Cathay United Bank
Financial Statements
For The Nine-Month Periods Ended
September 30, 2012 and 2011
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.

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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, 2012 and 2011, and the related statements of income and cash flows for the nine-month periods ended September 30, 2012 and 2011. 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 requirements of the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and accounting principles generally accepted in the ROC.

As described in Note 3 to the financial statements, effective from January 1, 2011, the Bank has adopted the third revision of the R.O.C. Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement", and the newly issued SFAS No. 41, "Operating Segments".

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
October 31, 2012

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, 2012 and 2011

(Expressed in thousands of dollars)

(Reviewed, not audited)

ASSETS	Notes	September 30, 2012 NT$	September 30, 2012 US$	September 30, 2011 NT$	September 30, 2011 US$
Cash and cash equivalents	IV and V	$29,596,066	$1,010,450	$28,962,462	$951,148
Due from the Central Bank and call loans to banks	IV and V	150,645,598	5,143,243	74,632,223	2,450,976
Financial assets at fair value through profit or loss	II, IV and V	21,554,776	735,909	16,023,544	526,225
Securities purchased under agreements to resell	II	1,472,618	50,277	4,490,000	147,455
Receivables, net	II, III, IV and V	44,753,299	1,527,938	45,699,464	1,500,803
Discounts and loans, net	II, III, IV and V	969,995,836	33,116,963	983,493,319	32,298,631
Available-for-sale financial assets, net	II and IV	59,248,697	2,022,830	49,542,084	1,626,998
Held-to-maturity financial assets, net	II and IV	20,760,756	708,800	6,666,080	218,919
Investments accounted for using equity method, net	II , IV and V	4,331,906	147,897	4,646,857	152,606
Other financial assets, net	II and IV	4,782,656	163,286	5,148,507	169,081
Investments in debt securities with no active market, net	II and IV	453,748,431	15,491,582	454,162,929	14,915,039
Premises and equipment, net	II, IV, V and VII	24,346,789	831,232	24,832,555	815,519
Intangible assets, net	II and IV	7,203,896	245,951	7,310,111	240,069
Other assets, net	II, IV and V	4,817,725	164,484	6,215,383	204,118
TOTAL ASSETS		$1,797,259,049	$61,360,842	$1,711,825,518	$56,217,587

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, 2012 and 2011

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2012		September 30, 2011	
LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	NT$	US$	NT$	US$
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$66,521,994	$2,271,150	$51,125,555	$1,679,000
Funds borrowed from the Central Bank and other banks		1,467,100	50,089	1,525,300	50,092
Financial liabilities at fair value through profit or loss	II, IV, V and XII	6,786,999	231,717	14,834,261	487,168
Securities sold under agreements to repurchase	II, IV and V	20,137,644	687,526	12,494,075	410,315
Payables	IV, V and XII	20,044,566	684,349	26,612,634	873,978
Deposits and remittances	IV and V	1,516,016,407	51,758,839	1,464,607,526	48,098,769
Financial debentures payable	IV, X and XII	42,691,599	1,457,549	33,297,793	1,093,524
Other financial liabilities	II and IV	19,622,464	669,937	8,360,270	274,557
Other liabilities	II, IV and XII	3,402,167	116,155	2,598,404	85,333
TOTAL LIABILITIES		1,696,690,940	57,927,311	1,615,455,818	53,052,736
SHAREHOLDERS' EQUITY					
Capital stock	IV	52,277,026	1,784,808	52,277,026	1,716,815
Capital reserves	IV	15,213,292	519,402	15,213,292	499,615
Retained earnings	IV				
Legal reserves		22,360,652	763,423	19,009,053	624,271
Special reserves	II, III and IV	271,009	9,253	271,009	8,900
Undistributed earnings	XII	10,356,599	353,588	9,395,997	308,572
Foreign currency translation adjustment	II	(553,086)	(18,883)	793	26
Unrealized gains or losses on financial instruments	II	1,444,953	49,333	806,155	26,475
Net loss not recognized as net pension costs	II and IV	(802,336)	(27,393)	(603,625)	(19,823)
TOTAL SHAREHOLDERS' EQUITY		100,568,109	3,433,531	96,369,700	3,164,851
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,797,259,049	$61,360,842	$1,711,825,518	$56,217,587

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, 2012 and 2011

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

(Reviewed, not audited)

ITEMS	Notes	January 1 - September 30, 2012 NT$	January 1 - September 30, 2012 US$	January 1 - September 30, 2011 NT$	January 1 - September 30, 2011 US$
INTEREST INCOME	II, V and XII	$23,816,262	$813,119	$19,936,830	$654,740
INTEREST EXPENSE	V	(8,594,847)	(293,439)	(6,906,644)	(226,819)
NET INTEREST INCOME		15,221,415	519,680	13,030,186	427,921
NONINTEREST INCOME					
Net fee income	II and V	5,408,808	184,664	5,135,880	168,666
Gain on financial assets and liabilities at fair value through profit or loss	II, IV, V and XII	928,080	31,686	838,260	27,529
Realized gain on available-for-sale financial assets	II	1,083,916	37,006	1,671,086	54,880
Realized loss on financial assets in held-to-maturity	II	-	-	(1,511)	(50)
Investment income recognized by the equity method	II and IV	165,450	5,649	263,588	8,656
Gain on foreign currency exchange, net	II	756,996	25,845	622,505	20,443
Impairment loss of assets	II	(90,300)	(3,083)	(20,497)	(673)
Gain on financial assets carried at cost		148,541	5,071	137,227	4,507
Gain on investment in debt securities with no active market		12,330	421	1,857	61
Others	II, III, IV and V	749,012	25,572	787,001	25,846
NET NONINTEREST INCOME		9,162,833	312,831	9,435,396	309,865
NET OPERATING INCOME		24,384,248	832,511	22,465,582	737,786
BAD DEBT EXPENSE	II, III and IV	(3,512)	(120)	(35,203)	(1,156)
OPERATING EXPENSES					
Personnel	II and IV	(6,245,578)	(213,232)	(5,977,799)	(196,315)
Depreciation and amortization	II and IV	(850,128)	(29,024)	(908,144)	(29,824)
Other general and administrative expenses	V and XII	(5,588,431)	(190,797)	(4,896,049)	(160,790)
TOTAL OPERATING EXPENSES		(12,684,137)	(433,053)	(11,781,992)	(386,929)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		11,696,599	399,338	10,648,387	349,701
INCOME TAX EXPENSE	II, IV and XII	(1,340,000)	(45,750)	(1,284,647)	(42,189)
NET INCOME		$10,356,599	$353,588	$9,363,740	$307,512
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		$2.24	$0.077	$2.04	$0.067
INCOME TAX EXPENSE		(0.26)	(0.009)	(0.25)	(0.008)
NET INCOME		$1.98	$0.068	$1.79	$0.059

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, 2012 and 2011

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	Notes	January 1 - September 30, 2012 NT$	January 1 - September 30, 2012 US$	January 1 - September 30, 2011 NT$	January 1 - September 30, 2011 US$
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	XII	$10,356,599	$353,588	$9,363,740	$307,512
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	850,128	29,024	908,144	29,824
The differences between investment income recognized by the equity method and the cash dividends received	II	(139,707)	(4,770)	(199,193)	(6,542)
Bad debt expense	II, III and IV	3,512	120	35,203	1,156
Gain on disposal of premises, equipment and foreclosed properties	II	(181,484)	(6,196)	(187,896)	(6,171)
Impairment loss of assets	II	90,300	3,083	20,497	673
Effects of exchange rate changes		50,658	1,729	(103,036)	(3,384)
(Increase) decrease in operating assets					
Decrease in receivables		2,284,534	77,997	12,051,171	395,769
Increase in deferred income tax assets		(231,676)	(7,910)	-	-
Decrease in financial assets at fair value through profit or loss		244,945	8,363	49,952,117	1,640,464
Increase in other assets		(467,405)	(15,958)	(1,592,444)	(52,297)
Increase (decrease) in operating liabilities					
Decrease in payables	XII	(393,988)	(13,451)	(8,419,775)	(276,511)
Decrease in deferred income tax liabilities		(22,796)	(778)	(7,329)	(241)
Increase (decrease) in financial liabilities at fair value through profit or loss	XII	1,951,846	66,639	(9,199,848)	(302,129)
Decrease in tax payables		(81,528)	(2,783)	(162,068)	(5,322)
Increase in other liabilities	XII	547,809	18,703	81,545	2,678
Net cash provided by operating activities		14,861,747	507,400	52,540,828	1,725,479
CASH FLOWS FROM INVESTING ACTIVITIES:					
(Increase) decrease in discounts and loans		13,174,573	449,798	(103,296,926)	(3,392,346)
(Increase) decrease in due from the Central Bank and call loans to banks		(61,955,163)	(2,115,233)	25,461,965	836,189
Decrease in securities purchased under agreements to resell		836,170	28,548	14,436,393	474,102
(Increase) decrease in available-for-sale financial assets		(11,526,911)	(393,544)	25,027,728	821,929
Increase in held-to-maturity financial assets		(2,584,610)	(88,242)	(1,701,699)	(55,885)
Capital return due to capital decrease in equity-accounted investee		1,990	68	10,000	328
Proceeds from disposal of premises, equipment and foreclosed properties		653,484	22,311	468,948	15,401
Acquisition of premises, equipment and foreclosed properties		(337,932)	(11,538)	(314,096)	(10,315)
Acquisition of intangible assets		(40,751)	(1,391)	(118,924)	(3,906)
Increase in investments in debt securities with no active market		(28,698,465)	(979,804)	(151,386,497)	(4,971,642)
(Increase) decrease in other financial assets		58,144	1,985	(432,405)	(14,200)
(Increase) decrease in other assets		(291,982)	(9,969)	57,713	1,895
Net cash used in investing activities		(90,711,453)	(3,097,011)	(191,787,800)	(6,298,450)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase in due to the Central Bank and call loans from banks		12,706,090	433,803	11,226,923	368,700
Increase (decrease) in securities sold under agreements to repurchase		6,591,182	225,032	(9,185,481)	(301,658)
Increase in deposits and remittances		46,529,098	1,588,566	138,182,278	4,538,006
Increase (decrease) in funds borrowed from the Central Bank and other banks		(47,400)	(1,618)	68,800	2,259
Increase in financial debentures payable	XII	9,576,358	326,950	12,533,298	411,603
Increase in other financial liabilities		9,011,391	307,661	512,651	16,836
Increase (decrease) in other liabilities		160,247	5,471	(467,007)	(15,337)
Distribution of cash dividends	IV	(7,820,397)	(266,999)	(7,822,529)	(256,897)
Net cash provided by financing activities		76,706,569	2,618,866	145,048,933	4,763,512
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		(452,370)	(15,445)	389,895	12,804
NET INCREASE IN CASH AND CASH EQUIVALENTS		404,493	13,810	6,191,856	203,345
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		29,191,573	996,640	22,770,606	747,803
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$29,596,066	$1,010,450	$28,962,462	$951,148
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$7,783,938	$265,754	$6,018,673	$197,658
Income tax paid		$295,980	$10,105	$265,266	$8,712

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, 2012 and 2011

(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, 2012 and 2011, the Bank employed 6,693 and 6,422 employees, respectively.

