Cathay United Bank
Financial Statements
For The Three-Month Periods Ended
March 31, 2009 and 2010
With Independent Auditors' Review Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of March 31, 2009 and 2010, and the related statements of income and cash flows for the three-month periods ended March 31, 2009 and 2010. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Public Banks" and accounting principles generally accepted in the ROC.

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
April 20, 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 review such financial statements are those generally accepted and applied in the ROC.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

March 31, 2009 and 2010

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2009		March 31, 2010	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$19,221,316	$567,503	$18,412,111	$580,274
Due from the Central Bank and call loans to banks	IV and V	47,193,889	1,393,383	72,831,217	2,295,342
Financial assets at fair value through profit or loss	II, IV and V	64,010,493	1,889,887	31,906,034	1,005,548
Securities purchased under agreements to resell		2,016,000	59,522	1,530,265	48,228
Receivables, net	II, IV and V	42,491,473	1,254,546	40,489,116	1,276,052
Discounts and loans, net	II, IV and V	780,028,572	23,030,073	782,060,073	24,647,339
Available-for-sale financial assets, net	II and IV	121,659,360	3,591,950	81,039,227	2,554,025
Held-to-maturity financial assets, net	II and IV	2,544,502	75,126	4,450,170	140,251
Investments accounted for using equity method, net	II and IV	3,466,355	102,343	3,784,563	119,274
Other financial assets, net	II and IV	6,401,636	189,006	5,131,022	161,709
Investments in debt securities with no active market, ne	II and IV	218,891,239	6,462,688	394,716,207	12,439,843
Premises and equipment, net	II, IV, V and VII	26,572,786	784,552	26,075,293	821,787
Intangible assets, net	II and IV	6,890,065	203,427	7,074,130	222,948
Other assets, net	II, IV and V	8,043,715	237,488	5,719,315	180,249
TOTAL ASSETS		$1,349,431,401	$39,841,494	$1,475,218,743	$46,492,869

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)

March 31, 2009 and 2010

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2009		March 31, 2010	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$41,040,475	$1,211,706	$56,464,594	$1,779,533
Funds borrowed from the Central Bank and other banks		1,695,850	50,070	1,590,950	50,140
Financial liabilities at fair value through profit or loss	II, IV and V	44,762,018	1,321,583	17,707,073	558,055
Securities sold under agreements to repurchase	IV and V	12,231,686	361,136	11,834,607	372,978
Payables	IV and V	18,604,193	549,282	17,991,413	567,016
Deposits and remittances	IV and V	1,124,825,877	33,210,094	1,255,862,901	39,579,669
Financial debentures payable	IV and X	19,129,566	564,794	16,471,463	519,113
Other financial liabilities	II and IV	261,100	7,709	219,778	6,927
Other liabilities	II, IV and V	2,187,708	64,591	2,084,819	65,705
TOTAL LIABILITIES		1,264,738,473	37,340,965	1,380,227,598	43,499,136
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,437,538	52,277,026	1,647,558
Capital reserves	IV	15,213,611	449,177	15,213,292	479,461
Retained earnings	IV				
Legal reserve		13,402,448	395,703	14,740,680	464,566
Special reserve		465,071	13,731	-	-
Undistributed earnings		5,685,336	167,857	11,245,954	354,427
Foreign currency translation adjustment	II	(25,042)	(740)	(18,875)	(595)
Unrealized gains or losses on financial instruments	II	1,262,091	37,263	1,533,068	48,316
TOTAL SHAREHOLDERS' EQUITY		84,692,928	2,500,529	94,991,145	2,993,733
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,349,431,401	$39,841,494	$1,475,218,743	$46,492,869

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 three-month periods ended March 31, 2009 and 2010

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

(Reviewed, not audited)

ITEMS	NOTES	January 1 - March 31, 2009 NT	January 1 - March 31, 2009 US (Note II)	January 1 - March 31, 2010 NT	January 1 - March 31, 2010 US (Note II)
INTEREST INCOME	II and V	$7,231,574	$213,509	$5,312,581	$167,431
INTEREST EXPENSE	V	(3,229,610)	(95,353)	(1,745,071)	(54,998)
NET INTEREST INCOME		4,001,964	118,156	3,567,510	112,433
NONINTEREST INCOME					
Net fee income	II and V	972,670	28,718	1,397,500	44,043
Gain on financial assets and liabilities at fair value through profit or loss	II and V	562,276	16,601	215,033	6,777
Realized gain on available-for-sale financial assets	II	45,717	1,350	508,317	16,020
Investment income recognized by the equity method	II and IV	42,328	1,250	58,595	1,847
Gain on foreign currency exchange, net	II	84,075	2,482	100,363	3,163
Impairment loss of assets	II	(42,255)	(1,248)	-	-
Gain on debt securities with no active market		321	10	10,172	321
Others	II, IV and V	173,658	5,127	592,346	18,668
NET NONINTEREST INCOME		1,838,790	54,290	2,882,326	90,839
NET OPERATING INCOME		5,840,754	172,446	6,449,836	203,272
BAD DEBT EXPENSE	II and IV	(775,862)	(22,907)	-	-
OPERATING EXPENSES					
Personnel	II and IV	(1,786,210)	(52,737)	(1,830,472)	(57,689)
Depreciation and amortization	II and IV	(267,665)	(7,903)	(278,407)	(8,774)
Other general and administrative expenses	V	(1,380,455)	(40,757)	(1,377,492)	(43,413)
TOTAL OPERATING EXPENSES		(3,434,330)	(101,397)	(3,486,371)	(109,876)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		1,630,562	48,142	2,963,465	93,396
INCOME TAX EXPENSE	II and IV	(406,000)	(11,987)	(406,000)	(12,795)
NET INCOME		$1,224,562	$36,155	$2,557,465	$80,601
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		$0.31	$0.010	$0.57	$0.018
INCOME TAX EXPENSES		(0.08)	(0.003)	(0.08)	(0.003)
NET INCOME		$0.23	$0.007	$0.49	$0.015

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 three-month periods ended March 31, 2009 and 2010

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	NOTES	January 1-March 31, 2009 NT	January 1-March 31, 2009 US (Note II)	January 1-March 31, 2010 NT	January 1-March 31, 2010 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$1,224,562	$36,155	$2,557,465	$80,601
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	267,665	7,903	278,407	8,774
The differences between investment income recognized by the equity method and the cash dividends received	II	127,257	3,757	84,267	2,656
Bad debt expense (reversal)	II and IV	775,862	22,907	(269,201)	(8,484)
Loss (gain) on disposal of premises, equipment and foreclosed properties	II	(20,370)	(602)	10,803	340
Impairment loss of assets	II	42,255	1,248	-	-
Effects of exchange rate changes		(10,203)	(301)	48,765	1,537
(Increase) decrease in operating assets					
Decrease in receivables		4,904,233	144,796	4,771,258	150,370
(Increase) decrease in deferred income tax assets		302,870	8,942	(97,427)	(3,071)
(Increase) decrease in financial assets at fair value through profit or loss		(10,821,042)	(319,488)	9,524,929	300,187
(Increase) decrease in other assets		413,128	12,197	(84,885)	(2,675)
Increase (decrease) in operating liabilities					
Decrease in payables		(4,532,317)	(133,815)	(3,643,227)	(114,820)
Decrease in financial liabilities at fair value through profit or loss		(2,698,702)	(79,678)	(7,289,908)	(229,748)
Increase (decrease) in tax payables		(88,809)	(2,622)	544,666	17,166
Increase (decrease) in other liabilities		(131,628)	(3,886)	15,991	504
Net cash provided by (used in) operating activities		(10,245,239)	(302,487)	6,451,903	203,337
CASH FLOWS FROM INVESTING ACTIVITIES:					
Decrease in discounts and loans		26,638,709	786,499	21,936,931	691,363
(Increase) decrease in due from the Central Bank and call loans to banks		(227,624)	(6,720)	6,005,766	189,277
Decrease in securities purchased under agreements to resell		153,147	4,522	205,735	6,484
(Increase) decrease in available-for-sale financial assets		(22,980,721)	(678,498)	16,273,909	512,887
Increase in held-to-maturity financial assets		(1,665)	(49)	(361,089)	(11,380)
Proceeds from disposal of premises, equipment and foreclosed properties		20,998	620	335,025	10,559
Acquisition of premises, equipment and foreclosed properties		(185,985)	(5,491)	(79,600)	(2,509)
Acquisition of intangible assets		(8,150)	(241)	(37,300)	(1,176)
(Increase) decrease in investments in debt securities with no active market		26,897	794	(24,934,771)	(785,842)
(Increase) decrease in other financial assets		185,444	5,475	(211,150)	(6,655)
Decrease in other assets		709,555	20,949	35,965	1,134
Net cash provided by investing activities		4,330,605	127,860	19,169,421	604,142
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(21,885,754)	(646,169)	11,113,767	350,261
Increase (decrease) in securities sold under agreements to repurchase		(8,500,426)	(250,972)	3,089,142	97,357
Increase (decrease) in deposits and remittances		33,519,469	989,651	(40,773,480)	(1,285,014)
Increase (decrease) in funds borrowed from the Central Bank and other banks		52,850	1,560	(10,550)	(333)
Increase in financial debentures payable		263,588	7,782	34,254	1,080
Decrease in other financial liabilities		(219)	(6)	(20,716)	(653)
Increase in other liabilities		76,929	2,271	21,535	679
Net cash provided by (used in) financing activities		3,526,437	104,117	(26,546,048)	(836,623)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		(132,962)	(3,926)	(41,450)	(1,307)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,521,159)	(74,436)	(966,174)	(30,451)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		21,742,475	641,939	19,378,285	610,725
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$19,221,316	$567,503	$18,412,111	$580,274
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$3,645,292	$107,626	$1,550,073	$48,852
Income tax paid		$196,374	$5,798	$118,635	$3,739

