

**Cathay United Bank  
Financial Statements  
For The Years Ended  
December 31, 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” and related regulations by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

English Translation of Report Originally Issued in Chinese

**Independent Auditors' Report**

The Board of Directors  
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of December 31, 2008 and 2009, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 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 December 31, 2008 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with requirements of the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulation Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

In addition, we have also audited the consolidated financial statements of the Bank as of and for the years ended December 31, 2008 and 2009, on which we have issued unqualified opinion.

ERNST & YOUNG  
Taipei, Taiwan  
The Republic of China  
March 8, 2010

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

December 31, 2008 and 2009

(Expressed in thousands of dollars)

ASSETS	NOTES	December 31, 2008		December 31, 2009	
		NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	\$21,742,475	\$663,690	\$19,378,285	\$606,519
Due from the Central Bank and call loans to banks	IV and V	46,966,265	1,433,647	78,836,983	2,467,511
Financial assets at fair value through profit or loss	II, IV and V	53,189,451	1,623,610	41,430,963	1,296,744
Securities purchased under agreements to resell		2,169,147	66,213	1,736,000	54,335
Receivables, net	II, IV and V	47,607,325	1,453,215	44,816,287	1,402,701
Discounts and loans, net	II, IV and V	807,231,524	24,640,767	804,171,890	25,169,699
Available-for-sale financial assets, net	II and IV	98,016,783	2,991,965	97,991,344	3,067,022
Held-to-maturity financial assets, net	II and IV	2,542,836	77,620	4,089,081	127,984
Investments accounted for using equity method, net	II and IV	3,513,361	107,245	3,892,029	121,816
Other financial assets, net	II and IV	6,587,081	201,071	4,919,872	153,986
Investments in debt securities with no active market, net	II and IV	218,918,136	6,682,483	369,781,436	11,573,754
Premises and equipment, net	II, IV, V and VII	26,725,584	815,799	26,250,655	821,617
Intangible assets, net	II and IV	6,908,558	210,884	7,072,206	221,352
Other assets, net	II, IV and V	9,431,560	287,899	5,924,651	185,435
<b>TOTAL ASSETS</b>		<b>\$1,351,550,086</b>	<b>\$41,256,108</b>	<b>\$1,510,291,682</b>	<b>\$47,270,475</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)  
December 31, 2008 and 2009  
(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	December 31, 2008		December 31, 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	\$62,926,229	\$1,920,825	\$45,350,827	\$1,419,431
Funds borrowed from the Central Bank and other banks		1,643,000	50,153	1,601,500	50,125
Financial liabilities at fair value through profit or loss	II, IV and V	47,460,720	1,448,740	24,996,981	782,378
Securities sold under agreements to repurchase	IV and V	20,732,112	632,848	8,745,465	273,724
Payables	IV and V	23,225,319	708,954	21,089,973	660,093
Deposits and remittances	IV and V	1,091,306,408	33,312,161	1,296,636,382	40,583,298
Financial debentures payable	IV and X	18,865,978	575,885	16,437,209	514,467
Other financial liabilities	II and IV	261,319	7,977	240,494	7,527
Other liabilities	II, IV and V	2,242,407	68,449	2,047,292	64,078
<b>TOTAL LIABILITIES</b>		<b>1,268,663,492</b>	<b>38,725,992</b>	<b>1,417,146,123</b>	<b>44,355,121</b>
<b>SHAREHOLDERS' EQUITY</b>					
Capital stock	IV	48,689,413	1,486,246	52,277,026	1,636,214
Capital reserves	IV	15,213,611	464,396	15,213,292	476,159
Retained earnings	IV				
Legal reserve		13,402,448	409,110	14,740,680	461,367
Special reserve		465,071	14,196	-	-
Undistributed earnings		4,460,774	136,165	8,688,489	271,940
Foreign currency translation adjustment	II	55,677	1,700	(10,449)	(327)
Unrealized gains or losses on financial instruments	II	599,600	18,303	2,236,521	70,001
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>82,886,594</b>	<b>2,530,116</b>	<b>93,145,559</b>	<b>2,915,354</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$1,351,550,086</b>	<b>\$41,256,108</b>	<b>\$1,510,291,682</b>	<b>\$47,270,475</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 years ended December 31, 2008 and 2009

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

ITEMS	NOTES	January 1 - December 31, 2008		January 1 - December 31, 2009	
		NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	\$40,242,009	\$1,228,388	\$23,867,612	\$747,030
INTEREST EXPENSE	V	(19,724,151)	(602,080)	(10,169,955)	(318,308)
NET INTEREST INCOME		20,517,858	626,308	13,697,657	428,722
NONINTEREST INCOME					
Net fee income	II and V	5,100,256	155,685	4,676,553	146,371
Gain (loss) on financial assets and liabilities at fair value through profit or loss	II and V	(2,067,256)	(63,103)	2,840,173	88,894
Realized gain on available-for-sale financial assets	II	162,819	4,970	1,516,838	47,475
Realized loss on held-to-maturity financial assets	II	(632)	(19)	-	-
Investment income recognized by the equity method	II and IV	246,965	7,539	261,416	8,182
Gain on foreign currency exchange, net	II	1,101,909	33,636	591,928	18,527
Impairment loss of assets	II	(3,064,698)	(93,550)	(171,183)	(5,358)
Gain on financial assets carried at cost		328,230	10,019	224,317	7,021
Gain (loss) on debt securities with no active market		(1,757,746)	(53,655)	180,060	5,636
Gain (loss) on disposal of foreclosed properties	V	180,251	5,502	(873)	(27)
Others	II, IV and V	787,274	24,031	1,706,014	53,396
NET NONINTEREST INCOME		1,017,372	31,055	11,825,243	370,117
NET OPERATING INCOME		21,535,230	657,363	25,522,900	798,839
BAD DEBT EXPENSE	II and IV	(926,249)	(28,274)	-	-
OPERATING EXPENSES					
Personnel	II, IV and V	(6,441,221)	(196,618)	(7,071,599)	(221,333)
Depreciation and amortization	II and IV	(1,239,282)	(37,829)	(1,081,174)	(33,840)
Other general and administrative expenses	V	(6,475,704)	(197,671)	(6,247,638)	(195,544)
TOTAL OPERATING EXPENSES		(14,156,207)	(432,118)	(14,400,411)	(450,717)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		6,452,774	196,971	11,122,489	348,122
INCOME TAX EXPENSE	II and IV	(1,992,000)	(60,806)	(2,434,000)	(76,182)
NET INCOME		\$4,460,774	\$136,165	\$8,688,489	\$271,940
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		\$1.23	\$0.038	\$2.13	\$0.067
INCOME TAX EXPENSE		(0.38)	(0.012)	(0.47)	(0.015)
NET INCOME		\$0.85	\$0.026	\$1.66	\$0.052

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of changes in shareholders' equity

For the years ended December 31, 2008 and 2009

(Expressed in thousands of dollars)

ITEMS	NOTES	Retained earnings										Foreign currency		Unrealized gains or losses		Total	
		Capital stock		Capital reserves		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	\$1,486,246	\$15,213,611	\$464,396	\$11,482,369	\$350,500	\$-	\$-	\$6,400,265	\$195,368	\$51,248	\$1,564	\$(465,071)	\$(14,196)	\$81,371,835	\$2,483,878
Appropriation and distribution of 2007 earnings:	IV																
Legal reserves		-	-	-	-	1,920,079	58,610	-	-	(1,920,079)	(58,610)	-	-	-	-	-	-
Special reserves		-	-	-	-	-	-	465,071	14,196	(465,071)	(14,196)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(4,005,115)	(122,256)	-	-	-	-	(4,005,115)	(122,256)
Bonus to shareholders		-	-	-	-	-	-	-	-	(8,500)	(260)	-	-	-	-	(8,500)	(260)
Special bonus to employees		-	-	-	-	-	-	-	-	(1,500)	(46)	-	-	-	-	(1,500)	(46)
Net income for the year ended December 31, 2008		-	-	-	-	-	-	-	-	4,460,774	136,165	-	-	-	-	4,460,774	136,165
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	4,429	136	-	-	4,429	136
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	78,226	2,388	78,226	2,388
Unrealized gains on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	986,445	30,111	986,445	30,111
Balance, December 31, 2008		\$48,689,413	\$1,486,246	\$15,213,611	\$464,396	\$13,402,448	\$409,110	\$465,071	\$14,196	\$4,460,774	\$136,165	\$55,677	\$1,700	\$599,600	\$18,303	\$82,886,594	\$2,530,116
Balance, January 1, 2009		\$48,689,413	\$1,523,925	\$15,213,611	\$476,169	\$13,402,448	\$419,482	\$465,071	\$14,556	\$4,460,774	\$139,618	\$55,677	\$1,743	\$599,600	\$18,767	\$82,886,594	\$2,594,260
Special reserve recovery		-	-	-	-	-	-	(465,071)	(14,556)	465,071	14,556	-	-	-	-	-	-
Appropriation and distribution of 2008 earnings:	IV																
Legal reserves		-	-	-	-	1,338,232	41,885	-	-	(1,338,232)	(41,885)	-	-	-	-	-	-
Stock dividends		3,587,613	112,289	-	-	-	-	-	-	(3,587,613)	(112,289)	-	-	-	-	-	-
Net income for the year ended December 31, 2009		-	-	-	-	-	-	-	-	8,688,489	271,940	-	-	-	-	8,688,489	271,940
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	(66,126)	(2,070)	-	-	(66,126)	(2,070)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	(319)	(10)	-	-	-	-	-	-	-	-	7,079	222	6,760	212
Unrealized gains on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	1,629,842	51,012	1,629,842	51,012
Balance, December 31, 2009		\$52,277,026	\$1,636,214	\$15,213,292	\$476,159	\$14,740,680	\$461,367	\$-	\$-	\$8,688,489	\$271,940	\$(10,449)	\$(327)	\$2,236,521	\$70,001	\$93,145,559	\$2,915,354