II. Summary of significant accounting policies

The financial statements were prepared in conformity with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" 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, investment in debt securities with no active market, available-for-sale financial assets, financial assets carried at cost, derivative financial assets for hedging and loans and receivables (loans and receivables originated by the enterprise are included in the ROC Statements of Financial Accounting Standards ("ROC SFAS") No. 34 since January 1, 2011) where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

(2) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable collections and fixed maturity which management has the intent and ability to hold to maturity are classified as held-to-maturity financial assets and reported at amortized cost. Such gains and losses are recognized when the investments are derecognized or impaired, as well as through the amortization process.

(3) Investments in debt securities with no active market

Investment in 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) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other then:

① those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;

② those that the entity upon initial recognition designates as at fair value through profit or loss;

③ those that the entity upon initial recognition designates as available-for-sale; or

④ those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Gains and losses are recognized when these investments are derecognized or impaired, as well as through the amortization process.

(7) 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.

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.

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. Bills and bonds under repurchase or resell agreements

Bills and bonds under repurchase or resell agreements are accounted for under the financing method. Bills and bonds sold under repurchase agreements are presented as “Securities sold under agreements to repurchase” at the sale date. Bills and bonds invested under resell agreement are presented as “Securities purchased under agreements to resell” at the purchase date. The difference between the purchase or the selling price and the contracted resell or repurchase price is recorded as interest income or interest expense, respectively.

7. 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 the income statement. Once a financial assets or a group of similar financial asset has been written down as a result of an impairment loss, interest income is there after recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

Loans and receivables

Since January 1, 2011, the Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Bank shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for loans and receivables with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment. Allowance for doubtful accounts are provided between the amount calculated by adopting the third revision of the SFAS No. 34 "Financial Instruments: Recognition and Measurement" and the lowest amount that should be provided by the amended "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans" of the authority for which is higher. Since the maturity date of the non-performing loans or non-accrual loans and the efforts of collection have failed. The non-performing loans and non-accrual loans will be write-off after the resolution was approved by the board of directors.

8. Hedge accounting

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

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

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

(3) Hedges of net investments in foreign operations.

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

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

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

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

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 the income statement. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

9. 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 investment cost and underlying equity in net assets 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 the income statement.

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 the income statement.

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

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

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

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

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. Asset impairment

The Bank assesses impairment for all its assets within the scope of the 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 the income statement.

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.

14. 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.

15. Reserves for losses on trading securities

Prior to December 31, 2010, 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 shall not be used except for the purpose of covering the amount of loss in excess of the amount of profit. Since January 1, 2011, pursuant to the related regulations issued by the FSC, the reserves are no longer provided and shall be reclassified to special reserves.

16. Pension plans

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

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

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

17. Recognition of interest income and service fees

Interest income is recognized over the period by applying the interest rate method and measured except for delinquent accounts and troubled accounts whose interest is recognized when received.

Service fees are recognized on an accrual basis.

18. 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.

19. Income tax

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

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

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

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

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

20. 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.

21. 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.

22. Operating segment information

An operating segment is a component of an entity that has the following characteristics:

(1) Engaging in business activities from which it may earn revenues and incur expenses,

(2) Whose operating results are regularly reviewed by the entity's chief operating decision marker to make decisions about resources to be allocated to the segment and assess its performance, and

(3) For which discrete financial information is available.

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, 2012 and 2011 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$29.29 and NT$30.45 to US$1.00 on September 30, 2012 and 2011, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unreviewed. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. Effective from January 1, 2011, the Bank adopted the third revision of the SFAS No. 34 "Financial Instruments: Recognition and Measurement" to treat its financial instruments. No significant effect to the Bank's net income and earnings per share for the nine-month period ended September 30, 2011.

2. Effective from January 1, 2011, the Bank adopted SFAS No. 41, "Operating Segments", to present its operating segment information.

3. In compliance with the Explanatory Letter No. Financial Supervisory Securities Firms 0990073857 issued by Securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the "Regulations Governing Securities Firms" ,the reserves for losses on trading securities are no longer required since January 1, 2011. The remaining balance should be reclassified as special reserve in 2011 according to the Explanatory Letter No. Financial Supervisory Banking Law 10010000440 issued by Banking Bureau of the FSC dated March 23, 2011. The special 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 special reserve may be transferred to capital stock.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Cash on hand	$11,302,682	$385,889	$11,681,909	$383,642
Checks for clearance	7,484,389	255,527	5,869,593	192,762
Due from commercial banks	10,808,995	369,034	11,410,960	374,744
Total	$29,596,066	$1,010,450	$28,962,462	$951,148

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Call loans to banks	$39,549,300	$1,350,266	$11,360,248	$373,079
Due from the Central Bank －				
Statutory reserve on deposits and general deposits	111,096,298	3,792,977	63,271,975	2,077,897
Total	$150,645,598	$5,143,243	$74,632,223	$2,450,976

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$40,241,147 (US$1,373,887) and NT$39,617,324 (US$1,301,062) as of September 30, 2012 and 2011, 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, 2012 and 2011, the balance of foreign-currency deposit reserves were NT$183,388 (US$6,261) and NT$140,328 (US$4,608), respectively.

3. Financial assets at fair value through profit or loss

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Financial assets for trading :				
Short-term bills	$13,199,843	$450,660	$3,895,740	$127,939
Bonds	1,226,438	41,872	546,948	17,962
Overseas financial instruments	836,628	28,564	402,813	13,229
Derivative financial instruments	6,291,867	214,813	11,178,043	367,095
Total	$21,554,776	$735,909	$16,023,544	$526,225

(1) As of September 30, 2012, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$33,000 (US$1,127). Such repurchase agreements amounting to NT$33,000 (US$1,127) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2012 was settled at NT$33,001 (US$1,127) prior to October 31, 2012.

As of September 30, 2011, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$28,000 (US$920). Such repurchase agreements amounting to NT$31,759 (US$1,043) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2011 was settled at NT$31,760 (US$1,043) prior to October 31, 2011.

(2) As of September 30, 2012 and 2011, 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,	
	2012	2011
Forward foreign exchange and currency swap contracts	$21,145,991	$23,447,787
Interest rate swap contracts	9,969,469	9,046,060
Cross-currency swap contracts	849,821	59,060
Options	6,698,524	816,053

(3) Net gains arising from financial assets at fair value through profit or loss for the nine-month periods ended September 30, 2012 and 2011 were NT$4,192,820 (US$143,149) and NT$34,556,122 (US$1,134,848), respectively.

4. Receivables, net

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Notes Receivable	$47	$2	$7	$-
Accounts receivable	36,274,610	1,238,464	34,491,957	1,132,741
Interest receivable	3,053,601	104,254	2,232,012	73,301
Related party receivables for allocation of linked-tax system	410,499	14,015	651,985	21,412
Foreign currency receivable	79,882	2,727	8,320,625	273,255
Acceptances	1,069,845	36,526	1,120,089	36,784
Tax refundable	97,475	3,328	121,291	3,983
Factoring receivable	4,349,191	148,487	840,795	27,613
Others	1,438,359	49,108	656,783	21,569
Total	46,773,509	1,596,911	48,435,544	1,590,658
Adjustment for discounts and premiums	(5,123)	(175)	(1,670)	(55)
Less: allowance for doubtful accounts	(2,015,087)	(68,798)	(2,734,410)	(89,800)
Net balance	$44,753,299	$1,527,938	$45,699,464	$1,500,803

Information on bad and doubtful accounts are as follows:

	January 1 - September 30, 2012					
	Allocated allowance		Unallocated portion		Total	
	NT$	US$	NT$	US$	NT$	US$
Balance, beginning of the period	$129,860	$4,434	$2,624,651	$89,609	$2,754,511	$94,043
Reversal of doubtful accounts	(927,549)	(31,668)	-	-	(927,549)	(31,668)
Write-offs	(224,321)	(7,658)	-	-	(224,321)	(7,658)
Debt counseling recoveries	111,017	3,790	-	-	111,017	3,790
Recoveries	419,101	14,309	-	-	419,101	14,309
Reclassification	601,987	20,552	(719,545)	(24,566)	(117,558)	(4,014)
Effects of exchange rates change	-	-	(114)	(4)	(114)	(4)
Balance, end of the period	$110,095	$3,759	$1,904,992	$65,039	$2,015,087	$68,798

	January 1 - September 30, 2011					
	Allocated allowance		Unallocated portion		Total	
	NT$	US$	NT$	US$	NT$	US$
Balance, beginning of the period	$2,167,737	$71,190	$40,920	$1,344	$2,208,657	$72,534
Reversal of doubtful accounts	(219,233)	(7,200)	-	-	(219,233)	(7,200)
Write-offs	(283,377)	(9,306)	-	-	(283,377)	(9,306)
Debt counseling recoveries	115,460	3,792	-	-	115,460	3,792
Recoveries	503,639	16,540	-	-	503,639	16,540
Reclassification	(2,141,824)	(70,339)	2,551,088	83,779	409,264	13,440
Balance, end of the period	$142,402	$4,677	$2,592,008	$85,123	$2,734,410	$89,800

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 and future credit losses that have not been incurred.

5. Discounts and loans, net

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Outward documentary bills	$935,349	$31,934	$508,014	$16,684
Overdrafts	506,103	17,279	505,054	16,586
Short-term loans	203,193,736	6,937,308	264,783,568	8,695,684
Medium-term loans	327,600,978	11,184,738	263,964,206	8,668,775
Long-term loans	444,444,482	15,173,932	458,176,013	15,046,831
Delinquent accounts	3,581,334	122,272	3,299,711	108,365
Total	980,261,982	33,467,463	991,236,566	32,552,925
Adjustment for discounts and premiums	1,101,978	37,623	701,880	23,050
Less: allowance for doubtful accounts	(11,368,124)	(388,123)	(8,445,127)	(277,344)
Net balance	$969,995,836	$33,116,963	$983,493,319	$32,298,631

(1) As of September 30, 2012 and 2011, the accounts without interest accrued were NT$5,153,275 (US$175,940) and NT$3,941,538 (US$129,443), respectively. The non-accrued interest on such accounts amounted to NT$53,790 (US$1,836) and NT$50,210 (US$1,649) for the nine-month periods ended September 30, 2012 and 2011, respectively.

