Cathay United Bank and Its Subsidiaries
Consolidated Financial Statements
For The Six-Month Periods Ended
June 30, 2009 and 2010
With Independent Auditors' Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying consolidated balance sheets of Cathay United Bank (the "Bank") and its subsidiaries as of June 30, 2009 and 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2009 and 2010. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of June 30, 2009 and 2010, and the consolidated results of its operations and its cash flows for the six-month periods then ended in conformity with requirements of 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.

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
August 9, 2010

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets

June 30, 2009 and 2010

(Expressed in thousands of dollars)

		June 30, 2009		June 30, 2010	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$16,445,319	$501,841	$21,650,587	$670,920
Due from the Central Bank and call loans to banks	IV and V	83,877,386	2,559,579	125,936,839	3,902,598
Financial assets at fair value through profit or loss	II, IV and V	58,434,401	1,783,168	29,135,117	902,855
Securities purchased under agreements to resell		716,000	21,849	6,198,072	192,069
Receivables, net	II, IV and V	42,191,936	1,287,517	42,232,669	1,308,728
Discounts and loans, net	II, IV and V	785,296,292	23,963,878	845,326,284	26,195,422
Available-for-sale financial assets, net	II and IV	139,312,297	4,251,214	74,303,292	2,302,550
Held-to-maturity financial assets, net	II and IV	2,531,145	77,240	4,448,906	137,865
Investments accounted for using equity method, net	II and IV	1,575,684	48,083	1,584,961	49,116
Other financial assets, net	II and IV	4,976,121	151,850	5,476,521	169,710
Investments in debt securities with no active market, net	II and IV	250,458,076	7,642,907	341,829,443	10,592,793
Premises and equipment, net	II, IV, V and VII	27,016,970	824,442	25,782,336	798,957
Intangible assets, net	II and IV	6,904,774	210,704	7,870,461	243,894
Other assets, net	II, IV and V	7,130,897	217,605	5,234,753	162,217
TOTAL ASSETS		$1,426,867,298	$43,541,877	$1,537,010,241	$47,629,694

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets (continued)

June 30, 2009 and 2010

(Expressed in thousands of dollars)

		June 30, 2009		June 30, 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	$45,447,368	$1,386,859	$55,582,385	$1,722,417
Funds borrowed from the Central Bank and other banks		1,640,900	50,073	1,613,900	50,012
Financial liabilities at fair value through profit or loss	II, IV and V	40,381,053	1,232,257	19,539,838	605,511
Securities sold under agreements to repurchase	IV and V	9,157,974	279,462	22,917,393	710,176
Payables	IV and V	18,269,717	557,513	15,536,924	481,466
Deposits and remittances	IV and V	1,203,987,482	36,740,540	1,309,228,461	40,571,071
Financial debentures payable	IV and X	15,194,806	463,680	17,021,193	527,462
Other financial liabilities	II and IV	250,906	7,657	207,566	6,432
Other liabilities	II, IV and V	2,580,197	78,737	2,114,422	65,523
TOTAL LIABILITIES		1,336,910,403	40,796,778	1,443,762,082	44,740,070
SHAREHOLDERS' EQUITY					
EQUITY ATTRIBUTE TO EQUITY HOLDERS OF PARENT					
Capital stock	IV	48,689,413	1,485,792	52,277,026	1,619,988
Reserve for capitalization		3,587,613	109,479	-	-
Capital reserves	IV	15,213,611	464,254	15,213,292	471,438
Retained earnings	IV				
Legal reserve		14,740,680	449,822	15,609,529	483,716
Undistributed earnings		4,170,176	127,256	6,413,051	198,731
Foreign currency translation adjustment	II	14,011	428	16,154	501
Unrealized gains or losses on financial instruments	II	1,701,220	51,914	1,456,454	45,133
Subtotal		88,116,724	2,688,945	90,985,506	2,819,507
MINORITY INTERESTS		1,840,171	56,154	2,262,653	70,117
TOTAL SHAREHOLDERS' EQUITY		89,956,895	2,745,099	93,248,159	2,889,624
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,426,867,298	$43,541,877	$1,537,010,241	$47,629,694

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of income

For the six-month periods ended June 30, 2009 and 2010

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

ITEMS	NOTES	January 1 - June 30, 2009 NT	January 1 - June 30, 2009 US (Note II)	January 1 - June 30, 2010 NT	January 1 - June 30, 2010 US (Note II)
INTEREST INCOME	II and V	$13,776,673	$420,405	$11,400,500	$353,285
INTEREST EXPENSE	V	(6,429,199)	(196,192)	(3,964,879)	(122,866)
NET INTEREST INCOME		7,347,474	224,213	7,435,621	230,419
NONINTEREST INCOME					
Net fee income	II and V	2,019,484	61,626	3,087,276	95,670
Gain on financial assets and liabilities at fair value through profit or loss	II and V	1,708,299	52,130	32,683	1,013
Realized gain on available-for-sale financial assets	II	419,908	12,814	1,300,963	40,315
Investment income recognized by the equity method	II and IV	36,141	1,103	41,325	1,280
Gain on foreign currency exchange, net	II	277,186	8,459	355,355	11,012
Impairment loss of assets	II	(35,588)	(1,086)	-	-
Gain on financial assets carried at cost		71,150	2,171	72,956	2,261
Gain on debt securities with no active market		4,921	150	38,178	1,183
Gain on disposal of foreclosed properties		-	-	1,039,359	32,208
Others	II, IV and V	853,598	26,048	1,003,688	31,103
NET NONINTEREST INCOME		5,355,099	163,415	6,971,783	216,045
NET OPERATING INCOME		12,702,573	387,628	14,407,404	446,464
BAD DEBT EXPENSE	II and IV	(313,749)	(9,574)	-	-
OPERATING EXPENSES					
Personnel	II and IV	(3,543,768)	(108,141)	(3,764,922)	(116,669)
Depreciation and amortization	II and IV	(553,678)	(16,896)	(584,914)	(18,126)
Other general and administrative expenses	V	(2,861,463)	(87,319)	(2,952,621)	(91,497)
TOTAL OPERATING EXPENSES		(6,958,909)	(212,356)	(7,302,457)	(226,292)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		5,429,915	165,698	7,104,947	220,172
INCOME TAX EXPENSE	II and IV	(1,192,419)	(36,388)	(614,715)	(19,049)
NET INCOME		$4,237,496	$129,310	$6,490,232	$201,123
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE PARENT		$4,170,176	$127,256	$6,413,051	$198,731
MINORITY INTEREST		67,320	2,054	77,181	2,392
NET INCOME		$4,237,496	$129,310	$6,490,232	$201,123
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
EQUITY HOLDERS OF THE PARENT		$0.80	$0.024	$1.23	$0.038
MINORITY INTEREST		0.01	-	0.01	-
NET INCOME		$0.81	$0.024	$1.24	$0.038

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of changes in shareholders' equity

For the six-month periods ended June 30, 2009 and 2010

(Expressed in thousands of dollars)

								Retained earnings						Foreign currency		Unrealized gains or losses							
		Capital stock		Reserve for Capitalization		Capital reserves		Legal reserve		Special reserve		Undistributed earnings		translation adjustment		on financial instruments		Equity holders of the parent		Minority interest		Total	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)
Balance, January 1, 2009		$48,689,413	$1,485,792	$-	$-	$15,213,611	$464,254	$13,402,448	$408,985	$465,071	$14,192	$4,460,774	$136,124	$55,677	$1,699	$599,600	$18,297	$82,886,594	$2,529,343	$1,447,815	$44,181	$84,334,409	$2,573,524
Special reserve recovery		-	-	-	-	-	-	-	-	(465,071)	(14,192)	465,071	14,192	-	-	-	-	-	-	-	-	-	-
Appropriation and distribution of 2008 earnings:	IV																						
Legal reserve		-	-	-	-	-	-	1,338,232	40,837	-	-	(1,338,232)	(40,837)	-	-	-	-	-	-	-	-	-	-
Stock dividends		-	-	3,587,613	109,479	-	-	-	-	-	-	(3,587,613)	(109,479)	-	-	-	-	-	-	-	-	-	-
Net income for the six-month period ended June 30, 2009		-	-	-	-	-	-	-	-	-	-	4,170,176	127,256	-	-	-	-	4,170,176	127,256	67,320	2,054	4,237,496	129,310
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	-	-	(41,666)	(1,271)	-	-	(41,666)	(1,271)	-	-	(41,666)	(1,271)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,419	623	20,419	623	-	-	20,419	623
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,081,201	32,994	1,081,201	32,994	-	-	1,081,201	32,994
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	325,036	9,919	325,036	9,919
Balance, June 30, 2009		$48,689,413	$1,485,792	$3,587,613	$109,479	$15,213,611	$464,254	$14,740,680	$449,822	$-	$-	$4,170,176	$127,256	$14,011	$428	$1,701,220	$51,914	$88,116,724	$2,688,945	$1,840,171	$56,154	$89,956,895	$2,745,099
Balance, January 1, 2010		$52,277,026	$1,619,988	$-	$-	$15,213,292	$471,438	$14,740,680	$456,792	$-	$-	$8,688,489	$269,243	$(10,449)	$(323)	$2,236,521	$69,306	$93,145,559	$2,886,444	$2,312,098	$71,649	$95,457,657	$2,958,093
Appropriation and distribution of 2009 earnings:	IV																						
Legal reserve		-	-	-	-	-	-	868,849	26,924	-	-	(868,849)	(26,924)	-	-	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	-	-	(7,819,640)	(242,319)	-	-	-	-	(7,819,640)	(242,319)	-	-	(7,819,640)	(242,319)
Net income for the six-month period ended June 30, 2010		-	-	-	-	-	-	-	-	-	-	6,413,051	198,731	-	-	-	-	6,413,051	198,731	77,181	2,392	6,490,232	201,123
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	-	-	26,603	824	-	-	26,603	824	-	-	26,603	824
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,948)	(246)	(7,948)	(246)	-	-	(7,948)	(246)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(772,119)	(23,927)	(772,119)	(23,927)	-	-	(772,119)	(23,927)
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(126,626)	(3,924)	(126,626)	(3,924)
Balance, June 30, 2010		$52,277,026	$1,619,988	$-	$-	$15,213,292	$471,438	$15,609,529	$483,716	$-	$-	$6,413,051	$198,731	$16,154	$501	$1,456,454	$45,133	$90,985,506	$2,819,507	$2,262,653	$70,117	$93,248,159	$2,889,624

