Cathay United Bank

Financial Statements

For The Nine-Month Periods Ended

September 30, 2009 and 2010

With Independent Auditors' Review Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of September 30, 2009 and 2010, and the related statements of income and cash flows for the nine-month periods ended September 30, 2009 and 2010. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

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

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

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
October 20, 2010

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

September 30, 2009 and 2010

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2009		September 30, 2010	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$16,537,704	$516,319	$21,069,596	$675,524
Due from the Central Bank and call loans to banks	IV and V	97,522,881	3,044,736	75,559,643	2,422,560
Financial assets at fair value through profit or loss	II, IV and V	46,390,770	1,448,354	22,330,105	715,938
Securities purchased under agreements to resell		1,356,000	42,335	10,206,865	327,248
Receivables, net	II, IV and V	44,218,990	1,380,549	45,280,483	1,451,763
Discounts and loans, net	II, IV and V	784,642,996	24,497,127	848,018,970	27,188,810
Available-for-sale financial assets, net	II, IV and V	117,372,513	3,664,456	85,549,991	2,742,866
Held-to-maturity financial assets, net	II and IV	3,889,108	121,421	5,284,572	169,432
Investments accounted for using equity method, net	II and IV	3,451,741	107,766	3,789,127	121,485
Other financial assets, net	II and IV	5,233,083	163,381	5,330,822	170,914
Investments in debt securities with no active market, net	II and IV	309,073,154	9,649,490	385,253,719	12,351,835
Premises and equipment, net	II, IV, V and VII	26,426,241	825,046	25,424,060	815,135
Intangible assets, net	II and IV	6,905,528	215,596	7,494,744	240,293
Other assets, net	II, IV and V	6,466,863	201,900	4,885,239	156,628
TOTAL ASSETS		$1,469,487,572	$45,878,476	$1,545,477,936	$49,550,431

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

September 30, 2009 and 2010

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2009		September 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	$48,780,052	$1,522,949	$46,926,280	$1,504,530
Funds borrowed from the Central Bank and other banks		1,610,000	50,265	1,566,500	50,224
Financial liabilities at fair value through profit or loss	II, IV and V	36,744,313	1,147,184	19,257,545	617,427
Securities sold under agreements to repurchase	IV and V	8,519,253	265,977	33,201,037	1,064,477
Payables	IV and V	22,028,523	687,747	21,716,991	696,281
Deposits and remittances	IV and V	1,241,502,755	38,760,623	1,309,133,321	41,972,854
Financial debentures payable	IV and X	16,644,084	519,641	16,943,746	543,243
Other financial liabilities	II and IV	250,688	7,827	202,959	6,507
Other liabilities	II, IV and V	2,215,874	69,181	2,132,063	68,357
TOTAL LIABILITIES		1,378,295,542	43,031,394	1,451,080,442	46,523,900
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,520,119	52,277,026	1,676,083
Reserve for capitalization		3,587,613	112,008	-	-
Capital reserve	IV	15,213,673	474,982	15,213,292	487,762
Retained earnings	IV				
Legal reserve		14,740,680	460,215	15,609,529	500,466
Undistributed earnings		6,570,995	205,151	9,520,262	305,234
Foreign currency translation adjustment	II	4,270	133	(52,096)	(1,670)
Unrealized gains or losses on financial instruments	II	2,385,386	74,474	1,829,481	58,656
TOTAL SHAREHOLDERS' EQUITY		91,192,030	2,847,082	94,397,494	3,026,531
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,469,487,572	$45,878,476	$1,545,477,936	$49,550,431

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the nine-month periods ended September 30, 2009 and 2010

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

(Reviewed, not audited)

		January 1 - September 30, 2009		January 1 - September 30, 2010	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	$18,435,563	$575,572	$16,240,106	$520,683
INTEREST EXPENSE	V	(8,215,811)	(256,504)	(5,455,534)	(174,913)
NET INTEREST INCOME		10,219,752	319,068	10,784,572	345,770
NONINTEREST INCOME					
Net fee income	II and V	3,182,647	99,365	4,645,521	148,943
Gain on financial assets and liabilities at fair value through profit or loss	II and V	2,511,149	78,400	313,499	10,051
Realized gain on available-for-sale financial assets	II	1,071,149	33,442	1,766,571	56,639
Investment income recognized by the equity method	II and IV	173,132	5,405	163,224	5,233
Gain on foreign currency exchange, net	II	505,227	15,774	525,860	16,860
Impairment loss of assets	II	(36,733)	(1,146)	-	-
Gain on financial assets carried at cost		220,596	6,887	176,243	5,651
Gain on debt securities with no active market		177,589	5,544	58,229	1,867
Gain on disposal of foreclosed properties		-	-	1,039,442	33,326
Others	II, IV and V	1,026,765	32,056	1,765,475	56,604
NET NONINTEREST INCOME		8,831,521	275,727	10,454,064	335,174
NET OPERATING INCOME		19,051,273	594,795	21,238,636	680,944
BAD DEBT EXPENSE	II and IV	(162,419)	(5,071)	-	-
OPERATING EXPENSES					
Personnel	II and IV	(5,105,392)	(159,394)	(5,503,348)	(176,446)
Depreciation and amortization	II and IV	(803,681)	(25,092)	(862,061)	(27,639)
Other general and administrative expenses	V	(4,530,786)	(141,454)	(4,433,965)	(142,160)
TOTAL OPERATING EXPENSES		(10,439,859)	(325,940)	(10,799,374)	(346,245)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		8,448,995	263,784	10,439,262	334,699
INCOME TAX EXPENSE	II and IV	(1,878,000)	(58,633)	(919,000)	(29,465)
NET INCOME		$6,570,995	$205,151	$9,520,262	$305,234
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		$1.62	$0.051	$2.00	$0.064
INCOME TAX EXPENSE		(0.36)	(0.011)	(0.18)	(0.006)
NET INCOME		$1.26	$0.040	$1.82	$0.058

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank
Statements of cash flows
For the nine-month periods ended September 30, 2009 and 2010
(Expressed in thousands of dollars)
(Reviewed, not audited)

ITEMS	NOTES	January 1-September 30, 2009 NT	January 1-September 30, 2009 US (Note II)	January 1-September 30, 2010 NT	January 1-September 30, 2010 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$6,570,995	$205,151	$9,520,262	$305,234
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	803,681	25,092	862,061	27,639
The differences between investment income recognized by the equity method and the cash dividends received	II	(125,912)	(3,931)	38,543	1,236
Bad debt expense (reversal)	II and IV	162,419	5,071	(1,019,303)	(32,680)
Gain on disposal of premises, equipment and foreclosed properties	II	(27,053)	(845)	(1,177,200)	(37,743)
Impairment loss of assets	II	36,733	1,146	-	-
Effects of exchange rate changes		(26,563)	(829)	10,604	340
(Increase) decrease in operating assets					
(Increase) decrease in receivables		3,608,240	112,652	(88,390)	(2,834)
(Increase) decrease in deferred income tax assets		1,304,683	40,733	(82,790)	(2,654)
Decrease in financial assets at fair value through profit or loss		6,798,681	212,260	19,100,858	612,403
Decrease in other assets		478,822	14,949	54,677	1,753
Increase (decrease) in operating liabilities					
Increase (decrease) in payables		(1,219,592)	(38,077)	658,905	21,125
Decrease in financial liabilities at fair value through profit or loss		(10,716,407)	(334,574)	(5,739,436)	(184,015)
Increase (decrease) in tax payables		22,796	712	(31,887)	(1,022)
Decrease in other liabilities		(72,338)	(2,258)	(6,481)	(208)
Net cash provided by (used in) operating activities		7,599,185	237,252	22,100,423	708,574
CASH FLOWS FROM INVESTING ACTIVITIES:					
(Increase) decrease in discounts and loans		22,367,202	698,321	(43,203,582)	(1,385,174)
(Increase) decrease in due from the Central Bank and call loans to banks		(50,556,616)	(1,578,413)	3,277,340	105,077
(Increase) decrease in securities purchased under agreements to resell		813,147	25,387	(8,470,865)	(271,589)
(Increase) decrease in available-for-sale financial assets		(17,501,661)	(546,415)	12,135,986	389,099
Increase in held-to-maturity financial assets		(1,346,271)	(42,032)	(1,195,491)	(38,329)
Capital return due to capital decrease in equity-accounted investee		6,300	197	5,000	160
Proceeds from disposal of premises, equipment and foreclosed properties		109,479	3,418	2,005,285	64,293
Acquisition of premises, equipment and foreclosed properties		(634,191)	(19,800)	(213,158)	(6,834)
Acquisition of intangible assets		(75,261)	(2,350)	(250,444)	(8,030)
Increase in investments in debt securities with no active market		(90,155,018)	(2,814,706)	(15,472,283)	(496,066)
(Increase) decrease in other financial assets		1,368,652	42,730	(410,950)	(13,176)
Decrease in other assets		1,164,998	36,372	150,191	4,815
Net cash used in investing activities		(134,439,240)	(4,197,291)	(51,642,971)	(1,655,754)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(14,146,177)	(441,654)	1,575,453	50,511
Increase (decrease) in securities sold under agreements to repurchase		(12,212,860)	(381,294)	24,455,572	784,084
Increase in deposits and remittances		150,196,347	4,689,239	12,496,939	400,671
Decrease in funds borrowed from the Central Bank and other banks		(33,000)	(1,030)	(35,000)	(1,122)
Increase (decrease) in financial debentures payable		(2,221,894)	(69,369)	506,537	16,240
Decrease in other financial liabilities		(10,631)	(332)	(37,535)	(1,203)
Increase in other liabilities		45,805	1,430	91,252	2,926
Distribution of cash dividends	IV	-	-	(7,819,640)	(250,710)
Net cash provided by financing activities		121,617,590	3,796,990	31,233,578	1,001,397
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		17,694	552	281	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(5,204,771)	(162,497)	1,691,311	54,226
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		21,742,475	678,816	19,378,285	621,298
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$16,537,704	$516,319	$21,069,596	$675,524
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$9,535,243	$297,697	$5,216,454	$167,248
Income tax paid		$262,019	$8,180	$315,883	$10,128

