

**Cathay United Bank**  
**Financial Statements**  
**For The Six-Month Periods Ended**  
**June 30, 2008 and 2009**  
**With Independent Auditors' Report**

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

English Translation of Report Originally Issued in Chinese

**Independent Auditors' Report**

The Board of Directors  
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of June 30, 2008 and 2009, and the related statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2008 and 2009. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2008 and 2009, and the results of its operations and its cash flows for the six-month periods then ended in conformity with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

In addition, we have also audited the consolidated financial statements of the Bank as of and for the six-month periods ended June 30, 2008 and 2009, on which we have issued unqualified opinion.



ERNST & YOUNG  
Taipei, Taiwan  
The Republic of China  
August 17, 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

June 30, 2008 and 2009

(Expressed in thousands of dollars)

ASSETS	NOTES	June 30, 2008		June 30, 2009	
		NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	\$16,091,365	\$530,019	\$15,804,183	\$482,276
Due from the Central Bank and call loans to banks	IV and V	54,874,468	1,807,459	79,849,489	2,436,664
Financial assets at fair value through profit or loss	II, IV and V	35,760,475	1,177,881	58,217,801	1,776,558
Securities purchased under agreements to resell		2,948,737	97,126	716,000	21,849
Receivables, net	II, IV and V	43,566,595	1,435,000	42,242,792	1,289,069
Discounts and loans, net	II, IV and V	800,553,833	26,368,703	772,953,688	23,587,235
Available-for-sale financial assets, net	II and IV	61,673,067	2,031,392	139,051,922	4,243,269
Held-to-maturity financial assets, net	II and IV	3,060,656	100,812	2,531,145	77,240
Investments accounted for using equity method, net	II and IV	2,410,333	79,392	3,415,855	104,237
Other financial assets, net	II and IV	4,427,776	145,842	4,976,121	151,850
Investments in debt securities with no active market, net	II and IV	222,669,938	7,334,320	250,458,076	7,642,907
Premises and equipment, net	II, IV, V and VII	26,682,655	878,875	26,536,090	809,768
Intangible assets, net	II and IV	6,954,485	229,067	6,871,921	209,702
Other assets, net	II, IV and V	9,138,286	300,998	7,103,255	216,761
<b>TOTAL ASSETS</b>		<b>\$1,290,812,669</b>	<b>\$42,516,886</b>	<b>\$1,410,728,338</b>	<b>\$43,049,385</b>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

June 30, 2008 and 2009

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	June 30, 2008		June 30, 2009	
		NT	US (Note II)	NT	US (Note II)
<b>LIABILITIES</b>					
Due to the Central Bank and call loans from banks	IV and V	\$78,108,650	\$2,572,749	\$46,079,898	\$1,406,161
Funds borrowed from the Central Bank and other banks		1,517,700	49,990	1,640,900	50,073
Financial liabilities at fair value through profit or loss	II, IV and V	45,907,298	1,512,098	40,381,053	1,232,257
Securities sold under agreements to repurchase	IV and V	28,113,798	926,015	9,157,974	279,462
Payables	IV and V	18,056,739	594,754	17,711,002	540,464
Deposits and remittances	IV and V	1,021,793,243	33,655,904	1,189,810,166	36,307,909
Financial debentures payable	IV and X	15,272,693	503,053	15,194,806	463,680
Other financial liabilities	II and IV	282,509	9,305	250,906	7,657
Other liabilities	II, IV and V	2,294,981	75,592	2,384,909	72,777
<b>TOTAL LIABILITIES</b>		<b>1,211,347,611</b>	<b>39,899,460</b>	<b>1,322,611,614</b>	<b>40,360,440</b>
<b>SHAREHOLDERS' EQUITY</b>					
Capital stock	IV	48,689,413	1,603,736	48,689,413	1,485,792
Reserve for capitalization	IV	-	-	3,587,613	109,479
Capital reserve	IV	15,213,611	501,107	15,213,611	464,254
Retained earnings	IV				
Legal reserve		13,402,448	441,451	14,740,680	449,822
Special reserve		465,071	15,318	-	-
Undistributed earnings		3,003,958	98,945	4,170,176	127,256
Foreign currency translation adjustment	II	(200,583)	(6,607)	14,011	428
Unrealized gains or losses on financial instruments	II	(1,108,860)	(36,524)	1,701,220	51,914
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>79,465,058</b>	<b>2,617,426</b>	<b>88,116,724</b>	<b>2,688,945</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$1,290,812,669</b>	<b>\$42,516,886</b>	<b>\$1,410,728,338</b>	<b>\$43,049,385</b>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the six-month periods ended June 30, 2008 and 2009

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

ITEMS	NOTES	January 1 - June 30, 2008		January 1 - June 30, 2009	
		NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	\$20,148,105	\$663,640	\$12,985,920	\$396,275
INTEREST EXPENSE	V	(9,650,992)	(317,885)	(5,873,545)	(179,236)
NET INTEREST INCOME		10,497,113	345,755	7,112,375	217,039
NONINTEREST INCOME					
Net fee income	II and V	2,652,874	87,381	1,969,090	60,088
Gain (loss) on financial assets and liabilities at fair value through profit or loss	II and V	(1,022,557)	(33,681)	1,624,221	49,565
Realized gain on available-for-sale financial assets	II	390,137	12,850	419,908	12,814
Realized loss on held-to-maturity financial assets	II	(632)	(21)	-	-
Investment income recognized by the equity method	II and IV	120,792	3,979	103,461	3,157
Gain on foreign currency exchange, net	II	674,268	22,209	256,297	7,821
Impairment loss of assets	II	(12,206)	(402)	(35,588)	(1,086)
Gain on financial assets carried at cost		175,943	5,795	71,150	2,171
Gain (loss) on debt securities with no active market		(1,745,942)	(57,508)	4,921	150
Gain on disposal of foreclosed properties		184,253	6,069	-	-
Others	II, IV and V	512,717	16,888	866,985	26,457
NET NONINTEREST INCOME		1,929,647	63,559	5,280,445	161,137
NET OPERATING INCOME		12,426,760	409,314	12,392,820	378,176
BAD DEBT EXPENSE	II and IV	(965,404)	(31,799)	(288,346)	(8,799)
OPERATING EXPENSES					
Personnel	II and IV	(3,408,947)	(112,284)	(3,457,597)	(105,511)
Depreciation and amortization	II and IV	(660,553)	(21,757)	(535,270)	(16,334)
Other general and administrative expenses	V	(2,877,898)	(94,793)	(2,796,431)	(85,335)
TOTAL OPERATING EXPENSES		(6,947,398)	(228,834)	(6,789,298)	(207,180)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		4,513,958	148,681	5,315,176	162,197
INCOME TAX EXPENSE	II and IV	(1,510,000)	(49,736)	(1,145,000)	(34,941)
NET INCOME		\$3,003,958	\$98,945	\$4,170,176	\$127,256
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		\$0.93	\$0.030	\$1.09	\$0.033
INCOME TAX EXPENSES		(0.31)	(0.010)	(0.23)	(0.007)
NET INCOME		\$0.62	\$0.020	\$0.86	\$0.026

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of changes in shareholders' equity

For the six-month periods ended June 30, 2008 and 2009

(Expressed in thousands of dollars)

ITEMS	NOTES	Retained earnings										Foreign currency		Unrealized gains or losses		Total			
		Capital stock		Reserve for capitalization		Capital reserve		Legal reserve		Special reserve		Undistributed earnings		translation adjustment		on financial instruments			
		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)	NT	US (Note II)
Balance, January 1, 2008		\$48,689,413	\$1,603,736	\$-	\$-	\$15,213,611	\$501,107	\$11,482,369	\$378,207	\$-	\$-	\$6,400,265	\$210,812	\$51,248	\$1,688	\$(465,071)	\$(15,319)	\$81,371,835	\$2,680,231
Appropriation and distribution for 2007 earnings:	IV																		
Legal reserve		-	-	-	-	-	-	1,920,079	63,244	-	-	(1,920,079)	(63,244)	-	-	-	-	-	-
Special reserve		-	-	-	-	-	-	-	-	465,071	15,318	(465,071)	(15,318)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	-	-	(4,005,115)	(131,921)	-	-	-	-	(4,005,115)	(131,921)
Bonus to shareholders		-	-	-	-	-	-	-	-	-	-	(8,500)	(280)	-	-	-	-	(8,500)	(280)
Special bonus to employees		-	-	-	-	-	-	-	-	-	-	(1,500)	(49)	-	-	-	-	(1,500)	(49)
Net income for the six-month period ended June 30, 2008		-	-	-	-	-	-	-	-	-	-	3,003,958	98,945	-	-	-	-	3,003,958	98,945
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	-	-	(251,831)	(8,295)	-	-	(251,831)	(8,295)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,829)	(60)	(1,829)	(60)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(641,960)	(21,145)	(641,960)	(21,145)
Balance, June 30, 2008		\$48,689,413	\$1,603,736	\$-	\$-	\$15,213,611	\$501,107	\$13,402,448	\$441,451	\$465,071	\$15,318	\$3,003,958	\$98,945	\$(200,583)	\$(6,607)	\$(1,108,860)	\$(36,524)	\$79,465,058	\$2,617,426
Balance, January 1, 2009		\$48,689,413	\$1,485,792	\$-	\$-	\$15,213,611	\$464,254	\$13,402,448	\$408,985	\$465,071	\$14,192	\$4,460,774	\$136,124	\$55,677	\$1,699	\$599,600	\$18,297	\$82,886,594	\$2,529,343
Special reserve recovery		-	-	-	-	-	-	-	-	(465,071)	(14,192)	465,071	14,192	-	-	-	-	-	-
Appropriation and distribution of 2008 earnings:	IV																		
Legal reserve		-	-	-	-	-	-	1,338,232	40,837	-	-	(1,338,232)	(40,837)	-	-	-	-	-	-
Stock dividends		-	-	3,587,613	109,479	-	-	-	-	-	-	(3,587,613)	(109,479)	-	-	-	-	-	-
Net income for the six-month period ended June 30, 2009		-	-	-	-	-	-	-	-	-	-	4,170,176	127,256	-	-	-	-	4,170,176	127,256
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	-	-	(41,666)	(1,271)	-	-	(41,666)	(1,271)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,419	623	20,419	623
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,081,201	32,994	1,081,201	32,994
Balance, June 30, 2009		\$48,689,413	\$1,485,792	\$3,587,613	\$109,479	\$15,213,611	\$464,254	\$14,740,680	\$449,822	\$-	\$-	\$4,170,176	\$127,256	\$14,011	\$428	\$1,701,220	\$51,914	\$88,116,724	\$2,688,945

