Cathay United Bank
Financial Statements
For The Years Ended
December 31, 2007 and 2008
With Independent Auditors' Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of December 31, 2007 and 2008, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2007 and 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2007 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with requirements of the "Business Entity Accounting Act" , the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulation Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

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

In addition, we have also audited the consolidated financial statements of the Bank as of and for the years ended December 31, 2007 and 2008, on which we have issued modified unqualified opinion and unqualified opinion, respectively.

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
February 23, 2009

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

December 31, 2007 and 2008

(Expressed in thousands of dollars)

		December 31, 2007		December 31, 2008	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$15,648,864	$482,543	$21,742,475	$663,690
Due from the Central Bank and call loans to banks	IV and V	57,701,798	1,779,272	46,966,265	1,433,647
Financial assets at fair value through profit or loss	II, IV and V	39,932,764	1,231,353	53,189,451	1,623,610
Securities purchased under agreements to resell		326,000	10,052	2,169,147	66,213
Receivables, net	II, IV and V	43,784,801	1,350,133	47,607,325	1,453,215
Discounts and loans, net	II, IV and V	755,956,633	23,310,411	807,231,524	24,640,767
Available-for-sale financial assets, net	II and IV	63,913,728	1,970,821	98,016,783	2,991,965
Held-to-maturity financial assets, net	II and IV	3,320,686	102,395	2,542,836	77,620
Investments accounted for using equity method, net	II and IV	2,513,001	77,490	3,513,361	107,245
Other financial assets, net	II and IV	4,309,670	132,891	6,587,081	201,071
Investments in debt securities with no active market, ne	II and IV	256,829,635	7,919,508	218,918,136	6,682,483
Premises and equipment, net	II, IV, V and VII	27,656,434	852,804	26,725,584	815,799
Intangible assets, net	II, IV and XI	6,883,557	212,259	6,908,558	210,884
Other assets, net	II, IV and V	9,413,861	290,283	9,431,560	287,899
TOTAL ASSETS		$1,288,191,432	$39,722,215	$1,351,550,086	$41,256,108

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

December 31, 2007 and 2008

(Expressed in thousands of dollars)

		December 31, 2007		December 31, 2008	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$73,869,345	$2,277,809	$62,926,229	$1,920,825
Funds borrowed from the Central Bank and other banks		1,624,200	50,083	1,643,000	50,153
Financial liabilities at fair value through profit or loss	II, IV and V	47,847,320	1,475,403	47,460,720	1,448,740
Securities sold under agreements to repurchase	IV and V	14,635,423	451,293	20,732,112	632,848
Payables	IV and V	16,167,690	498,541	23,225,319	708,954
Deposits and remittances	IV and V	1,031,565,513	31,808,989	1,091,306,408	33,312,161
Financial debentures payable	IV and X	18,551,837	572,058	18,865,978	575,885
Other financial liabilities	II and IV	308,730	9,520	261,319	7,977
Other liabilities	II, IV and V	2,249,539	69,366	2,242,407	68,449
TOTAL LIABILITIES		1,206,819,597	37,213,062	1,268,663,492	38,725,992
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,501,370	48,689,413	1,486,246
Capital reserves	IV	15,213,611	469,122	15,213,611	464,396
Retained earnings	IV				
Legal reserve		11,482,369	354,066	13,402,448	409,110
Special reserve		-	-	465,071	14,196
Undistributed earnings		6,400,265	197,356	4,460,774	136,165
Foreign currency translation adjustment	II	51,248	1,580	55,677	1,700
Unrealized gains or losses on financial instruments	II	(465,071)	(14,341)	599,600	18,303
TOTAL SHAREHOLDERS' EQUITY		81,371,835	2,509,153	82,886,594	2,530,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,288,191,432	$39,722,215	$1,351,550,086	$41,256,108

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the years ended December 31, 2007 and 2008

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

ITEMS	NOTES	January 1 - December 31, 2007		January 1 - December 31, 2008	
		NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	$40,285,197	$1,242,220	$40,242,009	$1,228,388
INTEREST EXPENSE	V	(19,120,877)	(589,605)	(19,724,151)	(602,080)
NET INTEREST INCOME		21,164,320	652,615	20,517,858	626,308
NONINTEREST INCOME					
Net fee income	II and V	5,131,996	158,248	5,100,256	155,685
Loss on financial assets and liabilities at fair value through profit or loss	II and V	(459,139)	(14,158)	(2,067,256)	(63,103)
Realized gain on available-for-sale financial assets	II	1,706,718	52,628	162,819	4,970
Realized loss on held-to-maturity financial assets	II	(133)	(4)	(632)	(19)
Investment income recognized by the equity method	II and IV	167,774	5,174	246,965	7,539
Gain on foreign currency exchange, net	II	715,969	22,077	1,101,909	33,636
Impairment loss of assets	II	(115,211)	(3,553)	(3,109,323)	(94,912)
Impairment reversal (loss) on foreclosed properties		(9,666)	(298)	44,625	1,362
Gain on financial assets carried at cost		285,505	8,804	328,230	10,019
Loss on debt securities with no active market		(2,555,377)	(78,797)	(1,757,746)	(53,655)
Gain on disposal of foreclosed properties	V	5,545	171	180,251	5,502
Others	IV and V	181,641	5,601	787,274	24,031
NET NONINTEREST INCOME		5,055,622	155,893	1,017,372	31,055
NET OPERATING INCOME		26,219,942	808,508	21,535,230	657,363
BAD DEBT EXPENSE	II and IV	(4,085,730)	(125,986)	(926,249)	(28,274)
OPERATING EXPENSES					
Personnel	II, IV and V	(6,484,688)	(199,960)	(6,441,221)	(196,618)
Depreciation and amortization	II and IV	(1,347,279)	(41,544)	(1,239,282)	(37,829)
Other general and administrative expenses	V	(6,175,980)	(190,440)	(6,475,704)	(197,671)
TOTAL OPERATING EXPENSES		(14,007,947)	(431,944)	(14,156,207)	(432,118)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		8,126,265	250,578	6,452,774	196,971
INCOME TAX EXPENSE	II and IV	(1,726,000)	(53,222)	(1,992,000)	(60,806)
NET INCOME		$6,400,265	$197,356	$4,460,774	$136,165
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		$1.67	$0.051	$1.33	$0.041
INCOME TAX EXPENSE		(0.36)	(0.011)	(0.41)	(0.013)
NET INCOME		$1.31	$0.040	$0.92	$0.028

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of changes in shareholders' equity

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars)

						Retained earnings											
		Capital stock		Capital reserves		Legal reserve		Special reserve		Undistributed earnings (Deficit to be compensated)		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Total	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)
Balance, January 1, 2007		$46,420,518	$1,431,407	$13,464,276	$415,180	$15,271,236	$470,898	$-	$-	$(3,788,867)	$(116,832)	$70,197	$2,164	$704,223	$21,715	$72,141,583	$2,224,532
Retroactive adjustments for merger	XI	2,268,895	69,963	1,749,376	53,943	-	-	-	-	-	-	-	-	(17,292)	(533)	4,000,979	123,373
Reserves used to make up deficit	IV																
Legal reserve		-	-	-	-	(3,788,867)	(116,832)	-	-	3,788,867	116,832	-	-	-	-	-	-
Net income for the year ended December 31, 2007		-	-	-	-	-	-	-	-	6,400,265	197,356	-	-	-	-	6,400,265	197,356
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	(18,949)	(584)	-	-	(18,949)	(584)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	(41)	(1)	-	-	-	-	-	-	-	-	-	-	(41)	(1)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	(1,152,002)	(35,523)	(1,152,002)	(35,523)
Balance, December 31, 2007		$48,689,413	$1,501,370	$15,213,611	$469,122	$11,482,369	$354,066	$-	$-	$6,400,265	$197,356	$51,248	$1,580	$(465,071)	$(14,341)	$81,371,835	$2,509,153
Balance, January 1, 2008		$48,689,413	$1,486,246	$15,213,611	$464,396	$11,482,369	$350,500	$-	$-	$6,400,265	$195,368	$51,248	$1,564	$(465,071)	$(14,196)	$81,371,835	$2,483,878
Appropriation and distribution of 2007 earnings:	IV																
Legal reserves		-	-	-	-	1,920,079	58,610	-	-	(1,920,079)	(58,610)	-	-	-	-	-	-
Special reserves		-	-	-	-	-	-	465,071	14,196	(465,071)	(14,196)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(4,005,115)	(122,256)	-	-	-	-	(4,005,115)	(122,256)
Bonus to shareholders		-	-	-	-	-	-	-	-	(8,500)	(260)	-	-	-	-	(8,500)	(260)
Special bonus to employees		-	-	-	-	-	-	-	-	(1,500)	(46)	-	-	-	-	(1,500)	(46)
Net income for the year ended December 31, 2008		-	-	-	-	-	-	-	-	4,460,774	136,165	-	-	-	-	4,460,774	136,165
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	4,429	136	-	-	4,429	136
Unrealized gains on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	1,064,671	32,499	1,064,671	32,499
Balance, December 31, 2008		$48,689,413	$1,486,246	$15,213,611	$464,396	$13,402,448	$409,110	$465,071	$14,196	$4,460,774	$136,165	$55,677	$1,700	$599,600	$18,303	$82,886,594	$2,530,116