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank and Its Subsidiaries
Consolidated statements of cash flows
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-June 30, 2009 NT	January 1-June 30, 2009 US (Note II)	January 1-June 30, 2010 NT	January 1-June 30, 2010 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$4,237,496	$129,310	$6,490,232	$201,123
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	553,678	16,896	584,914	18,126
The difference between investment income recognized by the equity method and the cash dividends received	II	(14,285)	(436)	(41,325)	(1,280)
Bad debt expense (reversal)	II and IV	313,749	9,574	(613,270)	(19,004)
Gain on disposal of premises, equipment and foreclosed properties	II	(26,598)	(812)	(1,027,300)	(31,835)
Impairment loss of assets	II	35,588	1,086	-	-
Effects of exchange rate changes		(10,073)	(307)	31,383	972
(Increase) decrease in operating assets					
Decrease in receivables		5,584,912	170,427	3,232,961	100,184
(Increase) decrease in deferred income tax assets		916,195	27,958	(140,007)	(4,339)
(Increase) decrease in financial assets at fair value through profit or loss		(5,177,446)	(157,993)	12,483,295	386,839
(Increase) decrease in other assets		540,170	16,484	(120,330)	(3,729)
Increase (decrease) in operating liabilities					
Decrease in payables		(5,357,882)	(163,500)	(6,724,779)	(208,391)
Decrease in financial liabilities at fair value through profit or loss		(7,079,666)	(216,041)	(5,457,142)	(169,109)
Increase in tax payables		88,992	2,716	866,183	26,842
Decrease in other liabilities		(356,024)	(10,864)	(30,633)	(949)
Net cash provided by (used in) operating activities		(5,751,194)	(175,502)	9,534,182	295,450
CASH FLOWS FROM INVESTING ACTIVITIES:					
(Increase) decrease in discounts and loans		34,089,407	1,040,263	(24,181,254)	(749,341)
Increase in due from the Central Bank and call loans to banks		(33,694,734)	(1,028,219)	(45,885,412)	(1,421,922)
(Increase) decrease in securities purchased under agreements to resell		1,453,147	44,344	(4,462,072)	(138,273)
(Increase) decrease in available-for-sale financial assets		(39,956,154)	(1,219,291)	23,487,819	727,853
(Increase) decrease in held-to-maturity financial assets		11,692	357	(359,825)	(11,150)
Capital return due to capital decrease in equity-accounted investee		6,300	192	-	-
Proceeds from disposal of premises, equipment and foreclosed properties		59,244	1,808	1,855,609	57,503
Acquisition of premises, equipment and foreclosed properties		(798,316)	(24,361)	(170,246)	(5,276)
Acquisition of intangible assets		(16,110)	(492)	(173,108)	(5,364)
(Increase) decrease in investments in debt securities with no active market		(31,538,795)	(962,429)	27,951,993	866,191
(Increase) decrease in other financial assets		1,625,614	49,607	(556,650)	(17,250)
Decrease in other assets		942,445	28,759	64,714	2,005
Net cash used in investing activities		(67,816,260)	(2,069,462)	(22,428,432)	(695,024)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(17,717,129)	(540,651)	10,011,549	310,243
Increase (decrease) in securities sold under agreements to repurchase		(11,574,139)	(353,193)	14,171,928	439,167
Increase (decrease) in deposits and remittances		99,808,090	3,045,715	(2,168,915)	(67,211)
Increase (decrease) in funds borrowed from the Central Bank and other banks		(669,161)	(20,420)	12,400	384
Increase (decrease) in financial debentures payable		(3,671,172)	(112,028)	583,984	18,097
Decrease in other financial liabilities		(10,413)	(318)	(32,928)	(1,020)
Increase in other liabilities		314,997	9,613	21,535	667
Increase in minority interest in subsidiaries		492,900	15,041	-	-
Distribution of cash dividends	IV	-	-	(7,962,501)	(246,746)
Net cash provided by financing activities		66,973,973	2,043,759	14,637,052	453,581
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		(7,091)	(216)	11,457	355
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(6,600,572)	(201,421)	1,754,259	54,362
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		23,045,891	703,262	19,896,328	616,558
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$16,445,319	$501,841	$21,650,587	$670,920
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$7,589,679	$231,604	$4,059,255	$125,790
Income tax paid		$187,956	$5,736	$247,190	$7,660

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

Cathay United Bank and Its Subsidiaries
Notes to consolidated financial statements
For the six-month periods ended June 30, 2009 and 2010
(Amounts in thousands except for share and per share data and unless otherwise stated)

I. Business

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

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

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

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

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

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

As of June 30, 2009 and 2010, the Bank and its subsidiaries employed 6,634 and 6,520 employees, respectively.

II. Summary of significant accounting policies

The consolidated financial statements were prepared in conformity with 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. Principles of Consolidation

(1) The Bank is required to include the accounts of all subsidiaries, which is majority owned or controlled in its annual consolidated financial statements.

As of and for the six-month periods ended June 30, 2009 and 2010, the consolidated financial statements included:

Investors	Investees	Business activity	Ownership (%)	Incorporated date
The Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50	Indovina Bank was incorporated in Vietnam on October 29, 1992.

As of and for the six-month periods ended June 30, 2009 and 2010, respectively, the consolidated financial statements excluded following subsidiaries because its total assets and operating revenues were immaterial impact to the Bank.

Investors	Investees	Business activity	Ownership (%)	Incorporated date
The Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100	Cathay Life Insurance Agent was incorporated on March 23, 2000.
The Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100	Cathay Property Insurance Agent was incorporated on March 23, 2000 and finished the process of liquidation on July 2, 2010.
The Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100	Seaward Card was incorporated on April 9, 1999.

(2) All significant inter-company transactions and balances have been eliminated for consolidation purposes.

2. Basis for preparation of consolidated financial statements

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

(2) Financial statements of foreign subsidiaries are converted into New Taiwan dollars ("NT dollars" or "NT$") as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders' equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income statement items are converted by the weighted-average exchange rate for the period. Differences arising from above conversion are reported as "Foreign currency translation adjustment" under shareholders' equity.

3. Foreign-currency transaction and translation

Foreign-currency transactions of the head office, domestic branches and subsidiaries 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.

4. Financial assets and financial liabilities

The Bank and its subsidiaries 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, or 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 and its subsidiaries commit 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 and its subsidiaries at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss. Subsequently, these investments are reviewed on a monthly basis and changes in fair value are recognized in income.

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by 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.

5. Derivative financial instruments

The Bank and its subsidiaries 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.

6. 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 and its subsidiaries 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.

7. Impairment of financial assets

The Bank and its subsidiaries assess 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.

8. Hedge accounting

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

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

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

(3) Hedges of net investments in foreign operations.

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

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

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

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

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

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

9. Allowances for doubtful accounts

   Allowance for doubtful accounts on receivables, bills and loans of the Bank and its subsidiaries 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 Board of Directors.

10. Investment accounted for using equity method

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

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

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

   The Bank prepares consolidated financial statements that include the accounts of its majority-owned affiliates in accordance with the ROC SFAS No. 7" Consolidated Financial Statements".

11. 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~ 8	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.

12. Intangible assets and goodwill

(1) Intangible assets

The Bank and its subsidiaries 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 and its subsidiaries are deemed finite. The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. 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 its subsidiaries 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.

13. Land use rights

Indovina Bank's land use rights pertain to pieces of land located in Ha Noi, Binh Duong and Dong Nai. Land use rights are stated at cost less amortization, which are amortized using the straight-line method over the period from the date of having the rights to use the land up to Indovina Bank investment license's expiration date.

14. Foreclosed properties

Foreclosed properties of the Bank 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.

15. 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.

16. Asset impairment

The Bank and its subsidiaries assess impairment for all its assets within the scope of the ROC SFAS No.35 if impairment indicators were found. The Bank and its subsidiaries 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 and its subsidiaries 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 and its subsidiaries shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank and its subsidiaries 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.

17. Reserves for possible losses on guarantees

Reserves for possible losses on guarantees of the Bank 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.

18. Reserves for losses on trading securities

Pursuant to the “Regulations Governing Securities Firms”, a reserve for possible losses on trading securities of the Bank 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.

19. Pension plans

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefits 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 fund is not reflected in the consolidated 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 select to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts on a basis 6% of the employees' monthly wages. Monthly contributions are recognized as pension costs.

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

20. Recognition of interest income and service fees

Interest income of the Bank and its subsidiaries 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.

21. 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, receipts of cash dividends 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.

22. Income tax

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

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

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

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

Cathay Financial Holding Co., Ltd. has adopted the allocation of linked-tax system for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

23. 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.

24. 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.

25. The interim financial statement

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

26. Basis for converting financial statements

The Bank’s consolidated financial statements are stated in NT dollars. Translation of the June 30, 2009 and 2010 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$32.77 and NT$ 32.27 to US$1.00 on June 30, 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

None.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	June 30,			
	2009		2010	
	NT	US	NT	US
Cash on hand	$9,897,897	$302,041	$10,106,295	$313,179
Checks for clearance	3,148,330	96,074	3,843,340	119,100
Due from commercial banks	3,399,092	103,726	7,700,952	238,641
Total	$16,445,319	$501,841	$21,650,587	$670,920

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

	June 30,			
	2009		2010	
	NT	US	NT	US
Call loans to banks	$44,416,786	$1,355,410	$53,311,541	$1,652,046
Due from the Central Bank-Statutory reserve on deposits and general deposits	39,460,600	1,204,169	72,625,298	2,250,552
Total	$83,877,386	$2,559,579	$125,936,839	$3,902,598

(1) The Bank

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$31,679,244(US$966,715) and NT$34,788,087 (US$1,078,032) as of June 30, 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 June 30, 2009 and 2010, the balance of foreign-currency deposit reserves were NT$98,454 (US$3,004) and NT$214,649 (US$6,652), respectively.

