

Cathay United Bank
Financial Statements
For The Three-Month Periods Ended
March 31, 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.

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of March 31, 2012 and 2011, and the related statements of income and cash flows for the three-month periods ended March 31, 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 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 ROC. Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement", and the newly issued SFAS No. 41, "Operating Segments".



ERNST & YOUNG
Taipei, Taiwan
The Republic of China
April 24, 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

March 31, 2012 and 2011

(Expressed in thousands of dollars)

(Reviewed, not audited)

ASSETS	NOTES	March 31, 2012		March 31, 2011	
		NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	\$31,402,392	\$1,064,488	\$25,502,935	\$867,447
Due from the Central Bank and call loans to banks	IV and V	105,701,170	3,583,091	74,490,911	2,533,704
Financial assets at fair value through profit or loss	II, IV and V	19,354,067	656,070	33,870,805	1,152,068
Securities purchased under agreements to resell	II	8,429,400	285,742	15,097,749	513,529
Receivables, net	II, III, IV and V	40,525,274	1,373,738	43,877,860	1,492,445
Discounts and loans, net	II, III, IV and V	992,915,430	33,658,150	910,474,518	30,968,521
Available-for-sale financial assets, net	II, IV and V	51,851,961	1,757,694	55,294,306	1,880,759
Held-to-maturity financial assets, net	II and IV	19,545,123	662,547	4,966,235	168,919
Investments accounted for using equity method, net	II and IV	4,698,796	159,281	4,478,108	152,317
Other financial assets, net	II and IV	4,863,143	164,852	4,732,531	160,970
Investments in debt securities with no active market, net	II and IV	436,762,523	14,805,509	369,539,219	12,569,361
Premises and equipment, net	II, IV, V and VII	24,623,542	834,696	25,095,275	853,581
Intangible assets, net	II and IV	7,242,764	245,518	7,372,257	250,757
Other assets, net	II, IV and V	4,692,860	159,080	5,131,246	174,532
TOTAL ASSETS		\$1,752,608,445	\$59,410,456	\$1,579,923,955	\$53,738,910

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

March 31, 2012 and 2011

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2012		March 31, 2011	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	\$59,285,368	\$2,009,674	\$44,769,529	\$1,522,773
Funds borrowed from the Central Bank and other banks		1,476,500	50,051	1,470,900	50,031
Financial liabilities at fair value through profit or loss	II, IV, V and XII	3,999,420	135,574	13,950,569	474,509
Securities sold under agreements to repurchase	II, IV and V	16,309,936	552,879	12,893,459	438,553
Payables	IV, V and XII	18,237,053	618,205	22,286,184	758,034
Deposits and remittances	IV and V	1,500,305,324	50,857,808	1,347,901,154	45,846,978
Financial debentures payable	IV, X and XII	32,810,946	1,112,235	26,133,631	888,899
Other financial liabilities	II and IV	16,408,822	556,231	9,794,620	333,150
Other liabilities	II, IV, V and XII	2,988,884	101,318	2,636,292	89,670
TOTAL LIABILITIES		1,651,822,253	55,993,975	1,481,836,338	50,402,597
SHAREHOLDERS' EQUITY					
Capital stock	IV	52,277,026	1,772,102	52,277,026	1,778,130
Capital reserves	IV	15,213,292	515,705	15,213,292	517,459
Retained earnings	IV				
Legal reserves		19,009,053	644,375	15,609,529	530,936
Special reserves	II, III and IV	271,009	9,187	271,009	9,218
Undistributed earnings	XII	14,596,538	494,798	14,458,810	491,796
Foreign currency translation adjustment	II	(461,902)	(15,658)	(331,090)	(11,262)
Unrealized gains or losses on financial instruments	II	683,512	23,170	1,192,666	40,567
Net loss not recognized as net pension costs	II and IV	(802,336)	(27,198)	(603,625)	(20,531)
TOTAL SHAREHOLDERS' EQUITY		100,786,192	3,416,481	98,087,617	3,336,313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$1,752,608,445	\$59,410,456	\$1,579,923,955	\$53,738,910

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the three-month periods ended March 31, 2012 and 2011

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

(Reviewed, not audited)