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the three-month periods ended March 31, 2009 and 2010

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

(Reviewed, not audited)

I. Business

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

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

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

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

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

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

As of March 31, 2009 and 2010, the Bank employed 6,239 and 6,176 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 with no active market, available-for-sale financial assets, financial assets carried at cost and derivative financial assets for hedging, where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Financial assets or liabilities held for trading and designated by the Bank at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss. Subsequently, these investments are reviewed 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 effect interest method as interest income or expense over the relevant periods.

(5) Financial assets carried at cost

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

(6) Financial liabilities

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

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

4. Derivative financial instruments

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

5. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

6. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

7. Hedge accounting

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

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

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

(c) Hedges of net investments in foreign operations.

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

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

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

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

10. Premises and equipment

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

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

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

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

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

11. Intangible assets and goodwill

(1) Intangible assets

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

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

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

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

(2) Goodwill

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

12. Foreclosed properties

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

13. Financial assets securitization

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

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

14. Asset impairment

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

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

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

15. Reserves for possible losses on guarantees

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

16. Reserves for losses on trading securities

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

17. Pension plans

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

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

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

18. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

19. Recognition of dividend

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

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

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

20. Income tax

The Bank adopted ROC SFAS No. 22, "Income Taxes" for interperiod and intraperiod income tax allocation. Deferred income taxes are recognized for tax effects of temporary differences. Tax effects on deductible temporary differences, operating loss carry forwards and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided for deferred tax assets when their realization is in doubt. The 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 Holdings Co., Ltd. has adopted the consolidated income tax return for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

21. Employee bonus and remuneration of directors

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

22. Contingencies

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

23. The interim financial statement

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

24. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the March 31, 2009 and 2010 NT dollar amount into US dollar are provided solely for the convenience of the readers, using the noon buying rate of NT$33.87 and NT$31.73 to US$1.00 on March 31, 2009 and 2010, 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

According to the amendment of Income Tax Act on May 27, 2009, 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 three-month period ended March 31, 2009.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	March 31,			
	2009		2010	
	NT	US	NT	US
Cash on hand	$10,470,345	$309,133	$9,614,905	$303,022
Checks for clearance	2,899,557	85,609	2,926,300	92,225
Due from commercial banks	5,851,414	172,761	5,870,906	185,027
Total	$19,221,316	$567,503	$18,412,111	$580,274

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

	March 31,			
	2009		2010	
	NT	US	NT	US
Call loans to banks	$6,589,278	$194,546	$18,001,176	$567,323
Due from the Central Bank －				
Statutory reserve on deposits and general deposits	40,604,611	1,198,837	54,830,041	1,728,019
Total	$47,193,889	$1,393,383	$72,831,217	$2,295,342

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$27,837,853 (US$821,903) and NT$34,010,489 (US$1,071,872) as of March 31, 2009 and 2010, 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 March 31, 2009 and 2010, the balance of foreign-currency deposit reserves were NT$118,710 (US$3,505) and NT$35,001 (US$1,103), respectively.

3. Financial assets at fair value through profit or loss

	March 31,			
	2009		2010	
	NT	US	NT	US
Financial assets for trading :				
Mutual funds	$334,907	$9,888	$-	$-
Short-term bills	36,616,274	1,081,083	23,066,503	726,962
Bonds	14,719,537	434,589	2,705,712	85,273
Overseas financial instruments	176,792	5,219	198,827	6,266
Derivative financial instruments	11,921,123	351,967	5,934,992	187,047
Subtotal	63,768,633	1,882,746	31,906,034	1,005,548
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	171,137	5,053	-	-
Bonds	70,723	2,088	-	-
Subtotal	241,860	7,141	-	-
Total	$64,010,493	$1,889,887	$31,906,034	$1,005,548

(1) NT$39,621 (US$1,170) and NT$0 (US$0) of the financial assets at fair value through profit or loss as of March 31, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2009, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$8,447,500 (US$249,410). Such repurchase agreements amounting to NT$9,210,818 (US$271,946) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2009 was settled at NT$9,215,154 (US$272,074) prior to September 30, 2009.

As of March 31, 2010, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$ 8,441,206(US$266,032). Such repurchase agreements amounting to NT$9,026,355 (US$284,474) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2010 was settled at NT$9,026,724 (US$284,485) prior to April 30, 2010.

(3) As of March 31, 2009 and 2010, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

	March 31,	
	2009	2010
Forward foreign exchange and currency swap contracts	$21,427,171	$26,542,335
Interest rate swap contracts	9,737,437	10,229,487
Cross-currency swap contracts	586,230	492,969
Options	268,071	379,534
Credit derivative instrument contracts	131,327	40,000
Credit default swap contracts	36,707	7,000

(4) Net gains arising from financial assets at fair value through profit or loss for the three-month periods ended March 31, 2009 and 2010 was NT$4,239,764 (US$125,178) and NT$2,738,170 (US$ 86,296), respectively.

4. Receivables, net

	March 31,			
	2009		2010	
	NT	US	NT	US
Accounts receivable	$31,209,685	$921,455	$33,914,784	$1,068,855
Interest receivable	3,574,521	105,537	1,837,100	57,898
Receivable to related party for allocation of linked-tax system	1,913,505	56,496	1,955,061	61,616
Foreign currency receivable	5,892,751	173,981	684,125	21,561
Acceptances	653,327	19,289	973,474	30,680
Tax refundable	740,370	21,859	248,890	7,844
Others	1,418,969	41,895	2,851,204	89,858
Total	45,403,128	1,340,512	42,464,638	1,338,312
Less: allowance for doubtful accounts	(2,911,655)	(85,966)	(1,975,522)	(62,260)
Net balance	$42,491,473	$1,254,546	$40,489,116	$1,276,052

Information on bad and doubtful accounts is as follows:

	January 1-March 31, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,933,281	$86,604	$49,692	$1,467	$2,982,973	$88,071
Provision of doubtful accounts	211,619	6,248	-	-	211,619	6,248
Write-offs	(498,600)	(14,721)	-	-	(498,600)	(14,721)
Debt counseling recoveries	29,111	860	-	-	29,111	860
Recoveries	186,552	5,508	-	-	186,552	5,508
Reclassifications	2,113	62	(2,113)	(62)	-	-
Balance, end of the period	$2,864,076	$84,561	$47,579	$1,405	$2,911,655	$85,966

	January 1-March 31, 2010					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,023,120	$63,760	$366,597	$11,554	$2,389,717	$75,314
Reversal of doubtful accounts	(444,087)	(13,996)	-	-	(444,087)	(13,996)
Write-offs	(195,179)	(6,151)	-	-	(195,179)	(6,151)
Debt counseling recoveries	34,484	1,087	-	-	34,484	1,087
Recoveries	190,587	6,006	-	-	190,587	6,006
Reclassifications	322,369	10,160	(322,369)	(10,160)	-	-
Balance, end of the period	$1,931,294	$60,866	$44,228	$1,394	$1,975,522	$62,260