(2) Indovina Bank

In accordance with the provisions of the Law on credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were NT$579,811 (US$17,693) and NT$598,876 (US$18,558) as of June 30, 2009 and 2010, respectively.

3. Financial assets at fair value through profit or loss

	June 30,			
	2009		2010	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$216,600	$6,610	$168,098	$5,209
Mutual funds	404,259	12,336	-	-
Short-term bills	36,441,752	1,112,046	19,471,492	603,393
Bonds	12,832,329	391,588	1,982,407	61,432
Overseas financial instruments	197,610	6,030	206,124	6,387
Derivative financial instruments	8,325,707	254,065	7,306,996	226,434
Subtotal	58,418,257	1,782,675	29,135,117	902,855
Financial assets designated at fair value through profit or loss:				
Bonds	16,144	493	-	-
Total	$58,434,401	$1,783,168	$29,135,117	$902,855

(1) NT$16,144 (US$493) and NT$0 (US$0) of the financial assets at fair value through profit or loss as of June 30, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of June 30, 2010, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$3,195,600 (US$99,027). Such repurchase agreements amounting to NT$3,505,053 (US$108,616) was posted to the "Securities sold under agreements to repurchase" account on the Bank and its subsidiaries' balance sheets. Repurchase agreements entered prior to June 30, 2010 was settled at NT$3,505,515 (US$108,631) prior to September 30, 2010.

(3) As of June 30, 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):

	June 30,	
	2009	2010
Forward foreign exchange and currency swap contracts	$32,349,135	$27,696,049
Interest rate swap contracts	10,263,435	10,392,941
Cross-currency swap contracts	590,764	482,406
Options	280,343	559,627
Credit derivative instrument contracts	125,000	10,000
Credit default swap contracts	35,380	7,000
Futures	-	15,709

(4) Net gains arising from financial assets at fair value through profit or loss for the six-month periods ended June 30, 2009 and 2010 were NT$12,745,668 (US$388,943) and NT$5,596,863 (US$173,439), respectively.

4. Receivables, net

	June 30,			
	2009		2010	
	NT	US	NT	US
Notes receivable	$6,000	$183	$77,214	$2,393
Accounts receivable	32,542,612	993,061	34,100,764	1,056,733
Interest receivable	3,421,819	104,419	1,921,877	59,556
Receivable to related party for allocation of linked-tax system	1,940,789	59,225	2,095,328	64,931
Foreign currency receivable	1,384,207	42,240	2,263,909	70,155
Acceptances	1,115,216	34,032	591,269	18,322
Tax refundable	847,191	25,853	224,603	6,960
Others	3,479,303	106,173	3,027,651	93,822
Total	44,737,137	1,365,186	44,302,615	1,372,872
Less: allowance for doubtful accounts	(2,545,201)	(77,669)	(2,069,946)	(64,144)
Net balance	$42,191,936	$1,287,517	$42,232,669	$1,308,728

Information on bad and doubtful accounts is as follows:

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

	January 1- June 30, 2010					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,023,120	$62,694	$366,597	$11,360	$2,389,717	$74,054
Reversal of doubtful accounts	(399,892)	(12,392)	-	-	(399,892)	(12,392)
Write-offs	(361,331)	(11,197)	-	-	(361,331)	(11,197)
Debt counseling recoveries	69,128	2,142	-	-	69,128	2,142
Recoveries	372,324	11,537	-	-	372,324	11,537
Reclassification	320,881	9,944	(320,881)	(9,944)	-	-
Balance, end of the period	$2,024,230	$62,728	$45,716	$1,416	$2,069,946	$64,144

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

5. Discounts and loans, net

	June 30,			
	2009		2010	
	NT	US	NT	US
Outward documentary bills	$135,980	$4,150	$171,656	$5,319
Overdrafts	1,085,310	33,119	480,668	14,895
Short-term loans	167,064,442	5,098,091	201,301,324	6,238,033
Medium-term loans	216,355,110	6,602,231	208,196,339	6,451,700
Long-term loans	402,456,216	12,281,239	438,247,531	13,580,649
Delinquent accounts	5,608,255	171,140	2,937,992	91,044
Total	792,705,313	24,189,970	851,335,510	26,381,640
Less: allowance for doubtful accounts	(7,409,021)	(226,092)	(6,009,226)	(186,218)
Net balance	$785,296,292	$23,963,878	$845,326,284	$26,195,422

(1) As of June 30, 2009 and 2010, the accounts without interest accrued were NT$6,516,928 (US$198,869) and NT$3,204,647 (US$99,307), respectively. The non-accrued interest on such accounts amounted to NT$232,211 (US$7,086) and NT$175,419 (US$5,436) for the six-month periods ended June 30, 2009 and 2010, respectively.

(2) For the six-month periods ended June 30, 2009 and 2010, the Bank and its subsidiaries 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:

A. The Bank

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

	January 1- June 30, 2010					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,669,862	$82,735	$3,392,833	$105,139	$6,062,695	$187,874
Reversal of doubtful accounts	(52,648)	(1,632)	-	-	(52,648)	(1,632)
Write-offs	(1,198,952)	(37,154)	-	-	(1,198,952)	(37,154)
Debt counseling recoveries	55,505	1,720	-	-	55,505	1,720
Recoveries	975,216	30,221	-	-	975,216	30,221
Reclassification	(118,241)	(3,664)	118,241	3,664	-	-
Effects of exchange rates change	-	-	6,679	207	6,679	207
Balance, end of the period	$2,330,742	$72,226	$3,517,753	$109,010	$5,848,495	$181,236

B. Indovina Bank

	January 1- June 30,			
	2009		2010	
	NT	US	NT	US
Balance, beginning of the period	$100,287	$3,061	$158,569	$4,914
Provision (reversal) of doubtful accounts	25,403	775	(160,730)	(4,981)
Effects of exchange rates change,etc.	(616)	(19)	162,892	5,049
Balance, end of the period	$125,074	$3,817	$160,731	$4,982

The consolidated financial statements of the Bank and its subsidiaries include provision for possible credit loss and guarantee loss based on information available to the Bank and its subsidiaries, 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

	June 30,			
	2009		2010	
	NT	US	NT	US
Stocks	$4,201,819	$128,221	$5,846,902	$181,187
Mutual funds and beneficiary certificates	236,544	7,218	297,601	9,222
Bonds	117,914,362	3,598,241	42,816,207	1,326,812
Overseas financial instruments	17,467,090	533,021	25,342,582	785,329
Total	139,819,815	4,266,701	74,303,292	2,302,550
Less: accumulated impairment	(507,518)	(15,487)	-	-
Net balance	$139,312,297	$4,251,214	$74,303,292	$2,302,550

(1) NT$2,698,958 (US$82,361) and NT$3,603,687 (US$111,673) of the available-for-sale financial assets as of June 30, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

As of June 30, 2010, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$18,850,547 (US$584,151). Such repurchase agreements amounting to NT$19,412,340 (US$601,560) was posted to the "Securities sold under agreements to repurchase" account on the Bank and its subsidiaries balance sheets. Repurchase agreements entered prior to June 30, 2010 was settled at NT$19,415,008 (US$601,643) prior to July 31, 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$507,518 (US$15,727) on available for sales financial assets at June 30, 2009.

7. Held-to-maturity financial assets, net

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

	June 30, 2010			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,154,000	$35,761	$1,291,086	$40,009
Overseas financial instruments	2,939,690	91,096	3,157,820	97,856
Net balance	$4,093,690	$126,857	$4,448,906	$137,865

As of June 30, 2009 and 2010, NT$90,893 (US$2,774) and NT$416,943 (US$12,920) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	June 30, 2009				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,015	$1,160	100.00	$1,276	$39
Cathay Life Insurance Agent Co., Ltd	36,853	1,125	100.00	11,293	345
Cathay Property Insurance Agent Co., Ltd.	7,416	226	100.00	215	6
Taiwan Real-estate Management Corp.	49,513	1,511	30.15	2,230	68
Taiwan Finance Corp.	1,416,081	43,213	24.57	24,342	743
Vista Technology Venture Capital Corp.	6,094	186	4.76	2	-
Cathay Venture Capital Corp.	21,712	662	2.00	(3,217)	(98)
Total	$1,575,684	$48,083		$36,141	$1,103

	June 30, 2010				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$40,422	$1,253	100.00	$1,103	$34
Cathay Life Insurance Agent Co., Ltd	35,962	1,114	100.00	10,401	322
Cathay Property Insurance Agent Co., Ltd.	7,598	236	100.00	(74)	(2)
Taiwan Real-estate Management Corp.	61,304	1,900	30.15	5,332	165
Taiwan Finance Corp.	1,434,254	44,445	24.57	24,570	761
Vista Technology Venture Capital Corp.	5,421	168	4.76	(7)	-
Total	$1,584,961	$49,116		$41,325	$1,280

(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 finished the process of liquation on July 2, 2010.

(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 six-month periods ended June 30, 2009 and 2010 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

9. Other financial assets, net

	June 30,			
	2009		2010	
	NT	US	NT	US
Derivative financial assets for hedging	$877,793	$26,787	$1,458,334	$45,192
Financial assets carried at cost, stocks	4,095,465	124,976	4,015,165	124,424
Bills purchased	2,863	87	3,022	94
Total	$4,976,121	$151,850	$5,476,521	$169,710

(1) Due to the recurring losses incurred, the Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT$564,945 (US$17,240) and NT$627,945 (US$19,459) as of June 30, 2009 and 2010, respectively.

(2) As of June 30, 2009 and 2010, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$877,793 (US$26,787) and NT$1,458,334 (US$45,192), respectively. The Bank has recognized gain in hedging in the amount of NT$58,386 (US$1,782) and NT$262,683 (US$8,140) for the six-month periods ended June 30, 2009 and 2010, respectively.