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the nine-month periods ended September 30, 2009 and 2010

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

(Reviewed, not audited)

I. Business

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

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

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

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

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

The Bank merged 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 September 30, 2009 and 2010, the Bank employed 6,167 and 6,035 employees, respectively.

II. Summary of significant accounting policies

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

The significant accounting policies are summarized as follows:

1. Basis of presentation of financial statements

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

2. Foreign-currency transaction and translation

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

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

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

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

3. Financial assets and financial liabilities

The Bank adopted the ROC Statements of Financial Accounting Standards ("ROC SFAS") No. 34 and "Regulations Governing the Preparation of Financial Reports by Public Banks" to classify its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, debt securities with no active market, available-for-sale financial assets, financial assets carried at cost and derivative financial assets for hedging, where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, 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 commits to purchase or sell the asset) and others are recognized on the settlement date.

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

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

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

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

(5) Financial assets carried at cost

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

(6) Financial liabilities

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

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

4. Derivative financial instruments

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

5. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

6. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

7. Hedge accounting

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

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

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

(3) Hedges of net investments in foreign operations.

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

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

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

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

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

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

8. Allowances for doubtful accounts

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

9. Investment accounted for using equity method

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

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

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

10. Premises and equipment

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

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

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

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

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

11. Intangible assets and goodwill

(1) Intangible assets

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

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

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

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

(2) Goodwill

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

12. Foreclosed properties

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

13. Financial assets securitization

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

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

14. Asset impairment

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

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

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

15. Reserves for possible losses on guarantees

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

16. Reserves for losses on trading securities

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

17. Pension plans

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

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

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

18. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

19. Recognition of dividend

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

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

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

20. Income tax

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

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

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

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

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

21. Employee bonus and remuneration of directors

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

22. Contingencies

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

23. The interim financial statement

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

24. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the September 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$32.03 and NT$31.19 to US$1.00 on September 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

	September 30,			
	2009		2010	
	NT	US	NT	US
Cash on hand	$9,097,238	$284,022	$10,612,985	$340,269
Checks for clearance	3,007,401	93,893	3,055,770	97,973
Due from commercial banks	4,433,065	138,404	7,400,841	237,282
Total	$16,537,704	$516,319	$21,069,596	$675,524

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

	September 30,			
	2009		2010	
	NT	US	NT	US
Call loans to banks	$55,949,730	$1,746,792	$20,931,245	$671,088
Due from the Central Bank －				
Statutory reserve on deposits and general deposits	41,573,151	1,297,944	54,628,398	1,751,472
Total	$97,522,881	$3,044,736	$75,559,643	$2,422,560

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$32,740,180 (US$1,022,172) and NT$ 35,684,873 (US$1,144,113) as of September 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 September 30, 2009 and 2010, the balance of foreign-currency deposit reserves were NT$125,580 (US$3,921) and NT$ 48,562 (US$ 1,557), respectively.

3. Financial assets at fair value through profit or loss

	September 30,			
	2009		2010	
	NT	US	NT	US
Financial assets for trading :				
Mutual funds	$517,478	$16,156	$-	$-
Short-term bills	23,651,034	738,403	10,903,431	349,581
Bonds	12,521,378	390,927	1,868,541	59,909
Overseas financial instruments	196,971	6,149	145,324	4,659
Derivative financial instruments	9,487,643	296,211	9,412,809	301,789
Subtotal	46,374,504	1,447,846	22,330,105	715,938
Financial assets designated at fair value through profit or loss:				
Bonds	16,266	508	-	-
Total	$46,390,770	$1,448,354	$22,330,105	$715,938

(1) NT$16,266 (US$508) and NT$0 (US$0) of the financial assets at fair value through profit or loss as of September 30, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2009, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$3,345,500 (US$104,449). Such repurchase agreements amounting to NT$3,715,043 (US$115,986) were posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2009 were settled at NT$3,715,506 (US$116,001) prior to November 30, 2009.

As of September 30, 2010, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$27,970,748 (US$896,786). Such repurchase agreements amounting to NT$29,550,268 (US$947,428) were posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2010 were settled at NT$ 29,559,226 (US$947,715) prior to November 30, 2010.

(3) As of September 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):

	September 30,	
	2009	2010
Forward foreign exchange and currency swap contracts	$27,486,913	$30,379,092
Interest rate swap contracts	10,396,617	10,714,598
Cross-currency swap contracts	500,770	231,760
Options	393,720	1,278,339
Credit derivative instrument contracts	110,000	-
Credit default swap contracts	35,380	7,000
Futures	500	25,000

(4) Net gains arising from financial assets at fair value through profit or loss for the nine-month periods ended September 30, 2009 and 2010 were NT$13,797,832 (US$430,778) and NT$ 4,468,784 (US$143,276) , respectively.

4. Receivables, net

	September 30,			
	2009		2010	
	NT	US	NT	US
Notes Receivable	$14,269	$445	$319	$10
Accounts receivable	32,601,604	1,017,846	34,224,505	1,097,291
Interest receivable	3,298,254	102,974	1,992,769	63,891
Receivable to related party for allocation of linked-tax system	2,024,063	63,193	2,095,328	67,179
Foreign currency receivable	384,223	11,995	505,036	16,192
Acceptances	1,080,012	33,719	1,022,744	32,791
Tax refundable	277,599	8,667	224,587	7,201
Others	6,811,629	212,664	7,387,090	236,842
Total	46,491,653	1,451,503	47,452,378	1,521,397
Less: allowance for doubtful accounts	(2,272,663)	(70,954)	(2,171,895)	(69,634)
Net balance	$44,218,990	$1,380,549	$45,280,483	$1,451,763

Information on bad and doubtful accounts is as follows:

	January 1 - September 30, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,933,281	$91,579	$49,692	$1,552	$2,982,973	$93,131
Reversal of doubtful accounts	(84,686)	(2,644)	-	-	(84,686)	(2,644)
Write-offs	(1,266,819)	(39,551)	-	-	(1,266,819)	(39,551)
Debt counseling recoveries	88,471	2,762	-	-	88,471	2,762
Recoveries	552,724	17,256	-	-	552,724	17,256
Reclassification	274,090	8,557	(274,090)	(8,557)	-	-
Balance, end of the period	$2,497,061	$77,959	$(224,398)	$(7,005)	$2,272,663	$70,954

	January 1 - September 30, 2010					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,023,120	$64,864	$366,597	$11,754	$2,389,717	$76,618
Reversal of doubtful accounts	(378,823)	(12,146)	-	-	(378,823)	(12,146)
Write-offs	(490,279)	(15,719)	-	-	(490,279)	(15,719)
Debt counseling recoveries	104,609	3,354	-	-	104,609	3,354
Recoveries	546,671	17,527	-	-	546,671	17,527
Reclassification	318,531	10,213	(318,531)	(10,213)	-	-
Balance, end of the period	$2,123,829	$68,093	$48,066	$1,541	$2,171,895	$69,634