ITEMS	NOTES	January 1 - March 31, 2012		January 1 - March 31, 2011	
		NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II, V and XII	\$7,815,054	\$264,917	\$6,232,193	\$211,979
INTEREST EXPENSE	V	(2,843,553)	(96,392)	(1,990,432)	(67,702)
NET INTEREST INCOME		4,971,501	168,525	4,241,761	144,277
NONINTEREST INCOME					
Net fee income	II and V	1,802,937	61,116	1,643,570	55,904
Gain on financial assets and liabilities at fair value through profit or loss	II, IV, V and XII	347,500	11,780	312,898	10,643
Realized gain on available-for-sale financial assets	II	143,864	4,877	831,981	28,299
Investment income recognized by the equity method	II and IV	81,276	2,755	130,534	4,440
Gain on foreign currency exchange, net	II	365,437	12,388	183,175	6,230
Others	II, IV and V	523,116	17,733	347,478	11,819
NET NONINTEREST INCOME		3,264,130	110,649	3,449,636	117,335
NET OPERATING INCOME		8,235,631	279,174	7,691,397	261,612
BAD DEBT EXPENSE	II, III and IV	-	-	-	-
OPERATING EXPENSES					
Personnel	II and IV	(2,069,694)	(70,159)	(1,933,842)	(65,777)
Depreciation and amortization	II and IV	(294,761)	(9,992)	(312,921)	(10,643)
Other general and administrative expenses	V and XII	(1,990,634)	(67,479)	(1,771,262)	(60,247)
TOTAL OPERATING EXPENSES		(4,355,089)	(147,630)	(4,018,025)	(136,667)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		3,880,542	131,544	3,673,372	124,945
INCOME TAX EXPENSE	II, IV and XII	(456,000)	(15,458)	(468,872)	(15,948)
NET INCOME		\$3,424,542	\$116,086	\$3,204,500	\$108,997
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		\$0.74	\$0.025	\$0.70	\$0.024
INCOME TAX EXPENSE		(0.08)	(0.003)	(0.09)	(0.003)
NET INCOME		\$0.66	\$0.022	\$0.61	\$0.021

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of cash flows

For the three-month periods ended March 31, 2012 and 2011

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	NOTES	January 1- March 31, 2012		January 1- March 31, 2011	
		NT	US (Note II)	NT	US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	XII	\$3,424,542	\$116,086	\$3,204,500	\$108,997
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	294,761	9,992	312,921	10,643
The differences between investment income recognized by the equity method and the cash dividends received	II	(81,276)	(2,755)	(130,534)	(4,440)
Bad debt reversal	II, III and IV	(317,373)	(10,758)	(153,839)	(5,233)
Gain on disposal of premises, equipment and foreclosed properties	II	(359)	(12)	(14,917)	(507)
Effects of exchange rate changes		55,105	1,868	(17,747)	(604)
(Increase) decrease in operating assets					
Decrease in receivables		5,990,061	203,053	13,662,789	464,721
Increase in deferred income tax assets		(51,068)	(1,731)	-	-
Decrease in financial assets at fair value through profit or loss		2,445,654	82,903	32,104,856	1,092,002
Increase in other assets		(205,114)	(6,953)	(88,075)	(2,996)
Increase (decrease) in operating liabilities					
Decrease in payables	XII	(2,235,513)	(75,780)	(12,859,480)	(437,397)
Increase (decrease) in deferred income tax liabilities		(30,379)	(1,030)	21,898	745
Decrease in financial liabilities at fair value through profit or loss	XII	(835,733)	(28,330)	(10,083,541)	(342,978)
Decrease in tax payables		(47,516)	(1,611)	(48,813)	(1,660)
Increase in other liabilities	XII	306,308	10,383	144,462	4,914
Net cash provided by operating activities		8,712,100	295,325	26,054,480	886,207
CASH FLOWS FROM INVESTING ACTIVITIES:					
Increase in discounts and loans		(9,312,285)	(315,671)	(29,879,097)	(1,016,296)
(Increase) decrease in due from the Central Bank and call loans to banks		(17,010,735)	(576,635)	25,603,277	870,860
(Increase) decrease in securities purchased under agreements to resell		(6,120,612)	(207,478)	3,828,643	130,226
(Increase) decrease in available-for-sale financial assets		(4,927,517)	(167,035)	19,658,256	668,648
Increase in held-to-maturity financial assets		(1,368,978)	(46,406)	(1,854)	(63)
Proceeds from disposal of premises, equipment and foreclosed properties		359	12	44,715	1,521
Acquisition of premises, equipment and foreclosed properties		(166,442)	(5,642)	(95,323)	(3,242)
Acquisition of intangible assets		(6,760)	(229)	(78,919)	(2,684)
Increase in investments in debt securities with no active market		(11,622,257)	(393,975)	(66,762,787)	(2,270,843)
Increase in other financial assets		(22,342)	(757)	(16,429)	(559)
Increase in other assets		(54,577)	(1,850)	(78,932)	(2,685)
Net cash used in investing activities		(50,612,146)	(1,715,666)	(47,778,450)	(1,625,117)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase in due to the Central Bank and call loans from banks		5,469,464	185,406	4,870,897	165,677
Increase (decrease) in securities sold under agreements to repurchase		2,763,474	93,677	(8,786,098)	(298,847)
Increase in deposits and remittances		30,818,015	1,044,678	21,475,906	730,473
Increase (decrease) in funds borrowed from the Central Bank and other banks		(38,000)	(1,288)	14,400	490
Increase (decrease) in financial debentures payable	XII	(304,294)	(10,315)	5,369,137	182,624
Increase in other financial liabilities		5,797,749	196,534	1,947,001	66,224
Decrease in other liabilities		(10,548)	(358)	(521,968)	(17,754)
Net cash provided by financing activities		44,495,860	1,508,334	24,369,275	828,887
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES					
		(384,995)	(13,050)	87,024	2,960
NET INCREASE IN CASH AND CASH EQUIVALENTS					
		2,210,819	74,943	2,732,329	92,937
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD					
		29,191,573	989,545	22,770,606	774,510
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD					
		\$31,402,392	\$1,064,488	\$25,502,935	\$867,447
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		\$2,320,348	\$78,656	\$1,594,822	\$54,246
Income tax paid		\$125,612	\$4,258	\$99,383	\$3,380