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank  
Statements of cash flows  
For the years ended December 31, 2008 and 2009  
(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-December 31, 2008		January 1-December 31, 2009	
		NT	US (Note II)	NT	US (Note II)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income		\$4,460,774	\$136,165	\$8,688,489	\$271,940
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization		1,239,282	37,829	1,081,174	33,840
The differences between investment income recognized by the equity method and the cash dividends received	II	(97,819)	(2,986)	(51,874)	(1,624)
Loss on disposal of investments accounted for using equity method		-	-	357	11
Bad debt expense (reversal)	II and IV	926,249	28,274	(431,013)	(13,490)
Gain on disposal of premises, equipment and foreclosed properties	II	(271,635)	(8,292)	(54,196)	(1,696)
Impairment loss of assets	II	3,064,698	93,550	171,183	5,358
Effects of exchange rate changes		(54,891)	(1,675)	24,166	756
(Increase) decrease in operating assets					
(Increase) decrease in receivables		(5,410,455)	(165,154)	2,761,365	86,428
Decrease in deferred income tax assets		2,162,017	65,996	1,375,788	43,061
(Increase) decrease in financial assets at fair value through profit or loss		(13,256,688)	(404,661)	11,758,488	368,028
(Increase) decrease in other assets		(720,117)	(21,982)	727,653	22,775
Increase (decrease) in operating liabilities					
Increase (decrease) in payables		7,175,996	219,047	(2,350,546)	(73,570)
Decrease in financial liabilities at fair value through profit or loss		(386,600)	(11,801)	(22,463,739)	(703,091)
Increase (decrease) in tax payables		(118,368)	(3,613)	215,201	6,735
Decrease in other liabilities		(31,141)	(950)	(290,712)	(9,099)
Net cash provided by (used in) operating activities		(1,318,698)	(40,253)	1,161,784	36,362
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
(Increase) decrease in discounts and loans		(50,613,208)	(1,544,970)	3,520,319	110,182
(Increase) decrease in due from the Central Bank and call loans to banks		10,735,533	327,702	(31,870,718)	(997,518)
(Increase) decrease in securities purchased under agreements to resell		(1,843,147)	(56,262)	433,147	13,557
(Increase) decrease in available-for-sale financial assets		(33,710,342)	(1,029,009)	1,746,928	54,677
(Increase) decrease in held-to-maturity financial assets		777,850	23,744	(1,546,244)	(48,396)
Proceeds from disposal of investments accounted for using equity method		-	-	21,771	681
Increase in investments accounted for using equity method		(798,800)	(24,383)	(404,563)	(12,662)
Capital return due to capital decrease in equity-accounted investee		-	-	6,300	197
Proceeds from disposal of premises, equipment and foreclosed properties		1,564,058	47,743	184,584	5,777
Acquisition of premises, equipment and foreclosed properties		(1,461,590)	(44,615)	(725,199)	(22,698)
Acquisition of intangible assets		(185,370)	(5,658)	(259,493)	(8,122)
(Increase) decrease in investments in debt securities with no active market		35,434,580	1,081,642	(150,934,334)	(4,724,079)
(Increase) decrease in other financial assets		(2,400,374)	(73,272)	1,618,863	50,669
(Increase) decrease in other assets		(1,309,578)	(39,975)	1,342,443	42,017
Net cash used in investing activities		(43,810,388)	(1,337,313)	(176,866,196)	(5,535,718)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Decrease in due to the Central Bank and call loans from banks		(10,943,116)	(334,038)	(17,575,403)	(550,091)
Increase (decrease) in securities sold under agreements to repurchase		6,096,689	186,101	(11,986,647)	(375,169)
Increase in deposits and remittances		59,740,896	1,823,592	205,329,974	6,426,604
Increase (decrease) in funds borrowed from the Central Bank and other banks		18,800	574	(41,500)	(1,299)
Increase (decrease) in financial debentures payable		314,141	9,589	(2,428,769)	(76,018)
Decrease in other financial liabilities		(47,411)	(1,447)	(20,825)	(652)
Increase in other liabilities		24,009	733	95,598	2,992
Distribution of cash dividends		(4,005,115)	(122,256)	-	-
Bonus to shareholders and special bonus to employees	IV	(10,000)	(306)	-	-
Net cash provided by financing activities		51,188,893	1,562,542	173,372,428	5,426,367
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		33,804	1,032	(32,206)	(1,008)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		6,093,611	186,008	(2,364,190)	(73,997)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		15,648,864	477,682	21,742,475	680,516
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		\$21,742,475	\$663,690	\$19,378,285	\$606,519
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>					
Interest expense paid		\$19,491,614	\$594,982	\$12,640,184	\$395,624
Income tax paid		\$679,361	\$20,738	\$571,628	\$17,891

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the years ended December 31, 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;



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

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

The 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 December 31, 2008 and 2009, the Bank employed 6,458 and 5,979 employees, respectively.

## II. Summary of significant accounting policies

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

The significant accounting policies are summarized as follows:

1. Basis of presentation of financial statements

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

2. Foreign-currency transaction and translation

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

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

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

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

3. Financial assets and financial liabilities

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

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

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

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

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

Debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at 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.

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

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

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

If the sum of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity (excess over cost). That excess shall be allocated as a pro rata reduction of the amounts that otherwise 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 ROC SFAS No. 18, “Accounting for Pensions”, which requires the actuarial determination of pension assets or obligations for the defined benefit plan. The unrecognized assets or obligations at transition are amortized by the straight-line method over the employees’ average remaining service period of 15 years.

18. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

19. Recognition of dividend

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

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

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

20. Income tax

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

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

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

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

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

21. Employee bonus and remuneration of directors

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

22. Contingencies

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

23. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the December 31, 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\$32.76 and NT\$31.95 to US\$1.00 on December 31, 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. No significant effect to the Bank's net income and earnings per share for the year ended December 31, 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\$1,500 (US\$46), and no significant effect to earnings per share for the year ended December 31, 2008.

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IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	December 31,			
	2008		2009	
	NT	US	NT	US
Cash on hand	\$11,865,775	\$362,203	\$10,411,394	\$325,865
Checks for clearance	5,356,525	163,508	4,031,517	126,182
Due from commercial banks	4,520,175	137,979	4,935,374	154,472
Total	<u>\$21,742,475</u>	<u>\$663,690</u>	<u>\$19,378,285</u>	<u>\$606,519</u>

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

	December 31,			
	2008		2009	
	NT	US	NT	US
Call loans to banks	\$5,318,127	\$162,336	\$18,391,958	\$575,648
Due from the Central Bank –				
Statutory reserve on deposits and				
general deposits	41,648,138	1,271,311	60,445,025	1,891,863
Total	<u>\$46,966,265</u>	<u>\$1,433,647</u>	<u>\$78,836,963</u>	<u>\$2,467,511</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\$28,241,888 (US\$862,084) and NT\$34,104,726 (US\$1,067,441) as of December 31, 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 December 31, 2008 and 2009, the balance of foreign-currency deposit reserves were NT\$123,225 (US\$3,761) and NT\$118,511 (US\$3,709), respectively.

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3. Financial assets at fair value through profit or loss

	December 31,			
	2008		2009	
	NT	US	NT	US
Financial assets for trading :				
Mutual funds	\$779,477	\$23,794	\$1,561,857	\$48,884
Short-term bills	21,117,369	644,608	29,115,988	911,299
Bonds	16,631,058	507,663	2,877,558	90,064
Overseas financial instruments	142,465	4,349	197,593	6,185
Derivative financial instruments	14,278,613	435,855	7,677,967	240,312
Subtotal	<u>52,948,982</u>	<u>1,616,269</u>	<u>41,430,963</u>	<u>1,296,744</u>
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	167,804	5,123	-	-
Bonds	72,665	2,218	-	-
Subtotal	<u>240,469</u>	<u>7,341</u>	<u>-</u>	<u>-</u>
Total	<u>\$53,189,451</u>	<u>\$1,623,610</u>	<u>\$41,430,963</u>	<u>\$1,296,744</u>

(1) NT\$72,665 (US\$2,218) and NT\$0 (US\$0) of the financial assets at fair value through profit or loss as of December 31, 2008 and 2009, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of December 31, 2009, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$7,874,000 (US\$246,448). Such repurchase agreements amounting to NT\$8,745,465 (US\$273,724) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to December 31, 2009 was settled at NT\$8,746,201 (US\$273,747) prior to February 28, 2010.

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(3) As of December 31, 2008 and 2009, the contract amounts (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

	December 31,	
	2008	2009
Forward foreign exchange and currency swap contracts	\$21,307,778	\$29,989,732
Interest rate swap contracts	11,306,513	10,260,086
Cross-currency swap contracts	490,578	588,920
Options	268,192	381,406
Credit derivative instrument contracts	130,000	60,000
Credit default swap contracts	46,902	15,299

(4) Net gains arising from financial assets at fair value through profit or loss for the years ended December 31, 2008 and 2009 were NT\$4,210,120 (US\$128,514) and NT\$10,473,394 (US\$ 327,806 ), respectively.

4. Receivables, net

	December 31,			
	2008		2009	
	NT	US	NT	US
Notes receivable	\$6,468	\$197	\$6,279	\$197
Accounts receivable	36,003,832	1,099,018	36,021,036	1,127,419
Interest receivable	4,230,781	129,145	2,126,128	66,545
Receivable to related party for allocation of linked-tax system	1,781,772	54,389	1,955,061	61,191
Foreign currency receivable	5,895,570	179,962	935,989	29,295
Acceptances	546,377	16,678	1,033,119	32,336
Tax refundable	772,564	23,583	276,673	8,660
Others	1,352,934	41,298	4,851,719	151,853
Total	50,590,298	1,544,270	47,206,004	1,477,496
Less: allowance for doubtful accounts	(2,982,973)	(91,055)	(2,389,717)	(74,795)
Net balance	\$47,607,325	\$1,453,215	\$44,816,287	\$1,402,701



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Information on bad and doubtful accounts is as follows:

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

	January 1-December 31, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$2,933,281	\$91,808	\$49,692	\$1,555	\$2,982,973	\$93,363
Provision of doubtful accounts	29,672	929	-	-	29,672	929
Write-offs	(1,496,951)	(46,853)	-	-	(1,496,951)	(46,853)
Debt counseling recoveries	117,248	3,670	-	-	117,248	3,670
Recoveries	756,775	23,686	-	-	756,775	23,686
Reclassifications	(316,905)	(9,919)	316,905	9,919	-	-
Balance, end of the period	<u>\$2,023,120</u>	<u>\$63,321</u>	<u>\$366,597</u>	<u>\$11,474</u>	<u>\$2,389,717</u>	<u>\$74,795</u>

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

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5. Discounts and loans, net

	December 31,			
	2008		2009	
	NT	US	NT	US
Outward documentary bills	\$378,537	\$11,555	\$830,433	\$25,992
Overdrafts	292,455	8,927	457,479	14,319
Short-term loans	162,699,803	4,966,416	183,066,717	5,729,788
Medium-term loans	235,249,125	7,180,987	204,423,266	6,398,224
Long-term loans	410,966,586	12,544,768	417,436,666	13,065,310
Delinquent accounts	5,978,412	182,491	4,020,024	125,822
Total	815,564,918	24,895,144	810,234,585	25,359,455
Less: allowance for doubtful accounts	(8,333,394)	(254,377)	(6,062,695)	(189,756)
Net balance	<u>\$807,231,524</u>	<u>\$24,640,767</u>	<u>\$804,171,890</u>	<u>\$25,169,699</u>

(1) As of December 31, 2008 and 2009, the accounts without interest accrued were NT\$7,465,048 (US\$227,871) and NT\$4,341,778 (US\$135,893), respectively. The non-accrued interest on such accounts amounted to NT\$149,261 (US\$4,556) and NT\$91,176 (US\$2,854) for the years ended December 31, 2008 and 2009, respectively.