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

English Translation of Financial Statements Originally Issued in Chinese  
Cathay United Bank  
Statements of cash flows  
For the six-month periods ended June 30, 2008 and 2009  
(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-June 30, 2008		January 1-June 30, 2009	
		NT	US (Note II)	NT	US (Note II)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income		\$3,003,958	\$98,945	\$4,170,176	\$127,256
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	660,553	21,757	535,270	16,334
The differences between investment income recognized by the equity method and the cash dividends received	II	(100,855)	(3,322)	(81,604)	(2,490)
Bad debt expense	II and IV	965,404	31,799	288,346	8,799
Gain on disposal of premises, equipment and foreclosed properties	II	(248,491)	(8,185)	(26,598)	(812)
Impairment loss of assets	II	12,206	402	35,588	1,086
Effects of exchange rate changes		24,938	821	(10,073)	(307)
(Increase) decrease in operating assets					
(Increase) decrease in receivables		(640,439)	(21,094)	5,424,686	165,538
Decrease in deferred income tax assets		447,241	14,731	916,195	27,958
(Increase) decrease in financial assets at fair value through profit or loss		4,172,289	137,427	(5,028,349)	(153,443)
(Increase) decrease in other assets		(14,809)	(488)	552,217	16,851
Increase (decrease) in operating liabilities					
Increase (decrease) in payables		1,861,830	61,325	(5,590,549)	(170,600)
Decrease in financial liabilities at fair value through profit or loss		(1,940,022)	(63,901)	(7,079,667)	(216,041)
Increase in tax payables		27,219	897	76,233	2,326
Increase (decrease) in other liabilities		15,035	495	(32,167)	(981)
Net cash provided by (used in) operating activities		8,246,057	271,609	(5,850,296)	(178,526)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Net (increase) decrease in discounts and loans		(44,574,751)	(1,468,207)	34,118,791	1,041,159
(Increase) decrease in due from the Central Bank and call loans to banks		2,827,330	93,127	(32,883,223)	(1,003,455)
(Increase) decrease in securities purchased under agreements to resell		(2,622,737)	(86,388)	1,453,147	44,344
(Increase) decrease in available-for-sale financial assets		1,598,701	52,658	(39,918,656)	(1,218,146)
Decrease in held-to-maturity financial assets		260,030	8,565	11,692	357
Capital return due to capital decrease in equity-accounted investee		-	-	6,300	192
Proceeds from disposal of premises, equipment and foreclosed properties		1,449,841	47,755	57,819	1,765
Acquisition of premises, equipment and foreclosed properties		(699,865)	(23,052)	(493,472)	(15,059)
Acquisition of intangible assets		(169,209)	(5,573)	(16,110)	(492)
(Increase) decrease in investments in debt securities with no active market		34,093,049	1,122,959	(31,538,795)	(962,429)
(Increase) decrease in other financial assets		(118,106)	(3,890)	1,625,614	49,607
Increase in other assets		(192,392)	(6,337)	942,445	28,759
Net cash used in investing activities		(8,148,109)	(268,383)	(66,634,448)	(2,033,398)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Increase (decrease) in due to the Central Bank and call loans from banks		4,239,305	139,635	(16,846,332)	(514,078)
Increase (decrease) in securities sold under agreements to repurchase		13,478,375	443,952	(11,574,139)	(353,193)
Increase (decrease) in deposits and remittances		(9,772,271)	(321,880)	98,503,758	3,005,913
Increase (decrease) in funds borrowed from the Central Bank and other banks		(106,500)	(3,508)	(2,100)	(64)
Decrease in financial debentures payable		(3,279,144)	(108,009)	(3,671,172)	(112,028)
Decrease in other financial liabilities		(26,221)	(864)	(10,413)	(318)
Increase in other liabilities		30,406	1,002	174,669	5,330
Distribution of cash dividends		(4,005,115)	(131,921)	-	-
Bonus to shareholders and special bonus to employees	IV	(10,000)	(329)	-	-
Net cash provided by financing activities		548,835	18,078	66,574,271	2,031,562
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		(204,282)	(6,729)	(27,819)	(849)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		442,501	14,575	(5,938,292)	(181,211)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		15,648,864	515,444	21,742,475	663,487
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		\$16,091,365	\$530,019	\$15,804,183	\$482,276
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>					
Interest expense paid		\$9,553,134	\$314,662	\$7,012,265	\$213,984
Income tax paid		\$213,182	\$7,022	\$171,527	\$5,234

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the six-month periods ended June 30, 2008 and 2009

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

I. Business

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

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

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



- (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 merges 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.

As of June 30, 2008 and 2009, the Bank employed 6,280 and 6,123 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 "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Public Banks" 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 with no 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 assets and reported at amortized cost. Such gains and losses are recognized when the investments are derecognized or impaired, as well as through the amortization process. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

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

(5) Financial assets carried at cost

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

(6) Financial liabilities

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

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

4. Derivative financial instruments

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

5. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

6. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

7. Hedge accounting

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

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

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

Investments in other companies with voting rights of at least 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between the acquisitions cost and the Company's share of net assets of the associate is amortized in 5 years. However, effective from January 1, 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 would have been assigned to all of the non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

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

10. Premises and equipment

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



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

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

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

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

#### 11. Intangible assets and goodwill

##### (1) Intangible assets

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

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

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

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

##### (2) Goodwill

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

12. Foreclosed properties

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

13. Financial assets securitization

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

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

14. Asset impairment

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

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

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

15. Reserves for possible losses on guarantees

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

16. Reserves for losses on trading securities

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

17. Pension plans

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

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

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

18. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

19. Recognition of dividend

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

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

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

20. Income tax

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

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

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

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

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

21. Employee bonus and remuneration of directors

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

22. Contingencies

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

23. The interim financial statement

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

24. Basis for converting financial statements

The Bank’s financial statements are stated in NT dollars. Translation of the June 30, 2008 and 2009 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT\$30.36 and NT\$32.77 to US\$1.00 on June 30, 2008 and 2009, 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. According to the amendment of Income Tax Act, corporate tax rate will be reduced from 25% to 20% since January 1, 2010. There is no significant effect in the Bank’s net income and earning per shares for the six-month period ended June 30, 2009.
2. The Bank adopted the accounting principles prescribed in Interpretation 2007-052 “Accounting for employee bonus and remuneration of directors” by the Accounting Research and Development Foundation on January 1, 2008. The above change in accounting principles decreased the Bank’s net income by NT\$750 (US\$25), and there was no significant effects in earning per shares, for the six-month period ended June 30, 2008.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	June 30,			
	2008		2009	
	NT	US	NT	US
Cash on hand	\$10,125,145	\$333,503	\$9,665,026	\$294,935
Checks for clearance	3,283,658	108,157	3,148,245	96,071
Due from commercial banks	2,682,562	88,359	2,990,912	91,270
Total	<u>\$16,091,365</u>	<u>\$530,019</u>	<u>\$15,804,183</u>	<u>\$482,276</u>

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

	June 30,			
	2008		2009	
	NT	US	NT	US
Call loans to banks	\$18,091,415	\$595,896	\$41,028,820	\$1,252,024
Due from the Central Bank –				
Statutory reserve on deposits and general deposits	36,783,053	1,211,563	38,820,669	1,184,640
Total	<u>\$54,874,468</u>	<u>\$1,807,459</u>	<u>\$79,849,489</u>	<u>\$2,436,664</u>

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT\$27,851,807 (US\$917,385) and NT\$31,679,244 (US\$966,715) as of June 30, 2008 and 2009, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of June 30, 2008 and 2009, the balance of foreign-currency deposit reserves were NT\$103,204 (US\$3,399) and NT\$98,454 (US\$3,004), respectively.

3. Financial assets at fair value through profit or loss

	June 30,			
	2008		2009	
	NT	US	NT	US
Financial assets for trading :				
Stocks	\$1,598,825	\$52,662	\$-	\$-
Mutual funds	1,303,712	42,942	404,259	12,336
Short-term bills	8,764,061	288,671	36,441,752	1,112,046
Bonds	16,302,831	536,984	12,832,329	391,588
Overseas financial instruments	1,241,661	40,898	197,610	6,030
Derivative financial instruments	6,308,776	207,799	8,325,707	254,065
Subtotal	<u>35,519,866</u>	<u>1,169,956</u>	<u>58,201,657</u>	<u>1,776,065</u>
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	158,339	5,215	-	-
Bonds	82,270	2,710	16,144	493
Subtotal	<u>240,609</u>	<u>7,925</u>	<u>16,144</u>	<u>493</u>
Total	<u>\$35,760,475</u>	<u>\$1,177,881</u>	<u>\$58,217,801</u>	<u>\$1,776,558</u>

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(1) NT\$ 86,215 (US\$2,840) and NT\$16,144 (US\$493) of the financial assets at fair value through profit or loss as of June 30, 2008 and 2009, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of June 30, 2009, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$3,405,400 (US\$103,918). Such repurchase agreements amounting to NT\$3,791,562 (US\$115,702) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to June 30, 2009 was settled at NT\$3,792,820 (US\$115,741) prior to September 30, 2009.

(3) As of June 30, 2008 and 2009, the contract amount (initial and subsequent measurements were classified under financial assets/liabilities at fair value through profit or loss or other financial assets/liabilities) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

	June 30,	
	2008	2009
Forward foreign exchange and currency swap contracts	\$21,325,301	\$32,349,135
Interest rate swap contracts	13,110,346	10,263,435
Cross-currency swap contracts	770,027	590,764
Options	474,571	280,343
Credit derivative instrument contracts	140,000	125,000
Credit default swap contracts	-	35,380

(4) Net gains arising from financial assets at fair value through profit or loss for the six-month periods ended June 30, 2008 and 2009 were NT\$1,403,511 (US\$46,229) and NT\$12,661,590 (US\$386,377), respectively.