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of cash flows

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-December 31, 2007 NT	January 1-December 31, 2007 US (Note II)	January 1-December 31, 2008 NT	January 1-December 31, 2008 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$6,400,265	$197,356	$4,460,774	$136,165
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	1,347,279	41,544	1,239,282	37,829
The differences between investment income recognized by the equity method and the cash dividends received	II	5,856	181	(97,819)	(2,986)
Impairment (reversal) loss on foreclosed properties	II	9,666	298	(44,625)	(1,362)
Bad debt expense	II and IV	4,085,730	125,986	926,249	28,274
Loss (Gain) on disposal of premises, equipment and foreclosed properties	II	21,114	651	(271,635)	(8,292)
Impairment loss of assets	II	115,211	3,553	3,109,323	94,912
Effects of exchange rate changes		(41,555)	(1,281)	(54,891)	(1,675)
(Increase) decrease in operating assets					
(Increase) decrease in receivables		3,383	104	(5,410,455)	(165,154)
Decrease in deferred income tax assets		1,319,600	40,691	2,162,017	65,996
(Increase) decrease in financial assets at fair value through profit or loss		17,113,498	527,706	(13,256,688)	(404,661)
Increase in other assets		(124,797)	(3,848)	(720,117)	(21,982)
Increase (decrease) in operating liabilities					
Increase (decrease) in payables		(9,298,406)	(286,722)	7,175,996	219,047
Decrease in financial liabilities at fair value through profit or loss		(7,549,380)	(232,790)	(386,600)	(11,801)
Increase (decrease) in tax payables		248,334	7,657	(118,368)	(3,613)
Increase (decrease) in other liabilities		256,868	7,921	(31,141)	(950)
Net cash provided by (used in) operating activities		13,912,666	429,007	(1,318,698)	(40,253)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase from acquiring of CUTIC		9,183,682	283,185	-	-
Net increase in discounts and loans		(20,186,229)	(622,455)	(50,613,208)	(1,544,970)
(Increase) decrease in due from the Central Bank and call loans to banks		(6,430,249)	(198,281)	10,735,533	327,702
(Increase) decrease in securities purchased under agreements to resell		1,460,058	45,022	(1,843,147)	(56,262)
Increase in available-for-sale financial assets		(5,802,542)	(178,925)	(33,710,342)	(1,029,009)
Decrease in held-to-maturity financial assets		2,315,624	71,404	777,850	23,744
Increase in investments accounted for using equity method		(243,630)	(7,513)	(798,800)	(24,383)
Proceeds from disposal of premises, equipment and foreclosed properties		81,310	2,507	1,564,058	47,743
Acquisition of premises, equipment and foreclosed properties		(1,562,362)	(48,177)	(1,461,590)	(44,615)
Acquisition of intangible assets		(64,453)	(1,988)	(185,370)	(5,658)
Decrease in investments in debt securities with no active market		1,010,795	31,169	35,434,580	1,081,642
(Increase) decrease in other financial assets		1,722,031	53,100	(2,400,374)	(73,272)
Increase in other assets		(24,698)	(762)	(1,309,578)	(39,975)
Net cash used in investing activities		(18,540,663)	(571,714)	(43,810,388)	(1,337,313)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Decrease in due to the Central Bank and call loans from banks		(26,133,009)	(805,828)	(10,943,116)	(334,038)
Increase (decrease) in securities sold under agreements to repurchase		(9,026,317)	(278,332)	6,096,689	186,101
Increase in deposits and remittances		20,460,324	630,907	59,740,896	1,823,592
Increase in funds borrowed from the Central Bank and other banks		807,950	24,914	18,800	574
Increase in financial debentures payable		416,019	12,828	314,141	9,589
Decrease in other financial liabilities		(466,992)	(14,400)	(47,411)	(1,447)
Increase (decrease) in other liabilities		(6,318)	(195)	24,009	733
Distribution of cash dividends	IV	-	-	(4,005,115)	(122,256)
Bonus to shareholders and special bonus to employees		-	-	(10,000)	(306)
Net cash provided by (used in) financing activities		(13,948,343)	(430,106)	51,188,893	1,562,542
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		26,376	813	33,804	1,032
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(18,549,964)	(572,000)	6,093,611	186,008
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		34,198,828	1,054,543	15,648,864	477,682
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		$15,648,864	$482,543	$21,742,475	$663,690
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$19,011,411	$586,229	$19,491,614	$594,982
Income tax paid		$713,741	$22,009	$679,361	$20,738

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

I. Business

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

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

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

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

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

The Bank merge with Lucky Bank on January 1, 2007. Under this merger, on which the Bank was the surviving entity and Lucky Bank was the merged Bank. In addition, the Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation ("CUTIC") on December 29, 2007. Please refer to Note XI for details.

As of December 31, 2007 and 2008, the Bank employed 5,910 and 6,458 employees, respectively.

II. Summary of significant accounting policies

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

The significant accounting policies are summarized as follows:

1. Basis of presentation of financial statements

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

2. Foreign-currency transaction and translation

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

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

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

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

3. Financial assets and financial liabilities

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

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

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

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

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

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

(5) Financial assets carried at cost

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

(6) Financial liabilities

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

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

4. Derivative financial instruments

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

5. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

6. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

7. Hedge accounting

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

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

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

(3) Hedges of net investments in foreign operations.

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

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

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

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

10. Premises and equipment

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

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

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

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

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

11. Intangible assets and goodwill

(1) Intangible assets

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

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

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

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

(2) Goodwill

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

12. Foreclosed properties

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

13. Financial assets securitization

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

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

14. Asset impairment

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

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

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

15. Reserves for possible losses on guarantees

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

16. Reserves for losses on trading securities

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

17. Pension plans

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

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

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

18. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

19. Recognition of dividend

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

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

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

20. Income tax

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

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

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

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

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

21. Employee bonus and remuneration of directors

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

22. Contingencies

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

23. Basis for converting financial statements

    The Bank's financial statements are stated in NT dollars. Translation of the December 31, 2007 and 2008 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$32.43 and NT$32.76 to US$1.00 on December 31, 2007 and 2008, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. Effective from January 1, 2007, the Bank adopted the ROC SFAS No.37, "Accounting for Intangible Assets". The Bank has reassessed the useful lives and amortization methods of the intangible assets already recognized on the effective date. The adoption of the ROC SFAS No. 37 did not impact on the Bank's financial statements as of and for the year ended December 31, 2007.

2. The Bank adopted the accounting principles prescribed in Interpretation 2007-052 "Accounting for employee bonus and remuneration of directors" by the Accounting Research and Development Foundation on January 1, 2008. The above change in accounting principles decreased the Bank's net income by NT$1,500 (US$46), and there is no significant effect in earnings per share, for the year ended December 31, 2008.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	December 31,			
	2007		2008	
	NT	US	NT	US
Cash on hand	$9,211,507	$284,043	$11,865,775	$362,203
Checks for clearance	3,298,851	101,722	5,356,525	163,508
Due from commercial banks	3,138,506	96,778	4,520,175	137,979
Total	$15,648,864	$482,543	$21,742,475	$663,690

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

	December 31,			
	2007		2008	
	NT	US	NT	US
Call loans to banks	$13,485,834	$415,844	$5,318,127	$162,336
Due from the Central Bank －				
Statutory reserve on deposits and general deposits	44,215,964	1,363,428	41,648,138	1,271,311
Total	$57,701,798	$1,779,272	$46,966,265	$1,433,647

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$27,629,340(US$851,969) and NT$28,241,888 (US$862,084) as of December 31, 2007 and 2008, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of December 31, 2007 and 2008, the balance of foreign-currency deposit reserves were NT$0(US$0) and NT$123,225 (US$3,761), respectively.

3. Financial assets at fair value through profit or loss

	December 31,			
	2007		2008	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$4,701,072	$144,961	$-	$-
Mutual funds	1,047,405	32,297	779,477	23,794
Commercial papers and certificates of deposit	9,687,042	298,706	250,824	7,656
Bonds	19,619,050	604,966	37,497,603	1,144,615
Overseas financial instruments	1,382,617	42,634	142,465	4,349
Derivative financial instruments	3,227,739	99,530	14,278,613	435,855
Subtotal	39,664,925	1,223,094	52,948,982	1,616,269
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	172,112	5,307	167,804	5,123
Bonds	95,727	2,952	72,665	2,218
Subtotal	267,839	8,259	240,469	7,341
Total	$39,932,764	$1,231,353	$53,189,451	$1,623,610

(1) NT$95,727 (US$2,952) and NT$72,665 (US$2,218) of the financial assets at fair value through profit or loss as of December 31, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2007, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$6,522,500 (US$201,126). Such repurchase agreements amounting to NT$6,503,534 (US$200,541) was recorded in the account “Securities sold under agreements to repurchase” on the Bank’s balance sheets. Repurchase agreements entered prior to December 31, 2007 was settled at NT$6,507,082 (US$200,650) prior to February 28, 2008.

As of December 31, 2008, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$13,861,900 (US$423,135). Such repurchase agreements amounting to NT$15,156,243 (US$462,645) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to December 31, 2008 was settled at NT$15,181,203 (US$463,407) prior to June 30, 2009.

(3) As of December 31, 2007 and 2008, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

	December 31,	
	2007	2008
Forward foreign exchange and currency swap contracts	$16,304,666	$21,307,778
Interest rate swap contracts	12,184,668	11,306,513
Cross-currency swap contracts	675,489	490,578
Options	268,915	268,192
Credit derivative instrument contracts	140,000	130,000
Credit default swap contracts	-	46,902

(4) Net gains arising from financial assets at fair value through profit or loss for the years ended December 31, 2007 and 2008 were NT$3,343,516 (US$103,099) and NT$4,210,120 (US$128,514), respectively.

4. Receivables, net

	December 31,			
	2007		2008	
	NT	US	NT	US
Notes receivable	$6,408	$198	$6,468	$197
Accounts receivable	36,358,267	1,121,131	36,003,832	1,099,018
Interest receivable	4,379,680	135,050	4,230,781	129,145
Receivable to related party for allocation of linked-tax system	1,096,026	33,797	1,781,772	54,389
Foreign currency receivable	1,759,434	54,253	5,895,570	179,962
Acceptances	988,746	30,488	546,377	16,678
Tax refundable	747,465	23,049	772,564	23,583
Others	1,920,983	59,235	1,352,934	41,298
Total	47,257,009	1,457,201	50,590,298	1,544,270
Less: allowance for doubtful accounts	(3,472,208)	(107,068)	(2,982,973)	(91,055)
Net balance	$43,784,801	$1,350,133	$47,607,325	$1,453,215

Information on bad and doubtful accounts is as follows:

	January 1-December 31, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$1,942,613	$59,902	$126,568	$3,903	$2,069,181	$63,805
Provision of doubtful accounts	4,993,674	153,983	-	-	4,993,674	153,983
Write-offs	(4,397,181)	(135,590)	-	-	(4,397,181)	(135,590)
Debt counseling recoveries	214,092	6,602	-	-	214,092	6,602
Recoveries	592,535	18,271	-	-	592,535	18,271
Reclassifications	54,515	1,681	(54,515)	(1,681)	-	-
Effects of in exchange rates change	-	-	(93)	(3)	(93)	(3)
Balance, end of the period	$3,400,248	$104,849	$71,960	$2,219	$3,472,208	$107,068

	January 1-December 31, 2008					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,400,248	$103,793	$71,960	$2,196	$3,472,208	$105,989
Provision of doubtful accounts	1,565,665	47,792	-	-	1,565,665	47,792
Write-offs	(2,904,347)	(88,656)	-	-	(2,904,347)	(88,656)
Debt counseling recoveries	129,330	3,948	-	-	129,330	3,948
Recoveries	721,894	22,036	-	-	721,894	22,036
Reclassifications	20,491	625	(22,268)	(679)	(1,777)	(54)
Balance, end of the period	$2,933,281	$89,538	$49,692	$1,517	$2,982,973	$91,055

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

5. Discounts and loans, net

	December 31,			
	2007		2008	
	NT	US	NT	US
Outward documentary bills	$786,031	$24,238	$378,537	$11,555
Overdrafts	527,941	16,279	292,455	8,927
Short-term loans	150,475,843	4,640,020	162,699,803	4,966,416
Medium-term loans	223,396,423	6,888,573	235,249,125	7,180,987
Long-term loans	382,323,984	11,789,207	410,966,586	12,544,768
Delinquent accounts	8,193,021	252,637	5,978,412	182,491
Total	765,703,243	23,610,954	815,564,918	24,895,144
Less: allowance for doubtful accounts	(9,746,610)	(300,543)	(8,333,394)	(254,377)
Net balance	$755,956,633	$23,310,411	$807,231,524	$24,640,767

(1) As of December 31, 2007 and 2008, the accounts without interest accrued were NT$10,279,632 (US$316,979) and NT$7,465,048 (US$227,871), respectively. The non-accrued interest on such accounts amounted to NT$218,298 (US$6,731) and NT$149,261(US$4,556) for the years ended December 31, 2007 and 2008, respectively.