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the three-month periods ended March 31, 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;

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

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

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

As of March 31, 2012 and 2011, the Bank employed 6,481 and 6,212 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 effective interest method as interest income or expense over the relevant periods.

(5)Financial assets carried at cost

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

(6)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 than:

- 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 the 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. Bill 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.

Assessment of impairment for 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.

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 would have been assigned to all of the non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

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

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

(2) Goodwill

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

12. Foreclosed properties

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

13. Asset impairment

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

For recognized impairment losses, the Bank shall assess, at each balance sheet date, whether there is any evidence shows that it may no longer exist or decreased. If such evidence been found, the Bank shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank shall reverse the recognized impairment loss to the extent the carrying amount as if no impairment loss had been recognized to against the assets. Impairment loss (reversal) is charged to 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 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 ROC SFAS No. 22, "Income Taxes" for interperiod and intraperiod income tax allocation. Deferred income taxes are recognized for tax effects of temporary differences. Tax effects on deductible temporary differences, operating loss carry forwards and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided for deferred tax assets when their realization is in doubt. The Bank has considered the impact of the AMT Act in the determination of its tax liabilities using the higher of the statutory income tax or minimum tax under AMT Act as its current period income tax expense.

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

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

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

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

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

24. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the March 31, 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\$29.50 and NT\$29.40 to US\$1.00 on March 31, 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 three-month period ended March 31, 2011.
2. Effective 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 balances 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

	March 31,			
	2012		2011	
	NT	US	NT	US
Cash on hand	\$11,793,062	\$399,765	\$10,766,404	\$366,204
Checks for clearance	8,086,695	274,125	3,930,693	133,697
Due from commercial banks	11,522,635	390,598	10,805,838	367,546
Total	\$31,402,392	\$1,064,488	\$25,502,935	\$867,447

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

	March 31,			
	2012		2011	
	NT	US	NT	US
Call loans to banks	\$54,536,308	\$1,848,689	\$21,594,445	\$734,505
Due from the Central Bank —				
Statutory reserve on deposits and				
general deposits	51,164,862	1,734,402	52,896,466	1,799,199
Total	\$105,701,170	\$3,583,091	\$74,490,911	\$2,533,704

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT\$40,440,197 (US\$1,370,854) and NT\$36,788,122 (US\$1,251,297) as of March 31, 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 March 31, 2012 and 2011, the balance of foreign-currency deposit reserves were NT\$168,321 (US\$5,706) and NT\$130,763 (US\$4,448), respectively.