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4. Receivables, net

	June 30,			
	2008		2009	
	NT	US	NT	US
Notes receivable	\$134,075	\$4,416	\$6,000	\$183
Accounts receivable	33,835,357	1,114,471	32,542,612	993,061
Interest receivable	4,678,450	154,099	3,355,238	102,387
Receivable to related party for allocation of linked-tax system	253,007	8,334	1,940,789	59,225
Foreign currency receivable	675,017	22,234	1,384,207	42,240
Acceptances	936,786	30,856	1,115,216	34,032
Tax refundable	770,505	25,379	847,191	25,853
Others	5,637,490	185,688	3,596,740	109,757
Total	46,920,687	1,545,477	44,787,993	1,366,738
Less: allowance for doubtful accounts	(3,354,092)	(110,477)	(2,545,201)	(77,669)
Net balance	<u>\$43,566,595</u>	<u>\$1,435,000</u>	<u>\$42,242,792</u>	<u>\$1,289,069</u>

Information on bad and doubtful accounts is as follows:

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

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	January 1-June 30, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$2,933,281	\$89,511	\$49,692	\$1,517	\$2,982,973	\$91,028
Provision of doubtful accounts	129,302	3,946	-	-	129,302	3,946
Write-offs	(994,925)	(30,361)	-	-	(994,925)	(30,361)
Debt counseling recoveries	59,413	1,813	-	-	59,413	1,813
Recoveries	368,438	11,243	-	-	368,438	11,243
Reclassification	1,552	48	(1,552)	(48)	-	-
Balance, end of the period	<u>\$2,497,061</u>	<u>\$76,200</u>	<u>\$48,140</u>	<u>\$1,469</u>	<u>\$2,545,201</u>	<u>\$77,669</u>

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

5. Discounts and loans, net

	June 30,			
	2008		2009	
	NT	US	NT	US
Outward documentary bills	\$488,270	\$16,083	\$135,980	\$4,150
Overdrafts	434,422	14,309	541,147	16,513
Short-term loans	185,901,284	6,123,231	160,926,890	4,910,799
Medium-term loans	219,052,870	7,215,180	214,170,890	6,535,578
Long-term loans	398,311,974	13,119,630	398,854,473	12,171,330
Delinquent accounts	5,647,276	186,010	5,608,255	171,140
Total	809,836,096	26,674,443	780,237,635	23,809,510
Less: allowance for doubtful accounts	(9,282,263)	(305,740)	(7,283,947)	(222,275)
Net balance	<u>\$800,553,833</u>	<u>\$26,368,703</u>	<u>\$772,953,688</u>	<u>\$23,587,235</u>

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- (1) As of June 30, 2008 and 2009, the accounts without interest accrued were NT\$ 7,063,711 (US\$232,665) and NT\$6,516,928 (US\$198,869), respectively. The non-accrued interest on such accounts amounted to NT\$109,380 (US\$3,603) and NT\$232,211 (US\$7,086) for the six-month periods ended June 30, 2008 and 2009, respectively.
- (2) For the six-month periods ended June 30, 2008 and 2009, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.
- (3) Please refer to Note X.7 (2) for details on loans by industries and geographic regions.
- (4) Information on bad and doubtful accounts is as follows:

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

	January 1-June 30, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$3,662,869	\$111,775	\$4,670,525	\$142,525	\$8,333,394	\$254,300
Reversal of doubtful accounts	159,044	4,853	-	-	159,044	4,853
Write-offs	(2,347,897)	(71,648)	-	-	(2,347,897)	(71,648)
Debt counseling recoveries	53,540	1,634	-	-	53,540	1,634
Recoveries	1,086,997	33,171	-	-	1,086,997	33,171
Reclassification	845,838	25,811	(845,838)	(25,811)	-	-
Effects of exchange rates change	-	-	(1,131)	(35)	(1,131)	(35)
Balance, end of the period	<u>\$3,460,391</u>	<u>\$105,596</u>	<u>\$3,823,556</u>	<u>\$116,679</u>	<u>\$7,283,947</u>	<u>\$222,275</u>

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

6. Available-for-sale financial assets, net

	June 30,			
	2008		2009	
	NT	US	NT	US
Stocks	\$2,330,562	\$76,764	\$4,201,819	\$128,221
Mutual funds and beneficiary securities	272,955	8,991	236,544	7,218
Bonds	51,017,994	1,680,434	117,653,987	3,590,296
Overseas financial instruments	8,051,556	265,203	17,467,090	533,021
Total	61,673,067	2,031,392	139,559,440	4,258,756
Less: Accumulated impairment	-	-	(507,518)	(15,487)
Net balance	<u>\$61,673,067</u>	<u>\$2,031,392</u>	<u>\$139,051,922</u>	<u>\$4,243,269</u>

(1) NT\$ 4,531,286 (US\$149,252) and NT\$2,698,958 (US\$82,361) of the available-for-sale financial assets as of June 30, 2008 and 2009, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of June 30, 2009, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$4,833,300 (US\$147,492). Such repurchase agreements amounting to NT\$5,366,412 (US\$163,760) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2009 was settled at NT\$5,366,858 (US\$163,774) prior to August 31, 2009.

(3) The issuers of certain overseas financial instrument were taken over by the government or defaulted in payment. In view of the aforesaid incidents, management of the Bank has provided an impairment loss of NT\$507,518 (US\$15,487) against the book of the available for sales financial assets for the six-month period ended June 30, 2008.

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7. Held-to-maturity financial assets, net

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

  

	June 30, 2009			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	\$1,591,800	\$48,575	\$1,745,006	\$53,250
Beneficiary certificates	576,335	17,587	576,335	17,587
Overseas financial instruments	210,452	6,422	209,804	6,403
Net balance	<u>\$2,378,587</u>	<u>\$72,584</u>	<u>\$2,531,145</u>	<u>\$77,240</u>

As of June 30, 2008 and 2009, NT\$101,095(US\$3,330) and NT\$90,893 (US\$2,774) 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

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

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	June 30, 2009				
	Carrying value		% of ownership	Investment income (loss)	
	NT	US		NT	US
Seaward Card Co., Ltd.	\$38,015	\$1,160	100.00	\$1,276	\$39
Cathay Life Insurance Agent Co., Ltd.	36,853	1,125	100.00	11,293	345
Cathay Property Insurance Agent Co., Ltd.	7,416	226	100.00	215	6
Indovina Bank	1,840,171	56,154	50.00	67,320	2,054
Taiwan Real-estate Management Corp.	49,513	1,511	30.15	2,230	68
Taiwan Finance Corp.	1,416,081	43,213	24.57	24,342	743
Vista Technology Venture Capital Corp.	6,094	186	4.76	2	-
Cathay Venture Capital Corp.	21,712	662	2.00	(3,217)	(98)
<b>Total</b>	<b>\$3,415,855</b>	<b>\$104,237</b>		<b>\$103,461</b>	<b>\$3,157</b>

- (1) The equity method of accounting was applied to Cathay Venture Capital Corp. and Vista Technology Venture Capital Corp. due to the fact that the Bank and its related parties held more than 20% of such companies' common stock.
- (2) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the six-month periods ended June 30, 2008 and 2009 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.
- (3) The accounts of the Bank and Indovina Bank are included in the Bank's consolidated financial statements as of and for the six-month periods ended June 30, 2008 and 2009. As the individual total asset or operating income of the other subsidiaries of the Bank are immaterial to the Bank financial statements, the accounts of these other subsidiaries, which are not included in the Bank's consolidated financial statements.

9. Other financial assets, net

	June 30,			
	2008		2009	
	NT	US	NT	US
Derivative financial assets for hedging	\$179,189	\$5,902	\$877,793	\$26,787
Financial assets carried at cost, stocks	4,245,466	139,837	4,095,465	124,976
Bills purchased	3,121	103	2,863	87
<b>Total</b>	<b>\$4,427,776</b>	<b>\$145,842</b>	<b>\$4,976,121</b>	<b>\$151,850</b>

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- (1) Due to the recurring losses incurred by Kaohsiung Rapid Transit Corp., Taipei Financial Center Corp., New Century InfoComm Co., Ltd., Strategic Value Fund, Limited Partnership, Victor Taichung Machinery Works Co., Ltd., the Bank has recognized losses for these investees based on their net equity.
- (2) As of June 30, 2008 and 2009, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT\$179,189 (US\$5,902) and NT\$877,793 (US\$26,787), respectively. The Bank has recognized gain in hedging in the amount of NT\$47,616 (US\$1,568) and NT\$58,386 (US\$1,782) for the six-month periods ended June 30, 2008 and 2009, respectively.

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

	June 30,			
	2008		2009	
	NT	US	NT	US
Preferred stocks	\$549,730	\$18,107	\$549,730	\$16,775
Certificates of deposit	182,065,000	5,996,871	223,035,000	6,806,073
Bonds	95,586	3,148	95,586	2,917
Beneficiary certificates	400,000	13,175	400,000	12,206
Overseas financial instruments	39,831,247	1,311,965	29,053,299	886,582
Subtotal	222,941,563	7,343,266	253,133,615	7,724,553
Less: accumulated impairment	(271,625)	(8,946)	(2,675,539)	(81,646)
Net balance	<u>\$222,669,938</u>	<u>\$7,334,320</u>	<u>\$250,458,076</u>	<u>\$7,642,907</u>

- (1) NT\$15,000,000 (US\$494,071) and NT\$15,535,000 (US\$474,062) of certificates of deposit as of June 30, 2008 and 2009, respectively, were pledged to other parties as collateral for business reserves and guarantees.
- (2) Due to the credit deterioration of securitization and financial debentures, the Bank has recognized impairment loss NT\$124,040 (US\$4,059) and NT\$2,530,319 (US\$77,214) for the six-month periods ended June 30, 2008 and 2009, respectively.

Due to the default on conversable bonds, the Bank has recognized impairment losses.