(2) For the years ended December 31, 2007 and 2008, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.

(3) Please refer to Note X.8 (2) for details on loans by industries and geographic regions.

(4) Information on bad and doubtful accounts is as follows:

	January 1-December 31, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,121,934	$96,267	$13,389,809	$412,884	$16,511,743	$509,151
Reversal of doubtful accounts	(907,944)	(27,997)	-	-	(907,944)	(27,997)
Write-offs	(11,923,799)	(367,678)	-	-	(11,923,799)	(367,678)
Debt counseling recoveries	158,800	4,897	-	-	158,800	4,897
Recoveries	5,019,987	154,794	-	-	5,019,987	154,794
Amount from acquiring CUTIC	889,121	27,416	-	-	889,121	27,416
Reclassification	7,781,703	239,954	(7,781,703)	(239,954)	-	-
Effects of exchange rates change	-	-	(1,298)	(40)	(1,298)	(40)
Balance, end of the period	$4,139,802	$127,653	$5,606,808	$172,890	$9,746,610	$300,543

	January 1-December 31, 2008					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,139,802	$126,368	$5,606,808	$171,148	$9,746,610	$297,516
Reversal of doubtful accounts	(639,416)	(19,518)	-	-	(639,416)	(19,518)
Write-offs	(6,826,586)	(208,382)	-	-	(6,826,586)	(208,382)
Debt counseling recoveries	98,426	3,004	-	-	98,426	3,004
Recoveries	5,946,598	181,520	-	-	5,946,598	181,520
Reclassification	944,045	28,817	(944,045)	(28,817)	-	-
Effects of exchange rates change	-	-	7,762	237	7,762	237
Balance, end of the period	$3,662,869	$111,809	$4,670,525	$142,568	$8,333,394	$254,377

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

6. Available-for-sale financial assets, net

	December 31,			
	2007		2008	
	NT	US	NT	US
Stocks	$4,647,526	$143,309	$1,016,622	$31,032
Mutual funds and beneficiary securities	288,492	8,896	189,084	5,772
Bonds	48,916,347	1,508,367	89,501,037	2,732,022
Overseas financial instruments	10,061,363	310,249	7,838,581	239,273
Subtotal	63,913,728	1,970,821	98,545,324	3,008,099
Less: accumulated impairment	-	-	(528,541)	(16,134)
Net balance	$63,913,728	$1,970,821	$98,016,783	$2,991,965

(1) NT$8,228,624 (US$253,735) and NT$3,108,585 (US$94,890) of the available-for-sale financial assets as of December 31, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2007, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$7,364,000 (US$227,074). Such repurchase agreements amounting to NT$8,131,889 (US$250,752) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2007 was settled at NT$8,159,958 (US$251,618) prior to June 30, 2008.

As of December 31, 2008, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$5,050,800 (US$154,176). Such repurchase agreements amounting to NT$5,575,869 (US$170,203) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2008 was settled at NT$5,583,908 (US$170,449) prior to June 30, 2009.

7. Held-to-maturity financial assets, net

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

	December 31, 2008			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,591,800	$48,590	$1,756,959	$53,631
Beneficiary certificates	576,335	17,593	576,335	17,593
Overseas financial instruments	210,725	6,432	209,542	6,396
Subtotal	$2,378,860	$72,615	$2,542,836	$77,620

As of December 31, 2007 and 2008, NT$658,944 (US$20,319) and NT$91,118 (US$2,781) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	December 31, 2007				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$37,704	$1,163	100.00	$1,262	$39
Cathay Life Insurance Agent Co., Ltd	42,901	1,323	100.00	17,351	535
Cathay Property Insurance Agent Co., Ltd.	7,587	234	100.00	450	14
Indovina Bank	1,069,370	32,975	50.00	175,156	5,401
Taiwan Real-estate Management Corp.	42,596	1,313	30.15	23,175	715
Taiwan Finance Corp.	1,271,370	39,203	24.57	(50,440)	(1,555)
Vista Technology Venture Capital Corp.	7,531	232	4.76	(1,110)	(34)
Cathay Venture Capital Corp.	33,942	1,047	2.00	1,930	59
Total	$2,513,001	$77,490		$167,774	$5,174

	December 31, 2008				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,422	$1,173	100.00	$1,865	$57
Cathay Life Insurance Agent Co., Ltd	44,831	1,368	100.00	19,269	588
Cathay Property Insurance Agent Co., Ltd.	7,624	233	100.00	469	14
Indovina Bank	1,447,815	44,194	50.00	176,238	5,380
Taiwan Real-estate Management Corp.	47,283	1,443	30.15	5,151	157
Taiwan Finance Corp.	1,399,410	42,717	24.57	44,890	1,370
Vista Technology Venture Capital Corp.	6,092	186	4.76	(1,424)	(43)
Cathay Venture Capital Corp.	28,984	885	2.00	507	16
Subtotal	3,020,461	92,199		$246,965	$7,539
Prepaid investment					
Indovina Bank	492,900	15,046			
Total	$3,513,361	$107,245			

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

(2) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the years ended December 31, 2007 and 2008 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

(3) The accounts of the Bank and Indovina Bank are included in the Bank's consolidated financial statements as of and for the years ended December 31, 2007 and 2008. As the individual total asset or operating income of the other subsidiaries of the Bank are immaterial to the Bank's consolidated financial statements, the accounts of these other subsidiaries, which are not included in the Bank's consolidated financial statements.

(4) According to the Bank's board of directors, Indovina Bank has scheduled to increase capital US$15,000 by cash. The increase of the investment has been approved by the authority in October 2008. As of December 31, 2008, the Bank has remitted US$15,000, which treated as prepayment account.

9. Other financial assets, net

	December 31,			
	2007		2008	
	NT	US	NT	US
Hedged derivatives financial assets	$53,503	$1,650	$2,488,654	$75,966
Financial assets carried at cost, stocks	4,245,466	130,911	4,094,875	124,996
Bills purchased	10,701	330	3,552	109
Total	$4,309,670	$132,891	$6,587,081	$201,071

(1) Due to the recurring losses incurred by Kaohsiung Rapid Transit Corporation, Taipei Financial Center Corp., New Century InfoComm Co., Ltd., Strategic Value Fund, Limited Partnership and Victor Taichung Machinery Works Co., Ltd., the Bank has recognized losses for these investees based on their net worth.

(2) As of December 31, 2007 and 2008, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$53,503 (US$1,650) and NT$2,488,654 (US$75,966), respectively. The Bank has recognized gain or loss in hedging in the amount of loss NT$91,284 (US$2,815) and gain NT$142,097 (US$4,338) for the years ended December 31, 2007 and 2008, respectively.

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

	December 31,			
	2007		2008	
	NT	US	NT	US
Preferred stocks	$549,730	$16,951	$549,730	$16,780
Certificates of deposit	197,065,000	6,076,627	180,235,000	5,501,679
Bonds	99,635	3,072	95,586	2,918
Beneficiary certificates	400,000	12,334	400,000	12,210
Overseas financial instruments	58,979,467	1,818,670	40,317,533	1,230,694
Subtotal	257,093,832	7,927,654	221,597,849	6,764,281
Less: accumulated impairment	(264,197)	(8,146)	(2,679,713)	(81,798)
Net balance	$256,829,635	$7,919,508	$218,918,136	$6,682,483

NT$15,000,000 (US$462,535) and NT$15,500,000 (US$473,138) of certificates of deposit as of December 31, 2007 and 2008, respectively, were pledged to other parties as collateral for business reserves and guarantees.

11. Financial assets securitization

During 2007, the Bank securitized a collateralized loans obligation (CLO) with a carry value of NT$5,446,335 (US$167,941) 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 1st	NT$3,335,000(US$102,837)	2.175%
Senior tranche 2nd	NT$315,000(US$9,713)	2.325%
Senior tranche 3rd	NT$340,000(US$10,484)	2.545%
Senior tranche 4th	NT$480,000(US$14,801)	2.945%
Subordinated tranche 5th	NT$200,000(US$6,167)	3.00%
Subordinated tranche 6th	NT$200,000(US$6,167)	3.20%
Subordinated tranche 7th	NT$576,335(US$17,772)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$30,106) and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to the Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and 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 at the end of the years, 2007 and 2008, respectively, were as follows:

	Corporate Loans Securitization		
	May 28, 2007	December 31, 2007	December 31, 2008
Expected weighted-average life (in years)	2.212	1.523	0.747
Prepayment rate (annual rate)	3%	3%	3%
Expected credit losses rate (annual rate)	3.71%	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.2%	2.49%	2.49%

(2) Sensitivity analysis：

As of December 31, 2007 and 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:

	December 31, 2007		December 31, 2008	
	NT	US	NT	US
Carrying amount of retained interests	$976,335	$30,106	$976,335	$29,803
Expected weighted-average life (in years)	1.523	1.523	0.747	0.747
Expected prepayment rate (annual rate)	3%	3%	3%	3%
Impact on fair value with 10% adverse change	(1,957)	(60)	(3,769)	(115)
Impact on fair value with 20% adverse change	(2,024)	(62)	(4,782)	(146)
Expected credit losses (annual rate)	3.71%	3.71%	3.71%	3.71%
Impact on fair value with 10% adverse change	(16,559)	(511)	(6,103)	(186)
Impact on fair value with 20% adverse change	(18,644)	(575)	(8,306)	(254)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%	2.49%	2.49%
Impact on faire value with 10% adverse change	(6,433)	(198)	(3,756)	(115)
Impact on faire value with 20% adverse change	(12,821)	(395)	(7,497)	(229)

(3) Expected static pool credit losses:

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

(4) Cash flows:

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

	2007		2008	
	NT	US	NT	US
The cash received from securitization	$4,470,000	$137,835	$-	$-
Servicing fees received	140	4	240	7
Other cash received on retained interests	20,912	645	29,087	888
Repayment of cash reserve	5,959	184	7,322	224

12. Premises and equipment, net

	December 31,			
	2007		2008	
	NT	US	NT	US
Cost:				
Land	$15,736,306	$485,239	$14,912,950	$455,218
Buildings	10,605,624	327,031	9,939,160	303,393
Office equipment	3,803,748	117,291	3,760,780	114,798
Transportation equipment	67,526	2,082	53,870	1,644
Leased improvements	19,345	597	11,547	353
Other equipment	4,895,695	150,962	5,153,145	157,300
Construction in progress and Prepayment for equipment	1,516,070	46,749	2,341,954	71,488
Subtotal	36,644,314	1,129,951	36,173,406	1,104,194
Accumulated depreciation:				
Buildings	(2,472,425)	(76,239)	(2,569,233)	(78,426)
Office equipment	(2,844,327)	(87,707)	(2,999,798)	(91,569)
Transportation equipment	(60,679)	(1,871)	(51,871)	(1,583)
Leased improvements	(3,893)	(120)	(4,525)	(138)
Other equipment	(3,497,784)	(107,856)	(3,822,395)	(116,679)
Subtotal	(8,879,108)	(273,793)	(9,447,822)	(288,395)
Accumulated impairment	(108,772)	(3,354)	-	-
Net	$27,656,434	$852,804	$26,725,584	$815,799