(2) For the nine-month periods ended September 30, 2012 and 2011, 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 are as follows:

	January 1 - September 30, 2012					
	Allocated allowance		Unallocated portion		Total	
	NT$	US$	NT$	US$	NT$	US$
Balance, beginning of the period	$3,059,807	$104,466	$6,247,744	$213,306	$9,307,551	$317,772
Provision of doubtful accounts	931,061	31,788	-	-	931,061	31,788
Write-offs	(314,498)	(10,738)	-	-	(314,498)	(10,738)
Debt counseling recoveries	93,049	3,177	-	-	93,049	3,177
Recoveries	1,287,460	43,955	-	-	1,287,460	43,955
Reclassification	(877,037)	(29,943)	994,595	33,957	117,558	4,014
Effects of exchange rates change	-	-	(54,057)	(1,845)	(54,057)	(1,845)
Balance, end of the period	$4,179,842	$142,705	$7,188,282	$245,418	$11,368,124	$388,123

	January 1 - September 30, 2011					
	Allocated allowance		Unallocated portion		Total	
	NT$	US$	NT$	US$	NT$	US$
Balance, beginning of the period	$2,558,366	$84,019	$4,343,512	$142,644	$6,901,878	$226,663
Provision of doubtful accounts	254,436	8,356	-	-	254,436	8,356
Write-offs	(331,138)	(10,875)	-	-	(331,138)	(10,875)
Debt counseling recoveries	48,823	1,603	-	-	48,823	1,603
Recoveries	1,894,687	62,223	-	-	1,894,687	62,223
Reclassification	(1,702,103)	(55,898)	1,292,839	42,458	(409,264)	(13,440)
Effects of exchange rates change	-	-	85,705	2,814	85,705	2,814
Balance, end of the period	$2,723,071	$89,428	$5,722,056	$187,916	$8,445,127	$277,344

The Bank's financial statements include provision for possible credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in operating or financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans and uncertainty related to the future realizable value of collaterals may cause the amounts of actual losses to differ from those presently determined or estimated and future credit losses that have not been incurred.

6. Available-for-sale financial assets, net

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$9,540,115	$325,712	$8,876,281	$291,503
Mutual funds and beneficiary securities	835,022	28,509	733,471	24,088
Bonds	35,646,196	1,217,009	31,865,653	1,046,491
Overseas financial instruments	13,227,364	451,600	8,066,679	264,916
Net balance	$59,248,697	$2,022,830	$49,542,084	$1,626,998

(1) NT$1,698,550 (US$57,991) and NT$1,473,403 (US$48,388) of the available-for-sale financial assets as of September 30, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2012, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$21,730,990 (US$741,925). Such repurchase agreements amounting to NT$20,104,644 (US$686,399) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2012 was settled at NT$20,113,827 (US$686,713) prior to December 31, 2012.

As of September 30, 2011, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$ 11,533,800 (US$378,778). Such repurchase agreements amounting to NT$12,462,316 (US$409,272) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2011 was settled at NT$12,467,257 (US$409,434) prior to December 31, 2011.

7. Held-to-maturity financial assets, net

	September 30, 2012			
	Face value		Amortized cost	
	NT$	US$	NT$	US$
Bonds	$1,154,000	$39,399	$1,267,467	$43,273
Overseas financial instruments	18,996,078	648,552	19,493,289	665,527
Net balance	$20,150,078	$687,951	$20,760,756	$708,800

	September 30, 2011			
	Face value		Amortized cost	
	NT$	US$	NT$	US$
Bonds	$1,154,000	$37,898	$1,278,107	$41,974
Overseas financial instruments	5,320,906	174,743	5,387,973	176,945
Net balance	$6,474,906	$212,641	$6,666,080	$218,919

NT$612,452 (US$20,910) and NT$579,205 (US$19,022) of held-to-maturity financial assets as of September 30, 2012 and 2011, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	September 30, 2012				
	Carrying value		% of	Investment income	
	NT$	US$	ownership	NT$	US$
Seaward Card Co., Ltd.	$39,167	$1,337	100.00	$1,742	$60
Indovina Bank	2,776,625	94,798	50.00	138,552	4,730
Taiwan Real-estate Management Corp.	103,610	3,537	30.15	6,635	227
Taiwan Finance Corp.	1,409,285	48,115	24.57	18,508	632
Vista Technology Venture Capital Corp.	3,219	110	4.76	13	-
Total	$4,331,906	$147,897		$165,450	$5,649

	September 30, 2011				
	Carrying value		% of	Investment income (loss)	
	NT$	US$	ownership	NT$	US$
Seaward Card Co., Ltd.	$40,704	$1,337	100.00	$1,392	$46
Cathay Life Insurance Agent Co., Ltd	-	-	-	169	6
Indovina Bank	3,118,409	102,411	50.00	235,524	7,735
Taiwan Real-estate Management Corp.	81,696	2,683	30.15	4,307	141
Taiwan Finance Corp.	1,400,616	45,997	24.57	22,212	729
Vista Technology Venture Capital Corp.	5,432	178	4.76	(16)	(1)
Total	$4,646,857	$152,606		$263,588	$8,656

(1) On March 1, 2011, Cathay Life 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 completed its liquidation process on June 14, 2012.

(2) The equity method of accounting was applied to Vista Technology Venture Capital Corp. due to the fact that the Bank and its related parties held more than 20% of the company's common stock.

(3) 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, 2012 and 2011 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,			
	2012		2011	
	NT$	US$	NT$	US$
Derivative financial assets for hedging	$1,410,138	$48,144	$1,666,851	$54,740
Financial assets carried at cost, stocks	3,370,795	115,083	3,478,625	114,241
Bills purchased	1,723	59	3,031	100
Total	$4,782,656	$163,286	$5,148,507	$169,081

(1) The Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT$383,512 (US$13,094) and NT$304,096 (US$9,987) as of September 30, 2012 and 2011, respectively, due to the existence of objective impairment evidence.

(2) As of September 30, 2012 and 2011, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$1,410,138 (US$48,144) and NT$1,666,851 (US$54,740), respectively. The Bank has recognized gain in hedging in the amount of NT$282,004 (US$9,628) and NT$333,217 (US$10,943) for the nine-month periods ended September 30, 2012 and 2011, respectively.

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Preferred stocks	$549,730	$18,769	$549,730	$18,054
Certificates of deposit	436,450,000	14,900,990	445,375,000	14,626,437
Bonds	95,586	3,263	95,586	3,139
Overseas financial instruments	18,235,396	622,581	9,712,153	318,954
Subtotal	455,330,712	15,545,603	455,732,469	14,966,584
Less: accumulated impairment	(1,582,281)	(54,021)	(1,569,540)	(51,545)
Net balance	$453,748,431	$15,491,582	$454,162,929	$14,915,039

(1) NT$50,100,000 (US$1,710,481) and NT$38,500,000 (US$1,264,368) of certificates of deposit as of September 30, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) The Bank recognized impairment losses amounting NT$1,469,192 (US$50,160) and NT$1,435,958 (US$47,158) as of September 30, 2012 and 2011, respectively, due to the credit deterioration of certain securitization and financial debentures.

The Bank recognized impairment losses amounting NT$113,089 (US$3,861) and NT$133,582 (US$4,387) as of September 30, 2012 and 2011, respectively, due to the default on certain convertible bonds.

11. Premises and equipment, net

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Cost:				
Land	$14,600,863	$498,493	$14,600,863	$479,503
Buildings	11,553,739	394,460	11,553,739	379,433
Office equipment	4,292,909	146,566	4,341,480	142,578
Transportation equipment	37,523	1,281	40,014	1,314
Leasehold improvements	14,955	510	16,238	533
Other equipment	5,594,178	190,993	5,429,485	178,308
Construction in progress and prepayment for equipment	102,978	3,516	139,706	4,588
Subtotal	36,197,145	1,235,819	36,121,525	1,186,257
Accumulated depreciation:				
Buildings	(3,421,410)	(116,811)	(3,188,631)	(104,717)
Office equipment	(3,691,708)	(126,040)	(3,565,960)	(117,109)
Transportation equipment	(36,078)	(1,232)	(39,006)	(1,281)
Leasehold improvements	(13,500)	(461)	(11,741)	(385)
Other equipment	(4,687,660)	(160,043)	(4,483,632)	(147,246)
Subtotal	(11,850,356)	(404,587)	(11,288,970)	(370,738)
Net balance	$24,346,789	$831,232	$24,832,555	$815,519

12. Intangible assets, net

	January 1- September 30, 2012									
	January 1,		Additions/Amortization		Reclassification		Disposals		September 30,	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Goodwill	$6,673,083	$227,828	$-	$-	$-	$-	$-	$-	$6,673,083	$227,828
Computer software	1,598,028	54,559	40,751	1,391	42,365	1,447	(96,919)	(3,309)	1,584,225	54,088
Amortization	(994,038)	(33,938)	(156,293)	(5,336)	-	-	96,919	3,309	(1,053,412)	(35,965)
Net balance	$7,277,073	$248,449	$(115,542)	$(3,945)	$42,365	$1,447	$-	$-	$7,203,896	$245,951

	January 1- September 30, 2011									
	January 1,		Additions/Amortization		Reclassification		Disposals		September 30,	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Goodwill	$6,673,083	$219,149	$-	$-	$-	$-	$-	$-	$6,673,083	$219,149
Computer software	1,723,810	56,611	118,924	3,906	(120,635)	(3,962)	(108,753)	(3,572)	1,613,346	52,983
Amortization	(939,597)	(30,857)	(152,296)	(5,002)	14,275	469	101,300	3,327	(976,318)	(32,063)
Net balance	$7,457,296	$244,903	$(33,372)	$(1,096)	$(106,360)	$(3,493)	$(7,453)	$(245)	$7,310,111	$240,069

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$227,828).

(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.

13. Other assets, net

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Prepayment	$450,818	$15,392	$350,746	$11,519
Temporary payments	205,963	7,032	1,625,228	53,374
Interbank settlement fund	1,351,132	46,130	1,366,189	44,866
Non-operating assets, net (Accumulated impairment NT$230,555 (US$7,871) and NT$227,741 (US$7,479), on September 30, 2012 and 2011, respectively.)	1,237,089	42,236	1,725,562	56,669
Refundable deposits, net	1,284,331	43,848	1,001,927	32,904
Deferred pension costs	44,802	1,530	84,200	2,765
Deferred tax assets, net	179,906	6,142	-	-
Others	63,684	2,174	61,531	2,021
Total	$4,817,725	$164,484	$6,215,383	$204,118

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Due to commercial banks	$3,040,938	$103,822	$2,910,854	$95,594
Due to Post Co., Ltd.	19,931,953	680,503	19,425,996	637,964
Overdrafts from banks	774,929	26,457	480,262	15,772
Call loans from banks	42,774,174	1,460,368	28,308,443	929,670
Total	$66,521,994	$2,271,150	$51,125,555	$1,679,000

15. Financial liabilities at fair value through profit or loss

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Financial liabilities for trading:				
Derivative financial instruments	$6,786,999	$231,717	$10,820,873	$355,365
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	-	-	4,013,388	131,803
Total	$6,786,999	$231,717	$14,834,261	$487,168

(1) On July 8 and July 15, 2004, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$1,000,000, NT$3,500,000, NT$2,000,000 and NT$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repaid at maturity, and the interests are paid quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000, NT$1,000,000, NT$2,000,000 and NT$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity, and the interests are paid quarterly. These dominant financial debentures have matured before December 31, 2011.

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) Net losses arising from financial liabilities at fair value through profit or loss for the nine-month periods ended September 30, 2012 and 2011 were NT$3,264,740 (US$111,463) and NT$33,717,862 (US$1,107,319), respectively.