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

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	January 1-December 31, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$3,662,869	\$114,644	\$4,670,525	\$146,182	\$8,333,394	\$260,826
Reversal of doubtful accounts	(460,685)	(14,419)	-	-	(460,685)	(14,419)
Write-offs	(4,727,603)	(147,969)	-	-	(4,727,603)	(147,969)
Debt counseling recoveries	105,880	3,314	-	-	105,880	3,314
Recoveries	2,834,063	88,703	-	-	2,834,063	88,703
Reclassification	1,255,338	39,291	(1,255,338)	(39,291)	-	-
Effects of exchange rates change	-	-	(22,354)	(699)	(22,354)	(699)
Balance, end of the period	<u>\$2,669,862</u>	<u>\$83,564</u>	<u>\$3,392,833</u>	<u>\$106,192</u>	<u>\$6,062,695</u>	<u>\$189,756</u>

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

6. Available-for-sale financial assets, net

	December 31,			
	2008		2009	
	NT	US	NT	US
Stocks	\$1,016,622	\$31,032	\$8,308,665	\$260,052
Mutual funds and beneficiary securities	189,084	5,772	107,360	3,360
Bonds	89,501,037	2,732,022	73,070,598	2,287,030
Overseas financial instruments	7,838,581	239,273	16,504,721	516,580
Subtotal	98,545,324	3,008,099	97,991,344	3,067,022
Less: accumulated impairment	(528,541)	(16,134)	-	-
Net balance	<u>\$98,016,783</u>	<u>\$2,991,965</u>	<u>\$97,991,344</u>	<u>\$3,067,022</u>

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- (1) NT\$3,108,585 (US\$94,890) and NT\$2,447,943 (US\$76,618) of the available-for-sale financial assets as of December 31, 2008 and 2009, respectively, were pledged to other parties as collateral for business reserves and guarantees.
- (2) As of December 31, 2008, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$5,050,800 (US\$154,176). Such repurchase agreements amounting to NT\$5,575,869 (US\$170,203) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to December 31, 2008 was settled at NT\$5,583,908 (US\$170,449) prior to June 30, 2009.
- (3) The issuers of certain overseas financial instruments were taken over by their government or defaulted in its payment. In view of the aforesaid incidents, the accumulated impairment loss was made by NT\$528,541 (US\$16,134) on available for sales financial assets at December 31, 2008.

7. Held-to-maturity financial assets, net

	December 31, 2008			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	\$1,591,800	\$48,590	\$1,756,959	\$53,631
Beneficiary certificates	576,335	17,593	576,335	17,593
Overseas financial instruments	210,725	6,432	209,542	6,396
Subtotal	<u>\$2,378,860</u>	<u>\$72,615</u>	<u>\$2,542,836</u>	<u>\$77,620</u>
	December 31, 2009			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	\$1,154,000	\$36,119	\$1,296,108	\$40,567
Beneficiary certificates	576,335	18,039	576,335	18,039
Overseas financial instruments	2,080,389	65,114	2,216,638	69,378
Subtotal	<u>\$3,810,724</u>	<u>\$119,272</u>	<u>\$4,089,081</u>	<u>\$127,984</u>

As of December 31, 2008 and 2009, NT\$91,118 (US\$2,781) and NT\$105,627 (US\$3,306) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

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8. Investments accounted for using equity method, net

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

	December 31, 2009				
	Carrying value		% of ownership	Investment income (loss)	
	NT	US		NT	US
Seaward Card Co., Ltd.	\$39,319	\$1,231	100.00	\$2,581	\$81
Cathay Life Insurance Agent Co., Ltd	53,909	1,687	100.00	28,348	887
Cathay Property Insurance Agent Co., Ltd.	7,672	240	100.00	471	15
Indovina Bank	2,312,098	72,366	50.00	185,600	5,809
Taiwan Real-estate Management Corp.	55,972	1,752	30.15	9,836	308
Taiwan Finance Corp.	1,417,631	44,370	24.57	38,380	1,201
Vista Technology Venture Capital Corp.	5,428	170	4.76	(665)	(21)
Cathay Pacific Venture Capital Co., Ltd.	-	-	-	(3,135)	(98)
Total	\$3,892,029	\$121,816		\$261,416	\$8,182

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- (1) Cathay Pacific Venture Capital Co., Ltd. merged with Cathay Venture Capital Corp. (the merged company) at August 10, 2009, and the Bank acquired 2,228 thousand stocks of Cathay Pacific Venture Capital Co., Ltd. through the stock swap from the merged Company, and held 1.18% ownership of Cathay Pacific Venture Capital Co., Ltd. Thereafter, the Bank's board of directors resolved to sell all of its shares of Cathay Pacific Venture Capital Co., Ltd. to Cathay Financial Holding Co., Ltd. on August 21, 2009.
- (2) On January 15, 2010, Cathay Property Insurance Agent Co., Ltd. was decided its dissolution by the board of directors (according to the Company's Law, the authority of the shareholder meeting acts by board of directors) and starts in the process of dissolution and liquidation.
- (3) The equity method of accounting was applied to Cathay Pacific Venture Capital Co., Ltd. (the former 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.
- (4) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the years ended December 31, 2008 and 2009 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been unaudited.
- (5) The accounts of the Bank and Indovina Bank are included in the Bank's consolidated financial statements as of and for the years ended December 31, 2008 and 2009. As the individual total asset or operating income of the other subsidiaries of the Bank are immaterial to the Bank's consolidated financial statements, the accounts of these other subsidiaries, which are not included in the Bank's consolidated financial statements.
- (6) According to the Bank's board of directors, Indovina Bank has scheduled to increase capital US\$15,000 by cash. The increase of the investment has been approved by the authority in October 2008. As of December 31, 2008, the Bank has remitted US\$15,000 which treated as prepayment account.

9. Other financial assets, net

	December 31,			
	2008		2009	
	NT	US	NT	US
Derivatives financial assets for hedging	\$2,488,654	\$75,966	\$916,995	\$28,701
Financial assets carried at cost, stocks	4,094,875	124,996	4,000,440	125,209
Bills purchased	3,552	109	2,437	76
Total	<u>\$6,587,081</u>	<u>\$201,071</u>	<u>\$4,919,872</u>	<u>\$153,986</u>

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- (1) Due to the recurring losses incurred by Kaohsiung Rapid Transit Corporation, Taipei Financial Center Corp., New Century . Co., Ltd., Strategic Value Fund, Limited Partnership and Victor Taichung Machinery Works Co., Ltd., the Bank has recognized losses for these investees based on their net equity.
- (2) As of December 31, 2008 and 2009, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT\$2,488,654 (US\$75,966) and NT\$916,995 (US\$28,701), respectively. The Bank has recognized gain in hedging in the amount of NT\$142,097 (US\$4,338) and NT\$496,703(US\$15,546) for the years ended December 31, 2008 and 2009, respectively.

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

	December 31,			
	2008		2009	
	NT	US	NT	US
Preferred stocks	\$549,730	\$16,780	\$549,730	\$17,206
Certificates of deposit	180,235,000	5,501,679	344,085,000	10,769,483
Bonds	95,586	2,918	95,586	2,992
Beneficiary certificates	400,000	12,210	400,000	12,520
Overseas financial instruments	40,317,533	1,230,694	26,962,001	843,881
Subtotal	221,597,849	6,764,281	372,092,317	11,646,082
Less: accumulated impairment	(2,679,713)	(81,798)	(2,310,881)	(72,328)
Net balance	\$218,918,136	\$6,682,483	\$369,781,436	\$11,573,754

- (1) NT\$15,500,000 (US\$473,138) and NT\$15,235,000 (US\$476,839) of certificates of deposit as of December 31, 2008 and 2009, respectively, were pledged to other parties as collateral for business reserves and guarantees.
- (2) The amounts of the accumulated impairment loss were NT\$2,533,294 (US\$77,329) and NT\$2,166,853 (US\$67,820) which have been recognized as of December 31, 2008 and 2009, respectively, due to the credit deterioration of certain securitization and financial debentures.

The amounts of the accumulated impairment loss were NT\$146,419 (US\$4,469) and NT\$144,028 (US\$4,508) which have been recognized as of December 31, 2008 and 2009, respectively, due to the default on certain conversable bonds.