11. Financial assets securitization

During 2007, the Bank securitized a collateralized loans obligation (CLO) with a carry value of NT\$5,446,335 (US\$166,199) with Land Bank Co., Ltd. as Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands dollars)	Interest rate
Senior tranche 1 <sup>st</sup>	NT\$3,335,000(US\$101,770)	2.175%
Senior tranche 2 <sup>nd</sup>	NT\$315,000(US\$9,613)	2.325%
Senior tranche 3 <sup>rd</sup>	NT\$340,000(US\$10,375)	2.545%
Senior tranche 4 <sup>th</sup>	NT\$480,000(US\$14,648)	2.945%
Subordinated tranche 5 <sup>th</sup>	NT\$200,000(US\$6,103)	3.00%
Subordinated tranche 6 <sup>th</sup>	NT\$200,000(US\$6,103)	3.20%
Subordinated tranche 7 <sup>th</sup>	NT\$576,335(US\$17,587)	-

The Bank holds the subordinated beneficiary certificates NT\$976,335 (US\$29,793) and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to the Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests:

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and June 30, 2008 and 2009, respectively, were as follows:

	Corporate Loans Securitization		
	May 28, 2007	June 30, 2008	June 30, 2009
Expected weighted-average life (in years)	2.210	1.051	0.481
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)	2.20%	2.49%	2.49%



(2) Sensitivity analysis:

As of June 30, 2008 and 2009, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	June 30, 2008		June 30, 2009	
	NT	US	NT	US
Carrying amount of retained interests	\$976,335	\$32,159	\$973,720	\$29,714
Expected weighted-average life (in years)	1.051	1.051	0.481	0.481
Expected prepayment rate (annual rate)	3%	3%	3%	3%
Impact on fair value with 10% adverse change	(2,008)	(66)	(2,481)	(76)
Impact on fair value with 20% adverse change	(2,037)	(67)	(3,098)	(95)
Expected credit losses (annual rate)	3.71%	3.71%	3.71%	3.71%
Impact on fair value with 10% adverse change	(12,181)	(401)	(2,925)	(89)
Impact on fair value with 20% adverse change	(13,798)	(454)	(3,346)	(102)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%	2.49%	2.49%
Impact on fair value with 10% adverse change	(4,911)	(162)	(2,586)	(79)
Impact on fair value with 20% adverse change	(9,796)	(323)	(5,166)	(158)

(3) Expected static pool credit losses:

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

(4) Cash flows:

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

	January 1-June 30,			
	2008		2009	
	NT	US	NT	US
Servicing fees received	\$120	\$4	\$120	\$4
Other cash received on retained interests	14,842	489	12,314	376
Repayment of cash reserve	5,155	170	2,474	75

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12. Premises and equipment, net

	June 30,			
	2008		2009	
	NT	US	NT	US
Cost:				
Land	\$14,979,198	\$493,386	\$14,742,528	\$449,879
Buildings	10,114,991	333,168	11,015,388	336,143
Office equipment	3,730,707	122,882	3,771,249	115,082
Transportation equipment	54,654	1,800	48,995	1,495
Leasehold improvements	14,591	481	16,852	514
Other equipment	5,023,301	165,458	5,188,416	158,328
Construction in progress and prepayment for equipment	1,934,238	63,710	1,487,670	45,397
Subtotal	<u>35,851,680</u>	<u>1,180,885</u>	<u>36,271,098</u>	<u>1,106,838</u>
Accumulated depreciation:				
Buildings	(2,507,747)	(82,601)	(2,672,800)	(81,562)
Office equipment	(2,872,428)	(94,612)	(3,111,943)	(94,963)
Transportation equipment	(50,859)	(1,675)	(47,199)	(1,440)
Leasehold improvements	(3,785)	(125)	(5,721)	(175)
Other equipment	(3,695,580)	(121,725)	(3,897,345)	(118,930)
Subtotal	<u>(9,130,399)</u>	<u>(300,738)</u>	<u>(9,735,008)</u>	<u>(297,070)</u>
Accumulated impairment	<u>(38,626)</u>	<u>(1,272)</u>	-	-
Net balance	<u>\$26,682,655</u>	<u>\$878,875</u>	<u>\$26,536,090</u>	<u>\$809,768</u>

13. Intangible assets, net

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

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	January 1- June 30, 2009							
	January 1,		Additions/Amortization		Disposals		June 30,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	\$6,673,083	\$203,634	\$-	\$-	\$-	\$-	\$6,673,083	\$203,634
Computer software	1,082,497	33,033	16,110	492	101,985	3,112	996,622	30,413
Amortization	(847,022)	(25,847)	(52,747)	(1,610)	(101,985)	(3,112)	(797,784)	(24,345)
Net balance	<u>\$6,908,558</u>	<u>\$210,820</u>	<u>\$(36,637)</u>	<u>\$(1,118)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$6,871,921</u>	<u>\$209,702</u>

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

Impairment testing of goodwill:

(1) Goodwill acquired through business combinations has been allocated to the cash-generating unit. The carrying amount of goodwill allocated to the unit is NT\$6,673,083 (US\$203,634).

(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.

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14. Other assets, net

	June 30,			
	2008		2009	
	NT	US	NT	US
Prepayment	\$443,905	\$14,621	\$523,978	\$15,989
Temporary payments	72,940	2,403	84,168	2,569
Interbank settlement fund	1,299,733	42,811	1,354,438	41,332
Non-operating assets, net (Accumulated impairment NT\$355,272 (US\$11,702) and NT\$378,766 (US\$11,558) on June 30, 2008 and 2009, respectively)	2,338,706	77,033	2,576,749	78,631
Refundable deposits, net	1,318,566	43,431	1,493,307	45,570
Foreclosed properties, net	491,786	16,198	491,333	14,993
Deferred tax assets, net	3,126,614	102,985	526,161	16,056
Others	46,036	1,516	53,121	1,621
<b>Total</b>	<b>\$9,138,286</b>	<b>\$300,998</b>	<b>\$7,103,255</b>	<b>\$216,761</b>

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

	June 30,			
	2008		2009	
	NT	US	NT	US
Due to the Central Bank	\$97,543	\$3,213	\$94,993	\$2,899
Due to commercial banks	1,501,098	49,443	1,922,618	58,670
Due to Post Co., Ltd.	23,706,779	780,856	23,412,405	714,446
Overdrafts from banks	255,276	8,408	111,814	3,412
Call loans from banks	52,547,954	1,730,829	20,538,068	626,734
<b>Total</b>	<b>\$78,108,650</b>	<b>\$2,572,749</b>	<b>\$46,079,898</b>	<b>\$1,406,161</b>

16. Financial liabilities at fair value through profit or loss

	June 30,			
	2008		2009	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	\$6,476,725	\$213,331	\$7,753,325	\$236,598
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,430,573	1,298,767	27,405,141	836,288
Subordinated financial debentures	-	-	5,222,587	159,371
Subtotal	39,430,573	1,298,767	32,627,728	995,659
<b>Total</b>	<b>\$45,907,298</b>	<b>\$1,512,098</b>	<b>\$40,381,053</b>	<b>\$1,232,257</b>

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

On July 8 and July 15, 2004, the Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000, NT\$3,500,000, NT\$2,000,000 and NT\$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000, NT\$1,500,000, NT\$1,500,000, NT\$2,500,000, NT\$1,500,000, NT\$2,500,000, NT\$1,000,000, NT\$1,000,000, NT\$2,000,000 and NT\$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are 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 movements in fair value of financial liabilities not resulting from fluctuations in the base rate amounted to NT\$32,631(US\$996) as of June 30, 2009.

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(3) The difference between the carrying amount of the financial liabilities designated at fair value through profit or loss and the amount the Bank would be contractually required to pay at maturity to the holder of the obligation are NT\$269,427 (US\$8,874) and NT\$627,728 (US\$19,156) as of June 30, 2008 and 2009, respectively.

(4) Net losses arising from financial liabilities at fair value through profit or loss for the six-month periods ended June 30, 2008 and 2009 were NT\$2,426,068 (US\$79,910) and NT\$11,037,369 (US\$336,813), respectively.

17. Payables

	June 30,			
	2008		2009	
	NT	US	NT	US
Accounts payable	\$4,309,556	\$141,948	\$5,656,151	\$172,601
Accrued interest payable	4,420,016	145,587	3,266,490	99,679
Accrued expenses	1,856,732	61,157	2,017,140	61,554
Foreign currency payable	4,610,192	151,851	3,721,323	113,559
Acceptance	941,995	31,027	1,130,655	34,503
Tax payable	435,263	14,337	365,910	11,166
Receipts under custody	258,629	8,519	356,296	10,873
Others	1,224,356	40,328	1,197,037	36,529
<b>Total</b>	<b>\$18,056,739</b>	<b>\$594,754</b>	<b>\$17,711,002</b>	<b>\$540,464</b>

18. Deposits and remittances

	June 30,			
	2008		2009	
	NT	US	NT	US
Check deposits	\$12,304,892	\$405,300	\$11,504,074	\$351,055
Demand deposits	115,845,206	3,815,718	161,533,250	4,929,303
Demand savings deposits	345,803,775	11,390,111	411,577,238	12,559,574
Time deposits	274,941,716	9,056,051	329,069,381	10,041,788
Negotiable certificates of deposit	2,613,900	86,097	2,038,600	62,209
Time savings deposits	262,980,136	8,662,060	273,369,246	8,342,058
Trust unappropriated	6,769,407	222,971	255,072	7,784
Outward remittances	333,433	10,983	211,871	6,465
Remittances payable	200,778	6,613	251,434	7,673
<b>Total</b>	<b>\$1,021,793,243</b>	<b>\$33,655,904</b>	<b>\$1,189,810,166</b>	<b>\$36,307,909</b>

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19. Financial debentures payable

	June 30,			
	2008		2009	
	NT	US	NT	US
Subordinated financial debentures	\$15,177,000	\$499,901	\$14,393,957	\$439,242
Discount in financial debentures	(85,365)	(2,812)	(53,645)	(1,637)
Valuation adjustment	181,058	5,964	854,494	26,075
Total	\$15,272,693	\$503,053	\$15,194,806	\$463,680

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. The Bank has redeemed US\$172,620 principal amount of the bonds on May 12, 2009 and recognized gain in the amount of NT\$430,023(US\$13,122) which was included in other noninterest income. As discussed in Note X.8, the Bank has adopted hedge accounting to account for its remaining subordinated financial debentures.

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

20. Other financial liabilities

	June 30,			
	2008		2009	
	NT	US	NT	US
Borrowed funds	\$282,509	\$9,305	\$250,906	\$7,657

21. Other liabilities

	June 30,			
	2008		2009	
	NT	US	NT	US
Unearned receipts	\$184,038	\$6,062	\$248,757	\$7,591
Temporary receipts	1,026,167	33,800	896,645	27,362
Reserve for losses on guarantees	28,403	936	24,892	760
Reserve for losses on stock brokerage transactions	268,791	8,853	268,791	8,202
Guarantee deposits received	737,216	24,282	905,488	27,631
Reserve for land value increment tax	50,366	1,659	40,336	1,231
Total	\$2,294,981	\$75,592	\$2,384,909	\$72,777

22. Capital Stock

The Bank had issued and outstanding capital stock of NT\$48,689,413 (US\$1,483,077) divided into 4,868,941 thousands common shares, with par value NT\$10 per share.