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

5. Discounts and loans, net

	March 31,			
	2009		2010	
	NT	US	NT	US
Outward documentary bills	$213,682	$6,309	$157,106	$4,951
Overdrafts	171,257	5,056	487,745	15,372
Short –term loans	152,568,087	4,504,520	164,925,697	5,197,784
Medium-term loans	225,682,150	6,663,187	195,532,360	6,162,381
Long-term loans	403,421,445	11,910,878	423,400,315	13,343,849
Delinquent accounts	6,237,261	184,153	3,448,070	108,669
Total	788,293,882	23,274,103	787,951,293	24,833,006
Less: allowance for doubtful accounts	(8,265,310)	(244,030)	(5,891,220)	(185,667)
Net balance	$780,028,572	$23,030,073	$782,060,073	$24,647,339

(1) As of March 31, 2009 and 2010, the accounts without interest accrued were NT$7,290,123 (US$215,238) and NT$3,534,280 (US$111,386), respectively. The non-accrued interest on such accounts amounted to NT$60,128 (US$1,775) and NT$58,016 (US$1,828) for the three-month periods ended March 31, 2009 and 2010, respectively.

(2) For the three-month periods ended March 31, 2009 and 2010, 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- March 31, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,662,869	$108,145	$4,670,525	$137,896	$8,333,394	$246,041
Provision of doubtful accounts	564,243	16,659	-	-	564,243	16,659
Write-offs	(1,198,357)	(35,381)	-	-	(1,198,357)	(35,381)
Debt counseling recoveries	23,981	708	-	-	23,981	708
Recoveries	513,586	15,163	-	-	513,586	15,163
Reclassification	(12,065)	(356)	12,065	356	-	-
Effects of exchange rates change	-	-	28,463	840	28,463	840
Balance, end of the period	$3,554,257	$104,938	$4,711,053	$139,092	$8,265,310	$244,030

	January 1- March 31, 2010					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,669,862	$84,143	$3,392,833	$106,928	$6,062,695	$191,071
Provision of doubtful accounts	174,886	5,512	-	-	174,886	5,512
Write-offs	(896,210)	(28,245)	-	-	(896,210)	(28,245)
Debt counseling recoveries	28,918	911	-	-	28,918	911
Recoveries	526,614	16,597	-	-	526,614	16,597
Reclassification	25,747	811	(25,747)	(811)	-	-
Effects of exchange rates change	-	-	(5,683)	(179)	(5,683)	(179)
Balance, end of the period	$2,529,817	$79,729	$3,361,403	$105,938	$5,891,220	$185,667

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

6. Available-for-sale financial assets, net

	March 31,			
	2009		2010	
	NT	US	NT	US
Stocks	$2,952,326	$87,166	$6,459,874	$203,589
Mutual funds and beneficiary securities	202,805	5,988	1,186,892	37,406
Bonds	106,900,898	3,156,212	55,888,971	1,761,392
Overseas financial instruments	12,117,881	357,776	17,503,490	551,638
Subtotal	122,173,910	3,607,142	81,039,227	2,554,025
Less: accumulated impairment	(514,550)	(15,192)	-	-
Net balance	$121,659,360	$3,591,950	$81,039,227	$2,554,025

(1) NT$2,707,445 (US$79,936) and NT$3,638,678 (US$114,676) of the available-for-sale financial assets as of March 31, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2009, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$2,699,700 (US$79,708). Such repurchase agreements amounting to NT$3,020,868 (US$89,190) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2009 was settled at NT$3,023,842 (US$89,278) prior to September 30, 2009.

As of March 31, 2010, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$2,528,200 (US$79,679). Such repurchase agreements amounting to NT$2,808,252 (US$88,504) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2010 was settled at NT$2,808,442 (US$88,511) prior to April 30, 2010.

(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$514,550 (US$15,192) on available for sales financial assets at March 31, 2009.

7. Held-to-maturity financial assets, net

	March 31, 2009			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,591,800	$46,997	$1,751,212	$51,704
Beneficiary certificates	576,335	17,016	576,335	17,016
Overseas financial instruments	217,498	6,422	216,955	6,406
Total	$2,385,633	$70,435	$2,544,502	$75,126

	March 31, 2010			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,154,000	$36,369	$1,293,591	$40,769
Beneficiary certificates	-	-	-	-
Overseas financial instruments	2,937,132	92,567	3,156,579	99,482
Total	$4,091,132	$128,936	$4,450,170	$140,251

As of March 31, 2009 and 2010, NT$92,446 (US$2,729) and NT$168,032 (US$5,296) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	March 31, 2009				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,932	$1,150	100.00	$510	$15
Cathay Life Insurance Agent Co., Ltd	50,344	1,486	100.00	5,513	163
Cathay Property Insurance Agent Co., Ltd.	7,743	229	100.00	120	4
Indovina Bank	1,851,893	54,676	50.00	18,317	541
Taiwan Real-estate Management Corp.	47,904	1,414	30.15	620	18
Taiwan Finance Corp.	1,433,853	42,334	24.57	17,483	516
Vista Technology Venture Capital Corp.	6,092	180	4.76	-	-
Cathay Venture Capital Corp.	29,594	874	2.00	(235)	(7)
Total	$3,466,355	$102,343		$42,328	$1,250

	March 31, 2010				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$39,928	$1,258	100.00	$608	$19
Cathay Life Insurance Agent Co., Ltd	63,765	2,010	100.00	9,857	311
Cathay Property Insurance Agent Co., Ltd.	7,584	239	100.00	(89)	(3)
Indovina Bank	2,189,977	69,019	50.00	36,481	1,150
Taiwan Real-estate Management Corp.	58,081	1,831	30.15	2,109	66
Taiwan Finance Corp.	1,419,805	44,746	24.57	9,634	304
Vista Technology Venture Capital Corp.	5,423	171	4.76	(5)	-
Total	$3,784,563	$119,274		$58,595	$1,847

(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 started in the process of liquation.

(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 three-month periods ended March 31, 2009 and 2010 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

9. Other financial assets, net

	March 31,			
	2009		2010	
	NT	US	NT	US
Derivatives financial assets for hedging	$2,303,084	$67,998	$1,133,019	$35,708
Financial assets carried at cost, stocks	4,095,278	120,912	3,995,640	125,926
Bills purchased	3,274	96	2,363	75
Total	$6,401,636	$189,006	$5,131,022	$161,709

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

(2) As of March 31, 2009 and 2010, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$2,303,084 (US$67,998) and NT$1,133,019 (US$35,708), respectively. The Bank has recognized loss in hedging in the amount of NT$79,887 (US$2,359) and NT$114,907(US$3,621) for the three-month periods ended March 31, 2009 and 2010, respectively.

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

	March 31,			
	2009		2010	
	NT	US	NT	US
Preferred stocks	$549,730	$16,231	$549,730	$17,325
Certificates of deposit	185,235,000	5,468,999	373,335,000	11,765,994
Bonds	95,586	2,822	95,586	3,013
Beneficiary certificates	400,000	11,810	-	-
Overseas financial instruments	35,356,275	1,043,882	23,011,274	725,221
Subtotal	221,636,591	6,543,744	396,991,590	12,511,553
Less: accumulated impairment	(2,745,352)	(81,056)	(2,275,383)	(71,710)
Net balance	$218,891,239	$6,462,688	$394,716,207	$12,439,843

(1) NT NT$15,500,000 (US$457,632) and NT$20,235,000 (US$637,725) of certificates of deposit as of March 31, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) The amounts of the accumulated impairment loss were NT$2,598,470 (US$76,719) and NT$2,134,152 (US$67,259) which have been recognized as of March 31, 2009 and 2010, respectively, due to the credit deterioration of certain securitization and financial debentures.