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

	June 30,			
	2009		2010	
	NT	US	NT	US
Preferred stocks	$549,730	$16,775	$549,730	$17,035
Certificates of deposit	223,035,000	6,806,073	322,435,000	9,991,788
Bonds	95,586	2,917	95,586	2,962
Beneficiary certificates	400,000	12,206	-	-
Overseas financial instruments	29,053,299	886,582	21,032,670	651,772
Subtotal	253,133,615	7,724,553	344,112,986	10,663,557
Less: accumulated impairment	(2,675,539)	(81,646)	(2,283,543)	(70,764)
Net balance	$250,458,076	$7,642,907	$341,829,443	$10,592,793

(1) NT$ 15,535,000 (US $474,062) and NT$20,500,000 (US $635,265) of certificates of deposit as of June 30, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) Due to the credit deterioration of securitization and financial debentures, the Bank has recognized impairment loss NT$2,530,319 (US$77,214) and NT$2,141,653 (US$66,367) for the six-month periods ended June 30, 2009 and 2010, respectively.

The amounts of the accumulated impairment loss were NT$145,220 (US$4,432) and NT$141,890 (US$4,397) which have been recognized as of June 30, 2009 and 2010, respectively, due to the default on certain convertible 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$166,199) with Land Bank Co., Ltd. as Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014.

The trust was terminated after the amount paid to the holders of senior beneficiary certificates on April 28, 2010. After received the tax refund of 2009, the trust distributed the residual assets and closedown on May 14, 2010.

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$103,347)	2.175%
Senior tranche 2nd	NT$315,000(US$9,761)	2.325%
Senior tranche 3rd	NT$340,000(US$10,536)	2.545%
Senior tranche 4th	NT$480,000(US$14,874)	2.945%
Subordinated tranche 5th	NT$200,000(US$6,198)	3.00%
Subordinated tranche 6th	NT$200,000(US$6,198)	3.20%
Subordinated tranche 7th	NT$576,335(US$17,860)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$30,256) and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to the Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests：

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

	Corporate Loans Securitization	
	May 28,2007	June 30, 2009
Expected weighted-average life (in years)	2.210	0.481
Prepayment rate (annual rate)	3%	3%
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.20%	2.49%

(2) Sensitivity analysis：

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

	June 30, 2009	
	NT	US
Carrying amount of retained interests	$973,720	$29,714
Expected weighted-average life (in years)	0.481	0.481
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	(2,481)	(76)
Impact on fair value with 20% adverse change	(3,098)	(95)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(2,925)	(89)
Impact on fair value with 20% adverse change	(3,346)	(102)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on fair value with 10% adverse change	(2,586)	(79)
Impact on fair value with 20% adverse change	(5,166)	(158)

(3) Expected static pool credit losses:

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

(4) Cash flows:

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

	January 1-June 30,			
	2009		2010	
	NT	US	NT	US
Servicing fees received	$120	$4	$104	$3
Other cash received on retained interests	12,314	376	7,789	241
Repayment of cash reserve	2,474	75	15,613	484

12. Premises and equipment, net

	June 30,			
	2009		2010	
	NT	US	NT	US
Cost:				
Land	$14,742,528	$449,879	$14,707,197	$455,754
Buildings	11,126,732	339,540	11,688,482	362,209
Office equipment	3,894,650	118,848	4,334,192	134,310
Transportation equipment	93,392	2,850	96,204	2,981
Leased improvements	16,852	514	16,758	519
Other equipment	5,188,416	158,328	5,378,305	166,666
Construction in progress and prepayment for equipment	1,783,559	54,427	253,077	7,843
Subtotal	36,846,129	1,124,386	36,474,215	1,130,282
Accumulated depreciation:				
Buildings	(2,691,622)	(82,137)	(2,931,295)	(90,836)
Office equipment	(3,165,480)	(96,597)	(3,454,848)	(107,061)
Transportation equipment	(68,991)	(2,105)	(73,142)	(2,266)
Leased improvements	(5,721)	(175)	(8,558)	(265)
Other equipment	(3,897,345)	(118,930)	(4,224,036)	(130,897)
Subtotal	(9,829,159)	(299,944)	(10,691,879)	(331,325)
Net balance	$27,016,970	$824,442	$25,782,336	$798,957

13. Intangible assets, net

January 1-June 30, 2009

	January 1,		Additions/Amortization		Disposal		Effects of exchange rates change		June 30,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Good will	$6,673,083	$203,634	$-	$-	$-	$-	$-	$-	$6,673,083	$203,634
Computer software	1,125,265	34,338	16,110	492	101,985	3112	(54)	(2)	1,039,336	31,716
Land use rights	19,858	606	-	-	-	-	(26)	(1)	19,832	605
Amortization	(873,375)	(26,651)	(56,187)	(1,715)	(101,985)	(3,112)	100	3	(827,477)	(25,251)
Net balance	$6,944,831	$211,927	$(40,077)	$(1,223)	$-	$-	$20	$-	$6,904,774	$210,704

January 1-June 30, 2010

	January 1,		Additions/Amortization		Disposal		Effects of exchange rates change		June 30,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Good will	$6,673,083	$206,789	$-	$-	$-	$-	$-	$-	$6,673,083	$206,789
Computer software	1,337,606	41,450	484,588	15,017	91,952	2,849	(1)	-	1,730,241	53,618
Land use rights	390,430	12,099	-	-	-	-	-	-	390,430	12,099
Amortization	(928,760)	(28,781)	(86,485)	(2,680)	(91,952)	(2,849)	-	-	(923,293)	(28,612)
Net balance	$7,472,359	$231,557	$398,103	$12,337	$-	$-	$(1)	$-	$7,870,461	$243,894

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

Impairment testing of goodwill:

(1) Goodwill acquired through business combinations has been allocated to the cash-generating unit. The carrying amount of goodwill allocated to the unit is NT$6,673,083 (US$206,789)

(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

	June 30,			
	2009		2010	
	NT	US	NT	US
Prepayment	$551,097	$16,817	$232,781	$7,214
Temporary payments	84,168	2,569	144,306	4,472
Interbank settlement fund	1,354,438	41,332	1,383,593	42,875
Non-operating assets, net (Accumulated impairment NT$378,766 (US$11,558) and NT$230,494 (US$7,143), on June 30, 2009 and 2010, respectively)	2,576,749	78,631	2,160,983	66,966
Refundable deposits, net	1,493,307	45,570	1,028,595	31,874
Foreclosed properties, net	491,333	14,993	-	-
Deferred tax assets, net	526,161	16,056	71,810	2,225
Others	53,644	1,637	212,685	6,591
Total	$7,130,897	217,605	$5,234,753	$162,217

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

	June 30,			
	2009		2010	
	NT	US	NT	US
Due to the Central Bank	$94,993	$2,899	$89,274	$2,766
Due to commercial banks	2,110,544	64,405	6,594,533	204,355
Due to Post Co., Ltd.	23,412,405	714,446	22,004,230	681,879
Overdrafts from banks	111,814	3,412	258,227	8,002
Call loans from banks	19,717,612	601,697	26,636,121	825,415
Total	$45,447,368	$1,386,859	$55,582,385	$1,722,417

16. Financial liabilities at fair value through profit or loss

	June 30,			
	2009		2010	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$7,753,325	$236,598	$7,062,375	$218,853
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	27,405,141	836,288	7,206,015	223,304
Subordinated financial debentures	5,222,587	159,371	5,271,448	163,354
Subtotal	32,627,728	995,659	12,477,463	386,658
Total	$40,381,053	$1,232,257	$19,539,838	$605,511

(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 six-year dominant financial debentures amounting to NT$5,000,000. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued six-year dominant financial debentures amounting to NT$3,200,000, NT$2,700,000 and NT$1,800,000, respectively. Subsequently on March 29, 2004, the Bank issued six-year dominant financial debenture amounting to NT$2,000,000. These dominant financial debentures have matured before June 30, 2010.

On July 8 and July 15, 2004, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$1,000,000, NT$3,500,000, NT$2,000,000 and NT$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000, NT$1,000,000, NT$2,000,000 and NT$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity, and the interest are paid quarterly. These dominant financial debentures totaling NT$20,000,000 have matured before June 30, 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 NT$32,631 (US$996) and NT$33,186 (US$1,028) as of June 30, 2009 and 2010, respectively.

(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$627,728 (US$19,156) and NT$477,463(US$14,796) as of June 30, 2009 and 2010, respectively.

(4) Net losses arising from financial liabilities at fair value through profit or loss for the six-month periods ended June 30, 2009 and 2010 was NT$11,037,369(US$336,813) and NT$5,564,180 (US$172,426) , respectively.

17. Payables

	June 30,			
	2009		2010	
	NT	US	NT	US
Accounts payable	$5,656,151	$172,601	$6,538,097	$202,606
Accrued interest payable	3,443,879	105,092	1,913,227	59,288
Accrued expenses	2,017,140	61,554	2,437,969	75,549
Foreign currency payable	3,721,323	113,559	773,685	23,975
Acceptance	1,130,655	34,503	592,308	18,355
Tax payable	371,204	11,328	653,971	20,265
Payable to related party for allocation of linked-tax system	-	-	525,717	16,291
Receipts under custody	356,296	10,873	222,227	6,887
Others	1,573,069	48,003	1,879,723	58,250
Total	$18,269,717	$557,513	$15,536,924	$481,466

18. Deposits and remittances

	June 30,			
	2009		2010	
	NT	US	NT	US
Check deposits	$11,504,074	$351,055	$12,836,742	$397,792
Demand deposits	166,040,477	5,066,844	218,993,520	6,786,288
Demand savings deposits	411,577,238	12,559,574	493,842,819	15,303,465
Time deposits	338,994,542	10,344,662	336,213,063	10,418,750
Negotiable certificates of deposit	2,038,600	62,209	1,449,600	44,921
Time savings deposits	273,369,246	8,342,058	245,314,979	7,601,952
Outward remittances	211,871	6,465	376,712	11,674
Remittances payable	251,434	7,673	201,026	6,229
Total	$1,203,987,482	$36,740,540	$1,309,228,461	$40,571,071

19. Financial debentures payable

	June 30,			
	2009		2010	
	NT	US	NT	US
Subordinated financial debentures	$14,393,957	$439,242	$15,717,172	$487,052
Discount in financial debentures	(53,645)	(1,637)	(45,706)	(1,416)
Valuation adjustment	854,494	26,075	1,349,727	41,826
Total	$15,194,806	$463,680	$17,021,193	$527,462

The Bank issued a 15-year US$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. The Bank can redeem the bond after 10 years by exercising the call option. As discussed in Note X.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$13,326) 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

	June 30,			
	2009		2010	
	NT	US	NT	US
Borrowed funds	$250,906	$7,657	$207,566	$6,432

21. Other liabilities

	June 30,			
	2009		2010	
	NT	US	NT	US
Unearned receipts	$248,757	$7,591	$230,568	$7,145
Temporary receipts	896,645	27,362	534,948	16,577
Reserve for losses on guarantees	24,892	760	24,893	771
Reserve for losses on stock brokerage transactions	268,791	8,202	268,791	8,330
Guarantee deposits received	1,084,284	33,088	1,001,399	31,032
Reserve for land value increment tax	40,336	1,231	40,336	1,250
Deferred tax liabilities	16,492	503	-	-
Others	-	-	13,487	418
Total	$2,580,197	$78,737	$2,114,422	$65,523

22. Capital Stock

As of January 1, 2009, the Bank had issued and outstanding capital stock of NT$48,689,413 (US$1,485,792) divided into 4,868,941 thousands common shares, with par value NT$10 per share.