16. Payables

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Accounts payable	$7,567,191	$258,354	$6,032,807	$198,122
Accrued interest payable	2,908,073	99,286	2,558,619	84,027
Accrued expenses	3,681,121	125,678	3,041,527	99,886
Foreign currency payable	108,656	3,710	2,000,877	65,710
Acceptance	1,105,031	37,727	1,124,463	36,928
Tax payable	264,489	9,030	279,006	9,163
Receipts under custody	2,180,231	74,436	1,504,400	49,406
Others	2,229,774	76,128	10,070,935	330,736
Total	$20,044,566	$684,349	$26,612,634	$873,978

17. Deposits and remittances

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Check deposits	$15,739,118	$537,355	$12,807,225	$420,599
Demand deposits	253,348,267	8,649,651	236,829,873	7,777,664
Demand savings deposits	581,271,716	19,845,398	566,084,525	18,590,625
Time deposits	374,814,463	12,796,670	376,023,716	12,348,890
Negotiable certificates of deposit	7,273,700	248,334	1,642,100	53,928
Time savings deposits	282,010,362	9,628,213	270,591,474	8,886,419
Outward remittances	918,845	31,370	374,036	12,284
Remittances payable	639,936	21,848	254,577	8,360
Total	$1,516,016,407	$51,758,839	$1,464,607,526	$48,098,769

18. Financial debentures payable

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Subordinated financial debentures	$41,505,984	$1,417,070	$31,887,054	$1,047,194
Discount in financial debentures	(25,695)	(877)	(34,278)	(1,126)
Valuation adjustment	1,211,310	41,356	1,445,017	47,456
Total	$42,691,599	$1,457,549	$33,297,793	$1,093,524

The Bank issued a 15-year US$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. The Bank can redeem the bonds after 10 years by exercising the call option. As discussed in Note X.8, the Bank has adopted hedge accounting to account for its subordinated financial debentures. The Bank had bought back the bonds amounting to US$172,620 principal on May 12, 2009.

The Bank issued a seven-year subordinated financial debentures totaling NT$1,200,000 with a stated interest rate of 2.95% in September 2008, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$1,000,000 with floating interest rate in September 2008, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly.

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.

The Bank issued a seven-year subordinated financial debentures totaling NT$3,850,000 with a stated interest rate of 1.65% in March 2011, 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 1.72% in March 2011, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$3,900,000 with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling NT$2,500,000 with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling NT$200,000 with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling NT$4,200,000 with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling NT$5,600,000 with a stated interest rate of 1.65% in August 2012, 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.

19. Other financial liabilities

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Borrowed funds	$101,104	$3,452	$150,480	$4,942
Principal received from the sale of structured products	19,521,360	666,485	8,209,790	269,615
Total	$19,622,464	$669,937	$8,360,270	$274,557

20. Other liabilities

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Accrued pension liabilities	$845,953	$28,882	$687,818	$22,589
Unearned receipts	603,179	20,593	370,803	12,177
Temporary receipts	770,974	26,322	443,751	14,573
Reserve for losses on guarantees	24,892	850	24,892	817
Guarantee deposits received	1,120,006	38,239	965,060	31,693
Reserve for land value increment tax	37,163	1,269	37,986	1,248
Deferred tax liabilities	-	-	68,094	2,236
Total	$3,402,167	$116,155	$2,598,404	$85,333

In compliance with the Explanatory Letter No. Financial Supervisory Securities Firms 0990073857 issued by Securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the “Regulations Governing Securities Firms”, the reserves for losses on trading securities are no longer required since January 1, 2011. The remaining balance should be reclassified as special reserve in 2011 according to the Explanatory Letter No. Financial Supervisory Banking Law 10010000440 issued by Banking Bureau of the FSC dated March 23, 2011. The special 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 special reserve may be transferred to capital stock.

21. Capital Stock

As of September 30, 2012 and 2011, the Bank had issued and outstanding capital stock of NT$52,277,026 divided into 5,227,703 thousands common shares, with par value NT$10 per share.

22. Capital reserves

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Capital reserves from the merger Bank	$10,949,303	$373,824	$10,949,303	$359,583
Additional paid-in capital	4,249,096	145,070	4,249,096	139,543
Others	14,893	508	14,893	489
Total	$15,213,292	$519,402	$15,213,292	$499,615

23. Retained earnings

(1) The Bank's 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) legal reserve shall be set aside 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%.

(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 25% of paid-in capital, the portion of legal reserve which exceeds 25% of paid-in capital may distributed by issuing new shares or by cash.

(3) The estimation of employee bonus and remuneration of directors for the nine-month periods ended September 30, 2012 and 2011 were both NT$1,125 based on the average actual payment over the past three years and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.

(4) On April 24, 2012, 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 2011:

(a) NT$3,351,599 (US$114,428) thousands as legal reserves;
(b) NT$7,820,397 (US$266,999) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$51) thousands deducted from Income Statement.

(5) On April 29, 2011, 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 2010:

(a) NT$3,399,524 (US$111,643) thousands as legal reserves;
(b) NT$7,822,529 (US$ 256,898) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$49) 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.

24. Pension

The Bank adopted the ROC SFAS No.18, "Accounting for Pensions" for its pension plan.

25. 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, 2012 and 2011.

	January 1- September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Personnel expenses				
Salary	$5,034,780	$171,894	$4,820,210	$158,299
Insurance	626,750	21,398	581,638	19,101
Pension	315,706	10,779	311,425	10,228
Others	268,342	9,161	264,526	8,687
Depreciation expenses	693,835	23,688	755,848	24,822
Amortization expenses	156,293	5,336	152,296	5,002

26. Income tax

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

(1) The reconciliation between income tax payable and income tax expenses for the

nine-month periods ended September 30, 2012 and 2011 are as follows:

	January 1- September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Income tax payable:				
Domestic income tax:				
General	$(1,461,907)	$(49,912)	$(1,227,825)	$(40,323)
Deferred tax benefit (expense):				
Allowance for bad debts	279,109	9,529	129,557	4,255
Reversal of allowance for pledged assets taken-over	(996)	(34)	(1,198)	(39)
Foreign investment income recognized by the equity method	46,256	1,579	(40,039)	(1,315)
Valuation allowance	(91,965)	(3,140)	(16,291)	(535)
Others	(67,318)	(2,298)	(46,514)	(1,528)
Effect of foreign branches' income tax	(53,285)	(1,819)	(30,261)	(994)
Adjustment of prior period's income tax	10,106	345	(52,076)	(1,710)
Income tax expense	$(1,340,000)	$(45,750)	$(1,284,647)	$(42,189)

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,			
	2012		2011	
	NT$	US$	NT$	US$
Taxable temporary differences:				
Valuation of financial instruments	$622,730	$21,261	$209,904	$6,893
Others	1,989,151	67,912	1,877,616	61,662
Deductible temporary differences:				
Allowance for bad debts	2,948,324	100,660	762,101	25,028
Unrealized impairment loss for pledged assets taken-over	29,311	1,001	35,170	1,155
Valuation of financial instruments	10,298	352	183,027	6,011
Provisions for possible losses	-	-	3,018	99
Others	891,319	30,431	229,561	7,539
Deferred income tax assets of foreign branches	101,574	3,468	103,203	3,389

	September 30,			
	2012		2011	
	NT$	US$	NT$	US
(3) Deferred tax assets	$761,047	$25,983	$309,392	$10,161
Deferred tax liabilities	(444,020)	(15,159)	(354,879)	(11,655)
Valuation allowance	(137,121)	(4,682)	(22,607)	(742)
Net deferred tax assets (liabilities)	$179,906	$6,142	$(68,094)	$(2,236)

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

(5) The related information on shareholders' deductible income tax are as follows:

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
The Bank's imputation credit	$110,885	$3,786	$140,740	$4,622
Undistributed earnings	10,356,599	353,588	9,395,997	308,572

The following are the rate of tax credit available for dividends to the Bank's shareholders for the years 2011 and 2010:

	2011	2010
Cash dividends	1.33%	2.45%

27. Earnings per share

The computations of earnings per share are as follows:

	January 1 - September 30,	
	In thousands of shares	
	2012	2011
Weighted-average shares outstanding	5,227,703	5,227,703

	January 1 - September 30,							
	2012				2011			
	Before income tax		After income tax		Before income tax		After income tax	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Net income	$11,696,599	$399,338	$10,356,599	$353,588	10,648,387	$349,701	$9,363,740	$307,512
Earnings per share (in dollars)								
Net income	$2.24	$0.077	$1.98	$0.068	$2.04	$0.067	$1.79	$0.059

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 Trust 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.	Subsidiaries (liquidated on June 14, 2012)
Vietinbank	Major stockholder of Indovina Bank
Cathay Futures Corp.	Subsidiary of Cathay Securities Corp.
Cathay Global Money Market Fund etc.	The funds which are managed by Cathay Securities Investment Trust Co., Ltd.
Cathay Insurance Company Limited (China)	Subsidiary of Cathay Century Insurance Corp.
Cathay Insurance (Vietnam) Co., Ltd.	〃
Cathay General Hospital	Related Party disclosed according to the ROC SFAS No.6
Lin Yuan Property Management and Maintenance Co., Ltd.	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
Cathay Century Realty Co., Ltd.	Related Party disclosed according to the ROC SFAS No.6 (was decided its dissolution by the board of directors on March 16, 2011 and currently still in the process of dissolution)
Cathay Real-estate Management Corp.	Related Party disclosed according to the ROC SFAS No.6
Cathay Healthcare Inc.	〃

Name of related parties	Relationship
Cathay Lin Yuan Security Co., Ltd.	Related Party disclosed according to the ROC SFAS No.6 (was decided its dissolution by the board of directors on May 25, 2011 and currently still in the process of dissolution)
Seaward Leasing Ltd.	Related Party disclosed according to the ROC SFAS No.6 (incorporated into the Cathay Real Estate Development on July 28, 2011)
Cathay Hospitality Management Co., Ltd.	Related Party disclosed according to the ROC SFAS No.6
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
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	
Accounts/Related parties	NT$	US$	% of Account	NT$	US$
2012					
Loans					
Cathay Real Estate Development Co., Ltd.	$50,000	$1,707	-	$485	$17
Taiwan Real-estate Management Corp.	65,000	2,219	0.01%	1,083	37
Cathay General Hospital	103,000	3,516	0.01%	2,281	78
Others	149,603	5,108	0.02%	2,973	101
Total	$367,603	$12,550	0.04%	$6,822	$233

Accounts/Related parties	September 30, Account balance NT$	US$	% of Account	January 1- September 30, Interest expense NT$	US$
2012					
Deposits					
Cathay Financial Holding Co., Ltd.	$95,870	$3,273	0.01%	$(2,066)	$(71)
Cathay Life Insurance Co., Ltd.	71,454,788	2,439,563	4.71%	(329,611)	(11,253)
Cathay Century Insurance Co., Ltd.	1,259,921	43,015	0.08%	(8,585)	(293)
Cathay Securities Corp.	1,594,476	54,437	0.11%	(4,486)	(153)
Cathay Futures Corp.	1,857,233	63,408	0.12%	(15,456)	(528)
Cathay Pacific Venture Capital Co., Ltd.	47,899	1,635	-	(11)	-
Cathay Securities Investment Trust Co., Ltd.	1,676,314	57,232	0.11%	(9,366)	(320)
Cathay Real Estate Development Co., Ltd.	69,728	2,381	0.01%	(148)	(5)
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	-	(58)	(2)
Cathay Global Money Market Fund etc.	1,980,556	67,619	0.13%	(15,562)	(531)
Others	6,343,800	216,586	0.42%	(47,181)	(1,611)
Total	$86,380,585	$2,949,149	5.70%	$(432,530)	$(14,767)

