\$6,893	\$266,207	\$8,260
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Securities Corporation  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$3,261,791	\$99,841	\$3,209,591	\$99,584
Funds and investments	718,670	21,998	734,924	22,803
Property and equipment	77,990	2,387	54,029	1,676
Intangible assets	7,491	229	4,990	155
Other assets	359,100	10,992	355,146	11,019
<b>Total assets</b>	<b>\$4,425,042</b>	<b>\$135,447</b>	<b>\$4,358,680</b>	<b>\$135,237</b>
<b>Liabilities</b>				
Current liabilities	\$345,628	\$10,579	\$324,643	\$10,073
Long-term liabilities	749	23	1,014	31
Other liabilities	28,424	870	38,012	1,180
<b>Total liabilities</b>	<b>374,801</b>	<b>11,472</b>	<b>363,669</b>	<b>11,284</b>
<b>Stockholders' equity</b>				
Capital stock	3,700,000	113,254	3,700,000	114,800
Capital surplus	258,434	7,910	258,434	8,018
Retained earnings	91,807	2,811	36,577	1,135
<b>Total stockholders' equity</b>	<b>4,050,241</b>	<b>123,975</b>	<b>3,995,011</b>	<b>123,953</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$4,425,042</b>	<b>\$135,447</b>	<b>\$4,358,680</b>	<b>\$135,237</b>

**Cathay Securities Corporation  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Revenue	\$368,009	\$11,264	\$390,416	\$12,114
Expenses	(326,266)	(9,986)	(430,462)	(13,356)
Income (loss) from continuing operations before income taxes	\$41,743	\$1,278	\$(40,046)	\$(1,242)
<b>Net income (loss)</b>	<b>\$27,049</b>	<b>\$828</b>	<b>\$(33,944)</b>	<b>\$(1,053)</b>
<b>Earnings per share (in dollars)</b>				
Income (loss) from continuing operations before income taxes	\$0.11	\$-	\$(0.11)	\$-
<b>Net income (loss)</b>	<b>\$0.07</b>	<b>\$-</b>	<b>\$(0.09)</b>	<b>\$-</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Pacific Venture Capital Co., Ltd.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$457,239	\$13,996	\$341,137	\$10,584
Funds and investments	454,276	13,905	221,892	6,885
<b>Total assets</b>	<b>\$911,515</b>	<b>\$27,901</b>	<b>\$563,029</b>	<b>\$17,469</b>
<b>Liabilities</b>				
Current liabilities	\$159	\$5	\$165	\$5
<b>Total liabilities</b>	<b>159</b>	<b>5</b>	<b>165</b>	<b>5</b>
<b>Stockholders' equity</b>				
Capital stock	600,000	18,366	600,000	18,616
Retained earnings	(14,834)	(454)	(22,421)	(696)
Equity adjustment	326,190	9,984	(14,715)	(456)
<b>Total stockholders' equity</b>	<b>911,356</b>	<b>27,896</b>	<b>562,864</b>	<b>17,464</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$911,515</b>	<b>\$27,901</b>	<b>\$563,029</b>	<b>\$17,469</b>

**Cathay Pacific Venture Capital Co., Ltd.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$8,514	\$261	\$2,233	\$69
For the six months ended June 30, 2007 and 2008	(22,805)	(698)	(31,209)	(968)
Operating gross profit	(14,291)	(437)	(28,976)	(899)
Operating expenses	(9,750)	(299)	(9,025)	(280)
Non-operating revenues	3,231	99	6,059	188
Non-operating expenses	(533)	(16)	(590)	(18)
Income from continuing operations before income taxes	\$(21,343)	\$(653)	\$(32,532)	\$(1,009)
Net losses	\$(20,181)	\$(618)	\$(29,852)	\$(926)
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$(0.36)	\$(0.01)	\$(0.54)	\$(0.02)
Net losses	\$(0.34)	\$(0.01)	\$(0.50)	\$(0.02)

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Venture Capital Co., Ltd.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$442,542	\$13,546	\$154,916	\$4,806
Funds and investments	1,323,281	\$40,504	1,430,372	44,380
<b>Total assets</b>	<b>\$1,765,823</b>	<b>\$54,050</b>	<b>\$1,585,288</b>	<b>\$49,186</b>
<b>Liabilities</b>				
Current liabilities	\$16,397	\$502	\$9,049	\$281
<b>Total liabilities</b>	<b>16,397</b>	<b>502</b>	<b>9,049</b>	<b>281</b>
<b>Stockholders' equity</b>				
Capital stock	1,500,000	45,914	1,500,000	46,540
Retained earnings	118,433	3,625	147,562	4,578
Equity adjustment	130,993	4,009	(71,323)	(2,213)
<b>Total stockholders' equity</b>	<b>1,749,426</b>	<b>53,548</b>	<b>1,576,239</b>	<b>48,905</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,765,823</b>	<b>\$54,050</b>	<b>\$1,585,288</b>	<b>\$49,186</b>