On April 29, 2009, 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) resolved to capitalize its retained earnings by issuing new shares amounted to NT\$3,587,613 (US\$109,479). After the capitalizing of retained earnings, the Bank's paid-in capital for common stock was NT\$52,277,026 (US\$1,595,271) divided into 5,227,703 thousands common shares, with NT\$10 per share. The registrations of the increase in common stock are still proceeding as of June 30, 2009, the capitalizing of retained earnings are treated as "Reserve for capitalization" accounts.

23. Capital reserves

	June 30,			
	2008		2009	
	NT	US	NT	US
Capital reserves from the merger				
Bank	\$10,949,303	\$360,649	\$10,949,303	\$334,126
Additional paid-in capital	4,249,096	139,957	4,249,096	129,664
Others	15,212	501	15,212	464
Total	\$15,213,611	\$501,107	\$15,213,611	\$464,254

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 six-month periods ended June 30, 2008 and 2009 were NT\$750 based on the average actual payment over the past three year and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference will be recognized as income in the next year.

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

The appropriation and distribution of earnings in 2007

- (a) NT\$1,920,079 (US\$63,244) thousands as legal reserve;
- (b) NT\$456,071 (US\$15,318) thousands as special reserve;
- (c) NT\$4,013,615 (US\$132,201) thousands as dividends to shareholders;
- (d) NT\$1,500 (US\$49) thousands as bonus to employees.

(5) On April 29, 2009, 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 2008:

- (a) NT\$1,338,232 (US\$40,837) thousands as legal reserve;
  - (b) NT\$3,587,613 (US\$109,479) thousands as dividends to shareholders.
- Bonus to employees NT\$1,500 (US\$46) thousands deducted from Income Statement.

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

## 25. Pension

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

## 26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the six-month periods ended June 30, 2008 and 2009.

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	January 1- June 30,			
	2008		2009	
	NT	US	NT	US
Personnel expenses				
Salary	\$2,711,564	\$89,314	\$2,734,383	\$83,442
Insurance	328,106	10,807	357,856	10,920
Pension	184,237	6,068	181,684	5,544
Others	185,040	6,095	183,674	5,605
Depreciation expenses	562,272	18,520	482,523	14,724
Amortization expenses	98,281	3,237	52,747	1,610

27. Income tax

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

(1) The reconciliation between income tax payable and income tax expense for the six-month periods ended June 30, 2008 and 2009 is as follows:

	January 1- June 30,			
	2008		2009	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$(1,087,481)	\$(35,820)	\$(333,820)	\$(10,187)
Interest on separation tax (tax rate 20% or 6%)	(8,130)	(268)	(52,701)	(1,608)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(184,474)	(6,076)	(226,860)	(6,923)
Allowance for pledged assets taken-over (reversal)	(8,987)	(296)	105	3
Foreign investment income recognized by the equity method	10,558	348	24,193	738
Valuation allowance	(238,525)	(7,856)	(202,893)	(6,192)
Effects of tax rate change on deferred tax assets / liabilities	-	-	(88,542)	(2,702)
Others	(77,610)	(2,556)	(116,901)	(3,567)
Effect of foreign branches' income tax	21,033	693	37,168	1,134
Adjustment of prior period's income tax	63,616	2,095	(184,749)	(5,637)
Income tax expense	<u>\$(1,510,000)</u>	<u>\$(49,736)</u>	<u>\$(1,145,000)</u>	<u>\$(34,941)</u>

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

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

	June 30,			
	2008		2009	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	\$5,457,604	\$179,763	\$4,579,875	\$139,758
Others	209,057	6,886	197,476	6,026
Deductible temporary differences:				
Allowance for bad debts	4,508,010	148,485	1,528,326	46,638
Unrealized impairment loss for pledged assets taken-over	54,884	1,808	46,630	1,423
Valuation of financial instruments	5,271,585	173,636	4,687,934	143,056
Provisions for possible losses	238,456	7,854	162,295	4,953
Operating loss carry-forward	8,925,820	293,999	1,225,321	37,392
Others	293,691	9,674	275,594	8,410
Deferred income tax assets of foreign branches	84,095	2,770	102,779	3,136
(3) Deferred tax assets	\$4,907,206	\$161,634	\$1,749,265	\$53,380
Deferred tax liabilities	(1,416,665)	(46,662)	(955,470)	(29,157)
Valuation allowance	(363,927)	(11,987)	(267,634)	(8,167)
Net deferred tax assets	<u>\$3,126,614</u>	<u>\$102,985</u>	<u>\$526,161</u>	<u>\$16,056</u>

(4) According to the amendment of Income Tax Law on May 27, 2009, corporate tax rate will be reduced from 25% to 20% and becomes effective since January 1, 2010.

(5) The Bank's income tax returns for the years prior to 2005 have been assessed by the tax authority.

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

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

	June 30,			
	2008		2009	
	NT	US	NT	US
The Bank's imputation credit	\$58,753	\$1,935	\$156,791	\$4,785
Undistributed earnings	3,003,958	98,945	4,170,176	127,256

The following is the rate of tax credit available for dividends to the Bank's shareholders for the years 2007 and 2008:

	2007	2008
Cash dividends	9.78%	3.51%

28. Earnings per share

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

	January 1 – June 30,	
	In thousands of shares	
	2008	2009
Weighted-average shares outstanding	4,868,941	4,868,941

	January 1 – June 30,							
	2008				2009			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	\$4,513,958	\$148,681	\$3,003,958	\$98,945	\$5,315,176	\$162,196	\$4,170,176	\$127,256
Earnings per share (in dollars)								
Net income	\$0.93	\$0.030	\$0.62	\$0.020	\$1.09	\$0.033	\$0.86	\$0.026

(2) The calculation of pro-forma adjusted earnings per share following the capitalization of retained earnings was as follows:

	January 1 – June 30,	
	In thousands of shares	
	2008	2009
Weighted-average shares outstanding	5,227,703	5,227,703

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	January 1 – June 30,							
	2008				2009			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	\$4,513,958	\$148,681	\$3,003,958	\$98,945	\$5,315,176	\$162,196	\$4,170,176	\$127,256
Earnings per share (in dollars)								
Net income	\$0.86	\$0.028	\$0.57	\$0.019	\$1.02	\$0.031	\$0.80	\$0.024

V. Related parties transactions

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

<u>Name of related parties</u>	<u>Relationship</u>
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	"
Cathay Securities Corp.	"
Cathay Pacific Venture Capital Co., Ltd.	"
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holdings (merge with Cathay Pacific Venture Capital Co., Ltd. in August, 2009)
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.	"
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 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.

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Name of related parties	Relationship
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
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	June 30, Account balance		% of Account	January 1- June 30, Interest income	
	NT	US		NT	US
<u>2008</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$2,942,280	\$96,913	0.37%	\$33,194	\$1,093
Taiwan Real-estate Management Corp.	109,000	3,590	0.01%	1,579	52
Cathay General Hospital	258,000	8,498	0.03%	3,411	112
Others	371,626	12,241	0.05%	4,906	162
Total	<u>\$3,680,906</u>	<u>\$121,242</u>	<u>0.46%</u>	<u>\$43,090</u>	<u>\$1,419</u>

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Accounts/Related parties	June 30, Account balance			January 1- June 30, Interest expense	
	NT	US	% of	NT	US
			Account		
<u>Deposits</u>					
Cathay Financial Holding Co., Ltd.	\$4,819,505	\$158,745	0.47%	\$(26,241)	\$(864)
Cathay Life Insurance Co., Ltd.	4,793,818	157,899	0.47%	(19,851)	(654)
Cathay Century Insurance Co., Ltd.	897,983	29,578	0.09%	(5,487)	(181)
Cathay Securities Corp.	309,516	10,195	0.03%	(2,118)	(70)
Cathay Futures Corp.	1,590,263	52,380	0.16%	(13,579)	(447)
Cathay Pacific Venture Capital Co., Ltd.	4,433	146	-	(6)	-
Cathay Securities Trust Co., Ltd.	539,871	17,782	0.05%	(8,814)	(290)
Cathay Real Estate Development Co., Ltd.	81,761	2,693	0.01%	(104)	(4)
Cathay Life Insurance (Vietnam) Co., Ltd.	170,903	5,629	0.02%	(12,686)	(418)
Cathay Global Money Market Fund etc.	7,010,121	230,900	0.68%	(89,549)	(2,950)
Others	4,217,988	138,933	0.41%	(28,302)	(932)
Total	<u>\$24,436,162</u>	<u>\$804,880</u>	<u>2.39%</u>	<u>\$(206,737)</u>	<u>\$(6,810)</u>

Accounts/Related parties	June 30, Account balance			January 1- June 30, Interest income	
	NT	US	% of	NT	US
			Account		
<u>2009</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$1,760,000	\$53,708	0.23%	\$10,503	\$321
Taiwan Real-estate Management Corp.	104,000	3,173	0.01%	1,048	32
Cathay General Hospital	236,000	7,202	0.03%	3,184	97
Others	212,163	6,474	0.03%	1,284	39
Total	<u>\$2,312,163</u>	<u>\$70,557</u>	<u>0.30%</u>	<u>\$16,019</u>	<u>\$489</u>