Accounts/Related parties	September 30, Account balance NT$	US$	% of Account	January 1- September 30, Interest income NT$	US$
2011					
Loans					
Cathay Real Estate Development Co., Ltd.	$2,010,000	$66,010	0.20%	$1,246	$41
Seaward Leasing Ltd.	-	-	-	5,699	187
Taiwan Real-estate Management Corp.	80,000	2,627	0.01%	1,314	43
Cathay General Hospital	103,000	3,383	0.01%	3,386	111
Others	243,703	8,003	0.03%	3,602	119
Total	$2,436,703	$80,023	0.25%	$15,247	$501

Accounts/Related parties	September 30, Account balance NT$	US$	% of Account	January 1- September 30, Interest expense NT$	US$
2011					
Deposits					
Cathay Financial Holding Co., Ltd.	$118,314	$3,886	0.01%	$(84)	$(3)
Cathay Life Insurance Co., Ltd.	67,472,078	2,215,832	4.61%	(182,091)	(5,980)
Cathay Century Insurance Co., Ltd.	1,349,498	44,318	0.09%	(4,509)	(148)
Cathay Securities Corp.	228,522	7,505	0.02%	(835)	(27)
Cathay Futures Corp.	1,968,238	64,638	0.13%	(11,132)	(366)
Cathay Pacific Venture Capital Co., Ltd.	10,008	329	-	(6)	-
Cathay Securities Investment Trust Co., Ltd.	1,574,199	51,698	0.11%	(3,196)	(105)
Cathay Real Estate Development Co., Ltd.	70,959	2,330	0.01%	(77)	(3)
Cathay Life Insurance (Vietnam) Co., Ltd.	23,351	767	-	(249)	(8)
Cathay Global Money Market Fund etc.	3,733,014	122,595	0.25%	(15,829)	(520)
Others	5,897,283	193,671	0.40%	(36,098)	(1,185)
Total	$82,445,464	$2,707,569	5.63%	$(254,106)	$(8,345)

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 (%)
2012							
Call loans to banks							
Indovina Bank	$2,494,070	$85,151	$2,494,070	$85,151	$13,788	$471	0.38%~2.08%
Due from commercial banks							
Indovina Bank	75,149	2,566	2,106	72	17	1	0.10%~2.40%
Call loans from banks							
Indovina Bank	1,026,970	35,062	-	-	(380)	(13)	0.15%~0.30%
Due to commercial banks							
Indovina Bank	103,545	3,535	7,540	257	-	-	-
Vietinbank	16,666	569	6,978	238	-	-	-

Accounts / Related parties	January 1- September 30, Maximum balance		September 30, Account balance		January 1 - September 30, Interest income (expense)		Interest
	NT$	US$	NT$	US$	NT$	US$	Rate (%)
2011							
Call loans to banks							
Indovina Bank	$1,830,360	$60,110	$1,830,360	$60,110	$8,474	$278	0.58%~1.47%
Due from commercial banks							
Indovina Bank	589,834	19,371	1,814	60	19	1	0.10%~2.40%
Call loans from banks							
Indovina Bank	1,311,758	43,079	-	-	(689)	(23)	0.07%~0.32%
Due to commercial banks							
Indovina Bank	75,344	2,474	21,659	711	-	-	-
Vietinbank	17,671	580	12,798	420	-	-	-

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

(2) Guarantees

Related parties	January 1- September 30, Maximum balance		September 30, Account balance		January 1- September 30, Service fees	
	NT$	US$	NT$	US$	NT$	US$
2012						
Cathay Hospitality Management Co., Ltd.	$21,816	$745	$21,816	$745	$-	$-

(3) Transactions under repurchase agreements

Accounts/Related parties	September 30, Account balance		January 1- September 30, Interest expense	
	NT$	US$	NT$	US$
2012				
Securities sold under agreements to repurchase				
Cathay Securities Investment Trust Co., Ltd.	$-	$-	$(436)	$(15)
Others	60,020	2,049	(182)	(6)
Total	$60,020	$2,049	$(618)	$(21)

Accounts/Related parties	September 30, Account balance		January 1- September 30, Interest expense	
	NT$	US$	NT$	US$
2011				
Securities sold under agreements to repurchase				
Cathay Securities Investment Trust Co., Ltd.	$100,000	$3,284	$(113)	$(4)
Others	609,241	20,008	(1,208)	(39)
Total	$709,241	$23,292	$(1,321)	$(43)

(4) Lease

Accounts/Related parties	January 1- September 30, 2012		2011	
	NT$	US$	NT$	US$
Rental income				
Cathay Life Insurance Co., Ltd.	$27,986	$955	$27,141	$891
Cathay Century Insurance Co., Ltd.	5,583	191	4,888	161
Cathay Securities Corp.	6,103	208	8,789	289
Culture and Charity Foundation of Cathay United Bank	1,405	48	750	25
Rental expense				
Cathay Life Insurance Co., Ltd.	264,127	9,018	255,328	8,385
Cathay Real Estate Development Co., Ltd.	19,742	674	9,614	316
Seaward Leasing Ltd.	-	-	8,757	288

Accounts/Related parties	September 30, 2012		2011	
	NT$	US$	NT$	US$
Refundable deposits				
Cathay Life Insurance Co., Ltd.	$83,723	$2,858	$72,322	$2,375
Cathay Real Estate Development Co., Ltd.	3,786	129	3,786	124
Guarantee deposit received				
Cathay Life Insurance Co., Ltd.	8,921	305	8,921	293
Cathay Century Insurance Co., Ltd.	2,085	71	1,620	53
Cathay Securities Corp.	2,491	85	2,751	90

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,			
	2012		2011	
Accounts/Related parties	NT$	US$	NT$	US$
(5) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$1,950,350	$66,588	$1,265,063	$41,546
Cathay Century Insurance Co., Ltd.	56,644	1,934	56,390	1,852
Cathay Securities Corp.	4,288	146	6,871	226
Cathay Securities Investment Trust Co., Ltd.	29,564	1,009	21,775	715
Cathay Securities Investment Consulting Co., Ltd.	4,773	163	3,242	106
(6) Other operating income				
Cathay Century Insurance Co., Ltd.	2,771	95	802	26
(7) Operating expenses				
Cathay Life Insurance Co., Ltd.	74,032	2,528	76,319	2,506
Cathay Securities Corp.	1,800	61	1,800	59
Seaward Card Co., Ltd.	177,512	6,060	184,854	6,071
Symphox Information Co., Ltd.	314,717	10,745	355,863	11,687
Cathay Real Estate Development Co., Ltd.	4,345	148	5,491	180
Cathay Lin Yuan Security Co., Ltd.	-	-	1,010	33
Cathay General Hospital	636	22	4,643	152
Lin Yuan Property Management and Maintenance Co., Ltd.	5,983	204	4,924	162
Cathay Healthcare Inc.	1,837	63	-	-
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	483,897	16,521	461,779	15,165
Cathay Century Insurance Co., Ltd.	43,745	1,494	47,030	1,544

	September 30,			
	2012		2011	
Accounts/Related parties	NT$	US$	NT$	US$
(9) Related party receivables for allocation of linked-tax system				
Cathay Financial Holdings Co., Ltd.	$410,499	$14,015	$651,985	$21,412
(10) Other receivables - cash dividends				
Indovina Bank	410,788	14,025	-	-
(11) Refundable deposits				
Cathay Futures Corp.	64,345	2,197	53,537	1,758
(12) Accrued expenses				
Seaward Card Co., Ltd.	25,499	871	25,630	842
(13) Accounts payable				
Cathay Century Insurance Co., Ltd.	4,415	151	9,052	297
Symphox Information Co., Ltd.	8,367	286	36,207	1,189

(14) Others

a. The Bank sold its land and building in Taipei to Cathay Life Insurance Co., Ltd. for NT$316,210 (US$10,385) (taxes were deducted) during the nine-month period ended September 30, 2011, the relevant carrying values were NT$146,959 (US$4,826) and the disposal gains of premises and equipment were NT$169,251 (US$5,558).

b. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT$2,850 (US$97) and NT$3,942 (US$129) during the nine-month periods ended September 30, 2012 and 2011, respectively.

c. 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, 2012 and 2011. As of September 30, 2012 and 2011, the bonus points which not converting amount were NT$26,828 (US$916) and NT$31,496 (US$1,034), respectively.

d. The Bank entered into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amounts were NT$380,000 (US$12,479) during the nine-month period ended September 30, 2011.

e. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the commissions of NT$2,915 (US$96) were included in disposal gains of premises and equipment, during the nine-month period ended September 30, 2011.

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

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

(15) Transactions of derivative financial instruments

	Category of		Nominal Amount		Valuation gain (losses)	
Related parties	agreements	Term of agreements	NT$	US$	NT$	US$
September 30, 2012						
Cathay Life Insurance Co., Ltd.	Currency swap	2012.4.6-2014.7.31	$43,396,818	$1,481,626	$(623,519)	$(21,288)
Cathay Century Insurance Co., Ltd.	Currency swap	2012.1.9-2013.9.25	1,853,063	63,266	(6,665)	(228)
	Interest rate swap	2007.9.27-2015.4.30	400,000	13,657	(27,875)	(952)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Currency swap	2012.9.25-2012.10.29	176,052	6,011	5,094	174
September 30, 2011						
Cathay Life Insurance Co., Ltd.	Forward	2010.11.1-2011.11.21	5,094,502	167,307	(2,148,346)	(70,553)
	Currency swap	2009.10.9-2012.5.22	54,453,210	1,788,283	(3,807,328)	(125,035)
Cathay Century Insurance Co., Ltd.	Currency swap	2011.1.5-2012.6.13	1,252,271	41,125	(7,811)	(257)
	Interest rate swap	2007.9.29-2015.4.30	600,000	19,704	(36,244)	(1,190)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Forward	-	-	-	(3,538)	(116)
	Non-delivery forward	-	-	-	(38)	(1)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2012, 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	$306,196,738	$10,453,969
Travelers checks for sale	432,556	14,768
Bills for collection	40,625,607	1,387,013
Book-entry for government bonds and depository for short-term marketable securities under management	557,105,800	19,020,341
Entrusted financial management business	2,427,218	82,868
Guarantees on duties and contracts	12,537,471	428,046
Unused commercial letters of credit	4,682,464	159,866
Irrevocable loan commitments	61,812,945	2,110,377
Credit card lines commitments	292,564,141	9,988,533
Stamp tax, securities and memorial currency consignments	1,006	34

2. As of September 30, 2012, the Bank's significant lawsuits and proceedings are as follows:

   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$0.99 billion (US$34 million) and NT$3.09 billion (US$105 million), respectively. The lawsuit was in the litigation procedures in July, 2007 and is still under trial by Taipei District Court. The Bank is in mediation procedure with SanDisk Corporation. 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, 2012, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$320,187 (US$10,932) with prepayments of NT$102,978 (US$3,516).