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

5. Discounts and loans, net

	September 30,			
	2009		2010	
	NT	US	NT	US
Outward documentary bills	$277,383	$8,660	$296,414	$9,503
Overdrafts	11,687	364	22,910	735
Short - term loans	173,874,573	5,428,491	209,646,814	6,721,604
Medium-term loans	209,193,503	6,531,174	209,124,908	6,704,870
Long-term loans	402,456,507	12,564,986	432,064,216	13,852,652
Delinquent accounts	5,121,381	159,894	2,622,317	84,076
Total	790,935,034	24,693,569	853,777,579	27,373,440
Less: allowance for doubtful accounts	(6,292,038)	(196,442)	(5,758,609)	(184,630)
Net balance	$784,642,996	$24,497,127	$848,018,970	$27,188,810

(1) As of September 30, 2009 and 2010, the accounts without interest accrued were NT$5,781,120 (US$180,491) and NT$3,124,949 (US$100,191), respectively. The non-accrued interest on such accounts amounted to NT$199,482 (US$6,228) and NT$27,037 (US$867) for the nine-month periods ended September 30, 2009 and 2010, respectively.

(2) For the nine-month periods ended September 30, 2009 and 2010, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.

(3) Please refer to Note X.7 (2) for details on loans by industries and geographic regions.

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

	January 1 - September 30, 2009					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,662,869	$114,358	$4,670,525	$145,817	$8,333,394	$260,175
Provision of doubtful accounts	247,105	7,715	-	-	247,105	7,715
Write-offs	(4,038,560)	(126,087)	-	-	(4,038,560)	(126,087)
Debt counseling recoveries	79,238	2,474	-	-	79,238	2,474
Recoveries	1,688,636	52,720	-	-	1,688,636	52,720
Reclassification	988,568	30,864	(988,568)	(30,864)	-	-
Effects of exchange rates change	-	-	(17,775)	(555)	(17,775)	(555)
Balance, end of the period	$2,627,856	$82,044	$3,664,182	$114,398	$6,292,038	$196,442

	January 1 - September 30, 2010					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,669,862	$85,600	$3,392,833	$108,779	$6,062,695	$194,379
Reversal of doubtful accounts	(640,480)	(20,535)	-	-	(640,480)	(20,535)
Write-offs	(1,480,944)	(47,481)	-	-	(1,480,944)	(47,481)
Debt counseling recoveries	83,539	2,678	-	-	83,539	2,678
Recoveries	1,752,651	56,193	-	-	1,752,651	56,193
Reclassification	10,786	346	(10,786)	(346)	-	-
Effects of exchange rates change	-	-	(18,852)	(604)	(18,852)	(604)
Balance, end of the period	$2,395,414	$76,801	$3,363,195	$107,829	$5,758,609	$184,630

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

6. Available-for-sale financial assets, net

	September 30,			
	2009		2010	
	NT	US	NT	US
Stocks	$6,895,382	$215,279	$8,992,849	$288,325
Mutual funds and beneficiary securities	219,591	6,856	462,361	14,824
Bonds	97,125,998	3,032,344	41,402,995	1,327,444
Overseas financial instruments	13,651,057	426,196	34,691,786	1,112,273
Total	117,892,028	3,680,675	85,549,991	2,742,866
Less: accumulated impairment	(519,515)	(16,219)	-	-
Net balance	$117,372,513	$3,664,456	$85,549,991	$2,742,866

(1) NT$2,545,019 (US$79,457) and NT$3,615,772(US$115,927) of the available-for-sale financial assets as of September 30, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2009, certain of the available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT$4,325,400 (US$135,042). Such repurchase agreements amounting to NT$4,804,210 (US$149,991) were posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2009 were settled at NT$4,804,210 (US$149,991) prior to November 30, 2009.

As of September 30, 2010, certain of the available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT$3,286,100 (US$105,357). Such repurchase agreements amounting to NT$3,650,769 (US$117,049) were posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2010 were settled at NT$3,651,112 (US$117,060) prior to December 31, 2010

(3) The issuers of certain overseas financial instraments were taken over by the government or defaulted in its payment. In view of the aforesaid incidents, the accumulated impairment loss was made by NT$519,515 (US$16,219) on available for sales financial assets at September 30, 2009.

7. Held-to-maturity financial assets, net

	September 30, 2009			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,584,800	$49,478	$1,731,698	$54,065
Beneficiary certificates	576,335	17,994	576,335	17,994
Overseas financial instruments	1,526,686	47,664	1,581,075	49,362
Net balance	$3,687,821	$115,136	$3,889,108	$121,421

	September 30, 2010			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$1,154,000	$36,999	$1,288,507	$41,312
Overseas financial instruments	3,748,407	120,180	3,996,065	128,120
Net balance	$4,902,407	$157,179	$5,284,572	$169,432

As of September 30, 2009 and 2010, NT$90,345 (US$2,821) and NT$355,223 (US$11,389) 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

	September 30, 2009				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,690	$1,208	100.00	$1,952	$61
Cathay Life Insurance Agent Co., Ltd	44,501	1,390	100.00	18,940	591
Cathay Property Insurance Agent Co., Ltd.	7,535	235	100.00	334	10
Indovina Bank	1,853,362	57,863	50.00	116,184	3,627
Taiwan Real-estate Management Corp.	52,370	1,635	30.15	5,087	159
Taiwan Finance Corp.	1,426,943	44,550	24.57	33,430	1,044
Vista Technology Venture Capital Corp.	6,092	190	4.76	(1)	-
Cathay Pacific Venture Capital Co., Ltd.	22,248	695	1.18	(2,794)	(87)
Total	$3,451,741	$107,766		$173,132	$5,405

	September 30, 2010				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,444	$1,232	100.00	$1,448	$46
Cathay Life Insurance Agent Co., Ltd	36,071	1,156	100.00	10,511	337
Cathay Property Insurance Agent Co., Ltd.	-	-	-	200	6
Indovina Bank	2,225,780	71,362	50.00	107,222	3,438
Taiwan Real-estate Management Corp.	63,493	2,036	30.15	7,520	241
Taiwan Finance Corp.	1,419,883	45,524	24.57	36,297	1,164
Vista Technology Venture Capital Corp.	5,456	175	4.76	26	1
Total	$3,789,127	$121,485		$163,224	$5,233

(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 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 nine-month periods ended September 30, 2009 and 2010 were recognized based on the investees’ unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

9. Other financial assets, net

	September 30,			
	2009		2010	
	NT	US	NT	US
Derivative financial assets for hedging	$1,132,300	$35,351	$1,806,280	$57,912
Financial assets carried at cost, stocks	4,093,440	127,800	3,521,322	112,899
Bills purchased	7,343	230	3,220	103
Total	$5,233,083	$163,381	$5,330,822	$170,914

(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$17,638) and NT$373,479 (US$11,974) as of September 30, 2009 and 2010, respectively.

(2) As of September 30, 2009 and 2010, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$1,132,300 (US$35,351) and NT$1,806,280 (US$57,912), respectively. The Bank has recognized gain in hedging in the amount of NT$164,856 (US$5,147) and NT$160,163 (US$5,135) for the nine-month periods ended September 30, 2009 and 2010, respectively.

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

	September 30,			
	2009		2010	
	NT	US	NT	US
Preferred stocks	$549,730	$17,163	$549,730	$17,625
Certificates of deposit	281,335,000	8,783,484	368,535,000	11,815,806
Bonds	95,586	2,984	95,586	3,065
Beneficiary certificates	400,000	12,489	-	-
Overseas financial instruments	29,168,233	910,654	18,005,315	577,279
Subtotal	311,548,549	9,726,774	387,185,631	12,413,775
Less: accumulated impairment	(2,475,395)	(77,284)	(1,931,912)	(61,940)
Net balance	$309,073,154	$9,649,490	$385,253,719	$12,351,835

(1) NT$15,000,000 (US$468,311) and NT$20,000,000 (US$641,231) of certificates of deposit as of September 30, 2009 and 2010, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) The amounts of the accumulated impairment loss were NT$2,331,110 (US$72,779) and NT$1,791,382 (US$57,434) which have been recognized as of September 30, 2009 and 2010, respectively, due to the credit deterioration of certain securitization and financial debentures.