On April 29, 2009, the Bank's board of directors (according to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors) resolved to capitalize its retained earnings by issuing new shares amounted to NT$3,587,613 (US$109,479). After the capitalizing of retained earnings, the Bank's paid-in capital for common stock was NT$52,277,026 (US$1,619,988) 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

	June 30,			
	2009		2010	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,949,303	$334,126	$10,949,303	$339,303
Additional paid-in capital	4,249,096	129,664	4,249,096	131,673
Others	15,212	464	14,893	462
Total	$15,213,611	$464,254	$15,213,292	$471,438

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 six-month period ended June 30, 2009 and 2010 were NT$750 based on the average actual payment over the past three year and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference will be recognized as income in the next year.

(4) On April 29, 2009 and 2010, the following are appropriations and distribution approved by the Bank's board of directors (according to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors)：

The appropriation and distribution of earnings in 2008:
(a) NT$1,338,232 (US$40,837) thousands as legal reserve;
(b) NT$3,587,613 (US$109,479) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$46) thousands deducted from Income Statement.

The appropriation and distribution of earnings in 2009:

(a) NT$868,849 (US$ 26,924) thousands as legal reserve;

(b) NT$7,819,640 (US$ 242,319) thousands as dividends to shareholders.

Bonus to employees NT$1,500 (US$46) thousands deducted from Income Statement.

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

25. Pension

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

26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the six-month periods ended June 30, 2009 and 2010.

	January 1- June 30,			
	2009		2010	
	NT	US	NT	US
Personnel expenses				
Salary	$2,810,996	$85,780	$3,050,650	$94,535
Insurance	364,236	11,115	364,840	11,306
Pension	182,296	5,563	189,109	5,860
Others	186,240	5,683	160,323	4,968
Depreciation expenses	497,491	15,181	498,429	15,446
Amortization expenses	56,187	1,715	86,485	2,680

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. The subsidiaries of the Bank shall file its own income tax return respectively.

(1) The reconciliation between income tax payable and income tax expenses for the six-month periods ended June 30, 2009 and 2010 is as follows:

	January 1- June 30,			
	2009		2010	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (the tax rate for the six-month periods ended June 30, 2009 and 2010 were 25% and 17% , respectively)	$(333,820)	$(10,187)	$(711,011)	$(22,033)
Interest on separation tax	(52,701)	(1,608)	(5,169)	(160)
Foreign subsidiaries (tax rate 20%):	(47,419)	(1,447)	(43,715)	(1,355)
Deferred tax benefits (expense):				
Reversal of allowance for bad debt	(226,860)	(6,923)	-	-
Allowance for pledged assets taken-over(reversal)	105	3	(2,586)	(80)
Foreign investment income recognized by the equity method	24,193	738	13,614	422
Valuation allowance	(202,893)	(6,192)	41,590	1,289
Effects of tax rate change on deferred tax assets / liabilities	(88,542)	(2,702)	1,212	37
Others	(116,901)	(3,567)	43,811	1,358
Effects of foreign branches' income tax	37,168	1,134	(12,247)	(380)
Adjustment of prior period's income tax	(184,749)	(5,637)	59,786	1,853
Income tax expense	$(1,192,419)	$(36,388)	$(614,715)	$(19,049)

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

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

	June 30,			
	2009		2010	
	NT	US	NT	US
The Bank				
Taxable temporary differences:				
Valuation of financial instruments	$4,579,875	$139,758	$4,254,853	$131,852
Others	197,476	6,026	1,083,231	33,568
Deductible temporary differences:				
Allowance for bad debts	1,528,326	46,638	-	-
Unrealized impairment loss for pledged assets taken-over	46,630	1,423	32,995	1,022
Valuation of financial instruments	4,687,934	143,056	4,236,498	131,283
Provisions for possible losses	162,295	4,953	139,925	4,336
Operating loss carry-forward	1,225,321	37,392	-	-
Others	275,594	8,410	255,363	7,913
Deferred income tax assets of foreign branches	102,779	3,136	206,190	6,390
The Bank				
Deferred tax assets	$1,749,265	$53,380	$999,202	$30,964
Valuation allowance	(267,634)	(8,167)	(26,113)	(809)
Net deferred tax assets	1,481,631	45,213	973,089	30,155
Deferred tax liabilities	(955,470)	(29,157)	(907,474)	(28,121)
Total net deferred income tax assets	$526,161	$16,056	$65,615	$2,034
Subsidiaries				
Deferred tax assets (liabilities)	$(16,492)	$(503)	$6,195	$192

(3) According to the amendment of Income Tax Law on May 27, 2009, corporate tax rate is reduced from 25% to 20%. Furthermore, in accordance with the recent amendment to the Income Tax Law announced on June 15, 2010, the applicable Income Tax rate for the Bank has been further reduced to 17% starting from 2010.

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

(5) Lucky Bank's income tax returns for the years prior to 2006 have been assessed by the tax authority.

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

	June 30,			
	2009		2010	
	NT	US	NT	US
The Bank's imputation credit	$156,791	$4,785	$60,518	$1,875
Undistributed earnings	4,170,176	127,256	6,413,051	198,731

The following is the rate of tax credit available for dividends to the Bank's shareholders for the years 2008 and 2009:

	2008	2009(Expected)
Cash dividends	5.06%	0.08%

28. Earnings per share

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

	January 1 – June 30, 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- June 30,			
	2009		2010	
	NT	US	NT	US
Income from continuing operations	$5,429,915	$165,698	$7,104,947	$220,172
Income tax expense	(1,192,419)	(36,388)	(614,715)	(19,049)
Net income	$4,237,496	$129,310	$6,490,232	$201,123
Attributable to:				
Equity holders of the parent	$4,170,176	$127,256	$6,413,051	$198,731
Minority interests	67,320	2,054	77,181	2,392
Net income	$4,237,496	$129,310	$6,490,232	$201,123

	January 1- June 30,			
	2009		2010	
	NT	US	NT	US
Basic earnings per share(in dollars)				
Income from continuing operations	$1.04	$0.031	$1.36	$0.042
Income tax expense	(0.23)	(0.007)	(0.12)	(0.004)
Net income	$0.81	$0.024	$1.24	$0.038

Basic earnings per share(in dollars)				
Equity holders of the parent	$0.80	$0.024	$1.23	$0.038
Minority interests	0.01	-	0.01	-
Net income	$0.81	$0.024	$1.24	$0.038

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
Cathay Insurance (Bermuda) Co., Ltd.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance (China) Co., Ltd.	〃
Cathay Life Insurance (Vietnam) Co., Ltd.	〃
Seaward Card Co., Ltd.	Subsidiaries
Cathay Life Insurance Agent Co., Ltd.	〃
Cathay Property Insurance Agent Co., Ltd.	〃

Name of related parties	Relationship
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 (China)	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
Vietinbank	Major stockholder of Indovina Bank
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

	June 30, Account balance			January 1- June 30, Interest income (expense)	
Accounts	NT	US	% of Account	NT	US
2009					
Loans					
Seaward Leasing Ltd.	$1,760,000	$53,708	0.22%	$10,503	$321
Taiwan Real-estate Management Corp.	104,000	3,173	0.01%	1,048	32
Cathay General Hospital	236,000	7,202	0.03%	3,184	97
Others	212,163	6,474	0.03%	1,284	39
Total	$2,312,163	$70,557	0.29%	$16,019	$489
Deposits					
Cathay Financial Holding Co., Ltd.	$4,161	$127	-	$ (3)	$-
Cathay Life Insurance Co., Ltd.	21,024,451	641,576	1.75%	(31,020)	(947)
Cathay Century Insurance Co., Ltd.	1,271,613	38,804	0.10%	(8,167)	(249)
Cathay Securities Corp.	123,454	3,767	0.01%	(586)	(18)
Cathay Futures Corp.	1,380,416	42,124	0.11%	(6,103)	(186)
Cathay Pacific Venture Capital Co., Ltd.	179	6	-	(8)	-
Cathay Securities Investment Trust Co., Ltd.	327,343	9,989	0.03%	(2,889)	(88)
Cathay Real Estate Development Co., Ltd.	156,097	4,764	0.01%	(33)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd	86,783	2,648	0.01%	(11,100)	(339)
Cathay Global Money Market Fund etc.	11,156,072	340,436	0.93%	(50,073)	(1,528)
Others	4,821,558	147,133	0.40%	(26,534)	(810)
Total	$40,352,127	$1,231,374	3.35%	$(136,516)	$(4,166)