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

Periods	NT$	US$
2012.10.1~2013.9.30	$449,992	$15,363
2013.10.1~2014.9.30	258,631	8,830
2014.10.1~2015.9.30	172,687	5,896
2015.10.1~2016.9.30	51,601	1,762
2016.10.1~2017.9.30	20,748	708

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	September 30, 2012			
	Carrying value		Fair value	
	NT$	US$	NT$	US$
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$15,262,909	$521,096	$15,262,909	$521,096
Available-for-sale financial assets	59,248,697	2,022,830	59,248,697	2,022,830
Held-to-maturity financial assets and investments in debt securities with no active market	474,509,187	16,200,382	474,594,932	16,203,309
Other financial assets-financial assets carried at cost	3,370,795	115,083	(Note)	(Note)
Others	1,197,749,471	40,892,778	1,197,749,471	40,892,778
Liabilities				
Financial debentures payable	42,691,599	1,457,549	42,691,599	1,457,549
Others	1,644,930,181	56,160,129	1,644,930,181	56,160,129

	September 30, 2012			
	Carrying value		Fair value	
	NT$	US$	NT$	US$
Derivative financial instruments				
Assets				
Forward	$316,827	$10,817	$316,827	$10,817
Non-delivery forward	388,458	13,263	388,458	13,263
Currency swap	2,812,853	96,035	2,812,853	96,035
Interest rate swap	3,171,703	108,286	3,171,703	108,286
Cross currency swap	238,753	8,151	238,753	8,151
Options	773,411	26,405	773,411	26,405
Liabilities				
Forward	259,212	8,850	259,212	8,850
Non-delivery forward	403,425	13,773	403,425	13,773
Currency swap	3,412,534	116,509	3,412,534	116,509
Interest rate swap	1,629,112	55,620	1,629,112	55,620
Cross currency swap	299,202	10,215	299,202	10,215
Options	783,514	26,750	783,514	26,750

	September 30, 2011			
	Carrying value		Fair value	
	NT$	US$	NT$	US$
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$4,845,501	$159,130	$4,845,501	$159,130
Available-for-sale financial assets	49,542,084	1,626,998	49,542,084	1,626,998
Held-to-maturity financial assets and investments in debt securities with no active market	460,829,009	15,133,958	460,905,244	15,136,461
Other financial assets-financial assets carried at cost	3,478,625	114,241	(Note)	(Note)
Others	1,138,282,426	37,382,017	1,138,282,426	37,382,017
Liabilities				
Financial liabilities at fair value through profit or loss	4,013,388	131,803	4,013,388	131,803
Financial debentures payable	33,297,793	1,093,524	33,297,793	1,093,524
Others	1,565,690,420	51,418,404	1,565,690,420	51,418,404

	September 30, 2011			
	Carrying value		Fair value	
	NT$	US$	NT$	US$
Derivative financial instruments				
Assets				
Forward	$7,516,786	$246,857	$7,516,786	$246,857
Non-delivery forward	467,459	15,352	467,459	15,352
Currency swap	561,203	18,430	561,203	18,430
Interest rate swap	3,649,847	119,863	3,649,847	119,863
Cross currency swap	321,872	10,570	321,872	10,570
Options	327,727	10,763	327,727	10,763
Liabilities				
Forward	851,902	27,977	851,902	27,977
Non-delivery forward	484,258	15,903	484,258	15,903
Currency swap	7,085,005	232,677	7,085,005	232,677
Interest rate swap	1,753,460	57,585	1,753,460	57,585
Cross currency swap	321,264	10,550	321,264	10,550
Options	324,984	10,673	324,984	10,673

Note: Fair value cannot be reliably estimated.

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

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

(2) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments, held-to-maturity financial assets and investment in 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 and loans, deposits and principals received from the sale of structured products 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 are classified as level 1 or pricing models are classified as level 2 and 3 are summarized as following:

	September 30, 2012							
	Total		1st Level		2nd Level		3rd Level	
Financial instruments measured at fair value	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Financial assets for trading								
Bonds	$2,063,066	$70,436	$1,027,164	$35,069	$1,035,902	$35,367	$-	$-
Others	13,199,843	450,660	-	-	13,199,843	450,660	-	-
Available-for-sale financial assets								
Stocks	9,540,115	325,712	9,540,115	325,712	-	-	-	-
Bonds	48,577,356	1,658,496	12,639,882	431,542	35,937,474	1,226,954	-	-
Others	1,131,226	38,622	1,131,226	38,622	-	-	-	-
Other financial assets:								
Investments in debt securities with no active market	453,748,431	15,491,582	-	-	453,748,431	15,491,582	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	6,291,867	214,813	-	-	6,291,867	214,813	-	-
Other financial assets:								
Derivatives financial assets for hedging	1,410,138	48,144	-	-	1,410,138	48,144	-	-
Liabilities								
Financial liabilities at fair value through profit or loss	6,786,999	231,717	-	-	6,786,999	231,717	-	-

	September 30, 2011							
	Total		1st Level		2nd Level		3rd Level	
Financial instruments measured at fair value	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Financial assets for trading								
Bonds	$949,761	$31,191	$802,936	$26,369	$146,825	$4,822	$-	$-
Others	3,895,740	127,939	-	-	3,895,740	127,939	-	-
Available-for-sale financial assets								
Stocks	8,876,281	291,503	8,876,281	291,503	-	-	-	-
Bonds	39,646,127	1,302,008	7,474,194	245,458	32,171,933	1,056,550	-	-
Others	1,019,676	33,487	1,019,676	33,487	-	-	-	-
Other financial assets:								
Investments in debt securities with no active market	454,162,929	14,915,039	-	-	454,162,929	14,915,039	-	-
Liabilities								
Financial liabilities at fair value through profit or loss	4,013,388	131,803	-	-	4,013,388	131,803	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	11,178,043	367,095	-	-	11,178,043	367,095	-	-
Other financial assets:								
Derivatives financial assets for hedging	1,666,851	54,740	-	-	1,666,851	54,740	-	-
Liabilities								
Financial liabilities at fair value through profit or loss	10,820,873	355,365	-	-	10,820,873	355,365	-	-

4. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gains NT$97,978 (US$3,345) and losses NT$44,344 (US$1,456) for the nine-month periods ended September 30, 2012 and 2011, 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, 2012 and 2011 were NT$23,738,534 (US$810,465) and NT$19,829,631 (US$651,219), and expenses were NT$8,594,847 (US$293,440) and NT$6,826,687 (US$224,193), respectively.

6. The Bank recognized an unrealized gains of NT$1,076,997 (US$36,770) and NT$75,634 (US$2,484) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$729,614 (US$24,910) and NT$1,172,448 (US$38,504) in the income statements, for the nine-month periods ended September 30, 2012 and 2011, 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, 2012						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT$	US$	NT$	US$	NT$	US$
Interest rate	$599,220	$20,458	$876,417	$29,922	$339,069	$11,576
Foreign exchange	160,674	5,486	177,844	6,072	148,602	5,073
Equity Securities price	127,067	4,338	167,960	5,734	60,704	2,073

The Bank enters into a variety of derivatives transactions for both trading and non-trading 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

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, 2012	
		NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	$457,881	$15,633
	HKD+1%	3,079	105
	JPY+1%	1,881	64
	NTD+1%	(488,114)	(16,665)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(19,230)	(657)
	Yield curves (HKD) parallel shift+1bp	(38)	(1)
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (NTD) parallel shift+1bp	(8,417)	(287)
Equity securities price factor sensitivity (Equity Delta)		64,120	2,189

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 the 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	September 30, 2012	
		NT$	US$
Stock Market	Major Stock Exchanges +15%	$961,807	$32,837
	Major Stock Exchanges -15%	(961,807)	(32,837)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,773,664)	(94,697)
	Major Interest Rate - 100bp	2,321,514	79,260
Foreign Exchange Market	Major Currencies +3%	1,524,727	52,056
	Major Currencies -3%	(1,435,907)	(49,024)
Composite	Major Stock Exchanges -15% Major Interest Rate + 100bp Major Currencies +3%	(2,210,744)	(75,478)

(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, 2012			
	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	$15,262,909	$521,096	$15,262,909	$521,096
Available-for-sale financial assets	59,248,697	2,022,830	59,248,697	2,022,830
Held-to-maturity financial assets and investments in debt securities with no active market	474,509,187	16,200,382	474,509,187	16,200,382
Other financial assets-financial assets carried at cost	3,370,795	115,083	3,370,795	115,083
Other assets	1,197,749,471	40,892,778	1,197,749,471	40,892,778
Guarantees on duties and contracts	-	-	12,537,471	428,046
Unused commercial letters of credit	-	-	4,682,464	159,866
Irrevocable loan commitments	-	-	61,812,945	2,110,377
Credit card line commitments	-	-	292,564,141	9,988,533
Derivative financial instruments				
Forward	316,827	10,817	316,827	10,817
Non-delivery forward	388,458	13,263	388,458	13,263
Currency swap	2,812,853	96,035	2,812,853	96,035
Interest rate swap	3,171,703	108,286	3,171,703	108,286
Cross currency swap	238,753	8,151	238,753	8,151
Options	773,411	26,405	773,411	26,405

Financial assets	September 30, 2011 Carrying value NT$	US$	Maximum credit risk exposed amount NT$	US$
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$4,845,501	$159,130	$4,845,501	$159,130
Available-for-sale financial assets	49,542,084	1,626,998	49,542,084	1,626,998
Held-to-maturity financial assets and investments in debt securities with no active market	460,829,009	15,133,958	460,829,009	15,133,958
Other financial assets-financial assets carried at cost	3,478,625	114,241	3,478,625	114,241
Other assets	1,138,282,426	37,382,017	1,138,282,426	37,382,017
Guarantees on duties and contracts	-	-	13,605,598	446,818
Unused commercial letters of credit	-	-	5,683,397	186,647
Irrevocable loan commitments	-	-	56,943,818	1,870,076
Credit card line commitments	-	-	280,947,514	9,226,519
Derivative financial instruments				
Forward	7,516,786	246,857	7,516,786	246,857
Non-delivery forward	467,459	15,352	467,459	15,352
Currency swap	561,203	18,430	561,203	18,430
Interest rate swap	3,649,847	119,863	3,649,847	119,863
Cross currency swap	321,872	10,570	321,872	10,570
Options	327,727	10,763	327,727	10,763

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Loans, customers' liabilities under acceptances, bill purchased and guarantees account				
Industry type				
Manufacturing	$129,001,510	$4,404,285	$139,427,753	$ 4,578,908
Financial institutions and insurance	34,292,099	1,170,778	36,846,853	1,210,077
Leasing and real estate	87,501,720	2,987,427	95,595,882	3,139,438
Individuals	495,468,380	16,915,957	483,077,299	15,864,608
Others	247,607,312	8,453,647	251,017,497	8,243,596
Total	993,871,021	33,932,094	1,005,965,284	33,036,627
Valuation allowance	(11,371,517)	(388,239)	(8,451,128)	(277,541)
Maximum credit risk exposed	$982,499,504	$33,543,855	$997,514,156	$32,759,086
Geographic Region				
Domestic	$859,145,554	$29,332,385	$882,878,207	$28,994,358
South East Asia	54,684,154	1,866,991	38,291,828	1,257,531
North East Asia	882,158	30,118	901,793	29,616
America	22,692,214	774,743	14,553,844	477,959
Others	56,466,941	1,927,857	69,339,612	2,277,163
Total	993,871,021	33,932,094	1,005,965,284	33,036,627
Valuation allowance	(11,371,517)	(388,239)	(8,451,128)	(277,541)
Maximum credit risk exposed	$982,499,504	$33,543,855	$997,514,156	$32,759,086

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

The liquidity risk rate was 35.32%. Capital and working capitals of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of September 30, 2012, there is no significant change in these dates.