The amounts of the accumulated impairment loss were NT$146,882 (US$4,337) and NT$141,231 (US$4,451) which have been recognized as of March 31, 2009 and 2010, 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$179,333) with Land Bank Co., Ltd. as Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands dollars)	Interest rate
Senior tranche 1st	NT$3,335,000(US$98,465)	2.175%
Senior tranche 2nd	NT$315,000(US$9,300)	2.325%
Senior tranche 3rd	NT$340,000(US$10,038)	2.545%
Senior tranche 4th	NT$480,000(US$14,172)	2.945%
Subordinated tranche 5th	NT$200,000(US$5,905)	3.00%
Subordinated tranche 6th	NT$200,000(US$5,905)	3.20%
Subordinated tranche 7th	NT$576,335(US$17,016)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$28,826) 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 March 31, 2009 and 2010, respectively, were as follows:

	Corporate Loans Securitization		
	May 28, 2007	March 31, 2009	March 31, 2010
Expected weighted-average life (in years)	2.212	0.615	0.157
Prepayment rate (annual rate)	3%	3%	3%
Expected credit losses rate (annual rate)	3.71%	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.2%	2.49%	2.49%

(2) Sensitivity analysis：

As of March 31, 2009 and 2010, 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:

	March 31 , 2009		March 31 , 2010	
	NT	US	NT	US
Carrying amount of retained interests	$976,335	$28,826	$972,625	$30,653
Expected weighted-average life (in years)	0.615	0.615	0.157	0.157
Expected prepayment rate (annual rate)	3%	3%	3%	3%
Impact on fair value with 10% adverse change	(3,113)	(92)	-	-
Impact on fair value with 20% adverse change	(3,198)	(94)	-	-
Expected credit losses (annual rate)	3.71%	3.71%	3.71%	3.71%
Impact on fair value with 10% adverse change	(4,665)	(138)	(100)	(3)
Impact on fair value with 20% adverse change	(5,957)	(176)	(100)	(3)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%	2.49%	2.49%
Impact on faire value with 10% adverse change	(3,174)	(94)	(202)	(6)
Impact on faire value with 20% adverse change	(6,336)	(187)	(404)	(13)

(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:

	January 1-March 31, 2009		January 1-March 31, 2010	
	NT	US	NT	US
Servicing fees received	$60	$2	$60	$2
Other cash received on retained interests	6,203	183	5,611	177
Repayment of cash reserve	1,374	41	1,741	55

12. Premises and equipment, net

	March 31,			
	2009		2010	
	NT	US	NT	US
Cost:				
Land	$14,821,620	$437,603	$14,707,197	$463,511
Buildings	9,931,259	293,217	11,575,720	364,820
Office equipment	3,747,864	110,654	4,169,900	131,418
Transportation equipment	49,194	1,452	46,528	1,466
Leased improvements	11,918	352	16,509	520
Other equipment	5,096,987	150,487	5,357,211	168,837
Construction in progress and prepayment for equipment	2,457,071	72,545	572,969	18,058
Subtotal	36,115,913	1,066,310	36,446,034	1,148,630
Accumulated depreciation:				
Buildings	(2,621,293)	(77,393)	(2,844,997)	(89,663)
Office equipment	(3,043,415)	(89,856)	(3,324,460)	(104,773)
Transportation equipment	(47,865)	(1,413)	(45,486)	(1,433)
Leased improvements	(5,154)	(152)	(7,714)	(243)
Other equipment	(3,825,400)	(112,944)	(4,148,084)	(130,731)
Subtotal	(9,543,127)	(281,758)	(10,370,741)	(326,843)
Net	$26,572,786	$784,552	$26,075,293	$821,787

13. Intangible assets, net

	January 1- March 31, 2009							
	January 1,		Additions/Amortization		Disposals		March 31,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$6,673,083	$197,021	$-	$-	$-	$-	$6,673,083	$197,021
Computer software	1,082,497	31,960	8,150	241	21,681	640	1,068,966	31,561
Amortization	(847,022)	(25,008)	(26,643)	(787)	(21,681)	(640)	(851,984)	(25,155)
Net balance	$6,908,558	$203,973	$(18,493)	$(546)	$-	$-	$6,890,065	$203,427

	January 1- March 31, 2010							
	January 1,		Additions/Amortization		Disposals		March 31,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$6,673,083	$210,308	$-	$-	$-	$-	$6,673,083	$210,308
Computer software	1,297,969	40,907	37,299	1,176	32,953	1,039	1,302,315	41,044
Amortization	(898,846)	(28,328)	(35,375)	(1,115)	(32,953)	(1,039)	(901,268)	(28,404)
Net balance	$7,072,206	$222,887	$1,924	$61	$-	$-	$7,074,130	$222,948

Impairment testing of goodwill:

(1) Goodwill acquired through business combinations has been allocated to the cash-generating unit. The carrying amount of goodwill allocated to the unit is NT$6,673,083 (US$210,308)

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

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

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

① Discount rates

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

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

Assumptions are based on published industry research.

(4) Sensitivity to changes in assumptions:

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

14. Other assets, net

	March 31,			
	2009		2010	
	NT	US	NT	US
Prepayment	$256,767	$7,581	$255,794	$8,061
Temporary payments	192,062	5,671	47,678	1,503
Interbank settlement fund	1,300,661	38,402	1,360,833	42,888
Non-operating assets, net (Accumulated impairment NT$371,224 (US$10,969) and NT$230,494 (US$7,264) on March 31, 2009 and 2010, respectively)	2,512,203	74,172	2,165,438	68,246
Refundable deposits, net	1,723,334	50,881	1,057,344	33,323
Foreclosed properties, net	491,778	14,519	481,533	15,176
Deferred tax assets, net	1,158,741	34,211	89,844	2,831
Others	408,169	12,051	260,851	8,221
Total	$8,043,715	$237,488	$5,719,315	$180,249

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

	March 31,			
	2009		2010	
	NT	US	NT	US
Due to the Central Bank	$96,794	$2,858	$111,509	$3,514
Due to commercial banks	1,643,741	48,531	4,894,815	154,265
Due to Post Co., Ltd.	23,434,880	691,906	22,613,850	712,696
Overdrafts from banks	102,368	3,023	136,246	4,294
Call loans from banks	15,762,692	465,388	28,708,174	904,764
Total	$41,040,475	$1,211,706	$56,464,594	$1,779,533

16. Financial liabilities at fair value through profit or loss

	March 31,			
	2009		2010	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$12,023,614	$354,993	$5,246,575	$165,351
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	27,501,564	811,974	7,202,081	226,980
Subordinated financial debentures	5,236,840	154,616	5,258,417	165,724
Subtotal	32,738,404	966,590	12,460,498	392,704
Total	$44,762,018	$1,321,583	$17,707,073	$558,055

(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.

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$20,000,000 has matured as of March 31, 2010.

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 $40,229 (US$1,268) as of March 31, 2010.

(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$738,404 (US$21,801) and NT$460,498 (US$14,513) as of March 31, 2009 and 2010, respectively.

(4) Net losses arising from financial liabilities at fair value through profit or loss for the periods ended March 31, 2009 and 2010 were NT$3,677,488 (US$108,577) and NT$2,523,137 (US$79,519), respectively.

17. Payables

	March 31,			
	2009		2010	
	NT	US	NT	US
Accounts payable	$6,263,488	$184,927	$6,646,984	$209,486
Accrued interest payable	3,996,184	117,986	2,122,173	66,882
Accrued expenses	1,626,079	48,009	1,909,948	60,194
Foreign currency payable	1,682,892	49,687	2,426,357	76,469
Acceptance	655,522	19,354	976,972	30,790
Tax payable	200,868	5,931	503,150	15,857
Payable to related party for allocation of linked-tax system	-	-	331,194	10,438
Receipts under custody	336,871	9,946	256,318	8,078
Others	3,842,289	113,442	2,818,317	88,822
Total	$18,604,193	$549,282	$17,991,413	$567,016

18. Deposits and remittances

	March 31,			
	2009		2010	
	NT	US	NT	US
Check deposits	$11,572,538	$341,675	$12,079,717	$380,703
Demand deposits	131,852,923	3,892,912	200,608,897	6,322,373
Demand savings deposits	366,955,848	10,834,244	493,967,489	15,567,838
Time deposits	331,524,196	9,788,137	297,492,084	9,375,735
Negotiable certificates of deposit	2,271,000	67,051	1,478,600	46,599
Time savings deposits	280,301,906	8,275,817	249,577,249	7,865,656
Outward remittances	209,569	6,187	464,197	14,630
Remittances payable	137,897	4,071	194,668	6,135
Total	$1,124,825,877	$33,210,094	$1,255,862,901	$39,579,669