11. Financial assets securitization

During 2007, the Bank securitized a collateralized loans obligation (CLO) with a carry value of NT\$5,446,335 (US\$170,464) with Land Bank Co., Ltd. as the Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands dollars)	Interest rate
Senior tranche 1 <sup>st</sup>	NT\$3,335,000(US\$104,382)	2.175%
Senior tranche 2 <sup>nd</sup>	NT\$315,000(US\$9,859)	2.325%
Senior tranche 3 <sup>rd</sup>	NT\$340,000(US\$ 10,641)	2.545%
Senior tranche 4 <sup>th</sup>	NT\$480,000(US\$15,023)	2.945%
Subordinated tranche 5 <sup>th</sup>	NT\$200,000(US\$6,260)	3.00%
Subordinated tranche 6 <sup>th</sup>	NT\$200,000(US\$6,260)	3.20%
Subordinated tranche 7 <sup>th</sup>	NT\$576,335(US\$18,039)	-

The Bank holds the subordinated beneficiary certificates NT\$976,335 (US\$ 30,559) and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to the Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests:

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

	Corporate Loans Securitization		
	May 28, 2007	December 31, 2008	December 31, 2009
Expected weighted-average life (in years)	2.212	0.747	0.252
Prepayment rate (annual rate)	3%	3%	3%
Expected credit losses rate (annual rate)	3.71%	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.2%	2.49%	2.49%



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(2) Sensitivity analysis :

As of December 31, 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:

	December 31, 2008		December 31, 2009	
	NT	US	NT	US
Carrying amount of retained interests	\$976,335	\$29,803	\$972,625	\$30,442
Expected weighted-average life (in years)	0.747	0.747	0.252	0.25
Expected prepayment rate (annual rate)	3%	3%	3%	3%
Impact on fair value with 10% adverse change	(3,769)	(115)	-	-
Impact on fair value with 20% adverse change	(4,782)	(146)	-	-
Expected credit losses (annual rate)	3.71%	3.71%	3.71%	3.71%
Impact on fair value with 10% adverse change	(6,103)	(186)	(2,219)	(69)
Impact on fair value with 20% adverse change	(8,306)	(254)	(2,736)	(86)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%	2.49%	2.49%
Impact on fair value with 10% adverse change	(3,756)	(115)	(1,003)	(31)
Impact on fair value with 20% adverse change	(7,497)	(229)	(2,005)	(63)

(3) Expected static pool credit losses:

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

(4) Cash flows:

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

	2008		2009	
	NT	US	NT	US
Servicing fees received	\$240	\$7	\$240	\$8
Other cash received on retained interests	29,087	888	24,600	770
Repayment of cash reserve	7,322	224	6,319	198

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12. Premises and equipment, net

	December 31,			
	2008		2009	
	NT	US	NT	US
Cost:				
Land	\$14,912,950	\$455,218	\$14,722,624	\$460,802
Buildings	9,939,160	303,393	11,575,125	362,289
Office equipment	3,760,780	114,798	4,190,610	131,162
Transportation equipment	53,870	1,644	46,553	1,457
Leased improvements	11,547	353	16,615	520
Other equipment	5,153,145	157,300	5,304,144	166,014
Construction in progress and Prepayment for equipment	2,341,954	71,488	562,071	17,592
Subtotal	36,173,406	1,104,194	36,417,742	1,139,836
Accumulated depreciation:				
Buildings	(2,569,233)	(78,426)	(2,786,908)	(87,227)
Office equipment	(2,999,798)	(91,569)	(3,265,130)	(102,195)
Transportation equipment	(51,871)	(1,583)	(45,352)	(1,420)
Leased improvements	(4,525)	(138)	(7,040)	(220)
Other equipment	(3,822,395)	(116,679)	(4,062,657)	(127,157)
Subtotal	(9,447,822)	(288,395)	(10,167,087)	(318,219)
Net	\$26,725,584	\$815,799	\$26,250,655	\$821,617

13. Intangible assets, net

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

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	2009									
	January 1,		Additions/Amortization		Reclassifications		Disposals		December 31,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Goodwill	\$6,673,083	\$208,860	\$-	\$-	\$-	\$-	\$-	\$-	\$6,673,083	\$208,860
Computer software	1,082,497	8,122	259,493	33,881	12,488	391	56,509	1,769	1,297,969	40,625
Amortization	(847,022)	(26,511)	(108,333)	(3,391)	-	-	(56,509)	(1,769)	(898,846)	(28,133)
Net balance	\$6,908,558	\$216,230	\$151,160	\$4,731	\$12,488	\$391	\$-	\$-	\$7,072,206	\$221,352

Note1: 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. As of December 31, 2009, the carrying amount of goodwill allocated to the unit is NT\$6,673,083 (US\$208,860).

(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

	December 31,			
	2008		2009	
	NT	US	NT	US
Prepayment	\$477,512	\$14,576	\$360,900	\$11,296
Temporary payments	43,258	1,320	68,604	2,147
Interbank settlement fund	2,000,275	61,059	1,356,993	42,472
Non-operating assets, net	2,458,470	75,045	2,499,335	78,227
(Accumulated impairment NT\$327,800 (US\$10,006) and NT\$379,886 (US\$11,890) on December 31, 2008 and 2009, respectively)				
Refundable deposits, net	2,435,752	74,351	1,093,309	34,219
Foreclosed properties, net	491,778	15,012	481,533	15,072
Deferred tax assets, net	1,477,637	45,105	10,204	319
Others	46,878	1,431	53,773	1,683
Total	<u>\$9,431,560</u>	<u>\$287,899</u>	<u>\$5,924,651</u>	<u>\$185,435</u>

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

	December 31,			
	2008		2009	
	NT	US	NT	US
Due to the Central Bank	\$60,116	\$1,835	\$140,915	\$4,410
Due to commercial banks	1,514,369	46,226	4,197,414	131,374
Due to Post Co., Ltd.	23,444,899	715,656	23,324,000	730,016
Overdrafts from banks	325,025	9,922	61,049	1,911
Call loans from banks	37,581,820	1,147,186	17,627,449	551,720
Total	<u>\$62,926,229</u>	<u>\$1,920,825</u>	<u>\$45,350,827</u>	<u>\$1,419,431</u>

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16. Financial liabilities at fair value through profit or loss

	December 31,			
	2008		2009	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	\$14,746,924	\$450,150	\$6,967,458	\$218,074
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	27,529,547	840,340	12,785,015	400,157
Subordinated financial debentures	5,184,249	158,250	5,244,508	164,147
Subtotal	32,713,796	998,590	18,029,523	564,304
Total	\$47,460,720	\$1,448,740	\$24,996,981	\$782,378

- (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, which have matured in 2008. Subsequently on March 29, 2004, the Bank issued six-year dominant financial debenture amounting to NT\$2,000,000 with a floating interest rate. The dominant financial debentures will be repaid at maturity, and the interests are paid quarterly or semi-annually.

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On July 8 and July 15, 2004, the Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000, NT\$3,500,000, NT\$2,000,000 and NT\$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repaid at maturity, and the interests are paid quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000, NT\$1,500,000, NT\$1,500,000, NT\$2,500,000, NT\$1,500,000, NT\$2,500,000, NT\$1,000,000, NT\$1,000,000, NT\$2,000,000 and NT\$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity, and the interests are paid quarterly. These five-year dominant financial debentures totaling NT\$14,500,000 has matured in 2009.

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\$44,120 (US\$1,381) as of December 31, 2009.
- (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\$713,796 (US\$21,789) and NT\$529,522 (US\$16,573 ) as of December 31, 2008 and 2009, respectively.
- (4) Net losses arising from financial liabilities at fair value through profit or loss for the years ended December 31, 2008 and 2009 were NT\$6,277,376 (US\$191,617) and NT\$ 7,633,221 (US\$ 238,912), respectively.

17. Payables

	December 31,			
	2008		2009	
	NT	US	NT	US
Accounts payable	\$10,099,779	\$308,296	\$8,696,605	\$272,194
Accrued interest payable	4,391,619	134,054	1,921,390	60,138
Accrued expenses	2,052,799	62,662	3,251,098	101,756
Foreign currency payable	2,132,553	65,096	3,992,921	124,974
Acceptance	547,799	16,722	1,038,790	32,513
Tax payable	289,677	8,842	504,878	15,802
Receipts under custody	270,288	8,251	335,733	10,508
Others	3,440,805	105,031	1,348,558	42,208
Total	<u>\$23,225,319</u>	<u>\$708,954</u>	<u>\$21,089,973</u>	<u>\$660,093</u>

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18. Deposits and remittances

	December 31,			
	2008		2009	
	NT	US	NT	US
Check deposits	\$10,686,523	\$326,206	\$14,043,924	\$439,559
Demand deposits	112,673,145	3,439,351	230,270,656	7,207,219
Demand savings deposits	334,718,473	10,217,292	497,059,640	15,557,422
Time deposits	337,017,917	10,287,482	299,991,739	9,389,413
Negotiable certificates of deposit	2,659,100	81,169	1,613,600	50,504
Time savings deposits	289,111,827	8,825,147	252,927,438	7,916,352
Trust unappropriated	1,106,439	33,774	98,020	3,068
Outward remittances	3,087,293	94,240	331,334	10,370
Remittances payable	245,691	7,500	300,031	9,391
Total	<u>\$1,091,306,408</u>	<u>\$33,312,161</u>	<u>\$1,296,636,382</u>	<u>\$40,583,298</u>

19. Financial debentures payable

	December 31,			
	2008		2009	
	NT	US	NT	US
Subordinated financial debentures	\$16,430,000	\$501,527	\$15,635,981	\$489,389
Discount in financial debentures	(87,268)	(2,664)	(48,885)	(1,530)
Valuation adjustment	2,523,246	77,022	850,113	26,608
Total	<u>\$18,865,978</u>	<u>\$575,885</u>	<u>\$16,437,209</u>	<u>\$514,467</u>

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 bonds after 10 years by exercising the call option. As discussed in Note X.8, the Bank has adopted hedge accounting to account for its subordinated financial debentures. The Bank had bought back the bonds amounting to US\$172,620 principal on May 12, 2009 and recognized gain in the amount of NT\$430,023(US\$13,459) which was included in other noninterest income.

The Bank issued a eight-year subordinated financial debentures totaling NT\$3,650,000 with a stated interest rate of 2.42% in June, 2009, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 with a stated interest rate of 2.60% in July, 2009, and the interest is payable 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.

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20. Other financial liabilities

	December 31,			
	2008		2009	
	NT	US	NT	US
Borrowed funds	\$261,319	\$7,977	\$240,494	\$7,527

21. Other liabilities

	December 31,			
	2008		2009	
	NT	US	NT	US
Unearned receipts	\$220,676	\$6,736	\$266,105	\$8,329
Temporary receipts	956,892	29,209	620,751	19,429
Reserve for losses on guarantees	24,893	760	24,892	779
Reserve for losses on stock brokerage transactions	268,791	8,205	268,791	8,413
Guarantee deposits received	730,819	22,308	826,417	25,866
Reserve for land value increment tax	40,336	1,231	40,336	1,262
Total	\$2,242,407	\$68,449	\$2,047,292	\$64,078

22. Capital Stock

As of January 1, 2008, the Bank had issued and outstanding capital stock of NT\$48,689,413 (US\$1,523,925) 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\$112,289). After the capitalizing of retained earnings, the Bank's paid-in capital for common stock was NT\$52,277,026 (US\$1,636,214) divided into 5,227,703 thousands common shares, with par value NT\$10 per share. The above capitalization has been approved by the authority.