**Cathay Venture Capital Co., Ltd.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$137,925	\$4,222	\$104,535	\$3,243
Operating costs	-	-	(5,622)	(174)
Operating gross profit	137,925	4,222	98,913	3,069
For the six months ended June 30, 2007 and 2008	(21,955)	(672)	(22,011)	(683)
Non-operating revenues	132	4	87	3
Income from continuing operations before income taxes	\$116,102	\$3,554	\$76,989	\$2,389
<b>Net income</b>	<b>\$107,158</b>	<b>\$3,280</b>	<b>\$72,718</b>	<b>\$2,256</b>
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.77	\$0.02	\$0.52	\$0.02
<b>Net income</b>	<b>\$0.71</b>	<b>\$0.02</b>	<b>\$0.48</b>	<b>\$0.01</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay II Venture Capital Co., Ltd.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$158,257	\$4,844	\$73,324	\$2,275
Funds and investments	708,296	21,680	698,133	21,661
Total assets	<u>\$866,553</u>	<u>\$26,524</u>	<u>\$771,457</u>	<u>\$23,936</u>
Liabilities				
Current liabilities	\$2,607	\$80	\$11,536	\$358
Total liabilities	<u>2,607</u>	<u>80</u>	<u>11,536</u>	<u>358</u>
Stockholders' equity				
Capital stock	600,000	18,365	600,000	18,616
Retained earnings	161,668	4,948	205,502	6,376
Equity adjustment	102,278	3,131	(45,581)	(1,414)
Total stockholders' equity	<u>863,946</u>	<u>26,444</u>	<u>759,921</u>	<u>23,578</u>
Total liabilities and stockholders' equity	<u>\$866,553</u>	<u>\$26,524</u>	<u>\$771,457</u>	<u>\$23,936</u>

**Cathay II Venture Capital Co., Ltd.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$79,859	\$2,444	\$45,548	\$1,413
Operating costs	-	-	(2,205)	(68)
Operating gross profit	79,859	2,444	43,343	1,345
For the six months ended June 30, 2007 and 2008	(23,116)	(707)	(26,176)	(812)
Non-operating revenues	1	-	-	-
Non-operating expenses	-	-	(117)	(4)
Income from continuing operations before income taxes	<u>\$56,744</u>	<u>\$1,737</u>	<u>\$17,050</u>	<u>\$529</u>
Net income	<u>\$54,226</u>	<u>\$1,660</u>	<u>\$7,804</u>	<u>\$242</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.95</u>	<u>\$0.03</u>	<u>\$0.28</u>	<u>\$0.01</u>
Net income	<u>\$0.90</u>	<u>\$0.03</u>	<u>\$0.13</u>	<u>\$-</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Symphox Information Co., Ltd.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$492,072	\$15,062	\$639,578	\$19,844
Fixed assets	122,828	3,760	77,979	2,419
Intangible assets	6,382	195	4,437	138
Other assets	24,389	746	22,470	697
<b>Total assets</b>	<b>\$645,671</b>	<b>\$19,763</b>	<b>\$744,464</b>	<b>\$23,098</b>
<b>Liabilities</b>				
Current liabilities	\$201,718	\$6,175	\$245,949	\$7,631
Other liabilities	79	2	80	2
<b>Total liabilities</b>	<b>201,797</b>	<b>6,177</b>	<b>246,029</b>	<b>7,633</b>
<b>Stockholders' equity</b>				
Capital stock	499,000	15,274	499,000	15,482
Retained earnings	(55,126)	(1,688)	(565)	(17)
<b>Total stockholders' equity</b>	<b>443,874</b>	<b>13,586</b>	<b>498,435</b>	<b>15,465</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$645,671</b>	<b>\$19,763</b>	<b>\$744,464</b>	<b>\$23,098</b>

**Symphox Information Co., Ltd.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$757,420	\$23,184	\$897,462	\$27,846
For the six months ended June 30, 2007 and 2008	(678,303)	(20,762)	(779,655)	(24,190)
Operating gross profit	79,117	2,422	117,807	3,656
Operating expenses	(75,506)	(2,311)	(66,582)	(2,066)
Non-operating revenues	3,574	109	7,315	227
Non-operating expenses	(708)	(22)	(3,178)	(99)
Income from continuing operations before income taxes	\$6,477	\$198	\$55,362	\$1,718
Net income	\$6,477	\$198	\$(46,740)	\$(1,450)
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.13	\$-	\$1.11	\$0.03
Net income	\$0.13	\$-	\$0.94	\$0.03

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Futures Corp.  
Condensed Balance Sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$1,118,519	\$34,237	\$2,335,203	\$72,454
Funds and investments	30,500	933	30,500	946
Fixed assets	326,852	10,005	173,235	5,375
Intangible assets	9,189	281	8,238	256
Other assets	133,876	4,098	279,199	8,663
<b>Total assets</b>	<b>\$1,618,936</b>	<b>\$49,554</b>	<b>\$2,826,375</b>	<b>\$87,694</b>
<b>Liabilities</b>				
Current liabilities	\$892,295	\$27,312	\$2,082,099	\$64,601
Other liabilities	7,922	243	9,302	289
<b>Total liabilities</b>	<b>900,217</b>	<b>27,555</b>	<b>2,091,401</b>	<b>64,890</b>
<b>Stockholders' equity</b>				
Capital stock	650,000	19,896	650,000	20,168
Retained earnings	68,719	2,103	84,974	2,636
<b>Total stockholders' equity</b>	<b>718,719</b>	<b>21,999</b>	<b>734,974</b>	<b>22,804</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,618,936</b>	<b>\$49,554</b>	<b>\$2,826,375</b>	<b>\$87,694</b>

**Cathay Futures Corp.  
Condensed Statements of Income  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ September 30, 2007		January 1 ~ September 30, 2008	
	NT\$	US\$	NT\$	US\$
For the six months ended June 30, 2007 and 2008	\$42,469	\$1,300	\$93,396	\$2,898
Operating costs	(17,142)	(525)	(50,974)	(1,582)
Operating gross profit	25,327	775	42,422	1,316
Operating expenses	(39,988)	(1,224)	(47,746)	(1,481)
Non-operating revenues	15,223	466	28,134	873
Non-operating expenses	(398)	(12)	(1,871)	(58)
Income from continuing operations before income taxes	\$164	\$5	\$20,939	\$650
Net (loss) income	\$163	\$5	\$16,115	\$500
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$-	\$-	\$0.32	\$0.01
Net (loss) income	\$-	\$-	\$0.25	\$0.01