19. Financial debentures payable

	March 31,			
	2009		2010	
	NT	US	NT	US
Subordinated financial debentures	$16,958,500	$500,694	$15,566,904	$490,605
Discount in financial debentures	(87,379)	(2,580)	(46,812)	(1,475)
Valuation adjustment	2,258,445	66,680	951,371	29,983
Total	$19,129,566	$564,794	$16,471,463	$519,113

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$13,553) 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 repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

20. Other financial liabilities

	March 31,			
	2009		2010	
	NT	US	NT	US
Borrowed funds	$261,100	$7,709	$219,778	$6,927

21. Other liabilities

	March 31,			
	2009		2010	
	NT	US	NT	US
Unearned receipts	$225,432	$6,656	$250,315	$7,889
Temporary receipts	820,508	24,225	652,532	20,565
Reserve for losses on guarantees	24,892	735	24,892	785
Reserve for losses on stock brokerage transactions	268,791	7,936	268,791	8,471
Guarantee deposits received	807,749	23,848	847,953	26,724
Reserve for land value increment tax	40,336	1,191	40,336	1,271
Total	$2,187,708	$64,591	$2,084,819	$65,705

22. Capital Stock

As of January 1, 2009, the Bank had issued and outstanding capital stock of NT$48,689,413 (US$1,437,538) 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$113,067). After the capitalizing of retained earnings, the Bank's paid-in capital for common stock was NT$52,277,026 (US$1,647,558) 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

	March 31,			
	2009		2010	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,949,303	$323,275	$10,949,303	$345,077
Additional paid-in capital	4,249,096	125,453	4,249,096	133,914
Others	15,212	449	14,893	470
Total	$15,213,611	$449,177	$15,213,292	$479,461

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 first quarter of 2009 and 2010 were both NT$375 based on the average actual payment over the past three years and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income/expense in the next year.

(4) 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$1,338,232 (US$ 39,511) thousands as legal reserve;
(b) NT$3,587,613 (US$ 105,923) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$44) thousands deducted from Income Statement

(5) On March 18, 2010, the following are appropriations and distribution approved by the Bank's board of directors：

The appropriation and distribution of earnings in 2009:
(a) NT$868,849 (US$ 27,383) thousands as legal reserve;
(b) NT$7,819,640 (US$ 246,443) 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

The Bank adopted the ROC SFAS No.18, "Accounting for Pensions" for defined contribution pension plan and defined benefit pension plan.

26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the three-month periods ended March 31, 2009 and 2010.

	January 1- March 31,			
	2009		2010	
	NT	US	NT	US
Personnel expenses				
Salary	$1,409,908	$41,627	$1,483,772	$46,762
Insurance	182,736	5,395	176,245	5,555
Pension	91,429	2,699	94,350	2,974
Others	102,137	3,016	76,105	2,398
Depreciation expenses	241,022	7,116	243,032	7,659
Amortization expenses	26,643	787	35,375	1,115

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 expenses for the three-month periods ended March 31, 2009 and 2010 is as follows:

	January 1- March 31,			
	2009		2010	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (The tax rate for the three-month periods ended March 31 ,2009 and 2010 were 25% and 20% , respectively)	$(61,035)	$(1,802)	$(418,527)	$(13,190)
Interest on separation tax	(25,500)	(753)	(758)	(24)
Deferred tax benefit (expense):				
Allowance for bad debt	131,124	3,871	-	-
Reversal of allowance for pledged assets taken-over	(6)	-	-	-
Foreign investment income recognized by the equity method	37,817	1,116	21,276	671
Others	(88,663)	(2,618)	(27,172)	(856)
Valuation allowance	(111,070)	(3,279)	283	9
Operating loss carry-forward	(244,270)	(7,212)	-	-
Effect of foreign branches' income tax	31,357	926	(7,822)	(247)
Adjustment of prior period's income tax	(75,754)	(2,236)	26,720	842
Income tax expense	$(406,000)	$(11,987)	$(406,000)	$(12,795)

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

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

	March 31,			
	2009		2010	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$2,424,301	$71,577	$5,283,683	$166,520
Others	137,296	4,054	961,507	30,303
Deductible temporary differences:				
Allowance for bad debts	3,244,139	95,782	-	-
Unrealized impairment loss for pledged assets taken-over	46,184	1,364	45,926	1,447
Valuation of financial instruments	2,709,791	80,006	5,234,907	164,983
Provisions for possible losses	162,295	4,792	162,295	5,115
Others	257,359	7,598	571,713	18,018
Operating loss carry-forward (expiration year:2011)	$1,055,153	$31,153	$-	$-
Deferred income tax assets of foreign branches	$106,221	$3,136	$203,333	$6,408

(3) Deferred tax assets	$1,974,951	$58,310	$1,406,301	$44,320
Deferred tax liabilities	(640,399)	(18,908)	(1,249,038)	(39,364)
Valuation allowance	(175,811)	(5,191)	(67,419)	(2,125)
Net deferred tax assets	$1,158,741	$34,211	$89,844	$2,831

(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:

	March 31,			
	2009		2010	
	NT	US	NT	US
The Bank's imputation credit	$137,168	$4,050	$39,881	$1,257
Undistributed earnings	5,685,336	167,858	11,245,954	354,427

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

	2008
Cash dividends	5.06%

28. Earnings per share

The computations of earnings per share are as follows:

	January 1 –March 31,	
	In thousands of shares	
	2009	2010
Beginning balance	4,868,941	5,227,703
Stock dividends in 2009 and retroactive adjustment	358,762	-
Weighted-average shares outstanding	$5,227,703	$5,227,703

	January 1 – March 31,							
	2009				2010			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	$1,630,562	$48,142	$1,224,562	$36,155	$2,963,465	$93,396	$2,557,465	$80,601
Earnings per share (in dollars)								
Net income	$0.31	$0.010	$0.23	$0.007	$0.57	$0.018	$0.49	$0.015

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.	〃
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance

Name of related parties	Relationship
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance
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.

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

(1) Loans and Deposits

	March 31, Account balance			January 1- March 31, Interest income (expense)	
Accounts/Related parties	NT	US	% of Account	NT	US
2009					
Loans					
Seaward Leasing Ltd.	$2,073,630	$61,223	0.27	$9,748	$288
Taiwan Real-estate Management Corp.	104,000	3,071	0.01	615	18
Cathay General Hospital	236,000	6,968	0.03	1,713	51
Others	270,152	7,976	0.03	1,049	31
Total	$2,683,782	$79,238	0.34	$13,125	$388
Deposits					
Cathay Financial Holding Co., Ltd.	$2,033	$60	0.02	$(2)	$-
Cathay Life Insurance Co., Ltd.	10,732,488	316,873	0.95	(17,391)	(513)
Cathay Century Insurance Co., Ltd.	1,265,508	37,364	0.11	(4,175)	(123)
Cathay Securities Corp.	276,924	8,176	-	(444)	(13)
Cathay Pacific Venture Capital Co., Ltd.	6,439	190	0.02	(4)	-
Cathay Futures Corp.	1,571,679	46,403	0.14	(3,005)	(89)
Cathay Securities Trust Co., Ltd.	656,032	19,369	0.05	(1,763)	(52)
Cathay Real Estate Development Co., Ltd.	80,528	2,378	0.01	(18)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd.	147,194	4,346	0.01	(9,853)	(291)
Cathay Global Money Market Fund etc.	6,878,980	203,099	0.61	(25,231)	(745)
Others	4,132,736	122,018	0.37	(11,453)	(338)
Total	$25,750,541	$760,276	2.29	$(73,339)	$(2,165)

Accounts/Related parties	March 31, Account balance NT	US	% of Account	January 1- March 31, Interest income (expense) NT	US
2010					
Loans					
Seaward Leasing Ltd.	$-	$-	-	$1,913	$60
Taiwan Real-estate Management Corp.	102,000	3,215	0.01	427	14
Cathay General Hospital	212,000	6,681	0.03	1,453	46
Others	300,312	9,465	0.03	1,089	34
Total	$614,312	$19,361	0.07	$4,882	$154
Deposits					
Cathay Financial Holding Co., Ltd.	$3,133	$99	-	$(1)	$-
Cathay Life Insurance Co., Ltd.	17,982,151	566,724	1.43	(8,202)	(258)
Cathay Century Insurance Co., Ltd.	1,501,088	47,308	0.12	(2,206)	(69)
Cathay Securities Corp.	151,905	4,787	0.01	(81)	(3)
Cathay Futures Corp.	1,356,582	42,754	0.11	(2,727)	(86)
Cathay Pacific Venture Capital Co., Ltd.	13,251	418	-	-	-
Cathay Securities Investment Trust Co., Ltd.	622,694	19,625	0.05	(528)	(17)
Cathay Real Estate Development Co., Ltd.	311,818	9,827	0.03	(12)	-
Cathay Life Insurance (Vietnam) Co., Ltd.	38,374	1,209	-	(1,135)	(36)
Cathay Global Money Market Fund etc.	6,131,157	193,229	0.49	(7,699)	(243)
Others	3,146,508	99,165	0.25	(4,041)	(127)
Total	$31,258,661	$985,145	2.49	$(26,632)	$(839)