The amounts of the accumulated impairment loss were NT$144,285 (US$4,505) and NT$140,530 (US$4,506) which have been recognized as of September 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$174,618) 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$106,925)	2.175%
Senior tranche 2nd	NT$315,000(US$10,099)	2.325%
Senior tranche 3rd	NT$340,000(US$10,901)	2.545%
Senior tranche 4th	NT$480,000(US$15,390)	2.945%
Subordinated tranche 5th	NT$200,000(US$6,412)	3.00%
Subordinated tranche 6th	NT$200,000(US$6,412)	3.20%
Subordinated tranche 7th	NT$576,335(US$18,478)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$31,302) 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 the end of September, 2009, respectively, were as follows:

	Corporate Loans Securitization	
	May 28, 2007	September 30, 2009
Expected weighted-average life (in years)	2.210	0.353
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 September 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:

	September 30, 2009	
	NT	US
Carrying amount of retained interests	$972,447	$30,361
Expected weighted-average life (in years)	0.353	0.353
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	-	-
Impact on fair value with 20% adverse change	-	-
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(2,184)	(68)
Impact on fair value with 20% adverse change	(2,660)	(83)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on faire value with 10% adverse change	(1,995)	(62)
Impact on faire value with 20% adverse change	(3,986)	(124)

(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 - September 30,			
	2009		2010	
	NT	US	NT	US
Servicing fees received	$180	$6	$104	$3
Other cash received on retained interests	18,628	582	7,789	250
Repayment of cash reserve	4,487	140	15,613	501

12. Premises and equipment, net

	September 30,			
	2009		2010	
	NT	US	NT	US
Cost:				
Land	$14,742,528	$460,272	$14,707,197	$471,536
Buildings	11,358,306	354,615	11,575,720	371,135
Office equipment	4,193,079	130,911	4,169,407	133,678
Transportation equipment	48,203	1,505	46,473	1,490
Leasehold improvements	16,654	520	16,593	532
Other equipment	5,243,928	163,719	5,389,972	172,811
Construction in progress and prepayment for equipment	779,587	24,339	155,710	4,992
Subtotal	36,382,285	1,135,881	36,061,072	1,156,174
Accumulated depreciation:				
Buildings	(2,729,018)	(85,202)	(2,961,727)	(94,958)
Office equipment	(3,193,154)	(99,693)	(3,339,018)	(107,054)
Transportation equipment	(46,751)	(1,460)	(45,718)	(1,466)
Leasehold improvements	(6,344)	(198)	(9,114)	(292)
Other equipment	(3,980,777)	(124,282)	(4,281,435)	(137,269)
Subtotal	(9,956,044)	(310,835)	(10,637,012)	(341,039)
Net balance	$26,426,241	$825,046	$25,424,060	$815,135

13. Intangible assets, net

January 1- September 30, 2009

	January 1,		Additions/Amortization		Disposals		September 30,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$6,673,083	$208,339	$-	$-	$-	$-	$6,673,083	$208,339
Computer software	1,082,497	33,796	75,261	2,350	121,967	3,808	1,035,791	32,338
Amortization	(847,022)	(26,445)	(78,291)	(2,444)	(121,967)	(3,808)	(803,346)	(25,081)
Net balance	$6,908,558	$215,690	$(3,030)	$(94)	$-	$-	$6,905,528	$215,596

January 1- September 30, 2010

	January 1,		Additions/Amortization		Disposals		September 30,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	$6,673,083	$213,949	$-	$-	$-	$-	$6,673,083	$213,949
Computer software	1,297,969	41,615	561,922	18,016	113,734	3,646	1,746,157	55,985
Amortization	(898,846)	(28,818)	(139,384)	(4,469)	(113,734)	(3,646)	(924,496)	(29,641)
Net balance	$7,072,206	$226,746	$422,538	$13,547	$-	$-	$7,494,744	$240,293

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$213,949).

(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

	September 30,			
	2009		2010	
	NT	US	NT	US
Prepayment	$253,077	$7,901	$221,388	$7,098
Temporary payments	66,044	2,062	73,348	2,352
Interbank settlement fund	1,368,229	42,717	1,288,377	41,307
Non-operating assets, net (Accumulated impairment NT$378,766 (US$11,825) and NT$230,494 (US$7,390) on September 30, 2009 and 2010, respectively)	2,533,246	79,090	2,156,528	69,141
Refundable deposits, net	1,270,754	39,674	943,118	30,238
Foreclosed properties, net	491,333	15,340	-	-
Deferred tax assets, net	82,429	2,573	-	-
Others	401,751	12,543	202,480	6,492
Total	$6,466,863	$201,900	$4,885,239	$156,628

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

	September 30,			
	2009		2010	
	NT	US	NT	US
Due to the Central Bank	$215,397	$6,725	$-	$-
Due to commercial banks	2,084,207	65,070	2,824,066	90,544
Due to Post Co., Ltd.	23,393,129	730,351	21,113,161	676,921
Overdrafts from banks	272,816	8,518	37,707	1,209
Call loans from banks	22,814,503	712,285	22,951,346	735,856
Total	$48,780,052	$1,522,949	$46,926,280	$1,504,530

16. Financial liabilities at fair value through profit or loss

	September 30,			
	2009		2010	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$8,660,747	$270,395	$8,836,031	$283,297
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	22,825,013	712,613	5,129,840	164,471
Subordinated financial debentures	5,258,553	164,176	5,291,674	169,659
Subtotal	28,083,566	876,789	10,421,514	334,130
Total	$36,744,313	$1,147,184	$19,257,545	$617,427

(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 September 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 repaid at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000, NT$1,000,000, NT$2,000,000 and NT$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity, and the interests are paid quarterly. These dominant financial debentures totaling NT$20,000,000 have matured before September 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$44,356 (US$1,385) and NT$29,593 (US$949) as of September 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$583,566 (US$18,219) and NT$421,514 (US$13,514) as of September 30, 2009 and 2010, respectively.

(4) Net losses arising from financial liabilities at fair value through profit or loss for the nine-month periods ended September 30, 2009 and 2010 were NT$11,286,683 (US$352,378) and NT$4,155,285 (US$133,225) , respectively.

17. Payables

	September 30,			
	2009		2010	
	NT	US	NT	US
Accounts payable	$5,775,918	$180,328	$5,792,555	$185,718
Accrued interest payable	3,072,187	95,916	2,160,470	69,268
Accrued expenses	2,477,112	77,337	3,049,175	97,761
Payable to related party for allocation of linked-tax system	-	-	778,338	24,955
Foreign currency payable	4,963,152	154,953	5,606,448	179,752
Acceptance	1,081,828	33,776	1,028,448	32,974
Tax payable	312,473	9,756	472,991	15,165
Receipts under custody	2,528,432	78,940	936,207	30,016
Others	1,817,421	56,741	1,892,359	60,672
Total	$22,028,523	$687,747	$21,716,991	$696,281

18. Deposits and remittances

	September 30,			
	2009		2010	
	NT	US	NT	US
Check deposits	$13,150,632	$410,572	$13,036,158	$417,959
Demand deposits	175,411,140	5,476,464	212,650,575	6,817,909
Demand savings deposits	466,918,373	14,577,533	541,373,921	17,357,291
Time deposits	315,872,060	9,861,757	293,958,418	9,424,765
Negotiable certificates of deposit	1,773,900	55,382	1,228,000	39,372
Time savings deposits	267,532,029	8,352,545	246,046,918	7,888,648
Trust unappropriated	145,378	4,539	55,518	1,780
Outward remittances	504,373	15,747	540,632	17,333
Remittances payable	194,870	6,084	243,181	7,797
Total	$1,241,502,755	$38,760,623	$1,309,133,321	$41,972,854

19. Financial debentures payable

	September 30,			
	2009		2010	
	NT	US	NT	US
Subordinated financial debentures	$15,691,636	$489,904	$15,406,815	$493,966
Discount in financial debentures	(50,873)	(1,588)	(42,551)	(1,364)
Valuation adjustment	1,003,321	31,325	1,579,482	50,641
Total	$16,644,084	$519,641	$16,943,746	$543,243

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$13,426) 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

	September 30,			
	2009		2010	
	NT	US	NT	US
Borrowed funds	$250,688	$7,827	$202,959	$6,507