23. Capital reserves

	December 31,			
	2008		2009	
	NT	US	NT	US
Capital reserves from the merger Bank	\$10,949,303	\$334,228	\$10,949,303	\$342,701
Additional paid-in capital	4,249,096	129,704	4,249,096	132,992
Others	15,212	464	14,893	466
Total	\$15,213,611	\$464,396	\$15,213,292	\$476,159



24. Retained earnings

- (1) The Bank's original articles of incorporation provide that its annual net income shall be appropriated after paying all outstanding taxes and deducting any deficit of prior years and distributed in the following order:
  - (a) 30% thereof shall be set aside as legal reserve before the total amount of the legal reserve reaches the amount of paid-in capital;
  - (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%.

On October 29, 2009, the board of directors (according to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors) of the Bank revised its articles that its legal reserve shall be set aside in conformity with the law; no other change on its articles.

- (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 years ended December 31, 2008 and 2009 were NT\$1,500 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.

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- (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\$58,610) thousands as legal reserve;
- (b) NT\$465,071 (US\$14,196) thousands as special reserve;
- (c) NT\$4,013,615 (US\$122,516) thousands as dividends to shareholders;
- (d) NT\$1,500 (US\$46) 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\$ 41,885) thousands as legal reserve;
- (b) NT\$3,587,613 (US\$ 112,289) thousands as dividends to shareholders.

Bonus to employees NT\$1,500 (US\$47) 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

- (1) The following is a summary of the components of net pension expenses for 2008 and 2009:

	2008		2009	
	NT	US	NT	US
Defined contribution pension plan	\$157,952	\$4,822	\$146,001	\$4,570
Defined benefit pension plan:				
Service cost	120,781	3,687	126,747	3,967
Interest cost	66,396	2,027	61,682	1,931
Expected return on plan assets	(41,391)	(1,264)	(37,838)	(1,184)
Net amortization	68,141	2,080	65,306	2,044
Gain or loss on curtailment or settlement	-	-	816	25
Subtotal	213,927	6,530	216,713	6,783
Total	\$371,879	\$11,352	\$362,714	\$11,353

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

	December 31,			
	2008		2009	
	NT	US	NT	US
Pension benefit obligation:				
Vested	\$(1,144,340)	\$(34,931)	\$(1,348,059)	\$(42,193)
Non-vested	(982,095)	(29,978)	(1,008,999)	(31,580)
Accumulated benefit obligation	(2,126,435)	(64,909)	(2,357,058)	(73,773)
Value of future salary projections	(340,872)	(10,405)	(506,788)	(15,862)
Projected benefit obligation	(2,467,307)	(75,314)	(2,863,846)	(89,635)
Fair value of plan assets	1,513,518	46,200	1,679,957	52,581
Projected benefit obligation in excess of plan assets	(953,789)	(29,114)	(1,183,889)	(37,054)
Unrecognized net obligation at transition	162,997	4,975	123,598	3,869
Unrecognized net loss	790,792	24,139	1,059,475	33,160
Accrued pension liabilities	\$-	\$-	\$(816)	\$(25)

The actuarial assumptions used are:

	December 31,	
	2008	2009
Discount rate	2.50%	2.25%
Growth rate in compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	2.50%	2.25%

As of December 31, 2008 and 2009, the vested benefit, based on the Bank's defined benefit pension plan, amounted to NT\$1,860,960 (US\$56,806) and NT\$2,050,332 (US\$64,173), respectively.

26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the years ended December 31, 2008 and 2009:

	2008		2009	
	NT	US	NT	US
Personnel expenses				
Salary	\$4,990,764	\$152,343	\$5,656,635	\$177,046
Insurance	676,805	20,659	705,906	22,094
Pension	371,879	11,352	362,714	11,353
Others	401,773	12,264	346,344	10,840
Depreciation expenses	1,078,912	32,934	972,841	30,449
Amortization expenses	160,370	4,895	108,333	3,391

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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 years ended December 31, 2008 and 2009 is as follows:

	2008		2009	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$(1,853,684)	\$(56,584)	\$(965,983)	\$(30,234)
Interest on separation tax (tax rate 20% or 6%)	(16,528)	(504)	(60,404)	(1,891)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(631,566)	(19,279)	(608,941)	(19,059)
Reversal of allowance for pledged assets taken-over	(11,156)	(341)	(71)	(2)
Foreign investment income recognized by the equity method	(9,319)	(284)	(5,730)	(180)
Valuation allowance	60,661	1,852	(2,961)	(93)
Effects of tax rate change on deferred tax assets/ liabilities	-	-	(865)	(27)
Others	124,801	3,810	(143,107)	(4,479)
Effect of foreign branches' income tax	(64,036)	(1,955)	37,791	1,183
Adjustment of prior period's income tax	408,827	12,479	(683,729)	(21,400)
Income tax expense	<u>\$(1,992,000)</u>	<u>\$(60,806)</u>	<u>\$(2,434,000)</u>	<u>\$(76,182)</u>

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.

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

	December 31,			
	2008		2009	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	\$4,292,495	\$131,029	\$7,628,954	\$238,778
Others	288,564	8,808	984,474	30,813
Deductible temporary differences:				
Allowance for bad debts	2,719,644	83,017	-	-
Unrealized impairment loss for pledged assets taken-over	46,209	1,411	45,926	1,437
Valuation of financial instruments	5,020,548	153,252	7,714,040	241,441
Provisions for possible losses	162,295	4,954	162,295	5,080
Others	528,623	16,136	579,231	18,129
Operating loss carry-forward	\$1,861,609	\$56,826	\$-	\$-
Deferred income tax assets of foreign branches	\$102,911	\$3,141	\$100,293	\$3,139
(3) Deferred tax assets	\$2,687,643	\$82,040	\$1,800,592	\$56,356
Deferred tax liabilities	(1,145,265)	(34,959)	(1,722,686)	(53,918)
Valuation allowance	(64,741)	(1,976)	(67,702)	(2,119)
Net deferred tax assets	<u>\$1,477,637</u>	<u>\$45,105</u>	<u>\$10,204</u>	<u>\$319</u>

(4) According to the amendment of Income Tax Law on May 27, 2009, corporate tax rate is 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 2006 have been assessed by the tax authority.

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

	December 31,			
	2008		2009	
	NT	US	NT	US
The Bank's imputation credit	\$119,597	\$3,651	\$41,917	\$1,312
Undistributed earnings	4,460,774	136,165	8,688,489	271,940

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	<u>9.78%</u>	<u>5.06%</u>

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28. Earnings per share

The computations of earnings per share are as follows:

	In thousands of shares	
	2008	2009
Beginning balance	4,868,941	4,868,941
Stock dividends in 2009 and retroactive adjustment	358,762	358,762
Weighted-average shares outstanding	<u>5,227,703</u>	<u>5,227,703</u>

	2008				2009			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	<u>\$6,452,774</u>	<u>\$196,971</u>	<u>\$4,460,774</u>	<u>\$136,165</u>	<u>\$11,122,489</u>	<u>\$348,122</u>	<u>\$8,688,489</u>	<u>\$271,940</u>
Earnings per share (in dollars)								
Net income	<u>\$1.23</u>	<u>\$0.038</u>	<u>\$0.85</u>	<u>\$0.026</u>	<u>\$2.13</u>	<u>\$0.067</u>	<u>\$1.66</u>	<u>\$0.052</u>

V. Related parties transactions

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

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	"
Cathay Securities Corp.	"
Cathay Pacific Venture Capital Co., Ltd.	"
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holdings (merged into Cathay Pacific Venture Capital Co., Ltd. in August, 2009)
Cathay II Venture Capital Corp.	"
Cathay Capital Management Inc.	"

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Name of related parties	Relationship
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 Investment 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 Investment Trust Co., Ltd.
Cathay Insurance Company Limited (Shanghai)	Subsidiary of Cathay Century Insurance Corp.
Cathay General Hospital	Related Party disclosed according to the ROC SFAS No. 6
Li Yuan Property Management and Maintenance Co., Ltd.	"
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.

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

(1) Loans and Deposits

Accounts/Related parties	December 31, Account balance			January 1- December 31, Interest income (expense)	
	NT	US	% of Account	NT	US
<u>2008</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$3,203,630	\$97,791	0.40%	\$67,895	\$2,072
Taiwan Real-estate Management Corp.	109,000	3,327	0.01%	3,197	98
Cathay General Hospital	258,000	7,875	0.03%	6,922	211
Others	188,100	5,742	0.02%	5,326	163
Total	<u>\$3,758,730</u>	<u>\$114,735</u>	<u>0.46%</u>	<u>\$83,340</u>	<u>\$2,544</u>
<u>Deposits</u>					
Cathay Financial Holding Co., Ltd.	\$3,040	\$93	-	\$(27,993)	\$(854)
Cathay Life Insurance Co., Ltd.	9,151,368	279,346	0.84%	(83,079)	(2,536)
Cathay Century Insurance Co., Ltd.	1,479,562	45,163	0.14%	(12,307)	(376)
Cathay Securities Corp.	157,636	4,812	0.01%	(3,933)	(120)
Cathay Futures Corp.	1,669,012	50,947	0.15%	(28,758)	(878)
Cathay Pacific Venture Capital Co., Ltd.	507	15	-	(11)	-
Cathay Securities Investment Trust Co., Ltd.	524,269	16,003	0.05%	(14,291)	(436)
Cathay Real Estate Development Co., Ltd.	151,414	4,622	0.01%	(150)	(5)
Cathay Life Insurance (Vietnam) Co., Ltd.	149,808	4,573	0.01%	(17,511)	(535)
Cathay Global Money Market Fund etc.	6,683,168	204,004	0.61%	(17,430)	(532)
Others	4,143,711	126,487	0.39%	(189,319)	(5,779)
Total	<u>\$24,113,495</u>	<u>\$736,065</u>	<u>2.21%</u>	<u>\$(394,782)</u>	<u>\$(12,051)</u>