Accounts / Related parties	January 1- March 31, Maximum balance NT	US	March 31, Account balance NT	US	January 1 –March 31, Interest income (expense) NT	US	Interest Rate (%)
2009							
Call loans to banks							
Indovina Bank	$746,174	$22,031	$-	$-	$4,621	$136	2.56-5.2
Due from commercial banks							
Indovina Bank	375,117	11,075	3,664	108	356	11	0.5-2.4
Call loans from banks							
Indovina Bank	237,419	7,010	-	-	(1,544)	(46)	3.04
Due to commercial banks							
Indovina Bank	52,078	1,538	8,155	241	-	-	-
2010							
Call loans to banks							
Indovina Bank	$741,383	$23,365	$-	$-	$46	$1	0.24-0.50
Due from commercial banks							
Indovina Bank	48,144	1,517	18,902	596	16	1	0.1-2.4
Call loans from banks							
Indovina Bank	668,199	21,059	-	-	(28)	(1)	0.19-0.24
Due to commercial banks							
Indovina Bank	34,502	1,087	8,129	256	-	-	-

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

(2) Guarantees

Related Parties	January 1-March 31, Maximum balance NT	US	March 31, Account balance NT	US	January 1-March 31, Service fees NT	US
2009						
Symphox Information Co., Ltd.	$413	$13	$413	$13	$-	$-
Seaward Leasing Ltd.	480,000	14,172	480,000	14,172	-	-

Related Parties	January 1-March 31, Maximum balance		March 31, Account balance		January 1-March 31, Service fees	
	NT	US	NT	US	NT	US
2010						
Symphox Information Co., Ltd.	$225	$7	$-	$-	$-	$-
Seaward Leasing Ltd.	780,000	24,582	330,000	10,400	233	7

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	March 31, Account balance		January 1- March 31, Interest income (expense)	
	NT	US	NT	US
2009				
Securities sold under agreements to repurchase				
Cathay Life Insurance Co., Ltd.	$80,001	$2,362	$(177)	$(6)
Cathay Securities Investment Trust Co., Ltd.	-	-	(13)	-
San Ching Engineering Corp.	-	-	(3)	-
Others	608,227	17,958	(405)	(12)
Total	$688,228	$20,320	$(598)	$(18)
Securities purchased under agreements to resell				
Cathay Life Insurance Co., Ltd.	$-	$-	$84	$2
2010				
Securities sold under agreements to repurchase				
Cathay Securities Investment Trust Co., Ltd.	$115,000	$3,624	$(24)	$(1)
Others	558,313	17,596	(161)	(5)
Total	$673,313	$21,220	$(185)	$(6)

(4) Lease

	January 1- March 31,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
Rental income				
Cathay Life Insurance Co., Ltd.	$2,877	$85	$2,426	$76
Cathay Century Insurance Co., Ltd.	90	3	89	3
Cathay Securities Corp.	1,415	42	1,467	46
Culture and Charity Foundation of Cathay United Bank	250	7	250	8
Rental expense				
Cathay Life Insurance Co., Ltd.	82,520	2,436	89,198	2,811
Cathay Real Estate Development Co., Ltd.	2,830	84	2,321	73
Seaward Leasing Ltd.	3,868	114	3,395	107

	March 31,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Cathay Life Insurance Co., Ltd.	$68,143	$2,012	$71,606	$2,257
Cathay Real Estate Development Co., Ltd.	2,635	78	2,180	69
Seaward Leasing Ltd.	11,590 (Note)	342 (Note)	1,836	58

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

	March 31,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Life Insurance Co., Ltd.	$2,490	$74	$8,753	$276
Cathay Century Insurance Co., Ltd.	88	3	1,620	51
Cathay Securities Corp.	1,325	39	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.

	January 1- March 31,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(5) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$312,302	$9,221	$242,562	$7,645
Cathay Century Insurance Co., Ltd.	19,852	586	15,970	503
Cathay Securities Co., Ltd.	1,048	31	1,209	38
Cathay Securities Trust Co., Ltd.	4,185	124	5,309	167
Cathay Securities Investment Consulting Co., Ltd.	-	-	1,174	37
(6) Other operating income				
Cathay Century Insurance Co., Ltd.	193	6	3,198	101
(7) Operating expenses				
Cathay Life Insurance Co., Ltd.	25,279	746	22,220	700
Cathay Securities Corp.	600	18	600	19
Seaward Card Co., Ltd.	81,810	2,415	78,754	2,482
Symphox Information Co., Ltd.	118,397	3,496	139,313	4,391
Cathay Real Estate Development Co., Ltd.	1,823	54	1,805	57
Cathay Lin Yuan Security Co., Ltd.	1,305	39	505	16
Cathay General Hospital	-	-	1,231	39
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	147,098	4,343	154,791	4,878
Cathay Century Insurance Co., Ltd.	22,226	656	22,768	718

	March 31,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$1,913,505	$56,496	$1,955,061	$61,616
(10) Other receivables- cash dividends				
Indovina Bank	169,585	5,007	143,186	4,513
(11) Financial assets at fair value through profit or loss – mutual funds				
Cathay Securities Trust Co., Ltd.	345,649	10,205	101,337	3,194

(NOTE) The Bank invested in the funds which are managed by Cathay Securities Trust Co., Ltd.

	March 31,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(12) Refundable deposit				
Cathay Futures Corp.	$38,393	$1,134	$42,643	$1,344
(13) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	-	-	331,194	10,438
(14) Accounts payable				
Cathay Century Insurance Co., Ltd.	10,765	318	11,900	375
Symphox Information Co., Ltd.	45,360	1,339	32,226	1,016

(15) Others

a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT$1,411,880 in 2006. The project was completed in 2009. The Bank paid the amount of NT$50,507 (US$1,491) during the three-month period ended March 31, 2009. As of March 31, 2009, the accumulated paid amount was NT$1,232,404 (US$36,386).

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$1,191 (US$35) and NT$0 (US$0) during the three-month periods ended March 31, 2009 and 2010, 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$5,081 (US$150) and NT$3,971 (US$125) during the three-month periods ended March 31, 2009 and 2010, respectively.

d. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the three-month periods ended March 31, 2009 and 2010, respectively. As of March 31, 2009 and 2010, the bonus points which not converting amount were NT$27,451 (US$810) and NT$29,612 (US$933).

e. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the service fees of NT$5,327 (US$168) was included in disposal gains of premises and equipment during the three-month period ended March 31, 2010, respectively.

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.