Accounts	June 30, Account balance NT	US	% of Account	January 1- June 30, Interest income (expense) NT	US
2010					
Loans					
Seaward Leasing Ltd.	$1,260,000	$39,045	0.15%	$2,582	$80
Taiwan Real-estate Management Corp.	102,000	3,161	0.01%	845	26
Cathay General Hospital	212,000	6,570	0.03%	2,774	86
Others	192,384	5,962	0.02%	1,485	46
Total	$1,766,384	$54,738	0.21%	$7,686	$238
Deposits					
Cathay Financial Holding Co., Ltd.	$3,558	$110	-	$(4)	$-
Cathay Life Insurance Co., Ltd.	42,567,266	1,319,097	3.25%	(27,447)	(851)
Cathay Century Insurance Co., Ltd.	1,662,174	51,508	0.13%	(4,546)	(141)
Cathay Securities Corp.	96,195	2,981	0.01%	(143)	(4)
Cathay Futures Corp.	1,384,603	42,907	0.11%	(5,695)	(177)
Cathay Pacific Venture Capital Co., Ltd.	3,132	97	-	(3)	-
Cathay Securities Investment Trust Co., Ltd.	492,804	15,271	0.04%	(1,069)	(33)
Cathay Real Estate Development Co., Ltd.	48,758	1,511	-	(23)	-
Cathay Life Insurance (Vietnam) Co., Ltd	32,331	1,002	-	(1,450)	(45)
Cathay Global Money Market Fund etc.	6,970,553	216,007	0.53%	(15,171)	(470)
Others	2,248,818	69,688	0.17%	(7,219)	(224)
Total	$55,510,192	$1,720,179	4.24%	$(62,770)	$(1,945)

Account/Related parties	January 1-June 30, Maximum balance NT	January 1-June 30, Maximum balance US	June 30, Account balance NT	June 30, Account balance US	January 1 - June 30, Interest income (expense) NT	January 1 - June 30, Interest income (expense) US	Interest Rate (%)
2009							
Due from commercial banks							
Vietinbank	$20,713	$632	$4,816	$147	$25	$1	0.042-0.06%
Call loans from bank							
Vietinbank	290,065	8,852	-	-	(461)	(14)	6.8-7.6%
Due to commercial banks							
Vietinbank	250	8	951	29	(2)	-	0.5-2.4%
2010							
Due from commercial banks							
Vietinbank	$8,070	$250	$1,478	$46	$22	$1	1.2%
Due to commercial banks							
Vietinbank	242	7	1,199	37	(1)	-	0.1-2.4%

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

(2) Guarantees

Related Parties	January 1- June 30, Maximum balance NT	January 1- June 30, Maximum balance US	June 30, Account balance NT	June 30, Account balance US	January 1- June 30, Service fees NT	January 1- June 30, Service fees US
2009						
Symphox information Co., Ltd.	$413	$13	$225	$7	$-	$-
Seaward Leasing Ltd.	2,240,000	68,355	340,000	10,375	-	-

Related Parties	January 1- June 30, Maximum balance NT	January 1- June 30, Maximum balance US	June 30, Account balance NT	June 30, Account balance US	January 1- June 30, Service fees NT	January 1- June 30, Service fees US
2010						
Symphox information Co., Ltd.	$225	$7	$-	$-	$-	$-
Seaward Leasing Ltd.	780,000	24,171	-	-	-	-

(3) Transactions under resale and repurchase agreements

2009	June 30, Account balance		January 1- June 30, Interest expense	
Account/Related parties	NT	US	NT	US
Securities sold under agreements to repurchase				
Cathay Life Insurance Co., Ltd.	$-	$-	$(176)	$(5)
Cathay Securities Investment Trust Co., Ltd.	88,001	2,685	(57)	(2)
San Ching Engineering Corp.	-	-	(3)	-
Others	557,931	17,026	(517)	(16)
Total	$645,932	$19,711	(753)	(23)
Securities purchase under agreements to resell				
Cathay Life Insurance Co., Ltd.	$-	$-	$84	$3

2010

Securities sold under agreements to repurchase				
Cathay Securities Investment Trust Co., Ltd.	$25,000	$775	$(60)	$(2)
Others	508,250	15,750	(389)	(12)
Total	$533,250	$16,525	$(449)	$(14)

(4) Lease

	January 1- June 30,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Rental income				
Cathay Life Insurance Co., Ltd.	$5,629	$172	$11,500	$356
Cathay Century Insurance Co., Ltd.	181	6	1,728	54
Cathay Securities Corp.	2,847	87	3,420	106
Culture and Charity Foundation of Cathay United Bank	500	15	500	15
Rental expense				
Cathay Life Insurance Co., Ltd.	165,690	5,056	180,153	5,583
Cathay Real Estate Development Co., Ltd.	5,660	173	4,642	144
Seaward Leasing Ltd.	7,680	234	6,723	208

	June 30,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Cathay Life Insurance Co., Ltd.	$68,143	$2,079	$71,606	$2,219
Cathay Real Estate Development Co., Ltd.	2,635	80	2,180	68
Seaward Leasing Ltd.	11,590 (Note)	354 (Note)	1,836	57

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

	June 30,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Life Insurance Co., Ltd.	$2,490	$76	$8,693	$269
Cathay Century Insurance Co., Ltd.	88	3	1,620	50
Cathay Securities Corp.	1,350	41	1,878	58

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- June 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(5) Commissions and handling fees				
Income				
Cathay Life Insurance Co., Ltd.	$557,618	$17,016	$513,543	$15,914
Cathay Century Insurance Co., Ltd.	34,955	1,067	34,057	1,055
Cathay Securities Corp.	1,999	61	2,858	89
Cathay Securities Investment Trust Co., Ltd.	8,968	274	14,115	437
Cathay Securities Investment Consulting Co., Ltd.	-	-	2,149	67

	January 1- June 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(6) Other operating income				
Cathay Century Insurance Co., Ltd.	$383	$12	$3,288	$102
(7) Operating expenses				
Cathay Life Insurance Co., Ltd.	48,589	1,483	44,446	1,377
Cathay Securities Corp.	1,200	37	1,200	37
Seaward Card Co., Ltd.	137,304	4,190	134,873	4,180
Symphox Information Co., Ltd.	220,723	6,736	239,280	7,415
Cathay Real Estate Development Co., Ltd.	5,823	178	3,610	112
Cathay Lin Yuan Security Co., Ltd.	1,810	55	1,010	31
Cathay General Hospital	-	-	2,161	67
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	292,583	8,928	292,467	9,063
Cathay Century Insurance Co., Ltd.	41,047	1,253	40,991	1,270

	June 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings Co., Ltd.	$1,940,789	$59,225	$2,095,328	$64,931
(10) Financial assets at fair value through profit or loss - Cathay Technology Fund				
Cathay Securities Investment Trust Co., Ltd.(Note)	404,259	12,336	-	-
(11) Available- for-Sale financial Assets - Cathay Mandarim Fund				
Cathay Securities Investment Trust Co., Ltd.	-	-	192,525	5,966

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

	June 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(12) Refundable deposit				
Cathay Futures Corp.	$32,643	$996	$42,774	$1,326
(13) Accrued expenses				
Seaward Card Co., Ltd.	15,366	469	15,749	488
(14) Dividend payable				
Vietinbank	164,090	5,007	145,251	4,501
(15) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	-	-	525,717	16,291
(16) Accounts payable				
Cathay Century Insurance Co., Ltd.	8,166	249	6,750	209
Cathay Securities Cory.	200	6	-	-
Symphox Information Co., Ltd.	32,104	980	18,611	577

(17) Others

a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT$1,411,880 (US$43,671), in 2006. The project was completed in 2009. The Bank paid the amount of NT158,055(US$4,823) during the six-month period ended June 30, 2009. As of June 30, 2009, the accumulated paid amount was NT1,339,952 (US$40,890).

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$1,787 (US$55) and NT$0 (US$0) during the six-month periods ended June 30, 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$16,004 (US$488) and NT$9,809 (US$304) during the six-month periods ended June 30, 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 six-month periods ended June 30, 2009 and 2010. As of June 30, 2009 and 2010, the bonus points which not converting amount was NT$27,788 (US$848) and NT30,070 (US$932), respectively.

e. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT800,000 (US$24,413) and NT$570,000 (US$17,663) during the six-month periods ended June 30, 2009 and 2010, respectively.

f. Cathay Century Realty Co., Ltd. Acted as a broker for the Bank to dispose of real estate, the service fees of NT$1,792 (US$55) and NT$20,717 (US$642) were included in disposal gains of foreclosed properties, premises and equipment, during the six-month periods ended June 30, 2009 and 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.

(18) Transactions of derivative financial instruments

			Nominal Amount		Valuation gain(loss)	
		Contract term	NT	US	NT	US
June 30, 2009						
Cathay Life Insurance Co., Ltd.	Forward	2009.2.25~2009.12.18	$20,675,340	$630,923	$1,930,399	$58,908
	Currency swap	2009.1.19~2010.6.30	166,251,330	5,073,278	(1,200,939)	(36,648)
	Interest rate swap	-	-	-	(2,655)	(81)
Cathay Century Insurance Co., Ltd.	Forward	2008.9.16~2009.12.15	243,181	7,421	(16,079)	(491)
	Non-delivery forward	2008.11.18~2009.12.15	9,845	300	898	27
	Currency swap	2009.5.13~2009.9.30	362,639	11,066	(4,533)	(138)
	Interest rate swap	2007.9.29~2015.4.30	600,000	18,309	(34,984)	(1,068)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Forward	2009.6.2~2009.7.6	200,190	6,109	14,686	448
	Non-delivery forward	2009.6.2~2009.7.6	144,399	4,406	5,141	157
	Currency swap	2009.6.18~2009.8.18	393,816	12,018	(12,824)	(391)

			Nominal Amount		Valuation gain(loss)	
		Contract term	NT	US	NT	US
June 30, 2010						
Cathay Life Insurance Co., Ltd.	Forward	2009.12.9~2010.12.20	$23,834,374	$738,592	$140,318	$4,348
	Currency swap	2010.4.14~2010.9.7	99,341,711	3,078,454	679,531	21,058
Cathay Century Insurance Co., Ltd.	Currency swap	2009.10.14~2011.4.22	905,398	28,057	13,009	403
	Interest rate swap	2007.9.29~2015.4.30	600,000	18,593	(25,504)	(790)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Forward	2010.6.1~2010.7.6	87,151	2,701	(15,409)	(478)
	Non-delivery forward	2010.6.1~2010.7.6	67,784	2,101	1,067	33

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2010, the Bank and its subsidiaries had the following commitments and contingent liabilities, which are not reflected in the financial statements:

1. The Bank

	NT	US
(1) Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$172,934,113	$5,358,975
Travelers checks for sale	381,698	11,828
Bills for collection	38,065,633	1,179,598
Book-entry for government bonds and depository for short-term marketable securities under management	523,431,258	16,220,367
Entrusted financial management business	2,801,982	86,829
Guarantees on duties and contracts	17,095,193	529,755
Unused commercial letters of credit	5,099,754	158,034
Irrevocable loan commitments	47,750,286	1,479,711
Credit card lines commitments	260,654,339	8,077,296
Stamp tax, securities and memorial currency consignments	1,006	31

(2) As of June 30, 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. The Taipei District Court and the High Court adjudged that the Bank win the lawsuit. However, the Supreme Court reversed the High Court's decision and remanded the case for new trial. The suit was in the process of settlement in the High Court.

② Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the 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$28 million) and NT$3.09 billion (US$96 million), respectively. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

(3) As of June 30, 2010, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$327,771 (US$10,157) with prepayments of NT$245,528 (US$7,609).

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

Periods	NT	US
2010.7.1~2011.6.30	$844,046	$26,156
2011.7.1~2012.6.30	531,099	16,458
2012.7.1~2013.6.30	312,584	9,687
2013.7.1~2014.6.30	93,662	2,902
2014.7.1~2015.6.30	34,653	1,074

2. Indovina Bank

(1) As of June 30, 2010, Indovina Bank's outstanding off-balance sheet financial instruments on concentrations of credit risk are as follows:

	NT	US
Outstand letters of credit	$1,900,105	$58,881
Guarantees	393,598	12,197
Forward	322,780	10,002

(2) As of June 30, 2010, Indovina Bank had outstanding commitments under non-cancelable operating leases, which fall due as follows:

Years	NT	US
2010.7.1~2011.6.30	$53,618	$1,662
2010.7.1~2015.6.30	120,427	3,732

VIII. Significant disaster losses

None

IX. Significant subsequent event

None

X. Disclosure of financial instruments information

1. Information of fair value

	June 30, 2009			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Assets				
Financial assets at fair value through profit or loss	$50,108,694	$1,529,103	$50,108,694	$1,529,103
Available-for-sale financial assets	139,312,297	4,251,214	139,312,297	4,251,214
Held-to-maturity financial assets and debt securities with no active market	252,989,221	7,720,147	253,018,717	7,721,047
Other financial assets-financial assets carried at cost	4,095,465	124,976	(Note)	(Note)
Others	930,023,103	28,380,321	930,023,103	28,380,321
Liabilities				
Financial liabilities at fair value through profit or loss	32,627,728	995,659	32,627,728	995,659
Financial debentures payable	15,194,806	463,680	15,194,806	463,680
Others	1,279,838,631	39,055,192	1,279,838,631	39,055,192

	June 30, 2009			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments of the Bank				
Assets				
Forward	$1,097,447	$33,489	$1,097,447	$33,489
Non-delivery forward	54,707	1,670	54,707	1,670
Currency swap	2,529,532	77,191	2,529,532	77,191
Interest rate swap	5,137,155	156,764	5,137,155	156,764
Cross currency swap	319,673	9,755	319,673	9,755
Options	97,189	2,966	97,189	2,966
Liabilities				
Forward	2,823,270	86,154	2,823,270	86,154
Non-delivery forward	49,357	1,506	49,357	1,506
Currency swap	637,434	19,451	637,434	19,451
Interest rate swap	3,375,107	102,994	3,375,107	102,994
Cross currency swap	207,789	6,341	207,789	6,341
Options	97,190	2,966	97,190	2,966
Credit derivative instruments	563,178	17,186	563,178	17,186
Credit default swaps	32,203	983	32,203	983

	June 30, 2010			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Assets				
Financial assets at fair value through profit or loss	$21,828,121	$676,421	$21,828,121	$676,421
Available-for-sale financial assets	74,303,292	2,302,550	74,303,292	2,302,550
Held-to-maturity financial assets and debt securities with no active market	346,278,349	10,730,658	346,326,609	10,732,154
Other financial assets-financial assets carried at cost	4,015,165	124,424	(Note)	(Note)
Others	1,042,376,068	32,301,707	1,042,376,068	32,301,707
Liabilities				
Financial liabilities at fair value through profit or loss	12,477,463	386,658	12,477,463	386,658
Financial debentures payable	17,021,193	527,462	17,021,193	527,462
Others	1,406,088,028	43,572,606	1,406,088,028	43,572,606

	June 30, 2010			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments of the Bank				
Assets				
Forward	$2,973,269	$92,137	$2,973,269	$92,137
Non-delivery forward	43,398	1,345	43,398	1,345
Currency swap	369,851	11,461	369,851	11,461
Interest rate swap	4,930,828	152,799	4,930,828	152,799
Cross currency swap	291,025	9,018	291,025	9,018
Options	155,557	4,821	155,557	4,821
Futures	1,402	44	1,402	44
Liabilities				
Forward	1,540,102	47,725	1,540,102	47,725
Non-delivery forward	39,127	1,212	39,127	1,212
Currency swap	2,070,590	64,165	2,070,590	64,165
Interest rate swap	2,986,175	92,537	2,986,175	92,537
Cross currency swap	239,572	7,424	239,572	7,424
Options	155,558	4,821	155,558	4,821
Credit derivative instruments	19,939	618	19,939	618
Credit default swaps	6,191	192	6,191	192
Futures	5,121	159	5,121	159

Note: Fair value cannot be reliably estimated.

2. The methodologies and assumptions used by the Bank and its subsidiaries 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 and its subsidiaries use 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 and its subsidiaries assess fair value by using pricing models.

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

	June 30, 2009			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Assets				
Financial assets at fair value through profit or loss	$49,911,084	$1,523,073	$197,610	$6,030
Available-for-sale financial assets	122,352,725	3,733,681	16,959,572	517,533
Held-to-maturity financial assets and debt securities with no active market	225,392,050	6,878,000	27,626,667	843,047
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	32,627,728	995,659
Financial debentures payable	-	-	15,194,806	463,680
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments of the Bank				
Assets				
Forward	-	-	1,097,447	33,489
Non-delivery forward	-	-	54,707	1,670
Currency swap	-	-	2,529,532	77,191
Interest rate swap	-	-	5,137,155	156,764
Cross currency swap	-	-	319,673	9,755
Options	-	-	97,189	2,966
Liabilities				
Forward	-	-	2,823,270	86,154
Non-delivery forward	-	-	49,357	1,506
Currency swap	-	-	637,434	19,451
Interest rate swap	-	-	3,375,107	102,994
Cross currency swap	-	-	207,789	6,341
Options	-	-	97,190	2,966
Credit derivative instruments	-	-	563,178	17,186
Credit default swaps	-	-	32,203	986

	June 30, 2010			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Assets				
Financial assets at fair value through profit or loss	$2,150,505	$66,641	$19,677,616	$609,780
Available-for-sale financial assets	48,960,710	1,517,221	25,342,582	785,329
Held-to-maturity financial assets and debt securities with no active market	1,339,346	41,504	344,987,263	10,690,650
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	12,477,463	386,658
Financial debentures payable	-	-	17,021,193	527,462
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments of the Bank				
Assets				
Forward	-	-	2,973,269	92,137
Non-delivery forward	-	-	43,398	1,345
Currency swap	-	-	369,851	11,461
Interest rate swap	-	-	4,930,828	152,799
Cross currency swap	-	-	291,025	9,018
Options	-	-	155,557	4,821
Future	1,402	44	-	-
Liabilities				
Forward	-	-	1,540,102	47,725
Non-delivery forward	-	-	39,127	1,212
Currency swap	-	-	2,070,590	64,165
Interest rate swap	-	-	2,986,175	92,537
Cross currency swap	-	-	239,572	7,424
Options	-	-	155,558	4,821
Credit derivative instruments	-	-	19,939	618
Credit default swaps	-	-	6,191	192
Futures	5,121	159	-	-

Note: Most of such assets and liabilities are investment accounted for cost or using equity method. The amount of fair value is not determined by quoted market price or pricing models but estimated face value.

4. Gains or losses recognized for the changes in fair value of financial assets or liabilities determined by pricing models were gain NT$1,118,475 (US$34,131) and loss NT$391,950 (US$12,146) For the six-month periods ended June 30, 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 six-month periods ended June 30, 2009 and 2010 were NT$12,649,146 (US$385,998) and NT$10,553,092 (US$327,025) and expenses were NT$5,474,751 (US$167,066) and NT$3,400,069 (US$105,363), respectively.

6. The Bank and its subsidiaries recognized an unrealized gains of NT$1,501,109 (US$45,808) and losses of NT$520,895 (US$16,142) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$419,908 (US$12,814) and NT$1,300,963 (US$40,315) in income statement, For the six-month periods ended June 30, 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 and its subsidiaries' fixed-rate bond investments such as government bonds and corporate bonds may decline.

② Foreign exchange risk

The Bank and its subsidiaries manage foreign exchange risk by matching foreign currency assets and liabilities. The Bank and its subsidiaries trade 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 and its subsidiaries' 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 and its subsidiaries may expose to risk when the price of equity securities, such as stocks, mutual funds and TAIEX Futures and Options, moves in adverse direction.

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

June 30, 2010						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$523,756	$16,230	$685,573	$21,245	$417,580	$12,940
Foreign exchange	138,903	4,304	376,720	11,674	110,355	3,420
Equity Securities price	139,419	4,320	175,459	5,437	93,439	2,896

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.

	June 30, 2010	
	NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$601,127	$18,628
HKD+1%	17,078	529
JPY+1%	9,360	290
NTD+1%	(626,903)	(19,427)
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(21,613)	(670)
Yield curves (HKD) parallel shift+1bp	(75)	(2)
Yield curves (JPY) parallel shift+1bp	(20)	(1)
Yield curves (NTD) parallel shift+1bp	(9,365)	(290)
Equity securities price factor sensitivity (Equity Delta)	35,008	1,085

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 a 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 of the Bank

Stress Test			
Market/ Product	Scenarios	Effects (In thousand of dollars)	
		NT	US
Stock Market	Major Stock Exchanges +15%	$525,122	$16,273
	Major Stock Exchanges -15%	(525,122)	(16,273)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(3,025,268)	(93,749)
	Major Interest Rate - 100bp	2,913,474	90,284
Foreign Exchange Market	Major Currencies +3%	1,958,270	60,684
	Major Currencies -3%	(1,844,192)	(57,149)
Composite	Major Stock Exchanges -15%	(1,592,120)	(49,337)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(2) Credit risk

Credit risk represents the risk of loss that the Bank and its subsidiaries 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 and its subsidiaries maintain 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 and its subsidiaries retain the legal right to foreclose on or liquidate the collateral.