21. Other liabilities

	September 30,			
	2009		2010	
	NT	US	NT	US
Unearned receipts	$277,185	$8,654	$217,716	$6,980
Temporary receipts	828,045	25,852	630,249	20,207
Reserve for losses on guarantees	24,892	777	24,892	798
Reserve for losses on stock brokerage transactions	268,791	8,392	268,791	8,618
Guarantee deposits received	776,625	24,247	917,669	29,422
Reserve for land value increment tax	40,336	1,259	40,336	1,293
Deferred tax liabilities	-	-	32,410	1,039
Total	$2,215,874	$69,181	$2,132,063	$68,357

22. Capital Stock

As of January 1, 2009, the Bank had issued and outstanding capital stock of NT$48,689,413 (US$1,561,059) 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$115,024). After the capitalizing of retained earnings, the Bank's paid-in capital for common stock was NT$52,277,026 (US$1,676,083) 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

	September 30,			
	2009		2010	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,949,303	$341,845	$10,949,303	$351,052
Additional paid-in capital	4,249,096	132,660	4,249,096	136,233
Others	15,274	477	14,893	477
Total	$15,213,673	$474,982	$15,213,292	$487,762

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 nine-month periods ended September 30, 2009 and 2010 were NT$1,125 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$41,781) thousands as legal reserve;
(b) NT$3,587,613 (US$112,008) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$47) thousands deducted from Income Statement

The appropriation and distribution of earnings in 2009:
(a) NT$868,849 (US$27,857) thousands as legal reserve;
(b) NT$7,819,649 (US$250,710) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$48) thousands deducted from Income Statement

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

25. Pension

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

26. Certain components of operating expenses

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

	January 1- September 30,			
	2009		2010	
	NT	US	NT	US
Personnel expenses				
Salary	$4,040,107	$126,135	$4,446,712	$142,568
Insurance	530,956	16,577	539,239	17,289
Pension	271,016	8,461	283,759	9,098
Others	263,313	8,221	233,638	7,491
Depreciation expenses	725,390	22,647	722,677	23,170
Amortization expenses	78,291	2,445	139,384	4,469

27. Income tax

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

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

	January 1- September 30,			
	2009		2010	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (the tax rate for the nine-month periods ended September 30, 2009 and 2010 were 25% and 17% , respectively)	$(445,993)	$(13,924)	$(1,069,868)	$(34,302)
Interest on separation tax	(56,944)	(1,778)	(6,040)	(194)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(520,473)	(16,250)	-	-
Allowance for pledged assets taken-over (reversal)	105	3	(2,212)	(71)
Foreign investment income recognized by the equity method	11,204	350	6,059	195
Valuation allowance	(196,151)	(6,124)	43,347	1,390
Effects of tax rate change on deferred tax assets/liabilities	(88,542)	(2,764)	9,423	302
Others	(78,366)	(2,447)	(39,784)	(1,276)
Effect of foreign branches' income tax	47,418	1,480	(14,711)	(472)
Adjustment of prior period's income tax	(550,258)	(17,179)	154,786	4,963
Income tax expense	$(1,878,000)	$(58,633)	$(919,000)	$(29,465)

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:

	September 30,			
	2009		2010	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$5,810,211	$181,399	$873,120	$27,994
Others	249,430	7,787	1,204,548	38,620
Deductible temporary differences:				
Allowance for bad debts	353,873	11,048	-	-
Unrealized impairment loss for pledged assets taken-over	46,630	1,456	32,913	1,055
Valuation of financial instruments	5,804,130	181,209	423,364	13,574
Provisions for possible losses	162,295	5,067	139,925	4,486
Operating loss carry-forward	724,410	22,617	-	-
Others	267,658	8,356	256,337	8,219
Deferred income tax assets of foreign branches	100,843	3,148	200,218	6,419

(3) Deferred tax assets	$1,608,863	$50,230	$345,150	$11,066
Deferred tax liabilities	(1,211,928)	(37,838)	(353,204)	(11,324)
Valuation allowance	(314,506)	(9,819)	(24,356)	(781)
Net deferred tax assets (liabilities)	$82,429	$2,573	$(32,410)	$(1,039)

(4) 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.

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

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

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

	September 30,			
	2009		2010	
	NT	US	NT	US
The Bank's imputation credit	$240,436	$7,507	$209,599	$6,720
Undistributed earnings	6,570,995	205,151	9,520,262	305,234

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

	2008	2009
Cash dividends	5.06%	0.08%

28. Earnings per share

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

	January 1 - September 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 - September 30,							
	2009				2010			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	$8,448,995	$263,784	$6,570,995	$205,151	$10,439,262	$334,699	$9,520,262	$305,234
Earnings per share (in dollars)								
Net income	$1.62	$0.051	$1.26	$0.040	$2.00	$0.064	$1.82	$0.058

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 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
Indovina Bank	〃
Cathay Life Insurance Agent Co., Ltd.	〃
Cathay Property Insurance Agent Co., Ltd.	Subsidiaries (finished the process of liquation on July 2, 2010)
Cathay Insurance Company Limited (China)	Subsidiary of Cathay Century Insurance Corp.
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 General Hospital	Related Party disclosed according to the ROC SFAS No. 6
Li Yuan Property Management and Maintenance Co., Ltd.	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
Cathay Century Realty Co., Ltd.	〃
Cathay Real-estate Management Corp.	〃
Seaward Leasing Ltd.	〃
Cathay Life Charity Foundation	〃
Cathay Lin Yuan Security Co., Ltd.	〃
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	〃
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Wan Pao Development Co., Ltd.	Their Chairman is a second immediate family member of the parent company's Chairman
Others	Certain Directors, Supervisors, Managers and relatives of the Bank's Chairman and President and etc.

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

(1) Loans and Deposits

	September 30, Account balance			January 1- September 30, Interest income (expense)	
Accounts/Related parties	NT	US	% of Account	NT	US
2009					
Loans					
Seaward Leasing Ltd.	$1,810,000	$56,510	0.23%	$13,501	$421
Taiwan Real-estate Management Corp.	115,000	3,590	0.01%	1,803	56
Cathay General Hospital	236,000	7,368	0.03%	4,671	146
Others	304,571	9,509	0.04%	3,067	96
Total	$2,465,571	$76,977	0.31%	$23,042	$719
Deposits					
Cathay Financial Holding Co., Ltd.	$1,471	$46	-	$(4)	$-
Cathay Life Insurance Co., Ltd.	21,020,979	656,290	1.69%	(42,227)	(1,318)
Cathay Century Insurance Co., Ltd.	1,596,787	49,853	0.13%	(12,315)	(384)
Cathay Securities Corp.	180,076	5,622	0.01%	(756)	(24)
Cathay Futures Corp.	1,240,260	38,722	0.10%	(9,233)	(288)
Cathay Pacific Venture Capital Co., Ltd.	67,346	2,102	0.01%	(21)	(1)
Cathay Securities Investment Trust Co., Ltd.	332,275	10,374	0.03%	(3,334)	(104)
Cathay Real Estate Development Co., Ltd.	205,365	6,412	0.02%	(50)	(2)
Cathay Life Insurance (Vietnam) Co., Ltd.	84,551	2,640	0.01%	(9,957)	(311)
Cathay Global Money Market Fund etc.	9,433,792	294,530	0.76%	(70,394)	(2,198)
Others	4,514,842	140,956	0.36%	(32,179)	(1,004)
Total	$38,677,744	$1,207,547	3.12%	$(180,470)	$(5,634)

Accounts/Related parties	September 30, Account balance NT	US	% of Account	January 1- September 30, Interest income (expense) NT	US
2010					
Loans					
Seaward Leasing Ltd.	$825,000	$26,451	0.10%	$4,329	$139
Taiwan Real-estate Management Corp.	102,000	3,270	0.01%	1,279	41
Cathay General Hospital	212,000	6,797	0.02%	4,144	133
Others	212,064	6,799	0.03%	2,310	74
Total	$1,351,064	$43,317	0.16%	$12,062	$387
Deposits					
Cathay Financial Holding Co., Ltd.	$2,426	$78	-	$(7)	$-
Cathay Life Insurance Co., Ltd.	13,374,838	428,818	1.02%	(61,694)	(1,978)
Cathay Century Insurance Co., Ltd.	1,646,654	52,794	0.13%	(6,391)	(205)
Cathay Securities Corp.	305,734	9,802	0.02%	(213)	(7)
Cathay Futures Corp.	1,387,564	44,487	0.11%	(8,258)	(265)
Cathay Pacific Venture Capital Co., Ltd.	2,947	95	-	(3)	-
Cathay Securities Investment Trust Co., Ltd.	694,055	22,252	0.05%	(1,600)	(51)
Cathay Real Estate Development Co., Ltd.	69,980	2,244	0.01%	(34)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd.	23,476	753	-	(1,597)	(51)
Cathay Global Money Market Fund etc.	5,854,910	187,718	0.45%	(22,844)	(733)
Others	6,058,765	194,253	0.46%	(26,368)	(845)
Total	$29,421,349	$943,294	2.25%	$(129,009)	$(4,136)