13. Intangible assets, net

	2007							
	January 1,		Additions/Amortization (Note2)		Disposals		December 31,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$-	$-	$6,537,374	$201,584	$-	$-	$6,537,374	$201,584
Computer software	961,523	29,649	219,382	6,765	-	-	1,180,905	36,414
Amortization	(485,168)	(14,960)	(202,413)	(6,242)	-	-	(687,581)	(21,202)
Impairments	-	-	(147,141)	(4,537)	-	-	(147,141)	(4,537)
Net balance	$476,355	$14,689	$6,407,202	$197,570	$-	$-	$6,883,557	$212,259

	2008							
	January 1,		Additions/Amortization		Disposals		December 31,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$6,537,374	$199,554	$141,997 (Note1)	$4,334 (Note1)	$6,288 (Note1)	$192 (Note1)	$6,673,083	$203,696
Computer software	1,180,905	36,047	50,725	1,548	149,133	4,552	1,082,497	33,043
Amortization	(687,581)	(20,988)	(160,370)	(4,895)	(929)	(28)	(847,022)	(25,855)
Impairment	(147,141)	(4,492)	(1,063)	(32)	(148,204)	(4,524)	-	-
Net balance	$6,883,557	$210,121	$31,289	$955	$6,288	$192	$6,908,558	$210,884

Note1: Adjustment of the fair value during the purchase price allocation period.

Note2: Including the assumed computer software and relevant accumulated impairment of CUTIC in the amount of NT$154,929 (US$4,777) and NT$147,141 (US$4,537), respectively.

Impairment testing of goodwill:

(1) Goodwill acquired through business combinations has been allocated to the cash-generating unit. As of December 31, 2008, the carrying amount of goodwill allocated to the unit is NT$6,673,083 (US$203,696)

(2) Key assumptions used in value in use calculations:

The recoverable amount of the unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the management of the Bank covering a five-year period.

(3) The calculation of value in use for the unit is most sensitive to the following assumptions:

① Discount rates

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by using the Capital Assets Pricing Model (CAPM).

② Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

(4) Sensitivity to changes in assumptions:

The Bank believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

14. Other assets, net

	December 31,			
	2007		2008	
	NT	US	NT	US
Prepayment	$130,119	$4,012	$477,512	$14,576
Temporary payments	127,757	3,940	43,258	1,320
Interbank settlement fund	1,299,766	40,079	2,000,275	61,059
Non-operating assets, net (Accumulated impairment NT$318,132 (US$9,810) and NT$327,800 (US$10,006) on December 31, 2007 and 2008, respectively)	1,548,043	47,735	2,458,470	75,045
Refundable deposits, net	1,126,174	34,726	2,435,752	74,351
Foreclosed properties, net	1,317,984	40,641	491,778	15,012
Deferred tax assets, net	3,573,855	110,202	1,477,637	45,105
Others	290,163	8,948	46,878	1,431
Total	$9,413,861	$290,283	$9,431,560	$287,899

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

	December 31,			
	2007		2008	
	NT	US	NT	US
Due to the Central Bank	$433,508	$13,368	$60,116	$1,835
Due to commercial banks	1,434,328	44,228	1,514,369	46,226
Due to Post Co., Ltd.	24,673,862	760,835	23,444,899	715,656
Overdrafts from banks	108,947	3,359	325,025	9,922
Call loans from banks	47,218,700	1,456,019	37,581,820	1,147,186
Total	$73,869,345	$2,277,809	$62,926,229	$1,920,825

16. Financial liabilities at fair value through profit or loss

	December 31,			
	2007		2008	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$3,570,180	$110,089	$14,746,924	$450,150
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,290,402	1,211,545	27,529,547	840,340
Subordinated financial debentures	4,986,738	153,769	5,184,249	158,250
Subtotal	44,277,140	1,365,314	32,713,796	998,590
Total	$47,847,320	$1,475,403	$47,460,720	$1,448,740

(1) On May 23, 2002, the Bank issued a five-year subordinated financial debenture totaling NT$5,000,000 which has matured. Subsequently on September 10, 2002, the Bank issued five-year and six-month subordinated financial debentures totaling NT$5,000,000 which has matured in 2007.

On September 19, 2008 and October 27, 2008, the Bank issued seven-year subordinated financial debentures totaling NT$2,200,000 and NT$2,800,000, respectively, with fixed interest rates. These subordinated financial debentures are repaid at maturity, and the interest is paid quarterly.

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

On June 20, 2003, December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year dominant financial debentures amounting to NT$5,000,000, NT$3,200,000, NT$2,700,000 and NT$1,800,000, respectively, which have matured in 2008. Subsequently on March 29, 2004, the Bank issued six-year dominant financial debenture amounting to NT$2,000,000 with a floating interest rate. The dominant financial debentures are repaid at maturity, and the interest is paid quarterly or semi-annually.

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

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

(2) The difference between the carrying amount of the financial liabilities designated at fair value through profit or loss and the amount the Bank would be contractually required to pay at maturity to the holder of the obligation are NT$422,860(US$13,039) and NT$713,796 (US$21,789) as of December 31, 2007 and 2008, respectively.

(3) Net losses arising from financial liabilities at fair value through profit or loss for the years ended December 31, 2007 and 2008 were NT$3,802,655 (US$117,257) and NT$6,277,376 (US$191,617), respectively.

17. Payables

	December 31,			
	2007		2008	
	NT	US	NT	US
Accounts payable	$4,994,791	$154,018	$10,099,779	$308,296
Accrued interest payable	4,606,133	142,033	4,391,619	134,054
Accrued expenses	2,430,840	74,956	2,052,799	62,662
Foreign currency payable	1,053,026	32,471	2,132,553	65,096
Acceptance	993,393	30,632	547,799	16,722
Tax payable	408,075	12,583	289,677	8,842
Receipts under custody	343,340	10,587	270,288	8,251
Others	1,338,092	41,261	3,440,805	105,031
Total	$16,167,690	$498,541	$23,225,319	$708,954

18. Deposits and remittances

	December 31,			
	2007		2008	
	NT	US	NT	US
Check deposits	$13,397,047	$413,107	$10,686,523	$326,206
Demand deposits	115,616,727	3,565,117	112,673,145	3,439,351
Demand savings deposits	358,531,509	11,055,551	334,718,473	10,217,292
Time deposits	253,098,650	7,804,460	337,017,917	10,287,482
Negotiable certificates of deposit	2,774,200	85,544	2,659,100	81,169
Time savings deposits	252,324,179	7,780,579	289,111,827	8,825,147
Trust unappropriated	35,102,110	1,082,396	1,106,439	33,774
Outward remittances	499,626	15,406	3,087,293	94,240
Remittances payable	221,465	6,829	245,691	7,500
Total	$1,031,565,513	$31,808,989	$1,091,306,408	$33,312,161

19. Financial debentures payable

	December 31,			
	2007		2008	
	NT	US	NT	US
Subordinated financial debentures	$18,592,000	$573,296	$16,430,000	$501,527
Discount in financial debentures	(96,246)	(2,968)	(87,268)	(2,664)
Valuation adjustment	56,083	1,730	2,523,246	77,022
Total	$18,551,837	$572,058	$18,865,978	$575,885

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

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

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

20. Other financial liabilities

	December 31,			
	2007		2008	
	NT	US	NT	US
Borrowed funds	$308,730	$9,520	$261,319	$7,977

21. Other liabilities

	December 31,			
	2007		2008	
	NT	US	NT	US
Unearned receipts	$145,555	$4,488	$220,676	$6,736
Temporary receipts	1,049,367	32,358	956,892	29,209
Reserve for losses on guarantees	28,649	884	24,893	760
Reserve for losses on stock brokerage transactions	268,791	8,288	268,791	8,205
Guarantee deposits received	706,811	21,795	730,819	22,308
Reserve for land value increment tax	50,366	1,553	40,336	1,231
Total	$2,249,539	$69,366	$2,242,407	$68,449

22. Capital Stock

As of January 1, 2007, the Bank had issued and outstanding capital stock of NT$46,420,518 (US$1,431,407) divided into 4,642,052 thousands common shares, with par value NT$10 per share.

In 2006, the Bank's board of directors on behalf of the shareholders resolved to have a merger with Lucky Bank by issuing 226,889 thousands common shares on January 1, 2007. After the merger, the issued and outstanding capital stock amounted to NT$48,689,413 (US$1,486,246) divided into 4,868,941 thousands common shares, with par value NT$10 per share. The above merger has been approved by the authority.

23. Capital reserves

	December 31,			
	2007		2008	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,949,303	$337,629	$10,949,303	$334,228
Additional paid-in capital	4,249,096	131,024	4,249,096	129,704
Others	15,212	469	15,212	464
Total	$15,213,611	$469,122	$15,213,611	$464,396

24. Retained earnings

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

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

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

(3) The estimation of employee bonus and remuneration of directors for the year ended December 31, 2008 was NT$1,500 (US$46) based on the average actual payment over the past three year and recognized as operating expense. Resolution approved at the 2009 shareholders' meeting might differ from the estimation mentioned above and the difference will be recognized as income in 2009.

(4) On April 26, 2007, the following are appropriations and distribution approved by the Bank's board of directors (According to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors)：

Make up deficit in 2006:
NT$3,788,867 (US$116,832) thousands from legal reserve.

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

The appropriation and distribution of earnings in 2007：
(a) NT$1,920,079 (US$58,610) thousands as legal reserve；
(b) NT$465,071 (US$14,196) thousands as special reserve；
(c) NT$4,013,615 (US$122,516) thousands as dividends and bonus to shareholders；
(d) NT$1,500 (US$46) thousands as bonus to employees.

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

25. Pension

(1) The following is a summary of the components of net pension expenses for 2007 and 2008:

	2007		2008	
	NT	US	NT	US
Defined contribution pension plan	$120,164	$3,705	$157,952	$4,822
Defined benefit pension plan:				
Service cost	123,196	3,799	120,781	3,687
Interest cost	58,622	1,808	66,396	2,027
Expected return on plan assets	(29,542)	(911)	(41,391)	(1,264)
Net amortization	74,995	2,312	68,141	2,080
Subtotal	227,271	7,008	213,927	6,530
Total	$347,435	$10,713	$371,879	$11,352

(2) The following is a reconciliation of the defined benefit pension plan between the funded status and amounts recognized on the Bank's balance sheets, etc.:

	December 31,			
	2007		2008	
	NT	US	NT	US
Pension benefit obligation:				
Vested	$(1,095,255)	$(33,773)	$(1,144,340)	$(34,931)
Non-vested	(834,098)	(25,720)	(982,095)	(29,978)
Accumulated benefit obligation	(1,929,353)	(59,493)	(2,126,435)	(64,909)
Value of future salary projections	(283,837)	(8,752)	(340,872)	(10,405)
Projected benefit obligation	(2,213,190)	(68,245)	(2,467,307)	(75,314)
Fair value of plan assets	1,379,714	42,544	1,513,518	46,200
Projected benefit obligation in excess of plan assets	(833,476)	(25,701)	(953,789)	(29,114)
Unrecognized net obligation at transition	202,395	6,241	162,997	4,975
Unrecognized net loss	652,471	20,120	790,792	24,139
Prepaid pension cost	$21,390	$660	$-	$-

The actuarial assumptions used are:

	December 31,	
	2007	2008
Discount rate	3.00%	2.50%
Growth rate in compensation levels	2.50%	2.00%
Expected long-term rate of return on plan assets	3.00%	2.50%

As of December 31, 2007 and 2008, the vested benefit, based on the Bank's defined benefit pension plan, amounted to NT$1,690,697 (US$52,134) and NT$1,860,960 (US$56,806), respectively.