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Accounts/Related parties	December 31, Account balance			January 1- December 31, Interest income (expense)	
	NT	US	% of Account	NT	US
<u>2009</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$2,460,000	\$76,995	0.31%	\$16,370	\$512
Taiwan Real-estate Management Corp.	107,000	3,349	0.01%	1,936	61
Cathay General Hospital	236,000	7,387	0.03%	6,158	193
Others	203,865	6,381	0.02%	2,331	73
Total	<u>\$3,006,865</u>	<u>\$94,112</u>	<u>0.37%</u>	<u>\$26,795</u>	<u>\$839</u>
<u>Deposits</u>					
Cathay Financial Holding Co., Ltd.	\$4,740	\$148	-	\$(232)	\$(7)
Cathay Life Insurance Co., Ltd.	19,467,277	609,305	1.50%	(48,183)	(1,508)
Cathay Century Insurance Co., Ltd.	1,626,681	50,913	0.13%	(14,405)	(451)
Cathay Securities Corp.	117,909	3,691	0.01%	(872)	(27)
Cathay Futures Corp.	1,346,203	42,135	0.10%	(12,355)	(387)
Cathay Pacific Venture Capital Co., Ltd.	5,794	181	-	(340)	(11)
Cathay Securities Investment Trust Co., Ltd.	511,943	16,023	0.04%	(3,815)	(119)
Cathay Real Estate Development Co., Ltd.	139,654	4,371	0.01%	(66)	(2)
Cathay Life Insurance (Vietnam) Co., Ltd.	48,294	1,512	-	(13,147)	(411)
Cathay Global Money Market Fund etc.	7,731,112	241,975	0.60%	(83,956)	(2,628)
Others	3,536,416	110,686	0.27%	(36,632)	(1,147)
Total	<u>\$34,536,023</u>	<u>\$1,080,940</u>	<u>2.66%</u>	<u>\$(214,003)</u>	<u>\$(6,698)</u>

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Accounts / Related parties	January 1- December 31,		December 31,		January 1 - December 31,		Interest Rate (%)
	Maximum balance		Account balance		Interest income (expense)		
	NT	US	NT	US	NT	US	
<u>2008</u>							
<u>Call loans to banks</u>							
Indovina Bank	\$3,483,572	\$106,336	\$722,920	\$22,067	\$48,840	\$1,491	2.56-26
<u>Due from commercial banks</u>							
Indovina Bank	402,066	12,273	37,216	1,136	159	5	0.5-2.40
<u>Call loans from banks</u>							
Indovina Bank	1,100,614	33,596	230,020	7,021	(5,269)	(161)	2.30-18
<u>Due to commercial banks</u>							
Indovina Bank	65,876	2,011	29,196	891	-	-	-
<u>2009</u>							
<u>Call loans to banks</u>							
Indovina Bank	1,911,490	59,828	388,130	12,148	6,070	190	0.24-12
<u>Due from commercial banks</u>							
Indovina Bank	668,662	20,928	8,661	271	503	16	0.50-2.40
<u>Call loans from banks</u>							
Indovina Bank	2,888,055	90,393	-	-	(2,842)	(89)	0.20-7.50
<u>Due to commercial banks</u>							
Indovina Bank	50,392	1,577	173	5	-	-	-

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

(2) Guarantees

Related Parties	January 1- December 31,		December 31,		January 1- December 31,	
	Maximum balance		Account balance		Service fees	
	NT	US	NT	US	NT	US
<u>2008</u>						
Symphox Information Co., Ltd.	\$413	\$13	\$413	\$13	\$-	\$-

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Related Parties	January 1- December 31, Maximum balance		December 31, Account balance		January 1- December 31, Service fees	
	NT	US	NT	US	NT	US
<u>2009</u>						
Symphox Information Co., Ltd.	\$413	\$13	\$225	\$7	\$-	\$-
Seaward Leasing Ltd.	2,240,000	70,110	-	-	2,325	73

(3) Total salaries and remuneration of the top management

Items	2008		2009	
	NT	US	NT	US
Salaries, bonus, other remuneration	\$70,155	\$2,141	\$62,518	\$1,957

Note: The above total salaries and remuneration of the top management include the chauffeurs' remuneration \$4,393.

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

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

(4) Transactions under resale and repurchase agreements

Accounts/Related parties	December 31, Account balance		January 1- December 31, Interest income (expense)	
	NT	US	NT	US
<u>2008</u>				
<u>Securities sold under agreements to repurchase</u>				
Cathay Financial Holding Co., Ltd.	\$-	\$-	\$(2,388)	\$(73)
Cathay Life Insurance Co., Ltd.	431,473	13,171	(13,210)	(403)
Cathay Securities Investment Trust Co., Ltd.	146,129	4,461	(1,381)	(42)
Wan Pao Development Co., Ltd.	-	-	(6,144)	(187)
Lin Yuan Investment Co., Ltd.	99,623	3,041	(2,707)	(83)
Others	878,248	26,808	(13,169)	(402)
Total	\$1,555,473	\$47,481	\$(38,999)	\$(1,190)
<u>Securities purchased under agreements to resell</u>				
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$403	\$12

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Accounts/Related parties	December 31, Account balance		January 1- December 31, Interest income (expense)	
	NT	US	NT	US
<u>2009</u>				
<u>Securities sold under agreements to repurchase</u>				
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$(176)	\$(5)
Cathay Securities Investment Trust Co., Ltd.	110,000	3,443	(149)	(5)
Others	558,189	17,471	(823)	(26)
Total	<u>\$668,189</u>	<u>\$20,914</u>	<u>\$(1,148)</u>	<u>\$(36)</u>
<u>Securities purchased under agreements to resell</u>				
Cathay Life Insurance Co., Ltd.	<u>\$-</u>	<u>\$-</u>	<u>\$84</u>	<u>\$(3)</u>

(5) Lease

Accounts/Related parties	2008		2009	
	NT	US	NT	US
<u>Rental income</u>				
Cathay Life Insurance Co., Ltd.	\$10,972	\$335	\$10,579	\$331
Cathay Century Insurance Co., Ltd.	318	10	363	11
Cathay Securities Corp.	5,542	169	5,789	181
Seaward Leasing Ltd.	143	4	-	-
Culture and Charity Foundation of Cathay United Bank	1,000	31	1,000	31
<u>Rental expense</u>				
Cathay Life Insurance Co., Ltd.	300,120	9,161	334,566	10,472
Cathay Real Estate Development Co., Ltd.	11,319	346	10,641	333
Seaward Leasing Ltd.	14,907	455	14,463	453
December 31,				
Account/Related parties	2008		2009	
	NT	US	NT	US
<u>Refundable deposits</u>				
Cathay Life Insurance Co., Ltd.	\$69,003	\$2,106	\$68,108	\$2,132
Cathay Real Estate Development Co., Ltd.	2,635	80	2,180	68
Seaward Leasing Ltd.	11,590	354	1,836	57
	(Note)	(Note)		

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

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Account/Related parties	December 31,			
	2008		2009	
	NT	US	NT	US
<u>Guarantee deposit received</u>				
Cathay Life Insurance Co., Ltd.	\$2,430	\$74	\$2,072	\$65
Cathay Century Insurance Co., Ltd.	88	3	88	3
Cathay Securities Corp.	1,325	40	1,818	57

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	2008		2009	
	NT	US	NT	US
<u>(6) Commissions and handling fees</u>				
<u>income</u>				
Cathay Life Insurance Co., Ltd.	\$1,117,006	\$34,097	\$1,143,334	\$35,785
Cathay Century Insurance Co., Ltd.	82,035	2,504	71,687	2,244
Cathay Securities Co., Ltd.	4,024	123	4,389	137
Cathay Securities Investment Trust Co., Ltd.	29,708	907	24,466	766
Cathay Securities Investment Consulting Co., Ltd.	6,514	199	3,125	98
<u>(7) Other operating income</u>				
Cathay Century Insurance Co., Ltd.	17,784	543	2,271	71
<u>(8) Operating expenses</u>				
Cathay Life Insurance Co., Ltd.	127,257	3,885	87,382	2,735
Cathay Century Insurance Co., Ltd.	607	19	-	-
Cathay Securities Corp.	2,400	73	2,400	75
Seaward Card Co., Ltd.	254,566	7,771	247,272	7,739
Symphox Information Co., Ltd.	460,260	14,049	434,462	13,598
Cathay Real Estate Development Co., Ltd.	13,642	416	10,291	322
Cathay Lin Yuan Security Co., Ltd.	2,283	70	2,820	88
Cathay General Hospital	8,354	255	5,881	184
<u>(9) Insurance expenses paid</u>				
Cathay Life Insurance Co., Ltd.	555,658	16,961	609,653	19,081
Cathay Century Insurance Co., Ltd.	153,980	4,700	116,050	3,632

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Accounts/Related parties	December 31,			
	2008		2009	
	NT	US	NT	US
(10) <u>Receivable to related party for allocation of linked-tax system</u>				
Cathay Financial Holdings	\$1,781,772	\$54,389	\$1,955,061	\$61,191
(11) <u>Financial assets at fair value through profit or loss-mutual funds</u>				
Cathay Securities Investment Trust Co., Ltd. (Note)	845,649	25,813	561,857	17,586
Note: The Bank invested in the funds which are managed by Cathay Securities Investment Trust Co., Ltd.				
(12) <u>Refundable deposit</u>				
Cathay Futures Corp.	39,292	1,199	32,643	1,022
(13) <u>Accrued expenses</u>				
Seaward Card Co., Ltd.	24,945	761	24,683	773
(14) <u>Accounts payable</u>				
Cathay Century Insurance Co., Ltd	5,696	174	46,066	1,442
Cathay Securities Corp.	200	6	-	-
Symphox Information Co., Ltd.	52,254	1,595	21,976	688
(15) <u>Others</u>				

- 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 in 2006. The project was completed in 2009. The Bank paid the amount of NT\$620,074 (US\$18,928) and NT\$218,894 (US\$6,851) during the years ended December 31, 2008 and 2009. As of December 31, 2008 and 2009, the accumulated paid amount were NT\$1,181,897 (US\$36,077) and NT\$1,400,790 (US\$43,843), respectively.