Accounts / Related parties	January 1- September 30, Maximum balance NT	US	September 30, Account balance NT	US	January 1 - September 30, Interest income (expense) NT	US	Interest Rate (%)
2009							
Call loans to banks							
Indovina Bank	$809,116	$25,261	$-	$-	$4,590	$143	2.56~7%
Due from commercial banks							
Indovina Bank	367,662	11,479	48,820	1,524	480	15	0.5~2.4%
Call loans from banks							
Indovina Bank	1,476,810	46,107	-	-	(2,673)	(83)	0.23~7.5%
Due to commercial banks							
Indovina Bank	50,392	1,573	13,811	431	-	-	-

Accounts / Related parties	January 1- September 30, Maximum balance NT	US	September 30, Account balance NT	US	January 1 - September 30, Interest income (expense) NT	US	Interest Rate (%)
2010							
Call loans to banks							
Indovina Bank	$792,874	$25,421	$-	$-	$45	$1	0.24~11.5%
Due from commercial banks							
Indovina Bank	605,282	19,406	6,587	211	51	2	0.1~2.4%
Call loans from banks							
Indovina Bank	1,378,520	44,197	-	-	(315)	(10)	0.19~0.5%
Due to commercial banks							
Indovina Bank	49,335	1,582	32,904	1,055	-	-	-

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

(2) Guarantees

Related parties	January 1- September 30, Maximum balance NT	US	September 30, Account balance NT	US	January 1- September 30, Service fees NT	US
2009						
Symphox information Co., Ltd.	$413	$13	$225	$7	$-	$-
Seaward Leasing Ltd.	2,240,000	69,934	-	-	2,325	73
2010						
Symphox information Co., Ltd.	225	7	-	-	-	-
Seaward Leasing Ltd.	780,000	25,008	-	-	368	12

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	September 30, Account balance NT	US	January 1- September 30, Interest income (expense) NT	US
2009				
Securities sold under agreements to repurchase				
Cathay Life Insurance Co., Ltd.	$-	$-	$(176)	$(6)
Cathay Securities Investment Trust Co., Ltd.	162,000	5,058	(103)	(3)
San Ching Engineering Corp.	-	-	(3)	-
Others	558,060	17,423	(678)	(21)
Total	$720,060	$22,481	$(960)	$(30)
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.	$15,000	$481	$(77)	$(2)
Others	538,442	17,263	(655)	(21)
Total	$553,442	$17,744	$(732)	$(23)
Securities purchase under agreements to resell				
Cathay Securities Corp.	$-	$-	$99	$3

(4) Lease

Accounts/Related parties	January 1- September 30, 2009 NT	2009 US	2010 NT	2010 US
Rental income				
Cathay Life Insurance Co., Ltd.	$8,103	$253	$20,389	$654
Cathay Century Insurance Co., Ltd.	272	8	3,367	108
Cathay Securities Corp.	4,323	135	5,446	175
Culture and Charity Foundation of Cathay United Bank	750	23	750	24

	January 1- September 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
Rental expense				
Cathay Life Insurance Co., Ltd.	$249,438	$7,788	$272,931	$8,751
Cathay Real Estate Development Co., Ltd.	8,320	260	6,962	223
Seaward Leasing Ltd.	11,059	345	9,859	316

	September 30,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Cathay Life Insurance Co., Ltd.	$68,143	$2,127	$71,606	$2,296
Cathay Real Estate Development Co., Ltd.	2,180	68	2,180	70
Seaward Leasing Ltd.	1,836	57	1,836	59

	September 30,			
	2009		2010	
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Life Insurance Co., Ltd.	$2,490	$78	$8,693	$279
Cathay Century Insurance Co., Ltd.	88	3	1,620	52
Cathay Securities Corp.	1,350	42	2,751	88

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- September 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(5) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$845,829	$26,407	$1,149,678	$36,860
Cathay Century Insurance Co., Ltd.	51,615	1,611	53,065	1,701
Cathay Securities Co., Ltd.	3,153	98	4,574	147
Cathay Securities Investment Trust Co., Ltd.	13,719	428	24,036	771
Cathay Securities Investment Consulting Co., Ltd.	2,187	68	3,073	99

Accounts/Related parties	January 1- September 30, 2009 NT	2009 US	2010 NT	2010 US
(6) Other operating income				
Cathay Century Insurance Co., Ltd.	$2,179	$68	$3,302	$106
(7) Operating expenses				
Cathay Life Insurance Co., Ltd.	64,401	2,011	67,714	2,171
Cathay Securities Corp.	1,800	56	1,800	58
Seaward Card Co., Ltd.	192,171	6,000	188,815	6,054
Symphox Information Co., Ltd.	322,419	10,066	339,107	10,872
Cathay Real Estate Development Co., Ltd.	8,052	251	5,422	174
Cathay Lin Yuan Security Co., Ltd.	2,315	72	1,515	49
Cathay General Hospital	3,332	104	3,122	100
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	435,953	13,611	440,852	14,134
Cathay Century Insurance Co., Ltd.	57,572	1,797	57,945	1,858

Accounts/Related parties	September 30, 2009 NT	2009 US	2010 NT	2010 US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$2,024,063	$63,193	$2,095,328	$67,179
(10) Other receivables- cash dividends				
Indovina Bank	161,000	5,027	140,985	4,520
(11) Financial assets at fair value through profit or loss-mutual funds				
Cathay Securities Investment Trust Co., Ltd. (Note)	517,478	16,156	-	-
(12) Available-for-Sale financial assets- Cathay Mandarin Fund				
Cathay Securities Investment Trust Co., Ltd. (Note)	-	-	200,000	6,412

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

	September 30,			
	2009		2010	
Accounts/Related parties	NT	US	NT	US
(13) Refundable deposit				
Cathay Futures Corp.	$32,643	$1,019	$33,752	$1,082
(14) Accrued expenses				
Seaward Card Co., Ltd.	-	-	15,080	483
(15) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	-	-	778,338	24,955
(16) Accounts payable				
Cathay Century Insurance Co., Ltd.	4,883	152	9,778	313
Symphox Information Co., Ltd.	36,005	1,124	26,999	866

(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, in 2006. The project was completed in 2009 The Bank paid the amount of NT$218,894 (US$6,834) during the nine-month periods ended September 30, 2009. As of September 30, 2009, the accumulated paid amount was NT$1,400,790 (US$43,734).

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$1,787 (US$56) and NT$0 (US$0) during the nine-month periods ended September 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$21,333 (US$666) and NT$11,805 (US$378) during the nine-month periods ended September 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 nine-month periods ended September 30, 2009 and 2010. As of September 30, 2009 and 2010, the bonus points which not converting amount were NT$28,006 (US$874) and NT$32,080 (US$1,029), respectively.

e. The Bank enterd into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amounts were NT$800,000 (US$24,977) and NT$910,000 (US$29,176) during the nine-month periods ended September 30, 2009 and 2010, respectively.

f. The Bank entered into a contract with Cathay Century Insurance Co., Ltd. to transferring credit facilities. The transferring loan amounts was NT$100,000 (US$3,206) during the nine-month period ended September 30, 2010.

g. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the commissions of NT$2,042 (US$64) and NT$20,717 (US$664) were included in disposal gains of foreclosed properties, premises and equipment, during the nine-month periods ended September 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
September 30, 2009						
Cathay Life Insurance Co., Ltd.	Forward	2009.6.9-2009.12.18	$17,710,000	$552,919	$1,668,934	$52,105
	Currency swap	2009.1.19-2010.6.30	121,426,200	3,791,015	(2,650,764)	(82,759)
	Interest rate swap	-	-	-	(2,655)	(83)
Cathay Century Insurance Co., Ltd.	Forward	2008.11.18-2009.12.15	196,742	6,142	(25,959)	(810)
	Non-delivery forward	2008.11.18-2009.12.15	9,660	302	1,738	54
	Currency swap	2009.7.13-2010.6.22	355,810	11,109	(10,707)	(334)
	Interest rate swap	2007.9.29-2015.4.30	600,000	18,732	(36,747)	(1,147)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Forward	2009.9.1-2009.10.8	16,100	503	15,260	476
	Non-delivery forward	2009.9.1-2009.10.8	61,180	1,910	(3,773)	(118)
	Currency swap	-	-	-	(10,891)	(340)