26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the years ended December 31, 2007 and 2008:

	2007		2008	
	NT	US	NT	US
Personnel expenses				
Salary	$5,235,947	$161,454	$4,990,764	$152,343
Insurance	569,160	17,551	676,805	20,659
Pension	347,435	10,713	371,879	11,352
Others	332,146	10,242	401,773	12,264
Depreciation expenses	1,144,866	35,303	1,078,912	32,934
Amortization expenses	202,413	6,241	160,370	4,895

27. Income tax

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

(1) The reconciliation between income tax payable and income tax expense for the years ended December 31, 2007 and 2008 is as follows:

	2007		2008	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$(104,102)	$(3,210)	$(1,853,684)	$(56,584)
Interest on separation tax (tax rate 20% or 6%)	(36,316)	(1,120)	(16,528)	(504)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(1,430,227)	(44,102)	(631,566)	(19,279)
Allowance for pledged assets taken-over (reversal)	2,416	75	(11,156)	(341)
Foreign investment income recognized by the equity method	(19,426)	(599)	(9,319)	(284)
Others	(13,735)	(424)	124,801	3,810
Valuation allowance	1,074,159	33,122	60,661	1,852
Operating loss carry-forward	(941,140)	(29,021)	-	-
Investment tax credits	8,616	266	-	-
Effect of foreign branches' income tax	(5,042)	(155)	(64,036)	(1,955)
Adjustment of prior period's income tax	(261,203)	(8,054)	408,827	12,479
Income tax expense	$(1,726,000)	$(53,222)	$(1,992,000)	$(60,806)

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

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

	December 31,			
	2007		2008	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$1,984,965	$61,208	$4,292,495	$131,029
Others	253,108	7,805	288,564	8,808
Deductible temporary differences:				
Allowance for bad debts	5,371,279	165,627	2,719,644	83,017
Unrealized impairment loss for pledged assets taken-over	90,833	2,801	46,209	1,411
Pension expenses exceed the limit of tax law	174,814	5,390	-	-
Valuation of financial instruments	2,085,833	64,318	5,020,548	153,252
Provisions for possible losses	238,456	7,353	162,295	4,954
Others	317,245	9,782	528,623	16,136
Operating loss carry-forward	$8,516,311	$262,606	$1,861,609	$56,826
Investment tax credit	$8,616	$266	$-	$-
Deferred income tax assets of foreign branches	$51,466	$1,587	$102,911	$3,141

(3) Deferred tax assets	$4,258,775	$131,322	$2,687,643	$82,040
Deferred tax liabilities	(559,518)	(17,253)	(1,145,265)	(34,959)
Valuation allowance	(125,402)	(3,867)	(64,741)	(1,976)
Net deferred tax assets	$3,573,855	$110,202	$1,477,637	$45,105

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

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

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

	December 31,			
	2007		2008	
	NT	US	NT	US
The Bank's imputation credit	$666,632	$20,556	$119,597	$3,651
Undistributed earnings	6,400,265	197,356	4,460,774	136,165

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

	2006	2007
Cash dividends	-	9.78%

28. Earnings per share

The computations of earnings per share are as follows:

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

	2007				2008			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	$8,126,265	$250,578	$6,400,265	$197,356	$6,452,774	$196,971	$4,460,774	$136,165
Earnings per share (in dollars)								
Net income	$1.67	$0.051	$1.31	$0.040	$1.33	$0.041	$0.92	$0.028

V. Related parties transactions

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

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	〃
Cathay Securities Corp.	〃
Cathay Pacific Venture Capital Co., Ltd.	〃
Cathay Venture Capital Corp.	〃
Cathay II Venture Capital Corp.	〃
Cathay Capital Management Inc.	〃
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance
Cathay Insurance (Bermuda) Co., Ltd.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance (Shanghai) Co., Ltd.	〃
Cathay Life Insurance (Vietnam) Co., Ltd.	〃

Name of related parties	Relationship
Seaward Card Co., Ltd.	Subsidiaries
Indovina Bank	〃
Cathay Life Insurance Agent Co., Ltd.	〃
Cathay Property Insurance Agent Co., Ltd.	〃
Cathay Futures Corp.	Subsidiary of Cathay Securities Corp.
Cathay Pacific Partners Co., Ltd.	Subsidiary of Cathay Capital Management Inc. (liquidated on December 31, 2008)
Cathay Securities Trust Co., Ltd.	The investee by Cathay Life Insurance Co., Ltd. is accounted for using the equity method
Cathay Global Money Market Fund etc.	The funds which are managed by Cathay Securities Trust Co., Ltd.
Cathay Insurance Company Limited (Shanghai)	Subsidiary of Cathay Century Insurance Corp.
Cathay General Hospital	Their Chairman is the same with Cathay Financial Holding Co., Ltd.
Li Yuan Property Management and Maintenance Co., Ltd.	Related Party disclosed according to the ROC SFAS No. 6
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
Cathay Century Realty Co., Ltd.	〃
Cathay Real-estate Management Corp.	〃
Seaward Leasing Ltd.	〃
Cathay Life Charity Foundation	〃
Cathay Lin Yuan Security Co., Ltd.	〃
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	〃
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Taiwan Asset Management Corporation	The representative of the Bank is the Chairman of the corporation
Wan Pao Development Co., Ltd.	Their Chairman is a second immediate family member of the parent company's Chairman
Others	Certain Directors, Supervisors, Managers and relatives of the Bank's Chairman and President and etc.

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

(1) Loans and Deposits

Accounts/Related parties	December 31, Account balance NT	US	% of Account	January 1- December 31, Interest income (expense) NT	US
2007					
Loans					
Seaward Leasing Ltd.	$2,964,820	$91,422	0.39%	$47,578	$1,467
Taiwan Real-estate Management Corp.	114,000	3,515	0.02%	3,479	107
Cathay General Hospital	258,145	7,960	0.03%	7,371	227
Others	317,693	9,797	0.04%	7,503	232
Total	$3,654,658	$112,694	0.48%	$65,931	$2,033
Deposits					
Cathay Life Insurance Co., Ltd.	$8,299,911	$255,933	0.80%	$(59,440)	$(1,833)
Cathay Financial Holding Co., Ltd.	3,805,511	117,345	0.37%	(179,073)	(5,521)
Cathay Futures Corp.	1,218,323	37,568	0.12%	(16,919)	(522)
Cathay Securities Corp.	303,698	9,365	0.03%	(11,619)	(358)
Cathay Century Insurance Co., Ltd.	909,379	28,041	0.09%	(10,273)	(317)
Cathay Pacific Venture Capital Co., Ltd.	28,721	886	-	(3,596)	(111)
Cathay Securities Trust Co., Ltd.	783,962	24,174	0.08%	(10,800)	(333)
Cathay Real Estate Development Co., Ltd.	88,236	2,721	0.01%	(234)	(7)
Others	2,650,598	81,733	0.25%	(41,599)	(1,283)
Total	$18,088,339	$557,766	1.75%	$(333,553)	$(10,285)

Accounts/Related parties	December 31, Account balance NT	US	% of Account	January 1- December 31, Interest income (expense) NT	US
2008					
Loans					
Seaward Leasing Ltd.	$3,203,630	$97,791	0.40%	$67,895	$2,072
Taiwan Real-estate Management Corp.	109,000	3,327	0.01%	3,197	98
Cathay General Hospital	258,000	7,875	0.03%	6,922	211
Others	188,100	5,742	0.02%	5,326	163
Total	$3,758,730	$114,735	0.46%	$83,340	$2,544
Deposits					
Cathay Life Insurance Co., Ltd.	$9,151,368	$279,346	0.84%	$(83,079)	$(2,536)
Cathay Financial Holding Co., Ltd.	3,040	93	-	(27,993)	(854)
Cathay Futures Corp.	1,669,012	50,947	0.15%	(28,758)	(878)
Cathay Securities Corp.	157,636	4,812	0.01%	(3,933)	(120)
Cathay Century Insurance Co., Ltd.	1,479,562	45,163	0.14%	(12,307)	(376)
Cathay Pacific Venture Capital Co., Ltd.	507	15	-	(11)	-
Cathay Securities Trust Co., Ltd.	524,269	16,003	0.05%	(14,291)	(436)
Cathay Real Estate Development Co., Ltd.	151,414	4,622	0.01%	(150)	(5)
Others	10,976,687	335,064	1.01%	(224,260)	(6,846)
Total	$24,113,495	$736,065	2.21%	$(394,782)	$(12,051)

Accounts / Related parties	January 1- December 31, Maximum balance NT	US	December 31, Account balance NT	US	January 1 – December 31, Interest income (expense) NT	US	Interest Rate (%)
2007							
Call loans to banks							
Indovina Bank	$329,502	$10,160	$-	$-	$2,551	$79	5.00-7.70%
Due from commercial banks							
Indovina Bank	323,566	9,977	3,685	114	160	5	0.5-2.16%
Call loans from banks							
Indovina Bank	429,819	13,254	422,292	13,022	(1,423)	(44)	2.4-8.70%
Due to commercial banks							
Indovina Bank	64,457	1,988	13,951	430	-	-	-
2008							
Call loans to banks							
Indovina Bank	3,483,572	106,336	722,920	22,067	48,840	1,491	2.56-26
Due from commercial banks							
Indovina Bank	402,066	12,273	37,216	1,136	159	5	0.5-2.4
Call loans from banks							
Indovina Bank	1,100,614	33,596	230,020	7,021	(5,269)	(161)	2.3-18
Due to commercial banks							
Indovina Bank	65,876	2,011	29,196	891	-	-	-

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

(2) Guarantees

Related Parties	January 1- December 31, Maximum balance NT	US	December 31, Account balance NT	US	January 1- December 31, Service fees NT	US
2007						
Indovina Bank	$48,864	$1,507	$47,001	$1,449	$7	$0.2
2008						
Symphox Information Co., Ltd.	413	13	413	13	-	-

(3) Total salaries and remuneration of the top management

Items	2007 NT	2007 US	2008 NT	2008 US
Salaries, bonus, other remuneration	$63,673	$1,963	$70,155	$2,141

The top managements include the Chairman, Vice-Chairman, Directors, Supervisors, President and Vice-President.