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- b. The Bank has paid decoration and fix fees to San Ching Engineering Corp. for the amount of NT\$5,419 (US\$165) and NT\$1,790 (US\$56) during the years ended December 31, 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\$22,028 (US\$672) and NT\$29,548 (US\$925) during the years ended December 31, 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 years ended December 31, 2008 and 2009. As of December 31, 2008 and 2009, the bonus points which not converting amount were NT\$28,165 (US\$860) and NT\$28,756 (US\$900), respectively.
- e. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount were NT\$4,448,000 (US\$135,775) and NT\$804,300 (US\$25,174) during the years ended December 31, 2008 and 2009, respectively.
- f. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the service fees of NT\$17,648 (US\$539) and NT\$4,271 (US\$134) were included in disposal gains of foreclosed properties or premises and equipment during the years ended December 31, 2008 and 2009, respectively.
- g. The Bank's board of directors resolved to sell all of its shares of Cathay Pacific Venture Capital Co., Ltd. to Cathay Financial Holding Co., Ltd. on August 21, 2009.

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

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

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(16) Transactions of derivative financial instruments

Related parties	Category of agreements	Term of agreements	Notional amount		Valuation gains (losses)	
			NT	US	NT	US
<u>2008</u>						
Cathay Life						
Insurance Co., Ltd.	Forward	2008.05.19-2009.06.10	\$25,264,676	\$771,205	\$2,594,790	\$79,206
	Currency swap	2008.01.31-2009.05.29	36,474,600	1,113,388	2,087,341	63,716
	Interest rate swap	2007.07.05-2012.07.05	500,000	15,263	(74,209)	(2,265)
Cathay Century						
Insurance Co., Ltd.	Forward	2008.01.15-2009.12.15	253,541	7,739	(2,972)	(91)
	Non-delivery forward	2008.01.16-2009.12.15	102,700	3,135	4,849	148
	Currency swap	2008.03.24-2009.03.24	806,713	24,625	38,361	1,171
	Interest rate swap	2007.09.29-2015.04.30	600,000	18,315	(41,969)	(1,281)
The funds which are						
managed by Cathay	Forward	2008.12.03-2009.01.08	506,044	15,447	72,993	2,228
Securities Investment	Non-delivery forward	2008.12.03-2009.01.08	82,150	2,508	(7,138)	(218)
Trust Co., Ltd.	Currency swap	2008.12.04-2009.01.15	259,594	7,924	2,646	81
<u>2009</u>						
Cathay Life						
Insurance Co., Ltd.	Forward	2009.12.09-2010.12.20	16,015,000	501,252	1,611,668	50,443
	Currency swap	2009.01.23-2011.11.08	109,574,630	3,429,566	(3,016,756)	(94,421)
	Interest rate swap	-	-	-	(2,655)	(83)
Cathay Century						
Insurance Co., Ltd.	Forward	-	-	-	(30,455)	(953)
	Non-delivery forward	-	-	-	171	5
	Currency swap	2009.09.22-2010.12.03	578,142	18,095	(13,019)	(407)
	Interest rate swap	2007.09.29-2015.04.30	600,000	18,779	(35,620)	(1,115)
The funds which are						
managed by Cathay	Forward	2009.12.04-2010.01.07	483,653	15,138	16,217	508
Securities Investment	Non-delivery forward	2009.12.04-2010.01.07	166,556	5,213	1,333	42
Trust Co., Ltd.	Currency swap	-	-	-	(10,891)	(341)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.



VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2009, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	\$182,243,631	\$5,704,026
Travelers checks for sale	326,697	10,225
Bills for collection	40,552,946	1,269,263
Book-entry for government bonds and depository for short-term marketable securities under management	555,682,805	17,392,263
Guarantees on duties and contracts	15,798,961	494,490
Unused commercial letters of credit	3,520,713	110,194
Irrevocable loan commitments	34,165,997	1,069,358
Credit card lines commitments	257,571,261	8,061,698
Stamp tax, securities and memorial currency consignments	1,727	54

2. As of December 31, 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\$12,520). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

(2) Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$298 million) and NT\$3.09 billion (US\$996 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.

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3. As of December 31, 2009, the Bank had entered into certain contracts to purchase premises and equipment totaling NT\$1,005,155 (US\$31,460) with prepayments of NT\$562,071 (US\$17,592).
4. According to the operating leases agreement, rentals for lease should be paid in future are as follows:

Periods	NT	US
2010.1.1~2010.12.31	\$748,594	\$23,430
2011.1.1~2011.12.31	537,709	16,830
2012.1.1~2012.12.31	434,139	13,588
2013.1.1~2013.12.31	131,496	4,116
2014.1.1~2014.12.31	56,001	1,753

VIII. Significant disaster losses

None.

IX. Significant subsequent event

See Notes IV.8.

X. Disclosure of financial instruments information

1. Information of fair value

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

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

	December 31, 2009			
	Carrying value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$33,752,996	\$1,056,432	\$33,752,996	\$1,056,432
Available-for-sale financial assets	97,991,344	3,067,022	97,991,344	3,067,022
Held-to-maturity financial assets and debt securities				
with no active market	373,870,517	11,701,738	373,905,291	11,702,826
Other financial assets-financial assets carried at cost	4,000,440	125,209	(Note)	(Note)
Others	950,035,191	29,735,060	950,035,191	29,735,060
Liabilities				
Financial liabilities at fair value through profit or loss				
loss	18,029,523	564,304	18,029,523	564,304
Financial debentures payable	16,437,209	514,467	16,437,209	514,467
Others	1,374,491,058	43,020,064	1,374,491,058	43,020,064

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	December 31, 2009			
	Carrying value		Fair value	
	NT	US	NT	US
<u>Derivative financial instruments</u>				
Assets				
Forward	\$591,826	\$18,523	\$591,826	\$18,523
Non-delivery forward	10,402	326	10,402	326
Currency swap	3,187,797	99,775	3,187,797	99,775
Interest rate swap	4,382,566	137,170	4,382,566	137,170
Cross currency swap	308,869	9,667	308,869	9,667
Options	113,502	3,552	113,502	3,552
Liabilities				
Forward	2,796,876	87,539	2,796,876	87,539
Non-delivery forward	9,014	282	9,014	282
Currency swap	982,839	30,762	982,839	30,762
Interest rate swap	2,789,443	87,306	2,789,443	87,306
Cross currency swap	229,282	7,176	229,282	7,176
Options	113,503	3,553	113,503	3,553
Credit derivative instruments	43,701	1,368	43,701	1,368
Credit default swaps	2,800	88	2,800	88

Note: Fair value cannot be reliably estimated.

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

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

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

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

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

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

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

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	December 31, 2008			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
	NT	US	NT	US
<b>Liabilities</b>				
Forward	\$-	\$-	\$2,633,334	\$80,383
Non-delivery forward	-	-	770,571	23,522
Currency swap	-	-	5,229,128	159,619
Interest rate swap	-	-	4,941,705	150,846
Cross currency swap	-	-	88,788	2,710
Options	-	-	354,400	10,818
Credit derivative instruments	-	-	729,060	22,254
Credit default swaps	-	-	46,838	1,430
<b>December 31, 2009</b>				
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
	NT	US	NT	US
<b><u>Non-derivative financial instruments</u></b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	\$4,439,415	\$138,949	\$29,313,581	\$917,483
Available-for-sale financial assets	81,486,623	2,550,442	16,504,721	516,580
Held-to-maturity financial assets and debt securities with no active market	1,907,217	59,694	371,998,074	11,643,132
Others	(Note)	(Note)	(Note)	(Note)
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	-	18,029,523	564,304
Financial debentures payable	-	-	16,437,209	514,467
Others	(Note)	(Note)	(Note)	(Note)
<b><u>Derivative financial instruments</u></b>				
<b>Assets</b>				
Forward	-	-	591,826	18,523
Non-delivery forward	-	-	10,402	326
Currency swap	-	-	3,187,797	99,775
Interest rate swap	-	-	4,382,566	137,170
Cross currency swap	-	-	308,869	9,667
Options	-	-	113,502	3,552
<b>Liabilities</b>				
Forward	-	-	2,796,876	87,539
Non-delivery forward	-	-	9,014	282
Currency swap	-	-	982,839	30,762
Interest rate swap	-	-	2,789,443	87,306
Cross currency swap	-	-	229,282	7,176
Options	-	-	113,503	3,553
Credit derivative instruments	-	-	43,701	1,368
Credit default swaps	-	-	2,800	88

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.

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4. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were losses NT\$1,020,262 (US\$31,144) and gains NT\$1,359,942 (US\$42,565) for the years ended December 31, 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 years ended December 31, 2008 and 2009 were NT\$39,499,218 (US\$1,205,715) and NT\$23,310,887 (US\$729,605), and expenses were NT\$18,969,351 (US\$579,040) and NT\$9,485,214 (US\$296,877), respectively.
6. The Bank recognized an unrealized gains or losses of NT\$1,135,238 (US\$34,653) and NT\$3,102,314 (US\$97,099) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$70,567 (US\$2,154) and NT\$1,472,472 (US\$46,087) in income statements, for the years ended December 31, 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.

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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.

2009						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT	US	NT	US	NT	US
Interest rate	\$469,921	\$14,708	\$685,573	\$21,458	\$260,585	\$8,156
Foreign exchange	277,307	8,679	580,316	18,163	111,744	3,497
Equity Securities price	130,914	4,097	175,459	5,492	70,017	2,191

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.

- ④ Market risk factor sensitivity is one of the tools to manage market risk. Market risk factor sensitivities of a position are defined as the change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate, foreign exchange rate and equity factor sensitivities.

		December 31, 2009	
		NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	\$419,445	\$13,128
	HKD+1%	18,490	579
	JPY+1%	12,275	384
	NTD+1%	(453,170)	(14,184)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(13,474)	(472)
	Yield curves (HKD) parallel shift+1bp	(86)	(3)
	Yield curves (JPY) parallel shift+1bp	(28)	(1)
	Yield curves (NTD) parallel shift+1bp	(19,752)	(618)
Equity securities price factor sensitivity (Equity Delta)		67,313	2,107



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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 0.01% (1 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 of caused by the underlying stocks prices fluctuation. The Bank’s equity portfolios include stocks and equity index options.

⑤ Stress testing

Stress Test			
Market/ Product	Scenarios	December 31, 2009	
		NT	US
Stock Market	Major Stock Exchanges +15%	\$1,009,698	\$31,602
	Major Stock Exchanges -15%	(1,009,698)	(31,602)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(3,245,044)	(101,566)
	Major Interest Rate - 100bp	3,012,188	94,278
Foreign Exchange Market	Major Currencies +3%	1,411,004	44,163
	Major Currencies -3%	(1,328,807)	(41,590)
Composite	Major Stock Exchanges -15%	(2,843,738)	(89,006)
	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.