			Nominal Amount		Valuation gain (loss)	
		Contract term	NT	US	NT	US
September 30, 2010						
Cathay Life Insurance Co., Ltd.	Forward	2010.10.27-2011.8.1	$54,683,772	$1,753,247	$(1,019,189)	$(32,677)
	Currency swap	2010.11.2-2012.3.8	106,762,959	3,422,987	(2,050,936)	(65,756)
Cathay Century Insurance Co., Ltd.	Currency swap	2010.10.14-2011.4.22	878,807	28,176	(10,134)	(325)
	Interest rate swap	2012.9.28-2015.4.30	600,000	19,237	(22,318)	(716)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Forward	2010.10.7	27,570	884	(12,786)	(410)
	Non-delivery forward	2010.10.7	27,570	884	(315)	(10)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

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

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$171,707,642	$5,505,215
Travelers checks for sale	378,766	12,144
Bills for collection	38,117,120	1,222,094
Book-entry for government bonds and depository for short-term marketable securities under management	525,064,000	16,834,370
Entrusted financial management business	2,768,116	88,750
Guarantees on duties and contracts	16,280,366	521,974
Unused commercial letters of credit	4,908,545	157,376
Irrevocable loan commitments	51,368,603	1,646,957
Credit card lines commitments	263,161,215	8,437,359
Stamp tax, securities and memorial currency consignments	1,006	32

2. As of September 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 Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT$0.9 billion (US$29 million) and NT$3.09 billion (US$99 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 September 30, 2010, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$346,239 (US$11,101) with prepayments of NT$155,710 (US$4,992).

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

Periods	NT	US
2010.10.1~2011.9.30	$694,202	$22,257
2011.10.1~2012.9.30	543,491	17,425
2012.10.1~2013.9.30	243,851	7,818
2013.10.1~2014.9.30	84,674	2,715
2014.10.1~2015.9.30	46,745	1,499

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	September 30, 2009			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$36,903,127	$1,152,143	$36,903,127	$1,152,143
Available-for-sale financial assets	117,372,513	3,664,456	117,372,513	3,664,456
Held-to-maturity financial assets and debt securities with no active market	312,962,262	9,770,911	313,015,828	9,772,583
Other financial assets-financial assets carried at cost	4,093,440	127,800	(Note)	(Note)
Others	945,556,669	29,520,970	945,556,669	29,520,970
Liabilities				
Financial liabilities at fair value through profit or loss	28,083,566	876,789	28,083,566	876,789
Financial debentures payable	16,644,084	519,641	16,644,084	519,641
Others	1,323,467,895	41,319,635	1,323,467,895	41,319,635
Derivative financial instruments				
Assets				
Forward	220,742	6,892	220,742	6,892
Non-delivery forward	34,006	1,062	34,006	1,062
Currency swap	4,774,338	149,058	4,774,338	149,058
Interest rate swap	5,112,025	159,601	5,112,025	159,601
Cross currency swap	358,829	11,203	358,829	11,203
Options	120,003	3,746	120,003	3,746
Liabilities				
Forward	3,855,751	120,379	3,855,751	120,379
Non-delivery forward	40,512	1,265	40,512	1,265
Currency swap	1,051,808	32,838	1,051,808	32,838
Interest rate swap	3,202,734	99,992	3,202,734	99,992
Cross currency swap	258,700	8,077	258,700	8,077
Options	120,003	3,746	120,003	3,746
Credit derivative instruments	101,521	3,170	101,521	3,170
Credit default swap	29,620	925	29,620	925
Futures	98	3	98	3

	September 30, 2010			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$12,917,296	$414,149	$12,917,296	$414,149
Available-for-sale financial assets	85,549,991	2,742,866	85,549,991	2,742,866
Held-to-maturity financial assets and debt securities with no active market	390,538,291	12,521,267	390,620,339	12,523,897
Other financial assets-financial assets carried at cost	3,521,322	112,899	(Note)	(Note)
Others	1,001,081,895	32,096,246	1,001,081,895	32,096,246
Liabilities				
Financial liabilities at fair value through profit or loss	10,421,514	334,130	10,421,514	334,130
Financial debentures payable	16,943,746	543,243	16,943,746	543,243
Others	1,413,664,757	45,324,295	1,413,664,757	45,324,295
Derivative financial instruments				
Assets				
Forward	314,117	10,071	314,117	10,071
Non-delivery forward	31,738	1,018	31,738	1,018
Currency swap	5,216,029	167,234	5,216,029	167,234
Interest rate swap	5,046,044	161,784	5,046,044	161,784
Cross currency swap	294,220	9,433	294,220	9,433
Options	316,177	10,137	316,177	10,137
Futures	764	24	764	24
Liabilities				
Forward	4,550,650	145,901	4,550,650	145,901
Non-delivery forward	38,227	1,225	38,227	1,225
Currency swap	787,895	25,261	787,895	25,261
Interest rate swap	2,862,544	91,778	2,862,544	91,778
Cross currency swap	281,212	9,016	281,212	9,016
Options	310,005	9,939	310,005	9,939
Credit default swap	4,387	141	4,387	141
Futures	1,111	36	1,111	36

Note: Fair value cannot be reliably estimated.

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

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

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

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

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

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

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

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

	September 30, 2009			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$33,031,493	$1,031,268	$3,871,634	$120,875
Available-for-sale financial assets	104,240,971	3,254,479	13,131,542	409,977
Held-to-maturity financial assets and debt securities with no active market	1,785,265	55,737	311,230,563	9,716,846
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	28,083,566	876,789
Financial debentures payable	-	-	16,644,084	519,640
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Forward	-	-	220,742	6,892
Non-delivery forward	-	-	34,006	1,062
Currency swap	-	-	4,774,338	149,058
Interest rate swap	-	-	5,112,025	159,601
Cross currency swap	-	-	358,829	11,203
Options	-	-	120,003	3,746
Liabilities				
Forward	-	-	3,855,751	120,379
Non-delivery forward	-	-	40,512	1,265
Currency swap	-	-	1,051,808	32,838
Interest rate swap	-	-	3,202,734	99,992
Cross currency swap	-	-	258,700	8,077
Options	-	-	120,003	3,746
Credit derivative instruments	-	-	101,521	3,170
Credit default swap	-	-	29,620	925
Futures	98	3	-	-

	September 30, 2010			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$1,868,541	$59,909	$11,048,755	$354,240
Available-for-sale financial assets	50,858,205	1,630,593	34,691,786	1,112,273
Held-to-maturity financial assets and debt securities with no active market	1,920,285	61,567	388,700,054	12,462,330
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	10,421,514	334,130
Financial debentures payable	-	-	16,943,746	543,243
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Forward	-	-	314,117	10,071
Non-delivery forward	-	-	31,738	1,018
Currency swap	-	-	5,216,029	167,234
Interest rate swap	-	-	5,046,044	161,784
Cross currency swap	-	-	294,220	9,433
Options	-	-	316,177	10,137
Futures	764	24	-	-
Liabilities				
Forward	-	-	4,550,650	145,901
Non-delivery forward	-	-	38,227	1,225
Currency swap	-	-	787,895	25,261
Interest rate swap	-	-	2,862,544	91,778
Cross currency swap	-	-	281,212	9,016
Options	-	-	310,005	9,939
Credit default swap	-		4,387	141
Futures	1,111	36	-	-

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

4. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gains NT$1,417,507 (US$44,256) and losses NT$8,016 (US$257) for the nine-month periods ended September 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 nine-month periods ended September 30, 2009 and 2010 were NT$17,961,566 (US$560,773) and NT$16,126,098 (US$517,028), and expenses were NT$7,657,402 (US$239,070) and NT$5,263,964 (US$168,771), respectively.

6. The Bank recognized an unrealized gains of NT$2,792,526 (US$87,185) and NT$970,207 (US$31,106) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$1,028,983 (US$32,126) and NT$1,377,247 (US$44,157) in income statements, for the nine-month periods ended September 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's fixed-rate bond investments such as government bonds and corporate bonds may decline.