Information relating to the above total salaries and remuneration of the top management, please refer to the Bank's annual report.

(4) Transactions under resale and repurchase agreements

Accounts/Related parties	December 31, Account balance NT	December 31, Account balance US	January 1- December 31, Interest income (expense) NT	January 1- December 31, Interest income (expense) US
2007				
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$712,128	$21,959	$(30,790)	$(949)
Others	1,210,188	37,317	(18,939)	(584)
Total	$1,922,316	$59,276	$(49,729)	$(1,533)
2008				
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$-	$-	$(6,144)	$(187)
Lin Yuan Investment Co., Ltd.	99,623	3,041	(2,707)	(83)
Cathay Life Insurance Co., Ltd.	431,473	13,171	(13,210)	(403)
Cathay Securities Investment Trust Co., Ltd.	146,129	4,461	(1,381)	(42)
Cathay Financial Holding Co., Ltd.	-	-	(2,388)	(73)
Others	878,248	26,808	(13,169)	(402)
Total	$1,555,473	$47,481	$(38,999)	$(1,190)
Securities purchased under agreements to resell				
Cathay Life Insurance Co., Ltd.	$-	$-	$403	$12

(5) Lease

Accounts/Related parties	2007 NT	2007 US	2008 NT	2008 US
Rental income				
Seaward Leasing Ltd.	$172	$5	$143	$4
Culture and Charity Foundation of Cathay United Bank	1,000	31	1,000	31
Cathay Securities Corp.	5,289	163	5,542	169
Cathay Life Insurance Co., Ltd.	7,470	230	10,972	335
Cathay Century Insurance Co., Ltd.	240	7	318	10
Rental expense				
Cathay Life Insurance Co., Ltd.	274,584	8,467	300,120	9,161
Cathay Real Estate Development Co., Ltd.	11,319	349	11,319	346
Seaward Leasing Ltd.	12,919	398	14,907	455

Account/Related parties	December 31, 2007 NT	2007 US	2008 NT	2008 US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$33,393	$1,030	$11,590	$354
Cathay Life Insurance Co., Ltd.	63,822	1,968	69,003	2,106
Cathay Real Estate Development Co., Ltd.	2,635	81	2,635	80

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

Account/Related parties	December 31, 2007 NT	2007 US	2008 NT	2008 US
Guarantee deposit received				
Cathay Securities Corp.	$1,325	$41	$1,325	$40
Cathay Life Insurance Co., Ltd.	2,162	67	2,430	74
Cathay Century Insurance Co., Ltd.	60	2	88	3

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

Accounts/Related parties	2007 NT	2007 US	2008 NT	2008 US
(6) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$661,862	$20,409	$1,117,006	$34,097
Cathay Securities Co., Ltd.	3,990	123	4,024	123
Cathay Securities Trust Co., Ltd.	20,345	627	29,708	907
Cathay Century Insurance Co., Ltd.	45,035	1,389	82,035	2,504
Cathay Securities Investment Consulting Co., Ltd.	3,045	94	6,514	199
(7) Other operating income				
Cathay Century Insurance Co., Ltd.	1,287	40	17,784	543
(8) Operating expenses				
Seaward Card Co., Ltd.	294,645	9,086	254,566	7,771
Cathay Life Insurance Co., Ltd.	106,119	3,272	127,257	3,885
Cathay Century Insurance Co., Ltd.	807	25	607	19
Symphox Information Co., Ltd.	415,612	12,816	460,260	14,049
Cathay Securities Corp.	4,224	130	2,400	73
Cathay Real Estate Development Co., Ltd.	7,313	225	13,642	416
Cathay Lin Yuan Security Co., Ltd.	2,764	85	2,283	70
Cathay General Hospital	864	27	8,354	255
(9) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	459,751	14,177	555,658	16,961
Cathay Century Insurance Co., Ltd.	152,728	4,709	153,980	4,700

	December 31,			
	2007		2008	
Accounts/Related parties	NT	US	NT	US
(10) Receivable to related party for allocation of linked-tax system(Note1)				
Cathay Financial Holdings	$1,096,026	$33,797	$1,781,772	$54,389

Note1: Receivables and payables are offset and expressed in the net amount for allocation of linked-tax system.

Accounts/Related parties	2007 NT	2007 US	2008 NT	2008 US
(11) Financial assets at fair value through profit or loss-mutual funds				
Cathay Securities Trust Co., Ltd. (Note2)	775,649	23,918	845,649	25,813

Note2: The Bank invested in the funds which are managed by Cathay Securities Trust Co., Ltd.

Accounts/Related parties	December 31, 2007 NT	2007 US	2008 NT	2008 US
(12) Refundable deposit				
Cathay Futures Corp.	$39,292	$1,212	$39,292	$1,199
(13) Accrued expenses				
Seaward Card Co., Ltd.	-	-	24,945	761
(14) Accounts payable				
Symphox Information Co., Ltd.	13,397	413	52,254	1,595
Cathay Securities Corp.	200	6	200	6
Cathay Century Insurance Co., Ltd	50,606	1,560	5,696	174
Cathay Real Estate Development Co., Ltd	1,037	32	-	-

(15) Others

a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT$1,411,880 (US$43,322), in 2006. The Bank paid the amount of NT$471,272 (US$14,532) and NT$620,074 (US$18,928) during the years ended December 31, 2007 and 2008. As of December 31, 2007 and 2008, the accumulated paid amount was NT$561,823 (US$17,324) and NT$1,181,897 (US$36,077), respectively.

b. The Bank has paid decoration and fix fees to San Ching Engineering Corp. for the amount of NT$5,067 (US$156) and NT$5,419 (US$165) during the years ended December 31, 2007 and 2008, respectively.

c. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT$22,513 (US$694) and NT$22,028 (US$672) during the years ended December 31, 2007 and 2008, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$19,740 (US$609) and NT$ 0 (US$0) during the years ended December 31, 2007 and 2008, respectively.

e. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the years ended December 31, 2007 and 2008. As of December 31, 2007 and 2008, the bonus points which not converting amount was NT$32,695 (US$1,008) and NT$28,165 (US$860), respectively.

f. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT$1,030,000 (US$31,761) and NT$4,448,000 (US$135,775) during the years ended December 31, 2007 and 2008, respectively.

g. The Bank paid the amount of NT$45,546 (US$1,404) to certain managers according to the intercession content regarding a dispute involving dissolving the construction contract on Shih-Hua Hills and repossessing the land during the year ended December 31, 2007.

h. As of December 31, 2007 and 2008, the Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts to NT$200,000 (US$6,167) and NT$ 0 (US$ 0), respectively, which issued by the Bank in 2003.

i. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the service fees of NT$10,500 (US$321) and NT$7,148 (US$218) were included in disposal gains of foreclosed properties, premises and equipment, respectively, for the year ended December 31, 2008.

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

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

(16) Transactions of derivative financial instruments

Related parties	Category of agreements	Term of agreements	Notional amount NT	Notional amount US	Valuation gains (losses) NT	Valuation gains (losses) US
2007						
Cathay Life Insurance Co., Ltd.	Forward	2007.01.09-2008.04.28	$5,209,187	$160,629	$807,458	$24,898
	Non-delivery forward	-	-	-	(1,956)	(60)
	Currency swap	2007.05.29-2008.11.10	42,716,460	1,317,190	(245,001)	(7,555)
	Interest rate swap	2006.01.20-2017.07.10	4,300,000	132,593	(31,976)	(986)
Cathay Century Insurance Co., Ltd.	Forward	2007.03.14-2008.12.15	483,362	14,905	16,602	512
	Non-delivery forward	2007.11.16-2008.11.20	220,242	6,791	6,619	204
	Currency swap	2007.03.05-2008.07.21	1,122,322	34,608	72,299	2,229
	Interest rate swap	2007.09.29-2014.09.30	200,000	6,167	(595)	(18)
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2007.11.30-2008.01.08	1,585,219	48,881	(53,675)	(1,655)
	Non-delivery forward	2007.11.30-2008.01.08	1,812,607	55,893	(6,020)	(186)
	Currency swap	-	-	-	(144)	(4)
2008						
Cathay Life Insurance Co., Ltd.	Forward	2008.05.19-2009.06.10	$25,264,676	$771,205	$2,594,790	$79,206
	Currency swap	2008.01.31-2009.05.29	36,474,600	1,113,388	2,087,341	63,716
	Interest rate swap	2007.07.05-2012.07.05	500,000	15,263	(74,209)	(2,265)
Cathay Century Insurance Co., Ltd.	Forward	2008.01.15-2009.12.15	253,541	7,739	(2,972)	(91)
	Non-delivery forward	2008.01.16-2009.12.15	102,700	3,135	4,849	148
	Currency swap	2008.03.24-2009.03.24	806,713	24,625	38,361	1,171
	Interest rate swap	2007.09.29-2015.04.30	600,000	18,315	(41,969)	(1,281)
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2008.12.03-2009.01.08	506,044	15,447	72,993	2,228
	Non-delivery forward	2008.12.03-2009.01.08	82,150	2,508	(7,138)	(218)
	Currency swap	2008.12.04-2009.01.15	259,594	7,924	2,646	81

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2008, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$179,184,468	$5,469,611
Travelers checks for sale	415,949	12,697
Bills for collection	41,468,607	1,265,830
Book-entry for government bonds and depository for short-term marketable securities under management	443,802,700	13,547,091
Guarantees on duties and contracts	16,670,523	508,868
Unused commercial letters of credit	2,390,960	72,984
Irrevocable loan commitments	38,241,377	1,167,319
Credit card lines commitments	268,448,361	8,194,394
Stamp tax, securities and memorial currency consignments	1,727	53

2. As of December 31, 2008, the Bank had various lawsuits and proceedings. The significant ones are summarized below:

(1) On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which the Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with the Bank. The Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. About provisional measures, the Taipei District Court and the High Court adjudged that the Bank win the lawsuit. However, Pacific SOGO appealed and the appeal is being reviewed by the Supreme Court. Furthermore, the Bank also filed an incidental civil procedures and claim, which is being review by the Taipei District Court, against Pacific SOGO. Then the Taipei District Court issued a judgment favoring the Bank in October, 2006, ordering Pacific SOGO to pay the punitive damages of NT$400,000 (US$12,210). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

(2) Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT$0.9 billion (US$2.7 million) and NT$3.09 billion (US$9.4 million), respectively. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

3. As of December 31, 2008, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$2,874,378(US$87,740) with prepayments of NT$2,341,954 (US$71,488).