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Accounts/Related parties	June 30,			January 1- June 30,	
	Account balance		% of Account	Interest expense	
	NT	US		NT	US
<b>Deposits</b>					
Cathay Financial Holding Co., Ltd.	\$4,161	\$127	-	\$(3)	\$-
Cathay Life Insurance Co., Ltd.	21,024,451	641,576	1.77%	(31,020)	(947)
Cathay Century Insurance Co., Ltd.	1,271,613	38,804	0.11%	(8,167)	(249)
Cathay Securities Corp.	123,454	3,767	0.01%	(586)	(18)
Cathay Futures Corp.	1,380,416	42,124	0.11%	(6,103)	(186)
Cathay Pacific Venture Capital Co., Ltd.	179	6	-	(8)	-
Cathay Securities Trust Co., Ltd.	327,343	9,989	0.03%	(2,889)	(88)
Cathay Real Estate Development Co., Ltd.	156,097	4,764	0.01%	(33)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd.	86,783	2,648	0.01%	(11,100)	(339)
Cathay Global Money Market Fund etc.	11,156,072	340,436	0.94%	(50,073)	(1,528)
Others	4,821,558	147,133	0.40%	(26,534)	(810)
<b>Total</b>	<b>\$40,352,127</b>	<b>\$1,231,374</b>	<b>3.39%</b>	<b>\$(136,516)</b>	<b>\$(4,166)</b>

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

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Accounts / Related parties	January 1 – June 30,						
	January 1- June 30,		June 30,		Interest income		Interest Rate(%)
	Maximum balance		Account balance		(expense)		
NT	US	NT	US	NT	US		
<u>2009</u>							
<u>Call loans to banks</u>							
Indovina Bank	\$809,116	\$24,691	\$67,760	\$2,068	\$4,535	\$138	2.56%~6.5%
<u>Due from commercial banks</u>							
Indovina Bank	362,934	11,075	27,323	834	420	13	0.5%~2.4%
<u>Call loans from banks</u>							
Indovina Bank	1,476,810	45,066	820,450	25,037	(2,119)	(65)	0.25%~3.04%
<u>Due to commercial banks</u>							
Indovina Bank	50,391	1,538	11,986	366	-	-	-

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

(2) Guarantees

2008

None

Related Parties	January 1- June 30,		June 30,		January 1- June 30,	
	Maximum balance		Account balance		Service fees	
	NT	US	NT	US	NT	US
<u>2009</u>						
<u>Symphox Information Co., Ltd.</u>						
Co., Ltd.	\$413	\$13	\$225	\$7	\$-	\$-
<u>Seaward Leasing Ltd.</u>						
Ltd.	6,450,000	196,826	340,000	10,375	-	-

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	June 30,		January 1- June 30,	
	Account balance		Interest <u>income (expense)</u>	
	NT	US	NT	US
<u>2008</u>				
<u>Securities sold under agreements to repurchase</u>				
Wan Pao Development Co., Ltd.	\$646,779	\$21,304	<u>\$(4,353)</u>	<u>\$(143)</u>
Others	1,409,757	46,434	<u>(17,224)</u>	<u>(568)</u>
Total	<u>\$2,056,536</u>	<u>\$67,738</u>	<u>\$(21,577)</u>	<u>\$(711)</u>
<u>2009</u>				
<u>Securities sold under agreements to repurchase</u>				
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$(176)	\$(5)
Cathay Securities Trust Co., Ltd.	88,001	2,685	(57)	(2)
San Ching Engineering Corp.	-	-	(3)	-
Others	557,931	17,026	(517)	(16)
Total	<u>\$645,932</u>	<u>\$19,711</u>	<u>\$(753)</u>	<u>\$(23)</u>
<u>Securities purchase under agreements to resell</u>				
Cathay Life Insurance Co., Ltd.	<u>\$-</u>	<u>\$-</u>	<u>\$84</u>	<u>\$3</u>

(4) Lease

Accounts/Related parties	January 1- June 30,			
	2008		2009	
	NT	US	NT	US
<u>Rental income</u>				
Cathay Life Insurance Co., Ltd.	\$5,431	\$179	\$5,629	\$172
Cathay Century Insurance Co., Ltd.	142	5	181	6
Cathay Securities Corp.	2,712	89	2,847	87
Seaward Leasing Ltd.	86	3	-	-
Culture and Charity Foundation of Cathay United Bank	500	16	500	15
<u>Rental expense</u>				
Cathay Life Insurance Co., Ltd.	147,303	4,852	165,690	5,056
Cathay Real Estate Development Co., Ltd.	5,660	186	5,660	173
Seaward Leasing Ltd.	7,206	237	7,680	234

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Account/Related parties	June 30,			
	2008		2009	
	NT	US	NT	US
<u>Refundable deposits</u>				
Cathay Life Insurance Co., Ltd.	\$67,224	\$2,214	\$68,143	\$2,079
Cathay Real Estate Development Co., Ltd.	2,635	87	2,635	80
Seaward Leasing Ltd. (Note)	33,395	1,100	11,590	354

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

Account/Related parties	June 30,			
	2008		2009	
	NT	US	NT	US
<u>Guarantee deposit received</u>				
Cathay Life Insurance Co., Ltd.	\$2,430	\$80	\$2,490	\$76
Cathay Century Insurance Co., Ltd.	88	3	88	3
Cathay Securities Corp.	1,325	44	1,350	41

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

Accounts/Related parties	January 1- June 30,			
	2008		2009	
	NT	US	NT	US
<u>(5) Commissions and handling fees income</u>				
Cathay Life Insurance Co., Ltd.	\$508,478	\$16,748	\$557,618	\$17,016
Cathay Century Insurance Co., Ltd.	40,046	1,319	34,955	1,067
Cathay Securities Corp.	1,944	64	1,999	61
Cathay Securities Trust Co., Ltd.	10,503	346	8,968	274
Cathay Securities Investment Consulting Co., Ltd.	1,693	56	-	-
<u>(6) Other operating income</u>				
Cathay Century Insurance Co., Ltd.	8,868	292	383	12

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<u>Accounts/Related parties</u>	January 1- June 30,			
	2008		2009	
	NT	US	NT	US
<u>(7) Operating expenses</u>				
Cathay Life Insurance Co., Ltd.	\$39,540	\$1,302	\$48,589	\$1,483
Cathay Century Insurance Co., Ltd.	382	13	-	-
Cathay Securities Corp.	1,200	40	1,200	37
Seaward Card Co., Ltd.	137,887	4,542	137,304	4,190
Symphox Information Co., Ltd.	236,301	7,783	220,723	6,736
Cathay Real Estate Development Co., Ltd.	7,428	245	5,823	178
Cathay Lin Yuan Security Co., Ltd.	1,610	53	1,810	55
<u>(8) Insurance expenses paid</u>				
Cathay Life Insurance Co., Ltd.	267,006	8,795	292,583	8,928
Cathay Century Insurance Co., Ltd.	60,778	2,002	41,047	1,253
<u>Accounts/Related parties</u>	June 30,			
	2008		2009	
	NT	US	NT	US
<u>(9) Receivable to related party for allocation of linked-tax system</u>				
Cathay Financial Holding Co., Ltd.	\$253,007	\$8,334	\$1,940,789	\$59,225
<u>(10) Other receivables- cash dividends</u>				
Indovina Bank	129,005	4,249	164,090	5,007
<u>(11) Financial assets at fair value through profit or loss-mutual funds</u>				
Cathay Securities Trust Co., Ltd. (Note)	775,649	25,548	404,259	12,336
Note: The Bank invested in the funds which are managed by Cathay Securities Trust Co., Ltd.				
<u>(12) Refundable deposit</u>				
Cathay Futures Corp.	39,292	1,294	32,643	996

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Accounts/Related parties	June 30,			
	2008		2009	
	NT	US	NT	US
(13) <u>Accrued expenses</u>				
Seaward Card Co., Ltd.	\$21,800	\$718	\$15,366	\$469
(14) <u>Accounts payable</u>				
Cathay Century Insurance Co., Ltd.	8,979	296	8,166	249
Cathay Securities Corp.	200	7	200	6
Symphox Information Co., Ltd.	94,089	3,099	32,104	980

(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\$43,671), in 2006. The Bank paid the amount of NT\$360,591 (US\$11,877) and NT\$158,055 (US\$4,823) during the six-month periods ended June 30, 2008 and 2009. As of June 30, 2008 and 2009, the accumulated paid amount were NT\$922,414(US\$30,383) and NT\$1,339,952 (US\$40,890), respectively.
- b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT\$2,501 (US\$82) and NT\$1,787 (US\$55) during the six-month periods ended June 30, 2008 and 2009, 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\$11,096 (US\$365) and NT\$16,004 (US\$488) during the six-month periods ended June 30, 2008 and 2009, respectively.
- d. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the six-month periods ended 30, 2008 and 2009. As of June 30, 2008 and 2009, the bonus points which not converting amount were NT\$28,181(US\$928) and NT\$27,788 (US\$848), respectively.
- e. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount were NT\$2,480,000 (US\$81,686) and NT\$800,000 (US\$24,413) during the six-month periods ended June 30, 2008 and 2009, respectively.

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- f. Cathay Century Realty Co., Ltd. Acted as a broker for the Bank to dispose of real estate, the service fees of NT\$14,504 (US\$478) and NT\$1,792 (US\$55) were included in disposal gains of foreclosed properties, premises and equipment, during the six-month periods ended June 30, 2008 and 2009, respectively.
- g. As of June 30, 2008, the Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT\$200,000 (US\$6,588) which issued by the Bank in 2003.