① Information on concentrations of credit risk:

	June 30, 2009			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Financial assets at fair value through profit or loss	$50,108,694	$1,529,103	$50,108,694	$1,529,103
Available-for-sale financial assets	139,312,297	4,251,214	139,312,297	4,251,214
Held-to-maturity financial assets and debt securities with no active market	252,989,221	7,720,147	252,989,221	7,720,147
Other financial assets financial assets carried at cost	4,095,465	124,976	4,095,465	124,976
Others	930,023,103	28,380,321	930,023,103	28,380,321
Guarantees on duties and contracts	-	-	20,968,011	639,854
Unused commercial letters of credit	-	-	2,691,654	82,138
Irrevocable loan commitments	-	-	8,873,779	270,790
Credit card line commitments	-	-	260,757,898	7,957,214

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

	June 30, 2010			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Financial assets at fair value through profit or loss	$21,828,121	$676,421	$21,828,121	$676,421
Available-for-sale financial assets	74,303,292	2,302,550	74,303,292	2,302,550
Held-to-maturity financial assets and debt securities with no active market	346,278,349	10,730,658	346,278,349	10,730,658
Other financial assets financial assets carried at cost	4,015,165	124,424	4,015,165	124,424
Others	1,139,040,711	35,297,202	1,139,040,711	35,297,202
Guarantees on duties and contracts	-	-	17,488,791	541,952
Unused commercial letters of credit	-	-	6,999,859	216,915
Irrevocable loan commitments	-	-	47,750,286	1,479,771
Credit card line commitments	-	-	260,654,339	8,077,296
Derivative financial instruments of the Bank				
Forward	$2,973,269	$92,137	$2,973,269	$92,137
Non-delivery forward	43,398	1,345	43,398	1,345
Currency swap	369,851	11,461	369,851	11,461
Interest rate swap	4,930,828	152,799	4,930,828	152,799
Cross currency swap	291,025	9,018	291,025	9,018
Options	155,557	4,821	155,557	4,821
Futures	1,402	44	1,402	44

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

	June 30,			
	2009		2010	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$133,826,834	$4,083,822	$150,058,577	$4,650,095
Financial institutions and insurance	32,372,986	987,885	37,980,206	1,176,951
Leasing and real estate	18,108,214	552,585	18,881,054	585,096
Individuals	410,066,981	12,513,487	438,708,738	13,594,941
Others	220,416,388	6,726,164	223,396,419	6,922,728
Total	814,791,403	24,863,943	869,024,994	26,929,811
Valuation allowance	(7,409,021)	(226,092)	(6,009,226)	(186,218)
Maximum credit risk exposed	$807,382,382	24,637,851	$863,015,768	$26,743,593
Geographic Region				
Domestic	$729,643,955	$22,265,607	$782,284,741	$24,241,858
South East Asia	22,581,770	689,099	26,632,135	825,291
North East Asia	202,863	6,191	1,164,019	36,071
America	18,133,075	553,344	13,767,593	426,637
Others	44,229,740	1,349,702	45,176,506	1,399,954
Total	814,791,403	24,863,943	869,024,994	26,929,811
Valuation allowance	(7,409,021)	(226,092)	(6,009,226)	(186,218)
Maximum credit risk exposed	$807,382,382	24,637,851	$863,015,768	$26,743,593

(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 and its subsidiaries believe that it can generate within that period. As part of our liquidity risk management, the Bank and its subsidiaries focus 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 35.8%. Capital and working capitals of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2010, there is no significant change in these dates.

As of June 30, 2009 and 2010, the effective interest rates of financial instruments held and issued by the Bank and its subsidiaries are classified as follows:

	Effective interest rate (%)	
Financial instruments	June 30, 2009	June 30, 2010
Available-for-sale financial assets		
Bonds	0.2861-8.60	0.3-6.6629
Overseas financial instruments	0-7.75	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	0.57-1.16	0.57-0.724
Overseas financial instruments	0-8.45	0-11.555
Financial debentures payable	2.1-5.593	2.42-5.593

8. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments: Financial assets (liabilities) Fair value, June 30, 2009 NT	June 30, 2009 US	June 30, 2010 NT	June 30, 2010 US
Financial debentures payable	Interest rate swap	$877,793	$26,787	$1,458,334	$45,192

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

(1) The Bank

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

	January 1-June 30, 2010		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$34,593,269	$1,071,995	0.36%
Time certificates, discounted bills and others	369,855,271	11,461,273	0.56%
Due from commercial banks and call loans to banks	25,148,698	779,321	0.22%
Discounts and loans	794,906,010	24,632,972	1.70%
Bills purchased	3,541	110	2.42%
Bond and beneficiary certificates	105,148,749	3,258,406	2.71%
Receivables-credit card revolving balance	17,165,116	531,922	13.99%
Securities purchase under agreements to resell	2,813,370	87,182	0.20%
Liabilities			
Due to banks	48,867,530	1,514,333	0.74%
Demand deposits	198,709,891	6,157,728	0.09%
Saving deposits	743,195,460	23,030,538	0.47%
Time deposits	291,609,238	9,036,543	0.71%
Negotiable certificates of deposit	1,523,689	47,217	0.14%
Securities sold under agreements to repurchase	10,071,142	312,090	0.13%
Financial debentures	29,179,903	904,242	3.35%
Funds borrowed from the Central Bank and other banks	1,820,075	56,401	0.58%

(2) Indovina Bank

	January 1-June 30, 2009		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$1,289,058	$39,337	0.92%
Due from commercial banks and call loans to banks	2,041,076	62,285	9.08%
Discounts and loans	14,207,918	433,565	9.37%
Bills purchased	307,013	9,369	7.80%
Bonds	320,319	9,775	8.48%
Securities purchase under agreements to resell	166,274	5,074	4.22%
Liabilities			
Due to banks	120,622	3,681	1.97%
Demand deposits	4,073,891	124,318	1.54%
Time deposits	9,412,819	287,239	5.68%
Negotiable certificates of deposit	536	16	0.01%
Funds borrowed from the Central Bank and other banks	2,205,842	67,313	4.24%

	January 1-June 30, 2010		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$420,457	$13,029	0.76%
Due from commercial banks and call loans to banks	2,303,534	71,383	4.20%
Discounts and loans	16,772,282	519,748	8.61%
Bonds	394,819	12,235	4.07%
Securities purchase under agreements to resell	128,651	3,987	4.36%
Liabilities			
Due to banks	60,837	1,885	1.85%
Demand deposits	5,793,810	179,542	2.38%
Time deposits	10,129,232	313,890	7.19%
Funds borrowed from the Central Bank and other banks	102,577	3,179	7.61%

2. Regulatory capital ratio

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

As of June 30, 2009 and 2010, the ratio of the Bank and its subsidiaries' eligible capital to its consolidated risk-weighted assets was 11.84% and 11.42%.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Balance Sheet Based on Trust
June 30, 2009

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

Balance Sheet Based on Trust
June 30, 2010

Trust Assets	NT	US	Trust Liabilities	NT	US
Bank deposits	$6,079,790	$188,404	Payables	$91,523	$2,836
Bonds	113,108,144	3,505,056	Custody securities payable	132,285,114	4,099,322
Common stock	2,857,584	88,552	Other liabilities	56	2
Mutual funds	145,603,728	4,512,046	Trust capital	284,535,989	8,817,353
Insurance product	1,373,358	42,558	Accumulated Earnings		
Receivables	46,086	1,428	Earnings distribution	(5,092)	(158)
Real estate			Net Income	8,995	279
Land	14,423,264	446,956	Retained earnings	(186,876)	(5,791)
Buildings	21,303	660	Net assets		
Construction in progress	1,230,691	38,137	Capital account	295,398	9,154
Custody securities	132,285,114	4,099,322	Distributable revenue	3,955	122
Total	$417,029,062	$12,923,119	Total	$417,029,062	$12,923,119

Income Statement Based on Trust

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

Items	January1-June 30, 2010 NT	US
Trust revenue		
Interest income	$10,750	$333
Rental income	168	5
Cash dividend income	5,280	164
Investment income-bonds	759	23
Investment income-funds	6,318	196
Subtotal	23,275	721
Trust expense		
Management fee	6,715	208
Supervisor fee	97	3
Custody fee	641	20
Taxes	571	18
Processing fee	174	5
Service fee	62	2
Investment loss-stock	1,491	46
Investment loss-funds	953	30
Others	551	17
Subtotal	11,255	349
Net income before tax	12,020	372
Income equalization	(3,025)	(93)
Net income	$8,995	$279

Details of Trust Properties

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

Items	June 30, 2010 NT	June 30, 2010 US
Bonds	$113,108,144	$3,505,056
Common stock	2,857,584	88,552
Mutual fund	145,603,728	4,512,046
Insurance product	1,373,358	42,558
Real estate		
Land	14,423,264	446,956
Buildings	21,303	660
Construction in progress	1,230,691	38,137
Custody securities	132,285,114	4,099,322
Total	$410,903,186	$12,733,287

5. The bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of June 30, 2009 and 2010 are as follows:

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

Items	June 30, 2010 NT	US
Special trust of money that invest in foreign securities	$211,288,336	$6,547,516
Special trust money that invest in domestic securities	46,795,081	1,450,111
Trust of money-custody securities	132,285,114	4,099,322
Trust of real estate	15,712,688	486,913
Trust of insurance claims	59,413	1,841
Trust of personnel property	5,285,201	163,781
Trust of business employee’s savings	2,453,802	76,040
Trust of securities	2,502,680	77,554
Collective investment trust funds	387,770	12,016
Others	258,977	8,025
Total	$417,029,062	$12,923,119