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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.

① Information on concentrations of credit risk

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

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Financial assets	December 31, 2009			
	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	\$33,752,996	\$1,056,432	\$33,752,996	\$1,056,432
Available-for-sale financial assets	97,991,344	3,067,022	97,991,344	3,067,022
Held-to-maturity financial assets and debt securities with no active market	373,870,517	11,701,738	373,870,517	11,701,738
Other financial assets-financial assets carried at cost	4,000,440	125,209	4,000,440	125,209
Others	950,035,191	29,735,060	950,035,191	29,735,060
Guarantees on duties and contracts	-	-	15,798,961	494,490
Unused commercial letters of credit	-	-	3,520,713	110,194
Irrevocable loan commitments	-	-	34,165,997	1,069,358
Credit card line commitments	-	-	257,571,261	8,061,698
<u>Derivative financial instruments</u>				
Forward	591,826	18,523	591,826	18,523
Non-delivery forward	10,402	326	10,402	326
Currency swap	3,187,797	99,775	3,187,797	99,775
Interest rate swap	4,382,566	137,170	4,382,566	137,170
Cross currency swap	308,869	9,667	308,869	9,667
Options	113,502	3,552	113,502	3,552

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

Loans, customers' liabilities under acceptances and guarantees account	December 31,			
	2008		2009	
	NT	US	NT	US
Industry type				
Manufacturing	\$136,535,182	\$4,167,741	\$135,491,126	\$4,240,724
Financial institutions and insurance	42,997,455	1,312,499	35,823,850	1,121,247
Leasing and real estate	78,087,199	2,383,614	80,406,880	2,516,647
Individuals	432,419,931	13,199,631	425,995,574	13,333,195
Others	142,745,603	4,357,314	149,351,672	4,674,544
Total	832,785,370	25,420,799	827,069,102	25,886,357
Valuation allowance	(8,333,394)	(254,377)	(6,062,695)	(189,756)
Maximum credit risk exposed	\$824,451,976	\$25,166,422	\$821,006,407	\$25,696,601

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	December 31,			
	2008		2009	
	NT	US	NT	US
Geographic Region				
Domestic	\$741,552,795	\$22,635,922	\$746,057,104	\$23,350,770
South East Asia	27,761,520	847,421	23,753,704	743,465
North East Asia	215,157	6,568	1,108,292	34,688
America	18,529,668	565,619	15,960,143	499,535
Others	44,726,230	1,365,269	40,189,859	1,257,899
Total	832,785,370	25,420,799	827,069,102	25,886,357
Valuation allowance	(8,333,394)	(254,377)	(6,062,695)	(189,756)
Maximum credit risk exposed	\$824,451,976	\$25,166,422	\$821,006,407	\$25,696,601

(3) Liquidity risk

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

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

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

The liquidity risk rate was 39.37%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

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Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of December 31, 2009, there is no significant change in these dates.

As of December 31, 2008 and 2009, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%)	
	December 31, 2008	December 31, 2009
Available-for-sale financial assets		
Bonds	1.4922-6.7847	0.3457-6.6626
Overseas financial instruments	2.1918	0-7.75
Held-to-maturity financial assets		
Bonds	2.0981-6.9650	2.2292-6.9559
Overseas financial instruments	1.34	0-7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.02-2.359	0.57-0.71
Overseas financial instruments	0-6.014	0-11.61
Financial debentures payable	2-5.593	2.42-5.593

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			
		December 31, 2008		December 31, 2009	
		NT	US	NT	US
Financial debentures payable	Interest rate swap	\$2,488,654	\$75,966	\$916,995	\$28,701

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.

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XI. Others

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

	2008		Average rate (%)
	Average balance		
	NT	US	
<b>Assets</b>			
Due from the Central Bank	\$28,357,432	\$865,611	1.32%
Time certificates, discounted bills and others	200,020,722	6,105,639	2.14%
Due from commercial banks and call loans to banks	27,767,708	847,610	3.94%
Discounts and loans	793,732,302	24,228,703	3.43%
Bills purchased	5,119	156	2.64%
Bonds and beneficiary certificates	129,656,197	3,957,759	3.73%
Receivables-credit card revolving balance	20,034,822	611,564	14.02%
Securities purchased under agreements to resell	2,452,039	74,849	1.66%
<b>Liabilities</b>			
Due to banks	75,558,926	2,306,439	3.29%
Demand deposits	112,974,236	3,448,542	0.36%
Saving deposits	613,314,439	18,721,442	1.29%
Time deposits	301,649,826	9,207,870	2.42%
Negotiable certificates of deposit	3,224,827	98,438	1.76%
Securities sold under agreements to repurchase	23,791,220	726,228	1.67%
Financial debentures	57,628,659	1,759,117	2.85%
Funds borrowed from the Central Bank and other banks	1,785,503	54,503	3.16%
<b>2009</b>			
	Average balance		Average rate (%)
	NT	US	
<b>Assets</b>			
Due from the Central Bank	\$30,924,831	\$967,913	0.43%
Time certificates, discounted bills and others	269,282,259	8,428,240	0.67%
Due from commercial banks and call loans to banks	27,904,589	873,383	0.20%
Discounts and loans	780,819,458	24,438,794	1.90%
Bills purchased	4,132	129	2.16%
Bonds and beneficiary certificates	158,943,232	4,974,749	2.69%
Receivables-credit card revolving balance	17,914,463	560,703	13.82%
Securities purchased under agreements to resell	2,347,860	73,485	0.04%
<b>Liabilities</b>			
Due to banks	48,518,467	1,518,575	0.88%
Demand deposits	154,046,778	4,821,495	0.10%
Saving deposits	688,678,664	21,554,888	0.70%
Time deposits	323,262,123	10,117,750	1.00%
Negotiable certificates of deposit	2,025,019	63,381	0.94%
Securities sold under agreements to repurchase	12,782,751	400,086	0.24%
Financial debentures	44,919,843	1,405,942	3.29%
Funds borrowed from the Central Bank and other banks	1,905,721	59,647	0.68%

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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 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 December 31, 2008 and 2009, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 11.03% and 12.13%, respectively.

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

Balance Sheet Based on Trust  
December 31, 2008

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

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Balance Sheet Based on Trust  
December 31, 2009

	Trust Assets		Trust Liabilities		
	NT	US	NT	US	
Bank deposits	\$6,143,061	\$192,271	Payables	\$8,668	\$271
Bonds	121,500,569	3,802,835	Taxes payable	40	1
Common stock	3,308,400	103,549	Custody securities payable	149,921,131	4,692,367
Mutual funds	138,683,544	4,340,643	Other liabilities	56	2
Insurance	1,200,773	37,583	Trust capital	286,028,935	8,952,392
Receivables	2,444	76	Accumulated earnings		
Real estate			Earnings distribution	(163,526)	(5,118)
Land	14,257,577	446,247	Net income	178,718	5,594
Buildings, net	22,025	689	Accumulated deficit	(202,714)	(6,345)
Construction in progress	1,183,636	37,047	Net Assets		
Custody securities	149,921,131	4,692,367	Capital account	447,251	13,999
			Distributable revenue	4,601	144
Total	<u>\$436,223,160</u>	<u>\$13,653,307</u>	Total	<u>\$436,223,160</u>	<u>\$13,653,307</u>

Income Statement Based on Trust

Items	2008		2009	
	NT	US	NT	US
Trust revenue				
Interest income	\$38,494	\$1,175	\$55,382	\$1,733
Rental income	308	9	308	10
Cash dividend income	202,906	6,194	156,915	4,911
Investment income-stock	1,288	39	11,029	345
Investment income-funds	4,369	134	14,172	444
Investment income-beneficial securities	1,513	46	-	-
Foreign exchange gain	-	-	3,789	119
Subtotal	<u>248,878</u>	<u>7,597</u>	<u>241,595</u>	<u>7,562</u>
Trust expense				
Management fee	11,324	346	13,462	421
Supervisor fee	150	5	159	5
Storage fee	7	-	-	-
Taxes	4,181	128	7,438	233
Processing fee	315	10	970	30
Service fee	350	10	350	11
Investment loss-bonds	1	-	-	-
Investment loss-stock	3,782	115	5,100	160
Investment loss-funds	216,819	6,618	33,698	1,055
Others	271	8	71	2
Subtotal	<u>237,200</u>	<u>7,240</u>	<u>61,248</u>	<u>1,917</u>
Income equalization	<u>(773)</u>	<u>(24)</u>	<u>(1,629)</u>	<u>(51)</u>
Net income	<u>\$10,905</u>	<u>\$333</u>	<u>\$178,718</u>	<u>\$5,594</u>



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Details of Trust Properties

Items	December 31, 2008		December 31, 2009	
	NT	US	NT	US
Bonds	\$116,075,538	\$3,543,209	\$121,500,569	\$3,802,835
Common stock	3,331,879	101,706	3,308,400	103,549
Mutual funds	118,507,978	3,617,460	138,683,544	4,340,643
Insurance	968,541	29,565	1,200,773	37,583
Structure financial instruments	25,400	775	-	-
Securities purchased under agreements to resell	340,000	10,378	-	-
Real estate				
Land	11,331,876	345,906	14,257,577	446,247
Buildings, net	21,303	650	22,025	689
Construction in progress	418,016	12,760	1,183,636	37,047
Custody Securities	126,855,285	3,872,261	149,921,131	4,692,367
Total	<u>\$377,875,816</u>	<u>\$11,534,670</u>	<u>\$430,077,655</u>	<u>\$13,460,960</u>

5. The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of December 31, 2008 and 2009 are as follows:

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

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Items	December 31, 2009	
	NT	US
Special trust of money that invest in foreign securities	\$212,690,821	\$6,656,990
Special trust of money that invest in domestic securities	47,098,921	1,474,145
Trust of money-custody securities	149,921,131	4,692,367
Trust of real estate	15,512,853	485,535
Trust of insurance claims	61,906	1,938
Personal and corporate trust	4,479,685	140,209
Trust of business employee's savings	2,719,176	85,107
Trust of securities	2,949,472	92,315
Collective investment trust funds	459,914	14,395
Others	329,281	10,306
Total	<u>\$436,223,160</u>	<u>\$13,653,307</u>

6. Certain accounts in the financial statements for the year ended December 31, 2008 have been reclassified in order to comparable with those in the financial statements for the year ended December 31, 2009.