② Foreign exchange risk

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

③ Equity securities price risk

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

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

September 30, 2010						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$498,667	$15,988	$564,511	18,099	$417,580	13,388
Foreign exchange	116,489	3,735	124,428	3,989	110,355	3,538
Equity Securities price	135,117	4,332	175,459	5,625	93,439	2,996

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.

		September 30, 2010	
		NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	$565,908	$18,144
	HKD+1%	10,047	322
	JPY+1%	6,371	204
	NTD+1%	(591,401)	(18,961)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(22,201)	(712)
	Yield curves (HKD) parallel shift+1bp	(2,599)	(83)
	Yield curves (JPY) parallel shift+1bp	(2,573)	(82)
	Yield curves (NTD) parallel shift+1bp	(11,389)	(365)
Equity securities price factor sensitivity (Equity Delta)		57,572	1,846

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

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

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities prices portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. The Bank's equity portfolios include stocks and equity index options.

⑤ Stress testing

Stress Test			
Market/ Product	Scenarios	Effects (In thousand of dollars)	
		NT	US
Stock Market	Major Stock Exchanges +15%	$863,583	$27,688
	Major Stock Exchanges -15%	(863,583)	(27,688)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,780,732)	(89,155)
	Major Interest Rate - 100bp	2,512,800	80,564
Foreign Exchange Market	Major Currencies +3%	1,836,836	58,892
	Major Currencies -3%	(1,734,794)	(55,620)
Composite	Major Stock Exchanges -15%	(1,807,480)	(57,951)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(2) Credit risk

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

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

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

① Information on concentrations of credit risk:

	September 30, 2009			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$36,903,127	$1,152,143	$36,903,127	$1,152,143
Available-for-sale financial assets	117,372,513	3,664,456	117,372,513	3,664,456
Held-to-maturity financial assets and debt securities with no active market	312,962,262	9,770,911	312,962,262	9,770,911
Other financial assets-financial assets carried at cost	4,093,440	127,800	4,093,440	127,800
Others	945,556,669	29,520,970	945,556,669	29,520,970
Guarantees on duties and contracts	-	-	18,535,405	578,689
Unused commercial letters of credit	-	-	2,488,877	77,705
Irrevocable loan commitments	-	-	33,101,078	1,033,440
Credit card line commitments	-	-	259,286,604	8,095,117
Derivative financial instruments				
Forward	220,742	6,892	220,742	6,892
Non-delivery forward	34,006	1,062	34,006	1,062
Currency swap	4,774,338	149,058	4,774,338	149,058
Interest rate swap	5,112,025	159,601	5,112,025	159,601
Cross currency swap	358,829	11,203	358,829	11,203
Options	120,003	3,746	120,003	3,746

	September 30, 2010			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$12,917,296	$414,149	$12,917,296	$414,149
Available-for-sale financial assets	85,549,991	2,742,866	85,549,991	2,742,866
Held-to-maturity financial assets and debt securities with no active market	390,538,291	12,521,267	390,538,291	12,521,267
Other financial assets-financial assets carried at cost	3,521,322	112,899	3,521,322	112,899
Others	1,001,081,895	32,096,246	1,001,081,895	32,096,246
Guarantees on duties and contracts	-	-	16,280,366	521,974
Unused commercial letters of credit	-	-	4,908,545	157,376
Irrevocable loan commitments	-	-	51,368,603	1,646,957
Credit card line commitments	-	-	263,161,215	8,437,359
Derivative financial instruments				
Forward	314,117	10,071	314,117	10,071
Non-delivery forward	31,738	1,018	31,738	1,018
Currency swap	5,216,029	167,234	5,216,029	167,234
Interest rate swap	5,046,044	161,784	5,046,044	161,784
Cross currency swap	294,220	9,433	294,220	9,433
Options	316,177	10,137	316,177	10,137
Futures	764	24	764	24

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

	September 30,			
	2009		2010	
	NT	US	NT	US
Loans, customers' liabilities under acceptances, bill purchased and guarantees account				
Industry type				
Manufacturing	$131,266,060	$4,098,222	$144,569,659	$4,635,128
Financial institutions and insurance	32,585,780	1,017,352	39,638,548	1,270,874
Leasing and real estate	75,930,043	2,370,592	84,042,996	2,694,550
Individuals	411,991,398	12,862,672	441,071,033	14,141,425
Others	158,784,513	4,957,369	161,761,673	5,186,331
Total	810,557,794	25,306,207	871,083,909	27,928,308
Valuation allowance	(6,292,038)	(196,442)	(5,758,609)	(184,630)
Maximum credit risk exposed	$804,265,756	$25,109,765	$865,325,300	$27,743,678
Geographic Region				
Domestic	$729,584,186	$22,778,151	$784,568,473	$25,154,488
South East Asia	22,246,285	694,545	27,785,956	890,861
North East Asia	235,175	7,343	1,252,199	40,148
America	17,676,591	551,876	12,665,491	406,075
Others	40,815,557	1,274,292	44,811,790	1,436,736
Total	810,557,794	25,306,207	871,083,909	27,928,308
Valuation allowance	(6,292,038)	(196,442)	(5,758,609)	(184,630)
Maximum credit risk exposed	$804,265,756	$25,109,765	$865,325,300	$27,743,678

(3) Liquidity risk

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

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

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

The liquidity risk rate was 35.51%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

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

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

	Effective interest rate (%)	
Financial instruments	September 30, 2009	September 30, 2010
Available-for-sale financial assets		
Bonds	0.2867-6.6626	0.3-5.9295
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	1.4241-7.286394	0-7.286394
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.57-0.71	0.214-0.742
Overseas financial instruments	0-11.61	0-11.555
Financial debentures payable	2.42-5.593	2.42-5.593

8. Fair value hedge

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

	Hedging instruments				
		Financial assets fair value			
	Derivative designated as	September 30, 2009		September 30, 2010	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$1,132,300	$35,351	$1,806,280	$57,912

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

XI. Others

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

	January 1- September 30, 2009		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$29,990,444	$936,324	0.45%
Time certificates, discounted bills and others	245,090,952	7,651,919	0.73%
Due from commercial banks and call loans to banks	34,991,415	1,092,458	0.17%
Discounts and loans	779,349,382	24,331,857	1.98%
Bills purchased	4,137	129	2.53%
Bond and beneficiary certificates	164,528,911	5,136,713	2.75%
Receivables-credit card revolving balance	18,061,964	563,908	13.87%
Securities purchased under agreements to resell	2,063,836	64,434	0.17%
Liabilities			
Due to banks	54,733,923	1,708,833	0.86%
Demand deposits	142,548,485	4,450,468	0.10%
Saving deposits	672,968,432	21,010,566	0.76%
Time deposits	327,725,706	10,231,836	1.09%
Negotiable certificates of deposit	2,157,460	67,357	1.10%
Securities sold under agreements to repurchase	14,257,615	445,133	0.27%
Financial debentures	46,502,122	1,451,830	3.37%
Funds borrowed from the Central Bank and other banks	1,921,301	59,984	0.72%

	January 1 - September 30, 2010		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$34,717,306	$1,113,091	0.38%
Time certificates, discounted bills and others	366,150,553	11,739,357	0.58%
Due from commercial banks and call loans to banks	27,872,892	893,648	0.22%
Discounts and loans	808,162,362	25,910,945	1.71%
Bills purchased	3,696	118	2.44%
Bond and beneficiary certificates	103,263,240	3,310,780	2.73%
Receivables-credit card revolving balance	17,069,340	547,270	13.92%
Securities purchased under agreements to resell	5,341,716	171,264	0.27%
Liabilities			
Due to banks	49,094,953	1,574,061	0.77%
Demand deposits	201,115,961	6,448,091	0.09%
Saving deposits	747,741,992	23,973,773	0.47%
Time deposits	292,494,300	9,377,823	0.74%
Negotiable certificates of deposit	1,483,539	47,565	0.14%
Securities sold under agreements to repurchase	16,030,333	513,957	0.21%
Financial debentures	28,094,230	900,745	3.45%
Funds borrowed from the Central Bank and other banks	1,815,196	58,198	0.64%

2. Regulatory capital ratio

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

As of June 30, 2009 and 2010, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 11.65% and 11.20%, respectively.

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

4. As of September 30, 2009 and 2010, the assets and liabilities managed under the Bank's trust were NT$419,710,086 (US$13,103,656) and NT$426,482,250 (US$13,673,685), respectively.