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

Periods	NT	US
2009.1.1~2009.12.31	$644,017	$19,659
2010.1.1~2010.12.31	474,923	14,497
2011.1.1~2011.12.31	366,630	11,191
2012.1.1~2012.12.31	360,866	11,015
2013.1.1~2013.12.31	90,143	2,752

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	December 31, 2007			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$36,705,025	$1,131,823	$36,705,025	$1,131,823
Available-for-sale financial assets	63,913,728	1,970,821	63,913,728	1,970,821
Held-to-maturity financial assets and debt securities with no active market	260,150,321	8,021,903	260,070,546	8,019,443
Other financial assets-financial assets carried at cost	4,245,466	130,911	(Note)	(Note)
Others	874,554,971	26,967,467	874,554,971	26,967,467
Liabilities				
Financial liabilities at fair value through profit or loss	44,277,140	1,365,314	44,277,140	1,365,314
Financial debentures payable	18,551,837	572,058	18,551,837	572,058
Others	1,138,877,712	35,118,030	1,138,877,712	35,118,030

	December 31, 2007			
	Carrying value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$911,233	$28,099	$911,233	$28,099
Non-delivery forward	134,369	4,143	134,369	4,143
Currency swap	840,588	25,920	840,588	25,920
Interest rate swap	1,162,345	35,842	1,162,345	35,842
Cross currency swap	2,919	90	2,919	90
Futures	171,023	5,274	171,023	5,274
Options	58,107	1,792	58,107	1,792
Credit derivative instruments	658	20	658	20
Liabilities				
Forward	235,175	7,252	235,175	7,252
Non-delivery forward	131,466	4,054	131,466	4,054
Currency swap	1,322,846	40,791	1,322,846	40,791
Interest rate swap	1,207,275	37,227	1,207,275	37,227
Cross currency swap	382,662	11,799	382,662	11,799
Options	56,521	1,743	56,521	1,743
Credit derivative instruments	234,235	7,223	234,235	7,223

	December 31, 2008			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$38,910,838	$1,187,755	$38,910,838	$1,187,755
Available-for-sale financial assets	98,016,783	2,991,965	98,016,783	2,991,965
Held-to-maturity financial assets and debt securities with no active market	221,460,972	6,760,103	221,538,920	6,762,482
Other financial assets-financial assets carried at cost	4,094,875	124,996	(Note)	(Note)
Others	928,156,040	28,331,992	928,156,040	28,331,992
Liabilities				
Financial liabilities at fair value through profit or loss	32,713,796	998,590	32,713,796	998,590
Financial debentures payable	18,865,978	575,885	18,865,978	575,885
Others	1,200,825,206	36,655,226	1,200,825,206	36,655,226

	December 31, 2008			
	Carrying value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$6,785,149	$207,117	$6,785,149	$207,117
Non-delivery forward	784,345	23,942	784,345	23,942
Currency swap	882,526	26,939	882,526	26,939
Interest rate swap	7,878,829	240,502	7,878,829	240,502
Cross currency swap	128,921	3,935	128,921	3,935
Options	354,397	10,818	354,397	10,818
Liabilities				
Forward	2,633,334	80,383	2,633,334	80,383
Non-delivery forward	770,571	23,522	770,571	23,522
Currency swap	5,229,128	159,619	5,229,128	159,619
Interest rate swap	4,941,705	150,846	4,941,705	150,846
Cross currency swap	88,788	2,710	88,788	2,710
Options	354,400	10,818	354,400	10,818
Credit derivative instruments	729,060	22,254	729,060	22,254
Credit default swaps	46,838	1,430	46,838	1,430

Note: Fair value cannot be reliably estimated.

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

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

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

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

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

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

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

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

	December 31, 2007			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$35,150,296	$1,083,882	$1,554,729	$47,941
Available-for-sale financial assets	54,340,281	1,675,618	9,573,447	295,203
Held-to-maturity financial assets and debt securities with no active market	199,817,730	6,161,509	60,252,816	1,857,934
Others (Note)	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	44,277,140	1,365,314
Financial debentures payable	-	-	18,551,837	572,058
Others (Note)	-	-	-	-
Derivative financial instruments				
Assets				
Forward	-	-	911,233	28,099
Non-delivery forward	-	-	134,369	4,143
Currency swap	-	-	840,588	25,920
Interest rate swap	-	-	1,162,345	35,842
Cross currency swap	-	-	2,919	90
Futures	-	-	171,023	5,274
Options	62	2	58,045	1,790
Credit derivative instruments	-	-	658	20

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

	December 31, 2008			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$38,600,569	$1,178,284	$310,269	$9,471
Available-for-sale financial assets	90,706,744	2,768,826	7,310,039	223,139
Held-to-maturity financial assets and debt securities with no active market	182,652,497	5,575,473	38,886,423	1,187,009
Others (Note)	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	32,713,796	998,590
Financial debentures payable	-	-	18,865,978	575,885
Others (Note)	-	-	-	-
Derivative financial instruments				
Assets				
Forward	-	-	6,785,149	207,117
Non-delivery forward	-	-	784,345	23,942
Currency swap	-	-	882,526	26,939
Interest rate swap	-	-	7,878,829	240,502
Cross currency swap	-	-	128,921	3,935
Options	-	-	354,397	10,818

	December 31, 2008			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Liabilities				
Forward	$-	$-	$2,633,334	$80,383
Non-delivery forward	-	-	770,571	23,522
Currency swap	-	-	5,229,128	159,619
Interest rate swap	-	-	4,941,705	150,846
Cross currency swap	-	-	88,788	2,710
Options	-	-	354,400	10,818
Credit derivative instruments	-	-	729,060	22,254
Credit default swaps	-	-	46,838	1,430

Note: Most of such assets and liabilities are receivables, discounts and loans, deposits and remittances, etc. The amount of fair value is not determined by quoted market price or pricing models but it is assumed that the carrying amounts approximate to their fair value.

4. Losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT$377,581 (US$11,643) and NT$1,020,262 (US$31,144) for the years ended December 31, 2007 and 2008, respectively.

5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the years ended December 31 2007 and 2008 were NT$39,195,507 (US$1,208,619) and NT$39,499,218 (US$1,205,715), and expenses were NT$18,497,254 (US$570,375) and NT$18,969,351 (US$579,040), respectively.

6. The Bank recognized an unrealized gains or losses of NT$322,140 (US$9,933) and NT$1,135,238 (US$34,653) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$1,474,142 (US$45,456) and NT$70,567 (US$2,154) in income statements, for the years ended December 31, 2007 and 2008, respectively.

7. Interest income of NT$36 (US$1) and NT$0 (US$0) from financial assets were impaired which were assessed by discount rate of cash flow for the years ended December 31, 2007 and 2008.

8. Information on financial risk

(1) Market risk

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

① Interest rate risk

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

② Foreign exchange risk

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

③ Equity securities price risk

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

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

2008						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$176,570	$5,390	$293,710	$8,966	$71,356	$2,178
Foreign exchange	264,597	8,077	434,482	13,263	143,629	4,384
Equity Securities price	126,425	3,859	208,847	6,375	66,379	2,026

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

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

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

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

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

(In thousands of US dollars)

	Currency	December 31, 2008
FX factor sensitivity (FX Delta)		
	HKD	$(1,981)
	JPY	557
	USD	(17,048)
	NTD	18,271
Interest rate factor sensitivity (PVBP)		
	HKD	(1)
	USD	(1,075)
	NTD	(1,027)
Equity factor sensitivity (Equity Delta)		
	NTD	432

(2) Credit risk

The 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, the 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 risk through a diversified and balance loan portfolio. The Bank's board of directors sets the counterparty credit limits, which are then implemented by credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios.

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

① Information on concentrations of credit risk.

	December 31, 2007			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$36,705,025	$1,131,823	$36,705,025	$1,131,823
Available-for-sale financial assets	63,913,728	1,970,821	63,913,728	1,970,821
Held-to-maturity financial assets and debt securities with no active market	260,150,321	8,021,903	260,150,321	8,021,903
Other financial assets-financial assets carried at cost	4,245,466	130,911	4,245,466	130,911
Other assets	874,554,971	26,967,467	874,554,971	26,967,467
Guarantees on duties and contracts	-	-	19,258,183	593,839
Unused commercial letters of credit	-	-	2,957,974	91,211
Irrevocable loan commitments	-	-	40,783,846	1,257,596
Credit card line commitments	-	-	278,940,434	8,601,308

Financial assets	December 31, 2007			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
Derivative financial instruments				
Forward	$911,233	$28,099	$911,233	$28,099
Non-delivery forward	134,369	4,143	134,369	4,143
Currency swap	840,588	25,920	840,588	25,920
Interest rate swap	1,162,345	35,842	1,162,345	35,842
Cross currency swap	2,919	90	2,919	90
Future	171,023	5,274	171,023	5,274
Options	58,107	1,792	58,107	1,792
Credit derivative instruments	658	20	658	20

Financial assets	December 31, 2008			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$38,910,838	$1,187,755	$38,910,838	$1,187,755
Available-for-sale financial assets	98,016,783	2,991,965	98,016,783	2,991,965
Held-to-maturity financial assets and debt securities with no active market	221,460,972	6,760,103	221,460,972	6,760,103
Other financial assets-financial assets carried at cost	4,094,875	124,996	4,094,875	124,996
Other assets	928,156,040	28,331,992	928,156,040	28,331,992
Guarantees on duties and contracts	-	-	16,670,523	508,868
Unused commercial letters of credit	-	-	2,390,960	72,984
Irrevocable loan commitments	-	-	38,241,377	1,167,319
Credit card line commitments	-	-	268,448,361	8,194,394
Derivative financial instruments				
Forward	6,785,149	207,117	6,785,149	207,117
Non-delivery forward	784,345	23,942	784,345	23,942
Currency swap	882,526	26,939	882,526	26,939
Interest rate swap	7,878,829	240,502	7,878,829	240,502
Cross currency swap	128,921	3,935	128,921	3,935
Options	354,397	10,818	354,397	10,818

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

	December 31,			
	2007		2008	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$104,305,781	$3,216,336	$136,535,182	$4,167,741
Financial institutions and insurance	51,082,590	1,575,165	42,997,455	1,312,499
Leasing and real estate	80,635,270	2,486,441	78,087,199	2,383,614
Individuals	421,120,619	12,985,526	432,419,931	13,199,631
Others	128,816,613	3,972,143	142,745,603	4,357,314
Total	785,960,873	24,235,611	832,785,370	25,420,799
Valuation allowance	(9,746,610)	(300,543)	(8,333,394)	(254,377)
Maximum credit risk exposed	$776,214,263	$23,935,068	$824,451,976	$25,166,422
Geographic Region				
Domestic	$722,753,825	$22,286,581	$741,552,795	$22,635,922
South East Asia	18,868,059	581,809	27,761,520	847,421
North East Asia	144,953	4,470	215,157	6,568
America	13,987,495	431,313	18,529,668	565,619
Others	30,206,541	931,438	44,726,230	1,365,269
Total	785,960,873	24,235,611	832,785,370	25,420,799
Valuation allowance	(9,746,610)	(300,543)	(8,333,394)	(254,377)
Maximum credit risk exposed	$776,214,263	$23,935,068	$824,451,976	$25,166,422

(3) Liquidity risk

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

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

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

The liquidity risk rate was 27.84%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of December 31, 2008, there is no significant change in these dates.