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

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

(16) Transactions of derivative financial instruments

			Nominal Amount		Valuation gain(loss)	
			NT	US	NT	US
			Contract term			
<u>June 30, 2008</u>						
Cathay Life Insurance Co., Ltd.	Forward	2006.5.19~2009.6.10	\$16,112,124	\$530,702	\$235,582	\$7,760
	Currency swap	2007.7.23~2009.5.29	37,487,190	1,234,756	(1,201,369)	(39,571)
	Interest rate swap	2007.6.4~2017.6.4	1,500,000	49,407	(22,955)	(756)
Cathay Century Insurance Co., Ltd.	Forward	2007.11.16~2009.1.20	672,653	22,156	23,387	770
	Non-delivery forward	2007.11.16~2008.11.20	36,425	1,200	4,859	160
	Currency swap	2007.7.6~2009.3.24	945,090	31,129	(38,133)	(1,256)
	Interest rate swap	2007.9.29~2015.4.30	600,000	19,763	8,943	295
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2008.6.4~2008.8.5	3,745,077	123,356	(8,506)	(280)
	Non-delivery forward	2008.6.30~2008.8.5	326,002	10,738	772	25
	Currency swap	2008.6.5~2008.7.2	461,381	15,197	753	25
<u>June 30, 2009</u>						
Cathay Life Insurance Co., Ltd.	Forward	2009.2.25~2009.12.18	20,675,340	630,923	1,930,399	58,908
	Currency swap	2009.1.19~2010.6.30	166,251,330	5,073,278	(1,200,939)	(36,648)
	Interest rate swap	-	-	-	(2,655)	(81)
Cathay Century Insurance Co., Ltd.	Forward	2008.9.16~2009.12.15	243,181	7,421	(16,079)	(491)
	Non-delivery forward	2008.11.18~2009.12.15	9,845	300	898	27
	Currency swap	2009.5.13~2009.9.30	362,639	11,066	(4,533)	(138)
	Interest rate swap	2007.9.29~2015.4.30	600,000	18,309	(34,984)	(1,068)
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2009.6.2~2009.7.6	200,190	6,109	14,686	448
	Non-delivery forward	2009.6.2~2009.7.6	144,399	4,406	5,141	157
	Currency swap	2009.6.18~2009.8.18	393,816	12,018	(12,824)	(391)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2009, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	<u>NT</u>	<u>US</u>
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	\$181,107,324	\$5,526,620
Travelers checks for sale	246,234	7,514
Bills for collection	38,890,924	1,186,784
Book-entry for government bonds and depository for short-term marketable securities under management	582,315,600	17,769,777
Guarantees on duties and contracts	20,809,286	635,010
Unused commercial letters of credit	1,854,037	56,577
Irrevocable loan commitments	8,873,779	270,790
Credit card lines commitments	260,757,898	7,957,214
Stamp tax, securities and memorial currency consignments	1,727	53

2. As of June 30, 2009, the Bank had various lawsuits and proceedings. The significant ones are summarized below:

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

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- (2) Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$29 million) and NT\$3.09 billion (US\$101 million), respectively. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.
3. As of June 30, 2009, the Bank had entered into certain contracts to purchase premises and equipment totaling NT\$3,006,935(US\$91,759) with prepayments of NT\$1,487,670 (US\$45,397).
4. According to the operating leases agreement, rentals for lease should be paid in future are as follows:

<u>Periods</u>	<u>NT</u>	<u>US</u>
2009.7.1~2010.6.30	\$633,961	\$19,346
2010.7.1~2011.6.30	435,484	13,289
2011.7.1~2012.6.30	385,786	11,773
2012.7.1~2013.6.30	241,135	7,358
2013.7.1~2014.6.30	35,519	1,084

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.



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X. Disclosure of financial instruments information

1. Information of fair value

	June 30, 2008			
	Book value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$29,451,699	\$970,082	\$29,451,699	\$970,082
Available-for-sale financial assets	61,673,067	2,031,392	61,673,067	2,031,392
Held-to-maturity financial assets and debt				
securities with no active market	225,730,594	7,435,132	225,647,197	7,432,385
Other financial assets-financial assets carried at				
cost	4,245,466	139,837	(Note)	(Note)
Others	919,356,685	30,281,841	919,356,685	30,281,841
Liabilities				
Financial liabilities at fair value through profit or				
loss	39,430,573	1,298,767	39,430,573	1,298,767
Financial debentures payable	15,272,693	503,053	15,272,693	503,053
Others	1,148,609,855	37,832,999	1,148,609,855	37,832,999
<u>Derivative financial instruments</u>				
Assets				
Forward	340,881	11,228	340,881	11,228
Non-delivery forward	107,814	3,551	107,814	3,551
Currency swap	4,111,348	135,420	4,111,348	135,420
Interest rate swap	1,832,987	60,375	1,832,987	60,375
Cross currency swap	3,766	124	3,766	124
Options	90,812	2,991	90,812	2,991
Credit derivative instruments	357	12	357	12
Liabilities				
Forward	3,372,998	111,100	3,372,998	111,100
Non-delivery forward	106,462	3,507	106,462	3,507
Currency swap	647,706	21,334	647,706	21,334
Interest rate swap	1,635,076	53,856	1,635,076	53,856
Cross currency swap	215,573	7,101	215,573	7,101
Options	90,777	2,990	90,777	2,990
Credit derivative instruments	408,133	13,443	408,133	13,443

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	June 30, 2009			
	Book value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$49,892,094	\$1,522,493	\$49,892,094	\$1,522,493
Available-for-sale financial assets	139,051,922	4,243,269	139,051,922	4,243,269
Held-to-maturity financial assets and debt				
securities with no active market	252,989,221	7,720,147	253,018,717	7,721,047
Other financial assets-financial assets carried at				
cost	4,095,465	124,976	(Note)	(Note)
Others	913,062,322	27,862,750	913,062,322	27,862,750
Liabilities				
Financial liabilities at fair value through profit or				
loss	32,627,728	995,659	32,627,728	995,659
Financial debentures payable	15,194,806	463,680	15,194,806	463,680
Others	1,265,556,334	38,619,357	1,265,556,334	38,619,357
<u>Derivative financial instruments</u>				
Assets				
Forward	1,097,447	33,489	1,097,447	33,489
Non-delivery forward	54,707	1,670	54,707	1,670
Currency swap	2,529,532	77,191	2,529,532	77,191
Interest rate swap	5,137,155	156,764	5,137,155	156,764
Cross currency swap	319,673	9,755	319,673	9,755
Options	97,189	2,966	97,189	2,966
Liabilities				
Forward	2,823,270	86,154	2,823,270	86,154
Non-delivery forward	49,357	1,506	49,357	1,506
Currency swap	637,434	19,451	637,434	19,451
Interest rate swap	3,375,107	102,994	3,375,107	102,994
Cross currency swap	207,789	6,341	207,789	6,341
Options	97,190	2,966	97,190	2,966
Credit derivative instruments	563,178	17,186	563,178	17,186
Credit default swaps	32,203	983	32,203	983

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 and held-to-maturity financial assets. If no quoted market prices exist for certain of the Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
- (3) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

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

- (4) 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.

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

	June 30, 2008			
	Value determined by quoted		Value determined by	
	market price		pricing models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$28,051,700	\$923,969	\$1,399,999	\$46,113
Available-for-sale financial assets	53,621,512	1,766,189	8,051,555	265,203
Held-to-maturity financial assets and debt securities with no active market	184,350,905	6,072,164	41,296,292	1,360,221
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	39,430,573	1,298,767
Financial debentures payable	-	-	15,272,693	503,053
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
Assets				
Forward	-	-	340,881	11,228
Non-delivery forward	-	-	107,814	3,551
Currency swap	-	-	4,111,348	135,420
Interest rate swap	-	-	1,832,987	60,375
Cross currency swap	-	-	3,766	124
Options	-	-	90,812	2,991
Credit derivative instruments	-	-	357	12
Liabilities				
Forward	-	-	3,372,998	111,100
Non-delivery forward	-	-	106,462	3,507
Currency swap	-	-	647,706	21,334
Interest rate swap	-	-	1,635,076	53,856
Cross currency swap	-	-	215,573	7,101
Options	-	-	90,777	2,990
Credit derivative instruments	-	-	408,133	13,443

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	June 30, 2009			
	Value determined by quoted		Value determined by	
	market price		pricing models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$49,694,484	\$1,516,463	\$197,610	\$6,030
Available-for-sale financial assets	122,092,350	3,725,735	16,959,572	517,534
Held-to-maturity financial assets and debt securities with				
no active market	225,392,050	6,878,000	27,626,667	843,047
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	32,627,728	995,659
Financial debentures payable	-	-	15,194,806	463,680
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
Assets				
Forward	-	-	1,097,447	33,489
Non-delivery forward	-	-	54,707	1,670
Currency swap	-	-	2,529,532	77,191
Interest rate swap	-	-	5,137,155	156,764
Cross currency swap	-	-	319,673	9,755
Options	-	-	97,189	2,966
Liabilities				
Forward	-	-	2,823,270	86,154
Non-delivery forward	-	-	49,357	1,506
Currency swap	-	-	637,434	19,451
Interest rate swap	-	-	3,375,107	102,994
Cross currency swap	-	-	207,789	6,341
Options	-	-	97,190	2,966
Credit derivative instruments	-	-	563,178	17,186
Credit default swaps	-	-	32,303	986

Note: Most of such assets and liabilities are receivables, discounts and loans, deposit and remittances, etc. The amount of fair value is not determined by quoted market price or pricing models but estimated face value.

4. Gains or losses recognized for the changes in fair value of financial assets or liabilities determined by pricing models were gains NT\$129,194 (US\$4,255) and losses NT\$1,118,475 (US\$34,131) for the six-month periods ended June 30, 2008 and 2009, respectively.
5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the six-month periods ended June 30, 2008 and 2009 were NT\$19,711,957 (US\$649,274) and NT\$12,639,182(US\$385,694), and expenses were NT\$9,328,737 (US\$307,271) and NT\$5,474,751(US\$167,066), respectively.
6. The Bank recognized an unrealized losses of NT\$251,823 (US\$8,295) and gains of NT\$1,501,109 (US\$45,808) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$390,137 (US\$12,850) and NT\$419,908 (US\$12,814) in income statements, for the six-month periods ended June 30, 2008 and 2009, respectively.
7. 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.

January 1 - June 30, 2009						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT	US	NT	US	NT	US
Interest rate	\$311,392	\$9,502	\$538,874	\$16,444	\$128,834	\$3,931
Foreign exchange rate	377,404	11,517	580,316	17,709	226,674	6,917
Equity Securities price	110,304	3,366	165,930	5,063	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 securities price factor sensitivities.

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

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 1% (100 basis point) in the interest rates in various yield curves affecting the portfolio. The Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

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

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Stress Test			
Market/ Product	Scenarios	Effects (In thousand of dollars)	
		NT	US
Stock Market	Major Stock Exchanges +15%	\$588,014	\$17,944
	Major Stock Exchanges -15%	(588,014)	(17,944)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(4,647,130)	(141,810)
	Major Interest Rate - 100bp	4,661,248	142,241
Foreign Exchange Market	Major Currencies +3%	1,412,110	43,092
	Major Currencies -3%	(1,329,842)	(40,581)
Composite	Major Stock Exchanges -15%	(3,823,034)	(116,663)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(2) Credit risk

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

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

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



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① Information on concentrations of credit risk.