As of September 30, 2012 and 2011, 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, 2012	September 30, 2011
Available-for-sale financial assets		
Bonds	0.82-5.9295	0.35-5.9295
Overseas financial instruments	0-9.3714	0-6.3574
Held-to-maturity financial assets		
Bonds	2.2292-6.9559	2.2292-6.9559
Overseas financial instruments	0-8.2501	0-7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.388-1.005	0.388-1.065
Overseas financial instruments	0-5.15	0-5.15
Financial debentures payable	1.48-1.65	1.65-5.593

8. Fair value hedge

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

	Hedging instruments				
	Derivative	Financial assets fair value			
	designated as	September 30, 2012		September 30, 2011	
Hedged item	hedging instruments	NT$	US$	NT$	US$
Financial debentures payable	Interest rate swap	$1,410,138	$48,144	$1,666,851	$54,741

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.

9. The significant portfolio of foreign currency financial assets and liabilities are as follows:

	September 30, 2012			September 30, 2011		
	Foreign Currency	Exchange Rate	NT$	Foreign Currency	Exchange Rate	NT$
Financial Assets						
Monetary Items						
USD	$5,620,915	29.3420	$164,928,888	$4,169,874	30.5060	$127,206,176
HKD	3,913,918	3.7841	14,810,657	3,501,230	3.9154	13,708,716
RMB	1,977,236	4.6560	9,206,011	-	-	-
Financial Liabilities						
Monetary Items						
USD	5,798,681	29.3420	170,144,898	4,925,022	30.5060	150,242,721
RMB	2,289,619	4.6560	10,660,466	454,026	4.7779	2,169,291
AUD	179,079	30.6492	5,488,628	189,145	29.7235	5,622,051

XI. Operating segment information

For management purpose, the Bank is organized into business units based on products and services and has four reportable operating segments as follows:

1. Corporate banking segment - syndication loans, large-sized loans, group loans and general loans, etc.

2. Retail banking segment - deposits and consumer loans, foreign exchange services, endorsement guarantees business, note discounting, disbursements and receipts, rental safe deposit boxes, credit card-related products, and trust business, etc.

3. Offshore banking segment - international banking department, offshore banking unit, overseas branches and representative office, etc.

4. Other segments - these parts contain the Bank's assets, liabilities, revenues and expenses that can not attribute to or allocate reasonably to certain operating segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on operating profit or loss. Segments' accounting policies are the same with the Note II mentioned above.

January 1- September 30, 2012	Corporate Banking Segment		Retail Banking Segment		Offshore Banking Segment		Other Segments		Consolidated	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Net interest income (from external customer)	$5,561,966	$189,893	$2,903,458	$99,128	$4,121,561	$140,716	$2,634,430	$89,943	$15,221,415	$519,680
Inter-segment revenues	$(2,865,101)	$(97,819)	$6,365,848	$217,339	$(539,848)	$(18,431)	$(2,960,899)	$(101,089)	$-	$-
Segment net income	$2,147,511	$73,319	$7,259,388	$247,845	$4,012,961	$137,008	$(1,723,261)	$(58,834)	$11,696,599	$399,338
Income tax expense									(1,340,000)	(45,750)
Net income after income taxes									$10,356,599	$353,588

January 1- September 30, 2011	Corporate Banking Segment		Retail Banking Segment		Offshore Banking Segment		Other Segments		Consolidated	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Net interest income (from external customer)	$5,124,953	$168,308	$3,663,905	$120,325	$1,629,084	$53,500	$2,612,244	$85,788	$13,030,186	$427,921
Inter-segment revenues	$(2,304,291)	$(75,674)	$5,274,767	$173,227	$(131,691)	$(4,325)	$(2,838,785)	$(93,228)	$-	$-
Segment net income	$3,145,643	$103,305	$5,439,037	$178,622	$2,059,493	$67,635	$4,214	$139	$10,648,387	$349,701
Income tax expense									(1,284,647)	(42,189)
Net income after income taxes									$9,363,740	$307,512

Note:

1. No revenue from transactions with a single external customer amounted to 10% or more of the Bank's total revenue during the nine-month periods ended September 30, 2012 and 2011.

2. Operating segments' profit are measured at pre-tax income basis, the income taxes are not allocated to reporting segments for the purpose of making decisions about resource allocation and performance assessment.

Pursuant to Interpretation 2010-151 issued by the Accounting Research and Development Foundation, the Bank's measure amount of the assets and liabilities mainly provide the average of deposits and loans, the disclosed measure amounts of assets are zero.

XII. Others

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

	January 1 - September 30, 2012		
	Average balance		Average rate
	NT$	US$	(%)
Assets			
Due from the Central Bank	$39,898,600	$1,362,192	0.56%
Time certificates, discounted bills and others	400,687,354	13,680,005	0.88%
Due from commercial banks and call loans to banks	66,971,411	2,286,494	1.68%
Discounts and loans	1,000,396,450	34,154,881	2.06%
Bills purchased	2,369	81	3.44%
Bonds	89,240,586	3,046,794	3.46%
Receivables-credit card revolving balance	15,514,489	529,686	13.66%
Securities purchased under agreements to resell	4,922,552	168,063	0.74%
Liabilities			
Due to banks	58,878,278	2,010,184	0.92%
Demand deposits	228,156,358	7,789,565	0.13%
Saving deposits	852,047,832	29,090,059	0.60%
Time deposits	390,791,045	13,342,132	1.04%
Negotiable certificates of deposit	473,974	16,182	0.61%
Securities sold under agreements to repurchase	17,611,184	601,270	0.53%
Financial debentures	34,700,998	1,184,739	3.02%
Funds borrowed from the Central Bank and other banks	1,370,206	46,781	0.64%
Principals received from the sale of structured products	16,426,675	560,829	1.52%

	January 1 - September 30, 2011		
	Average balance		Average rate
	NT$	US$	(%)
Assets			
Due from the Central Bank	$37,398,586	$1,228,197	0.49%
Time certificates, discounted bills and others	419,026,125	13,761,121	0.80%
Due from commercial banks and call loans to banks	25,767,880	846,236	0.76%
Discounts and loans	917,653,160	30,136,393	1.89%
Bills purchased	3,310	109	2.78%
Bonds	61,098,060	2,006,504	2.87%
Receivables-credit card revolving balance	16,435,587	539,757	13.91%
Securities purchased under agreements to resell	9,445,802	310,207	0.46%
Liabilities			
Due to banks	43,597,074	1,431,759	0.91%
Demand deposits	219,163,998	7,197,504	0.12%
Saving deposits	822,163,563	27,000,445	0.54%
Time deposits	326,863,702	10,734,440	0.91%
Negotiable certificates of deposit	1,359,906	44,660	0.27%
Securities sold under agreements to repurchase	14,467,343	475,118	0.35%
Financial debentures	30,462,225	1,000,401	3.28%
Funds borrowed from the Central Bank and other banks	1,628,033	53,466	0.79%
Principals received from the sale of structured products	9,675,761	317,759	1.13%

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, 2012 and 2011, the ratios (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets were 10.96% and 11.92%, respectively.

3. Implementation of cross-selling marketing strategies implemented between the Bank, Cathay Financial Holding Co., Ltd., and its subsidiaries

   The Bank has entered into cross-selling marketing contracts with Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd. and Cathay Securities Corp. The contracts cover joint usage of operation sites and facilities as well as cross-selling marketing personnel. Remuneration apportionment and expenses allocation for cross-selling marketing personnel follow the provisions under the "Cathay Financial Group Scope of Cross-selling Marketing and Rules for Reward".

   The Bank has entered into cooperative contracts with Cathay Financial Holding Co., Ltd., Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd., and Cathay Securities Corp. for the joint usage of information equipment and the development, operation, maintenance and management of information systems. Calculation methodologies for expenses allocation have been established.

4. As of September 30, 2012 and 2011, the assets and liabilities managed under the Bank's trust were NT$465,605,363 (US$15,896,393) and NT$473,513,303 (US$15,550,519), respectively.

5. In compliance with the Explanatory Letter No. Financial Supervisory Examination Firms 10001522370 issued by Financial Examination Bureau of the FSC dated January 5, 2012. The Bank changed its accounting treatments of rental expenses, financial liabilities and fee and commission of syndication loans and re-measured them to comply with this explanatory. This change increased the net income by NT$31,700 (US$1,041) for the nine-month period ended September 30, 2011, and the increment of retained earnings were made by NT$32,257 (US$1,060) and NT$63,957 (US$2,101) as of January 1, 2011 and September 30, 2011, respectively. Accordingly, the relevant accounts of assets, liabilities, profit or loss has been adjusted, while preparing the comparative financial statements.

6. Certain accounts in the financial statements for the nine-month period ended September 30, 2011 have been reclassified in order to comparable with those in the financial statements for the nine-month period ended September 30, 2012.