As of December 31, 2007 and 2008, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

	Effective interest rate (%)	
Financial instruments	December 31, 2007	December 31, 2008
Available-for-sale financial assets		
Bonds	1.60021-6.82519	1.4922-6.7847
Overseas financial instruments	5.7879	2.1918
Held-to-maturity financial assets		
Bonds	1.81182-6.96142	2.0981-6.9650
Overseas financial instruments	3.45-5.88	1.34
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.88-3.00	1.02-2.359
Overseas financial instruments	0-7.2425	0-6.014
Financial debentures payable	2-5.593	2-5.593

9. Fair value hedge

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

	Hedging instruments				
		Fair value			
	Derivative designated as	December 31, 2007		December 31, 2008	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$53,503	$1,650	$2,488,654	$75,966

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

XI. Others

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

(1) Brief introduction to transferor:

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

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

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

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

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

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

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

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

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

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

	Amount	
	NT	US
Assets	$59,212,341	$1,807,458
Liabilities	74,549,715	2,275,632
Net	(15,337,374)	(468,174)
Add: Received from the FRF and CDIC	8,800,000	268,620
Adjustment of purchase price	(135,709)	(4,142)
Goodwill arising on acquisition	$(6,673,083)	$(203,696)

On December 31, 2007, the Bank has received NT$8,800 million (US$269 million) as cash subsidy from the FRF and CDIC, and will settle the rest amount pursuant to contract. The initial purchase price allocations may be adjusted within one year of the acquired date for changes in estimates of the fair value of assets acquired and liabilities assumed. The purchase price was adjusted to NT$135,709 (US$4,142) for the year period ended December 31, 2008 by the contract.

(6) The following table summarizes unaudited pro forma financial information assuming the CUTIC acquisition had occurred on January 1, 2007.

	2007	
	NT	US
Net interest income	$22,428,657	$691,602
Net non-interest income	4,527,055	139,595
Bad debts and operating expenses	(19,755,192)	(609,164)
Net income before tax	7,200,520	222,033
Net income	5,451,191	168,091
Earnings per share	$1.12	$0.035

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

	2007		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$27,494,909	$847,823	1.50%
Time certificates, discounted bills and others	228,883,296	7,057,764	1.93%
Due from commercial banks and call loans to banks	19,389,419	597,885	3.50%
Discounts and loans	727,632,430	22,437,016	3.49%
Bills purchased	6,433	198	3.49%
Government, corporate bonds and financial debentures	142,790,178	4,403,027	4.25%
Receivables-credit card revolving balance	23,638,936	728,922	14.03%
Securities purchased under agreements to resell	697,063	21,494	0.45%
Liabilities			
Due to banks	78,823,673	2,430,579	3.85%
Demand deposits	111,795,864	3,447,298	0.46%
Saving deposits	630,437,270	19,439,940	1.10%
Time deposits	244,253,926	7,531,728	2.64%
Negotiable certificates of deposit	3,770,204	116,257	1.56%
Securities sold under agreements to repurchase	20,871,998	643,602	1.57%
Financial debentures	65,280,654	2,012,971	2.41%
Funds borrowed from the Central Bank and other banks	1,331,263	41,050	4.43%

	2008		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$28,357,432	$865,611	1.32%
Time certificates, discounted bills and others	200,020,722	6,105,639	2.14%
Due from commercial banks and call loans to banks	27,767,708	847,610	3.94%
Discounts and loans	793,732,302	24,228,703	3.43%
Bills purchased	5,119	156	2.64%
Government, corporate bonds and financial debentures	129,656,197	3,957,759	3.73%
Receivables-credit card revolving balance	20,034,822	611,564	14.02%
Securities purchased under agreements to resell	2,452,039	74,849	1.66%
Liabilities			
Due to banks	75,558,926	2,306,439	3.29%
Demand deposits	112,974,236	3,448,542	0.36%
Saving deposits	613,314,439	18,721,442	1.29%
Time deposits	301,649,826	9,207,870	2.42%
Negotiable certificates of deposit	3,224,827	98,438	1.76%
Securities sold under agreements to repurchase	23,791,220	726,228	1.67%
Financial debentures	57,628,659	1,759,117	2.85%
Funds borrowed from the Central Bank and other banks	1,785,503	54,503	3.16%

3. Regulatory capital ratio

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

As of December 31, 2007 and 2008, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 11.13% and 11.03%, respectively.

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

The Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as a reorganization and recorded at the book value of both entities' assets and liabilities. The financial statements of the Bank should be retroactively restated assuming the Lucky Bank had been merged at the beginning of each of the periods presented. The net assets, amounted to NT$4,000,979 (US$123,373) based on the book value of Lucky Bank, acquired by the Bank through a share swap (at ratio of 0.7212 shares and issued 226,889 thousands new shares of the Bank) transaction. The net assets acquired by the Bank are as follows：

Items	NT	US
Cash and cash equivalents	$6,461,558	$199,247
Due from the Central Bank and call loans to banks	2,410,995	74,344
Available-for-sale financial assets, net	528,186	16,287
Receivables, net	299,492	9,235
Discounts and loans, net	53,668,319	1,654,897
Premises and equipment, net	1,633,660	50,375
Other financial assets, net	23,495,274	724,492
Other assets	506,457	15,617
Call loans from banks	(145,219)	(4,478)
Payables	(1,695,272)	(52,275)
Deposits and remittances	(82,958,055)	(2,558,065)
Other liabilities	(204,416)	(6,303)
Subtotal	4,000,979	123,373
Issued shares for the merger	(2,268,895)	(69,963)
Unrealized gain on financial instrument	17,292	533
Capital reserves from the merger	$1,749,376	$53,943

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

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

6. In accordance with Article 17 of the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

Balance Sheet Based on Trust
December 31, 2007

Trust Assets			Trust Liabilities		
	NT	US		NT	US
Bank deposits	$4,600,384	$141,856	Payables	$1,990	$61
Bonds	73,909,632	2,279,051	Taxes payable	409	13
Common stock	3,173,842	97,867	Custody securities payable	111,342,788	3,433,327
Mutual funds	123,484,246	3,807,717	Trust capital	213,039,390	6,569,207
Securities purchased under			Accumulated earnings		
agreements to resell	250,000	7,709	Earnings distribution	(316,447)	(9,758)
Structure financial instruments	77,200	2,380	Net income	228,859	7,057
Receivables	2,456	76	Retained earnings	37,750	1,164
Real estate			Adjustment	81,321	2,508
Land	7,747,815	238,909	Net Assets		
Buildings, net	20,239	624	Capital account	423,010	13,044
Construction in progress	230,402	7,105	Distributable revenue	(66)	(2)
Custody securities	111,342,788	3,433,327			
Total	$324,839,004	$10,016,621	Total	$324,839,004	$10,106,621

Balance Sheet Based on Trust
December 31, 2008

Trust Assets			Trust Liabilities		
	NT	US		NT	US
Bank deposits	$5,570,110	$170,028	Payables	$28,971	$884
Bonds	116,075,538	3,543,209	Taxes payable	74	2
Common stock	3,331,879	101,706	Custody securities payable	126,855,285	3,872,261
Mutual funds	118,507,978	3,617,460	Trust capital	256,331,344	7,824,522
Insurance	968,541	29,565			
Securities purchased under			Accumulated earnings		
agreements to resell	340,000	10,378	Earnings distribution	(240,435)	(7,339)
Structure financial instruments	25,400	775	Net income	10,905	333
Receivables	939	29	Retained earnings	28,205	861
Real estate			Net Assets		
Land	11,331,876	345,906	Capital account	429,304	13,105
Buildings, net	21,303	650	Distributable revenue	3,212	98
Construction in progress	418,016	12,760			
Custody securities	126,855,285	3,872,261			
Total	$383,446,865	$11,704,727	Total	$383,446,865	$11,704,727

Income Statement Based on Trust

Items	2007 NT	2007 US	2008 NT	2008 US
Trust revenue				
Interest income	$18,677	$576	$38,494	$1,175
Rental income	336	10	308	9
Cash dividend income	169,945	5,240	202,906	6,194
Investment income-bonds	18	1	-	-
Investment income-stock	44,861	1,383	1,288	39
Investment income-funds	7,121	220	4,369	134
Investment income-beneficial securities	1,799	56	1,513	46
Foreign exchange gain	68	2	-	-
Subtotal	242,825	7,488	248,878	7,597
Trust expense				
Management fee	8,697	268	11,324	$346
Supervisor fee	84	3	150	5
Storage fee	-	-	7	-
Taxes	2,077	64	4,181	128
Processing fee	1,060	33	315	10
Service fee	300	9	350	10
Investment loss-bonds	-	-	1	-
Investment loss-stock	323	10	3,782	115
Investment loss-funds	1,180	37	216,819	6,618
Others	9	-	271	8
Subtotal	13,730	424	237,200	7,240
Income equalization	(236)	(7)	(773)	(24)
Net income	$228,859	$7,057	$10,905	$333

Details of Trust Properties

Items	December 31, 2007 NT	December 31, 2007 US	December 31, 2008 NT	December 31, 2008 US
Bonds	$73,909,632	$2,279,051	$116,075,538	$3,543,209
Common stock	3,173,842	97,867	3,331,879	101,706
Mutual funds	123,484,246	3,807,717	118,507,978	3,617,460
Insurance	-	-	968,541	29,565
Securities purchase under agreements to resell	250,000	7,709	340,000	10,378
Structure financial instruments	77,200	2,380	25,400	775
Real estate				
Land	7,747,815	238,909	11,331,876	345,906
Buildings, net	20,239	624	21,303	650
Construction in progress	230,402	7,105	418,016	12,760
Custody Securities	111,342,788	3,433,327	126,855,285	3,872,261
Total	$320,236,164	$9,874,689	$377,875,816	$11,534,670

7. The bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of December 31, 2007 and 2008 are as follows:

Items	December 31, 2007 NT	December 31, 2007 US
Special trust of money that invest in foreign securities	$153,327,155	$4,727,942
Special trust of money that invest in domestic securities	43,575,852	1,343,689
Trust of money-custody securities	111,342,788	3,433,327
Trust of real estate	8,449,824	260,556
Trust of insurance claims	39,189	1,208
Trust of personnel property	1,812,216	55,881
Trust of business employee’s savings	2,736,753	84,390
Trust of securities	3,097,757	95,521
Collective investment trust funds	428,621	13,217
Others	28,649	883
Total	$324,838,804	$10,016,614

Items	December 31, 2008 NT	December 31, 2008 US
Special trust of money that invest in foreign securities	$187,963,313	$5,737,586
Special trust of money that invest in domestic securities	45,295,474	1,382,646
Trust of money-custody securities	126,855,285	3,872,261
Trust of real estate	12,197,667	372,334
Trust of insurance claims	45,461	1,388
Trust of personnel property	4,815,808	147,003
Trust of business employee's savings	2,768,674	84,514
Trust of securities	2,880,416	87,925
Collective investment trust funds	462,950	14,131
Others	161,817	4,939
Total	$383,446,865	$11,704,727

8. Certain accounts in the financial statements for the year ended December 31, 2007 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2008.