(15) Transactions of derivative financial instruments

			Notional amount		Valuation gains (losses)	
Related parties	Category of agreements	Term of agreements	NT	US	NT	US
March 31, 2009						
Cathay Life Insurance Co., Ltd.	Forward	2008.5.19~2009.8.26	$24,381,509	$719,856	$2,531,980	$74,756
	Currency swap	2008.5.5~2009.11.10	49,857,990	1,472,040	2,461,428	72,673
	Interest rate swap	-	-	-	(2,655)	(78)
Cathay Century Insurance Co., Ltd.	Forward	2008.9.16~2009.12.15	251,325	7,420	(19)	(1)
	Non-delivery forward	2008.11.18~2009.12.15	10,175	300	190	6
	Currency swap	2009.1.23~2009.4.30	374,783	11,065	33,973	1,003
	Interest rate swap	2007.9.29~2015.4.30	600,000	17,715	(34,586)	(1,021)
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	2009.3.3~2009.4.3	596,939	17,624	(4,009)	(118)
	Non-delivery forward	-	-	-	(130)	(4)
	Interest rate swap	-	-	-	4,655	137
March 31, 2010						
Cathay Life Insurance Co., Ltd.	Forward	2009.12.9-2010.12.20	$15,909,500	$501,402	$(133,128)	$(4,196)
	Currency swap	2009.5.26-2012.3.8	94,693,344	2,984,347	(1,304,746)	(41,120)
Cathay Century Insurance Co., Ltd.	Currency swap	2009.9.22-2011.3.31	892,523	28,129	(6,293)	(198)
	Interest rate swap	2007.9.29~2015.4.30	600,000	18,910	(27,959)	(881)
The funds which are managed by Cathay Securities Trust Co., Ltd.	Forward	-	-	-	(6,018)	(190)
	Non-delivery forward	2010.3.2-2010.4.9	105,003	3,309	(1,916)	(60)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2010, 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	$173,825,621	$5,478,274
Travelers checks for sale	367,508	11,582
Bills for collection	37,449,832	1,180,266
Book-entry for government bonds and depository for short-term marketable securities under management	552,272,400	17,405,370
Entrusted financial management business	2,703,545	85,205
Guarantees on duties and contracts	16,500,207	520,019
Unused commercial letters of credit	3,303,939	104,127
Irrevocable loan commitments	43,199,331	1,361,466
Credit card lines commitments	259,066,889	8,164,730
Stamp tax, securities and memorial currency consignments	1,727	54

2. As of March 31, 2010, 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$11,810). 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$26,572) and NT$3.09 billion (US$91,231), respectively. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

3. As of March 31, 2010, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$1,011,240(US$31,870) with prepayments of NT$562,058 (US$17,714).

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

Periods	NT	US
2010.4.1~2011.3.31	$723,789	$22,811
2011.4.1~2012.3.31	549,987	17,333
2012.4.1~2013.3.31	383,168	12,076
2013.4.1~2014.3.31	81,522	2,569
2014.4.1~2015.3.31	27,403	864

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	March 31, 2009			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$52,089,370	$1,537,921	$52,089,370	$1,537,921
Available-for-sale financial assets	121,659,360	3,591,950	121,659,360	3,591,950
Held-to-maturity financial assets and debt securities with no active market	221,435,741	6,537,813	221,486,341	6,539,307
Other financial assets – financial assets carried at cost	4,095,278	120,912	(Note)	(Note)
Others	894,980,942	26,424,002	894,980,942	26,424,002

	March 31, 2009			
	Book value		Fair value	
	NT	US	NT	US
Liabilities				
Financial liabilities at fair value through profit or loss	$32,738,404	$966,590	$32,738,404	$966,590
Financial debentures payable	19,129,566	564,794	19,129,566	564,794
Others	1,199,466,930	35,413,845	1,199,466,930	35,413,845
Derivative financial instruments				
Assets				
Forward	$6,145,146	$181,433	$6,145,146	$181,433
Non-delivery forward	141,656	4,182	141,656	4,182
Currency swap	888,102	26,221	888,102	26,221
Interest rate swap	6,575,202	194,131	6,575,202	194,131
Cross currency swap	334,948	9,889	334,948	9,889
Options	161,104	4,757	161,104	4,757
Credit default swap	37	1	37	1
Liabilities				
Forward	1,422,870	42,010	1,422,870	42,010
Non-delivery forward	134,757	3,979	134,757	3,979
Currency swap	5,548,489	163,817	5,548,489	163,817
Interest rate swap	3,839,626	113,364	3,839,626	113,364
Cross currency swap	191,550	5,655	191,550	5,655
Options	161,177	4,759	161,177	4,759
Credit derivative instruments	725,182	21,411	725,182	21,411
Credit default swap	21,951	648	21,951	648

	March 31, 2010			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$25,971,042	$818,501	$25,971,042	$818,501
Available-for-sale financial assets	81,039,227	2,554,025	81,039,227	2,554,025
Held-to-maturity financial assets and debt securities with no active market	399,166,377	12,580,094	399,210,944	12,581,498
Other financial assets – financial assets carried at cost	3,995,640	125,926	(NOTE)	(NOTE)
Others	916,382,489	28,880,633	916,382,489	28,880,633
Liabilities				
Financial liabilities at fair value through profit or loss	12,460,498	392,704	12,460,498	392,704
Financial debentures payable	16,471,463	519,113	16,471,463	519,113
Others	1,344,812,195	42,382,988	1,344,812,195	42,382,988

	March 31, 2010			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$632,976	$19,949	$632,976	$19,949
Non-delivery forward	32,240	1,016	32,240	1,016
Currency swap	1,927,950	60,761	1,927,950	60,761
Interest rate swap	4,133,349	130,266	4,133,349	130,266
Cross currency swap	252,485	7,957	252,485	7,957
Options	89,011	2,805	89,011	2,805
Liabilities				
Forward	1,764,409	55,607	1,764,409	55,607
Non-delivery forward	31,607	996	31,607	996
Currency swap	725,491	22,865	725,491	22,865
Interest rate swap	2,382,772	75,095	2,382,772	75,095
Cross currency swap	203,600	6,417	203,600	6,417
Options	89,011	2,805	89,011	2,805
Credit derivative instruments	41,028	1,293	41,028	1,293
Credit default swap	8,657	273	8,657	273

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.

(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:

	March 31, 2009			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$51,741,441	$1,527,648	$347,929	$10,272
Available-for-sale financial assets	110,056,030	3,249,366	11,603,330	342,584
Held-to-maturity financial assets and debt securities without active market	187,620,458	5,539,429	33,865,883	999,878
Others (Note)	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	32,738,404	966,590
Financial debentures payable	-	-	19,129,566	564,794
Others (Note)	-	-	-	-
Derivative financial instruments				
Assets				
Forward	-	-	6,145,146	181,433
Non-delivery forward	-	-	141,656	4,182
Currency swap	-	-	888,102	26,221
Interest rate swap	-	-	6,575,202	194,131
Cross currency swap	-	-	334,948	9,889
Options	-	-	161,104	4,757
Credit default swap	-	-	37	1

	March 31, 2009			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Liabilities				
Forward	$-	$-	$1,422,870	$42,010
Non-delivery forward	-	-	134,757	3,979
Currency swap	-	-	5,548,489	163,817
Interest rate swap	-	-	3,839,626	113,364
Cross currency swap	-	-	191,500	5,654
Options	-	-	161,177	4,759
Credit derivative instruments	-	-	725,182	21,411
Credit default swap	-	-	21,951	648

	March 31, 2010			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$2,705,712	$85,273	$23,265,330	$733,228
Available-for-sale financial assets	63,535,737	2,002,387	17,503,490	551,639
Held-to-maturity financial assets and debt securities without active market	1,293,591	40,769	397,872,786	12,539,325
Others (Note)	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	12,460,498	392,704
Financial debentures payable	-	-	16,471,463	519,113
Others (Note)	-	-	-	-
Derivative financial instruments				
Assets				
Forward	$-	$-	$632,976	$19,949
Non-delivery forward	-	-	32,240	1,016
Currency swap	-	-	1,927,950	60,761
Interest rate swap	-	-	4,133,349	130,266
Cross currency swap	-	-	252,485	7,957
Options	-	-	89,011	2,805

	March 31, 2010			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Liabilities				
Forward	-	-	1,764,409	55,607
Non-delivery forward	-	-	31,607	996
Currency swap	-	-	725,491	22,865
Interest rate swap	-	-	2,382,772	75,095
Cross currency swap	-	-	203,600	6,417
Options	-	-	89,011	2,805
Credit derivative instruments	-	-	41,028	1,293
Credit default swap	-	-	8,657	273

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

4. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT$355,980 (US$10,510) and NT$48,354 (US$1,524) for the three-month periods ended March 31, 2009 and 2010, respectively.

5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the three-month periods ended March 31, 2009 and 2010 were NT$7,058,018 (US$208,386) and NT$5,267,853 (US$166,021), and expenses were NT$3,032,372 (US$89,530) and NT$1,674,342 (US$52,768), respectively.

6. The Bank recognized an unrealized gains or losses of NT$708,204 (US$20,909) and NT$195,136 (US$6,150) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$45,713 (US$1,350) and NT$508,317(US$16,020) in income statement, for the three-month periods ended March 31, 2009 and 2010, respectively.

7. Information on financial risk

(1) Market risk

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

① Interest rate risk

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

② Foreign exchange risk

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

③ Equity securities price risk

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

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

March 31, 2010						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$511,336	$16,115	$685,573	$21,606	$401,352	$12,649
Foreign exchange	206,665	6,513	442,198	13,936	110,355	3,478
Equity Securities price	145,942	4,599	175,459	5,530	99,853	3,147

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.