7. The Financial Supervisory Commission ("FSC") requires Domestic Banks to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations committee as recognized by the FSC (collectively referred to as "IFRSs"), and the Regulations Governing the Preparation of Financial Reports by Public Banks, starting 2013. Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Bank makes the pre-disclosures on the adoption of IFRSs as follows:

(1) The main contents of the plan to adopt IFRSs and the current status:

The Bank has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is the financial manager. The main contents of the plan, estimated completion schedule and status of execution, were as follows:

Contents of Plan	Responsible Department or Personnel	Status of Execution
1. Assess stage: 2010/1/1~2011/12/31		
◎ Make a plan to adopt IFRSs and establish a project team	Accounting department	Finished
◎Proceed initial internal training	Accounting department and other authorized departments	Finished
◎Identify differences between the existing accounting policies and IFRSs	Accounting department	Finished
◎Identify the adjustment required for existing accounting policies	Accounting department	Finished
◎Select voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” and assess the impact of these exemptions	Accounting department	Finished
◎Identify the adjustments required for IT system and internal controls	IT department and Risk management department	Finished
2. Prepare stage:2011/1/1~2012/12/31		
◎Finalize the accounting policies under IFRSs	Accounting department	Finished
◎Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards”	Accounting department	Finished
◎Finalize adjustments to the internal control (including financial statements process and the associated IT system)	IT department and Risk management department	In progress
◎Proceed advanced internal training	Accounting department and other authorized departments	In progress
3. Practice stage:2012/1/1~2013/12/31		
◎Test the operation of information system	IT department	Finished
◎Prepare opening IFRS balance sheet and comparative financial statements	Accounting department	In progress
◎Prepare IFRS financial statements	Accounting department	In progress

(2) Material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Public Banks and their impacts on the Bank are described in the table below:

The Bank assesses the material differences in accounting polices based on the IFRSs as recognized by the FSC and the Regulations Governing the Preparation of Financial Reports by Public Banks expected to become effective in 2013. However these assessments may be changed as the FSC may recognize different versions of IFRSs or amend the Regulations Governing the Preparation of Financial Reports by Public Banks in the future. Furthermore, the Bank has decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Accounting Issues	Description of differences
Fixed assets	Properties held to be leased out or for long-term capital appreciation are currently classified under fixed assets, as there is no clear guidance under ROC GAAP. However under the requirements of IAS 40 "Investment Property", properties which meet the definition of investment property should be classified as such.
Lease accounting	The Bank recognizes rental expense based on the regulation of leasing contracts. However, under the requirement of IAS 17 "Leases", operating leases should be calculated under straight line basis and recognized as revenue or expense during the lease.
Employee benefits	The Bank has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under ROC GAAP. However under the requirements of IAS 19, the rate used to discount post-employment benefits obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used.
	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.

Accounting Issues	Description of differences
Other employee benefits(employee preferential interest rate deposits)	According to internal regulation of the Bank or hiring agreement, the excess interest of retiring interest rate employee preferential deposits is adapted to IAS 19 "Employee Benefit" once the employee is retired.
Customer loyalty Programmes	The Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. However under the requirements of IFRIC 13 "Customer Loyalty Programmes", the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale; the consideration allocated to the award credits should be deferred and only recognized as revenue when award credit are redeemed and the Bank fulfills its obligations to supply awards.
Regular way purchase or sale of a financial asset	The bond trading is recognized on the settlement date under the Bank's regular way purchase and sale. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting.
Liquidating dividends	Under the requirements of ROC GAAP, if equity security does not belong to "financial assets measure at fair value and financial assets at fair value through profit or loss", the dividends on an equity investment are declared from the pre-acquisition net income, such dividends should be deducted from the cost of equity investment. However, there is no similar regulation under IAS 18.

(3) The preliminary assessment on the monetary impacts of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Public Banks are as follows：

① Reconciliation of the balance sheet as at January 1, 2012:

	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Other assets (A、C、D)	$1,708,339,747	$58,325,017	$857,862	$29,289	$1,709,197,609	$58,354,306
Total assets	1,708,339,747	58,325,017	857,862	29,289	1,709,197,609	58,354,306
Payables (B、D)	20,520,083	700,584	(725,264)	(24,762)	19,794,819	675,822
Provision (A、D)	-	-	2,075,802	70,871	2,075,802	70,871
Other liabilities (B、C、D)	1,589,641,561	54,272,501	900,701	30,751	1,590,542,262	54,303,252
Total liabilities	1,610,161,644	54,973,085	2,251,239	76,860	1,612,412,883	55,049,945

	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Common Stock	52,277,026	1,784,808	-	-	52,277,026	1,784,808
Capital Reserves	15,213,292	519,402	-	-	15,213,292	519,402
Retained Earnings (A、B、C)	30,452,058	1,039,674	(2,194,528)	(74,924)	28,257,530	964,750
Other Stockholders' Equity (A、D)	235,727	8,048	801,151	27,353	1,036,878	35,401
Stockholders' Equity	98,178,103	3,351,932	(1,393,377)	(47,571)	96,784,726	3,304,361

A. The Bank adopts IAS 19, "Employee benefits", the relevant adjustment resulted in a decrease of the deferred pension cost by NT$44,802 (US$1,530), a reverse of the net loss not recognized as net pension cost by NT$801,151 (US$27,352), an increase of the provisions by NT$1,204,956 (US$41,139) and a corresponding decrease of retained earnings of NT$2,050,909 (US$70,021).

B. The Bank adopt IFRIC 13 "Customer Loyalty Programmes", the relevant adjustment resulted in a decrease of the accrued expenses by NT$512,271 (US$17,490), an increase of the deferred income by NT$1,105,371 (US$37,739) and a corresponding decrease of retained earnings of NT$593,100 (US$20,249).

C. In summary, the Bank adopt IAS 12 "Income Tax", the deferred income tax liabilities and deferred income tax assets were increased by NT$87,086 (US$2,973) and NT$536,567 (US$18,319), respectively, and resulted in an increase of retained earnings of NT$449,481 (US$15,346).

D. Other explanations are as follows:

(a) The bond trading is recognized on the settlement date under the Bank's regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting.

(b) Certain accounts of the assets and liabilities have been reclassified under IFRSs, as such, there is no significant effect on net shareholders' equity.

(c) In accordance with the Explanatory Letter No. 1010012865 issued by FSC on April 6, 2012, at first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero, and its retained earnings is being increased accordingly. The Bank does not elect to use exemption under IFRS 1 for its cumulative translation adjustments, therefore, no special reserve was appropriated.

② Reconciliation of the balance sheet as at September 30, 2012:

	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Financial Assets (E)	$560,095,316	$19,122,407	$(704,786)	$(24,062)	$559,390,530	$19,098,345
Other assets (A、D、E)	1,237,163,733	42,238,435	4,695,347	160,305	1,241,859,080	42,398,740
Total assets	1,797,259,049	61,360,842	3,990,561	136,243	1,801,249,610	61,497,085
Payables (B、C、E)	20,044,566	684,349	1,842,404	62,902	21,886,970	747,251
Provision(A、E)	-	-	1,948,213	66,515	1,948,213	66,515
Other liabilities (B、D、E)	1,676,646,374	57,242,962	1,017,610	34,743	1,677,663,984	57,277,705
Total liabilities	1,676,690,940	57,927,311	4,808,227	164,160	1,701,499,167	58,091,471
Common Stock	52,277,026	1,784,808	-	-	52,277,026	1,784,808
Capital Reserves	15,213,292	519,402	-	-	15,213,292	519,402
Retained Earnings (A、B、C、D、E)	32,988,260	1,126,264	(2,038,579)	(69,600)	30,949,681	1,056,664
Other Stockholders' Equity(A、D、E)	89,531	3,057	1,220,913	41,683	1,310,444	44,740
Stockholders' Equity	100,568,109	3,433,531	(817,666)	(27,917)	99,750,443	3,405,614

A. The Bank adopts IAS 19, "Employee benefits", the relevant adjustment resulted in a decrease the deferred pension cost by NT$44,802 (US$1,530), a reverse of the net loss not recognized as net pension cost by NT$801,151 (US$27,352), an increase of the provisions by NT$1,077,367 (US$36,783) and a corresponding decrease of retained earnings of NT$1,923,320 (US$65,665).

B. The Bank adopt IFRIC 13 "Customer Loyalty Programmes", the relevant adjustment resulted in a decrease of the accrued expenses by NT$522,789 (US$17,849), an increase of the deferred income by NT$1,148,701 (US$39,218) and a corresponding decrease of retained earnings of NT$625,912(US$21,369).

C. The Bank adopt IAS 17 "Leases", the adjustment resulted in an increase of accrued expenses by NT$4,684 (US$160) and a corresponding decrease of retained earnings.

D. In summary, the Bank adopt IAS 12 "Income Tax", the deferred income tax liabilities and deferred income tax assets were increased by NT$87,086 (US$2,973) and NT$521,567 (US$17,807), respectively, and resulted in an increase in retained earnings of NT$434,481 (US$14,834).

E. Other explanations are as follows:

(a) Financial assets include the financial assets at fair value through profit or loss, derivative financial assets for hedging, financial assets carried at cost, available-for-sale financial assets, held-to-maturity financial assets, investment in debt securities with no active market and other financial assets.

(b) The bond trading is recognized on the settlement date under the Bank's regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting and resulted in an increase of retained earnings by NT$3,963 (US$135).

(c) The Bank recognize the liquidating dividends for equity security does not belong to "financial assets measure at fair value and financial assets at fair value through profit or loss", the relevant adjustment resulted in an increase of noninterest income by NT$76,893(US$2,625) and a corresponding increase of retained earnings.

(d) Certain accounts of the assets and liabilities have been reclassified under IFRSs, as such, they is no significant effect on net shareholders' equity.

③ Reconciliation of the income statement for the nine-month period ended September 30, 2012:

	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Net interest income(A、E)	$15,221,415	$519,680	$128,189	$4,376	$15,349,604	$524,056
Noninterest income(B、E)	9,162,833	312,831	135,022	4,610	9,297,855	317,441
Net operating income	24,384,248	832,511	263,211	8,986	24,647,459	841,497
Bad Debt Expense	(3,512)	(120)	-	-	(3,512)	(120)
Operating expenses (A、B、C)	(12,684,137)	(433,053)	(72,495)	(2,475)	(12,756,632)	(435,528)
Net income before income tax	11,696,599	399,338	190,716	6,511	11,887,315	405,849
Income tax expense(D)	(1,340,000)	(45,750)	(34,767)	(1,186)	(1,374,767)	(46,936)
Net income after income tax	10,356,599	353,588	155,949	5,325	10,512,548	358,913

A. The Bank adopts IAS 19, “Employee benefits”, the relevant adjustment resulted in an increase personnel expenses by NT$78,329 (US$2,674) and a decrease of interest expense by NT$205,917 (US$7,030), respectively.

B. The Bank adopt IFRIC 13 “Customer Loyalty Programmes”, the relevant adjustment resulted in a decrease of handling fees income by NT$43,330 (US$1,479) and a decrease of other general and administrative expense by NT$10,519 (US$359) , respectively.

C. The Bank adopt IAS 17 “Leases”, the adjustment resulted in an increase of rental expenses NT$4,684 (US$160).

D. In summary, the Bank adopt IAS 12 “Income Tax”, the adjustment resulted in an increase the income tax expense by NT$34,767 (US$1,186) and an increase of noninterest income by NT$19,767 (US$675).

E. Other explanations are as follows:

(a) The bond trading is recognized on the settlement date under the Bank's regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting, with the trade date accounting, and resulted in an increase of gain on financial assets and liabilities at fair value through profit or loss by NT$24 (US$1) and an increase of realized gain on available-for-sale financial assets by NT$3,939 (US$134).

(b) The Bank recognize the liquidating dividends for equity security does not belong to "financial assets measure at fair value and financial assets at fair value through profit or loss", the relevant adjustment resulted in an increase of noninterest income by NT$76,893 (US$2,625) and a corresponding increase of retained earnings.

(c) Certain accounts of the assets and liabilities have been reclassified under IFRSs, as such, there is no significant effect on net shareholders' equity.

(4) According to the requirements under IFRS 1, "First-time Adoption of International Financial Reporting Standards", the bank prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Bank are as follows:

① The Bank has recognized all cumulative actuarial gains and losses directly to retained earnings as at January 1, 2012.

② The Bank has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.