Financial assets	June 30, 2008			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$29,451,699	\$970,082	\$29,451,699	\$970,082
Available-for-sale financial assets	61,673,067	2,031,392	61,673,067	2,031,392
Held-to-maturity financial assets and debt securities with no active market	225,730,594	7,435,132	225,730,594	7,435,132
Other financial assets-financial assets carried at cost	4,245,466	139,837	4,245,466	139,837
Others	919,356,685	30,281,841	919,356,685	30,281,841
Guarantees on duties and contracts	-	-	17,495,216	576,259
Unused commercial letters of credit	-	-	4,982,176	164,103
Irrevocable loan commitments	-	-	45,642,543	1,503,378
Credit card line commitments	-	-	274,216,214	9,032,155
<u>Derivative financial instruments</u>				
Forward	340,881	11,228	340,881	11,228
Non-delivery forward	107,814	3,551	107,814	3,551
Currency swap	4,111,348	135,420	4,111,348	135,420
Interest rate swap	1,653,798	54,473	1,653,798	54,473
Cross currency swap	3,766	124	3,766	124
Options	90,812	2,991	90,812	2,991
Credit derivative instruments	357	12	357	12
<u>June 30, 2009</u>				
Financial assets	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$48,892,094	\$1,522,493	\$48,892,094	\$1,522,493
Available-for-sale financial assets	139,051,922	4,243,269	139,051,922	4,243,269
Held-to-maturity financial assets and debt securities with no active market	252,989,221	7,720,147	252,989,221	7,720,147
Other financial assets-financial assets carried at cost	4,095,465	124,976	4,095,465	124,976
Others	913,062,322	27,862,750	913,062,322	27,862,750
Guarantees on duties and contracts	-	-	20,809,286	635,010
Unused commercial letters of credit	-	-	1,854,037	56,577
Irrevocable loan commitments	-	-	8,873,779	270,790
Credit card line commitments	-	-	260,757,898	7,957,214

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Financial assets	June 30, 2009			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
<u>Derivative financial instruments</u>				
Forward	\$1,097,447	\$33,489	\$1,097,447	\$33,489
Non-delivery forward	54,707	1,670	54,707	1,670
Currency swap	2,529,532	77,191	2,529,532	77,191
Interest rate swap	5,137,155	156,764	5,137,155	156,764
Cross currency swap	319,673	9,755	319,673	9,755
Options	97,189	2,966	97,189	2,966

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

	June 30,			
	2008		2009	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	\$124,940,179	\$4,115,289	\$127,442,573	\$3,889,001
Financial institutions and insurance	49,673,518	1,636,150	32,372,986	987,885
Leasing and real estate	78,724,981	2,593,050	17,272,069	527,069
Individuals	430,050,382	14,165,032	409,867,159	12,507,390
Others	144,882,159	4,772,140	215,210,213	6,567,294
Total	828,271,219	27,281,661	802,165,000	24,478,639
Valuation allowance	(9,282,263)	(305,740)	(7,283,947)	(222,275)
Maximum credit risk exposed	\$818,988,956	\$26,975,921	\$794,881,053	\$24,256,364
Geographic Region				
Domestic	\$757,600,215	\$24,953,894	\$717,017,552	\$21,880,303
South East Asia	21,814,670	718,533	22,581,770	689,099
North East Asia	170,357	5,611	202,863	6,191
America	13,313,633	438,526	18,133,075	553,344
Others	35,372,344	1,165,097	44,229,740	1,349,702
Total	828,271,219	27,281,661	802,165,000	24,478,639
Valuation allowance	(9,282,263)	(305,740)	(7,283,947)	(222,275)
Maximum credit risk exposed	\$818,988,956	\$26,975,921	\$794,881,053	\$24,256,364

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(3) Liquidity risk

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

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

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

The liquidity risk rate was 39.06%. Capital and working capitals of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2009, there is no significant change in these dates.

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As of June 30, 2008 and 2009, respectively, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%)	
	June 30, 2008	June 30, 2009
Available-for-sale financial assets		
Bonds	1.7063-6.8119	0.2861-6.6626
Overseas financial instruments	0-2.9959	0-7.75
Held-to-maturity financial assets		
Bonds	2.2233-6.9480	1.9842-6.9559
Overseas financial instruments	2.38-3.77	1.2369-1.4241
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	2.05-2.496	0.57-1.16
Overseas financial instruments	0-7.007	0-8.45
Financial debentures payable	2-5.593	2.1-5.593

8. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets fair value			
		June 30, 2008		June 30, 2009	
		NT	US	NT	US
Financial debentures payable	Interest rate swap	\$179,189	\$5,902	\$877,793	\$26,787

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

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

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	January 1-June 30, 2009		
	Average balance		Average rate
	NT	US	(%)
<b>Assets</b>			
Due from the Central Bank	\$28,896,612	\$881,801	0.48%
Time certificates, discounted bills and others	220,298,658	6,722,571	0.86%
Due from commercial banks and call loans to banks	32,356,514	987,382	0.20%
Discounts and loans	781,041,657	23,834,045	2.11%
Bills purchased	3,566	109	2.06%
Bond and beneficiary certificates	166,996,927	5,096,031	2.86%
Receivables-credit card revolving balance	18,238,544	556,562	13.94%
Securities purchase under agreements to resell	2,396,013	73,116	0.19%
<b>Liabilities</b>			
Due to banks	55,586,253	1,696,254	0.99%
Demand deposits	131,760,784	4,020,775	0.10%
Saving deposits	652,602,805	19,914,642	0.82%
Time deposits	331,596,336	10,118,899	1.20%
Negotiable certificates of deposit	2,275,531	69,439	1.16%
Securities sold under agreements to repurchase	16,995,110	518,618	0.32%
Financial debentures	47,936,151	1,462,806	3.49%
Funds borrowed from the Central Bank and other banks	1,936,802	59,103	0.78%

2. 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 the specific ratio; if such ratio is less than the prescribed ratio, the Bank's ability to distribute cash earnings or repurchase its shares may be restricted by the relevant regulatory authority in charge.

As of June 30, 2008 and 2009, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 10.02% and 11.66%, respectively.

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

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4. In accordance with Article 17 of the Enforcement Rules of the Trust Enterprise Act, the assets and liabilities managed under the Bank's trust are as follows:

**Balance Sheet Based on Trust  
June 30, 2008**

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

**Balance Sheet Based on Trust  
June 30, 2009**

	Trust Assets			Trust Liabilities	
	NT	US		NT	US
Bank deposits	\$5,483,769	\$167,341	Payables	\$10,212	\$312
Bonds	115,046,454	3,510,725	Taxes payable	121	4
Common stock	3,056,611	93,275	Custody securities payable	139,923,664	4,269,871
Mutual funds	124,812,494	3,808,743	Other liabilities	56	2
Insurance product	1,087,967	33,200	Trust capital	261,864,667	7,990,988
Structure product	24,700	754	Accumulated Earnings		
Short-term bills or repurchase investment	40,000	1,221	Earnings distribution	(9,697)	(296)
Receivables	411	12	Net income	16,813	513
Real estate			Retained earnings	(202,714)	(6,186)
Land	11,782,682	359,557	Net assets		
Buildings	21,303	650	Capital account	409,345	12,491
Construction in progress	737,013	22,490	Distributable revenue	4,601	140
Custody securities	139,923,664	4,269,871			
<b>Total</b>	<b>\$402,017,068</b>	<b>\$12,267,839</b>	<b>Total</b>	<b>\$402,017,068</b>	<b>\$12,267,839</b>

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Income Statement Based on Trust

Items	January1-June 30, 2008	
	NT	US
Trust revenue		
Interest income	\$19,086	\$628
Rental income	139	5
Cash dividend income	11,017	363
Investment income-stock	1,211	40
Investment income-funds	4,168	137
Investment income-beneficing securities	754	25
Subtotal	<u>36,375</u>	<u>1,198</u>
Trust expense		
Management fee	5,413	178
Supervisor fee	93	3
Custody fee	6	-
Taxes	1,339	44
Processing fee	125	4
Service fee	164	5
Investment loss-stock	197	7
Investment loss-funds	7,516	248
Others	290	10
Subtotal	<u>15,143</u>	<u>499</u>
Net income before tax	<u>21,232</u>	<u>699</u>
Income equalization	<u>(484)</u>	<u>(16)</u>
Net income	<u>\$20,748</u>	<u>\$683</u>

Items	January1-June 30, 2009	
	NT	US
Trust revenue		
Interest income	\$13,752	\$420
Rental income	168	5
Cash dividend income	7,758	237
Investment income-bonds	869	26
Investment income-funds	7,373	225
Investment income-beneficing securities	864	26
Subtotal	<u>30,784</u>	<u>939</u>
Trust expense		
Management fee	6,684	204
Supervisor fee	90	3
Taxes	693	21
Processing fee	235	7
Service fee	173	5
Investment loss-stock	4,629	141
Others	51	2
Subtotal	<u>12,555</u>	<u>383</u>
Net income before tax	<u>18,229</u>	<u>556</u>
Income equalization	<u>(1,416)</u>	<u>(43)</u>
Net income	<u>\$16,813</u>	<u>\$513</u>



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Details of Trust Properties

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

Details of Trust Properties

Items	June 30, 2009	
	NT	US
Bonds	\$115,046,454	\$3,510,725
Common stock	3,056,611	93,275
Mutual fund	124,812,494	3,808,742
Insurance product	1,087,967	33,200
Short-term bills or repurchase investment	40,000	1,221
Structure product	24,700	754
Real estate		
Land	11,782,682	359,557
Buildings	21,303	650
Construction in progress	737,013	22,490
Custody securities	139,923,664	4,269,871
Total	<u>\$396,532,888</u>	<u>\$12,100,485</u>

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The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of June 30, 2008 and 2009 are as follows:

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

Items	June 30, 2009	
	NT	US
Special trust of money that invest in foreign securities	\$194,373,630	\$5,931,450
Special trust money that invest in domestic securities	44,517,678	1,358,489
Trust of money-custody securities	139,923,664	4,269,871
Trust of real estate	12,648,933	385,991
Trust of insurance claims	42,538	1,298
Personal and corporate trust	4,423,782	134,995
Trust of business employee's savings	2,701,312	82,432
Trust of securities	2,668,841	81,442
Collective investment trust funds	423,768	12,932
Others	292,922	8,939
Total	<u>\$402,017,068</u>	<u>\$12,267,839</u>

5. Certain accounts in the financial statements for the six-month period ended June 30, 2008 have been reclassified in order to comparable with those in the financial statements for the six-month period ended June 30, 2009.