(In thousands of US dollars)

		March 31, 2010	
		NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	$407,229	$12,834
	HKD+1%	11,944	376
	JPY+1%	16,846	531
	NTD+1%	(437,502)	(13,788)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(13,468)	(424)
	Yield curves (HKD) parallel shift+1bp	(25)	(1)
	Yield curves (JPY) parallel shift+1bp	(86)	(3)
	Yield curves (NTD) parallel shift+1bp	(13,478)	(425)
Equity securities price factor sensitivity (Equity Delta)		67,646	2,132

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, 2010	
		NT	US
Stock Market	Major Stock Exchanges +15%	$1,014,691	$31,979
	Major Stock Exchanges -15%	(1,014,691)	(31,979)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,638,741)	(83,162)
	Major Interest Rate - 100bp	2,466,528	77,735
Foreign Exchange Market	Major Currencies +3%	1,367,167	43,088
	Major Currencies -3%	(1,287,523)	(40,577)
Composite	Major Stock Exchanges -15%	(2,286,269)	(72,054)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(2) Credit risk

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

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

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

① Information on concentrations of credit risk:

	March 31, 2009			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$52,089,370	$1,537,921	$52,089,370	$1,537,921
Available-for-sale financial assets	121,659,360	3,591,950	121,659,360	3,591,950
Held-to-maturity financial assets and debt securities with no active market	221,435,741	6,537,813	221,435,741	6,537,813
Other financial assets – financial assets carried at cost	4,095,278	120,912	4,095,278	120,912
Other assets	894,980,942	26,424,002	894,980,942	26,424,002
Guarantees on duties and contracts	-	-	17,615,749	520,099
Unused commercial letters of credit	-	-	3,153,733	93,113
Irrevocable loan commitments	-	-	34,119,830	1,007,376
Credit card line commitments	-	-	263,878,701	7,790,927
Derivative financial instruments				
Forward	$6,145,146	$181,433	$6,145,146	$181,433
Non-delivery forward	141,656	4,182	141,656	4,182
Currency swap	888,102	26,221	888,102	26,221
Interest rate swap	6,575,202	194,131	6,575,202	194,131
Cross currency swap	334,948	9,889	334,948	9,889
Options	161,104	4,757	161,104	4,757
Credit default swap	37	1	37	1

	March 31, 2010			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$25,971,042	$818,501	$25,971,042	$818,501
Available-for-sale financial assets	81,039,227	2,554,025	81,039,227	2,554,025
Held-to-maturity financial assets and debt securities with no active market	399,166,377	12,580,094	399,166,377	12,580,094
Other financial assets – financial assets carried at cost	3,995,640	125,926	3,995,640	125,926
Other assets	916,382,489	28,880,633	916,382,489	28,880,633
Guarantees on duties and contracts	-	-	16,500,207	520,019
Unused commercial letters of credit	-	-	3,303,939	104,127
Irrevocable loan commitments	-	-	43,199,331	1,361,466
Credit card line commitments	-	-	259,066,889	8,164,730

	March 31, 2010			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Derivative financial instruments				
Forward	$632,976	$19,949	$632,976	$19,949
Non-delivery forward	32,240	1,016	32,240	1,016
Currency swap	1,927,950	60,761	1,927,950	60,761
Interest rate swap	4,133,349	130,266	4,133,349	130,266
Cross currency swap	252,485	7,957	252,485	7,957
Options	89,011	2,805	89,011	2,805

②The 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 Banks' information of concentration of credit risk is as follows:

	March 31,			
	2009		2010	
	NT	US	NT	US
Loans, customers' liabilities under acceptances, bill purchased and guarantees account				
Industry type				
Manufacturing	$121,050,077	$3,573,962	$132,012,146	$4,160,484
Financial institutions and insurance	38,409,062	1,134,014	29,514,273	930,169
Leasing and real estate	79,681,039	2,352,555	81,150,608	2,557,536
Individuals	418,508,364	12,356,314	423,641,740	13,351,457
Others	148,917,690	4,396,743	139,108,570	4,384,134
Total	806,566,232	23,813,588	805,427,337	25,383,780
Valuation allowance	(8,265,310)	(244,030)	(5,891,220)	(185,667)
Maximum credit risk exposed	$798,300,922	$23,569,558	$799,536,117	$25,198,113
Geographic Region				
Domestic	$715,498,964	$21,124,859	$724,981,076	$22,848,442
South East Asia	24,814,918	732,652	22,792,649	718,331
North East Asia	203,771	6,016	1,083,594	34,151
America	19,338,305	570,957	14,816,279	466,949
Others	46,710,274	1,379,104	41,753,739	1,315,907
Total	806,566,232	23,813,588	805,427,337	25,383,780
Valuation allowance	(8,265,310)	(244,030)	(5,891,220)	(185,667)
Maximum credit risk exposed	$798,300,922	$23,569,558	$799,536,117	$25,198,113

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

The liquidity risk rate was 39.37%. 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 of interest rate fluctuation

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of March 31, 2010, there is no significant change in these dates.

As of March 31, 2009 and 2010, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%) March 31, 2009	Effective interest rate (%) March 31, 2010
Available-for-sale financial assets		
Bonds	0.4774-6.7737	0.3457-6.6628
Overseas financial instruments	0-6.3574	0-6.3574
Held-to-maturity financial assets		
Bonds	1.9842-6.9559	2.2292-6.9559
Overseas financial instruments	1.2369-1.4241	0-7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.57-2.359	0.145-0.71
Overseas financial instruments	0-11.61	0-11.55
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:

	Hedging instruments				
		Financial assets Fair value			
	Derivative designated as	March 31, 2009		March 31, 2010	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$2,303,084	$67,998	$1,133,019	$35,708

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

XI. Others

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

	January 1-March 31, 2009		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$27,995,971	$826,571	0.52%
Time certificates, discounted bills and others	196,474,134	5,800,831	1.11%
Due from commercial banks and call loans to banks	25,200,901	744,048	0.30%
Discounts and loans	796,209,963	23,507,823	2.41%
Bills purchased	3,620	107	2.09%
Bonds and beneficiary certificates	157,688,514	4,655,699	3.03%
Receivables-credit card revolving balance	18,610,145	549,458	14.16%
Securities purchased under agreements to resell	2,886,688	85,228	0.23%
Liabilities			
Due to banks	60,728,459	1,792,987	1.11%
Demand deposits	117,260,507	3,462,076	0.10%
Saving deposits	626,586,577	18,499,751	0.90%
Time deposits	332,138,852	9,806,284	1.38%
Negotiable certificates of deposit	2,423,416	71,551	1.29%
Securities sold under agreements to repurchase	24,223,378	715,187	0.39%
Financial debentures	49,370,361	1,457,643	3.57%
Funds borrowed from the Central Bank and other banks	1,960,506	57,883	0.86%

	January 1-March 31, 2010		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$34,761,098	$1,095,528	0.36%
Time certificates, discounted bills and others	380,784,412	12,000,769	0.56%
Due from commercial banks and call loans to banks	16,744,225	527,710	0.20%
Discounts and loans	786,148,797	24,776,199	1.69%
Bills purchased	4,033	127	3.19%
Bonds and beneficiary certificates	108,192,438	3,409,784	2.79%
Receivables-credit card revolving balance	17,468,391	550,532	14.06%
Securities purchased under agreements to resell	2,667,594	84,072	0.15%

	January 1-March 31, 2010		
	Average balance		Average rate
	NT	US	(%)
Liabilities			
Due to banks	$50,100,329	$1,578,958	0.63%
Demand deposits	199,116,351	6,275,334	0.10%
Saving deposits	743,707,632	23,438,627	0.47%
Time deposits	290,477,820	9,154,674	0.70%
Negotiable certificates of deposit	1,586,440	49,998	0.13%
Securities sold under agreements to repurchase	8,194,646	258,262	0.13%
Financial debentures	30,760,668	969,451	3.27%
Funds borrowed from the Central Bank and other banks	1,829,226	57,650	0.52%

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. As of March 31, 2009 and 2010, the assets and liabilities managed under the Bank's trust were NT$413,125,793 (US$12,197,396) and NT$ 426,809,894 (US$13,451,305), respectively.