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3. Financial assets at fair value through profit or loss

	March 31,			
	2012		2011	
	NT	US	NT	US
Financial assets for trading :				
Short-term bills	\$14,860,768	\$503,755	\$23,738,938	\$807,447
Bonds	185,283	6,281	591,821	20,130
Overseas financial instruments	554,801	18,807	137,294	4,670
Derivative financial instruments	3,753,215	127,227	9,399,941	319,726
Subtotal	19,354,067	656,070	33,867,994	1,151,973
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	-	-	2,811	95
Subtotal	-	-	2,811	95
Total	\$19,354,067	\$656,070	\$33,870,805	\$1,152,068

(1)As of March 31, 2012, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$134,000 (US\$4,542). Such repurchase agreements amounting to NT\$148,778 (US\$5,043) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2012 was settled at NT\$148,783 (US\$5,043) prior to April 30, 2012.

As of March 31, 2011, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$160,500 (US\$5,459). Such repurchase agreements amounting to NT\$178,579 (US\$6,074) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2011 was settled at NT\$178,597 (US\$6,075) prior to April 30, 2011.

(2)As of March 31, 2012 and 2011, the contract amounts (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

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	March 31,	
	2012	2011
Forward foreign exchange and currency swap contracts	\$18,943,296	\$25,146,010
Interest rate swap contracts	8,820,427	10,847,831
Cross-currency swap contracts	333,357	144,794
Options	1,973,171	1,243,700
Futures	-	5,500

(3) Net gains arising from financial assets at fair value through profit or loss for the three-month periods ended March 31, 2012 and 2011 were NT\$3,795,614 (US\$128,665) and NT\$17,977,386 (US\$611,476), respectively.

4. Receivables, net

	March 31,			
	2012		2011	
	NT	US	NT	US
Notes receivable	\$254	\$9	\$360	\$12
Accounts receivable	36,963,168	1,252,989	35,475,708	1,206,657
Interest receivable	2,795,938	94,777	1,881,331	63,991
Related party receivables for				
allocation of linked-tax system	264,756	8,975	1,090,943	37,107
Foreign currency receivable	55,241	1,872	1,090,383	37,088
Acceptances	761,928	25,828	1,060,734	36,079
Tax refundable	121,266	4,111	151,334	5,148
Factoring receivable	878,839	29,791	716,645	24,376
Others	687,373	23,301	5,200,625	176,892
Total	42,528,763	1,441,653	46,668,063	1,587,350
Adjustment for discounts and				
premiums	(3,320)	(113)	(882)	(30)
Less: allowance for doubtful				
accounts	(2,000,169)	(67,802)	(2,789,321)	(94,875)
Net balance	\$40,525,274	\$1,373,738	\$43,877,860	\$1,492,445

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Information on bad and doubtful accounts are as follows:

	January 1- March 31, 2012					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$129,860	\$4,402	\$2,624,651	\$88,971	\$2,754,511	\$93,373
Reversal of doubtful accounts	(815,699)	(27,651)	-	-	(815,699)	(27,651)
Write-offs	(79,181)	(2,684)	-	-	(79,181)	(2,684)
Debt counseling recoveries	38,818	1,316	-	-	38,818	1,316
Recoveries	142,291	4,824	-	-	142,291	4,824
Reclassifications	702,909	23,827	(717,645)	(24,327)	(14,736)	(500)
Effects of exchange rates change	-	-	(25,835)	(876)	(25,835)	(876)
Balance, end of the period	<u>\$118,998</u>	<u>\$4,034</u>	<u>\$1,881,171</u>	<u>\$63,768</u>	<u>\$2,000,169</u>	<u>\$67,802</u>

	January 1- March 31, 2011					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$2,167,737	\$73,733	\$40,920	\$1,392	\$2,208,657	\$75,125
Reversal of doubtful accounts	(9,247)	(315)	-	-	(9,247)	(315)
Write-offs	(106,216)	(3,613)	-	-	(106,216)	(3,613)
Debt counseling recoveries	38,470	1,309	-	-	38,470	1,309
Recoveries	169,526	5,766	-	-	169,526	5,766
Reclassifications	(2,119,386)	(72,088)	2,607,517	88,691	488,131	16,603
Balance, end of the period	<u>\$140,884</u>	<u>\$4,792</u>	<u>\$2,648,437</u>	<u>\$90,083</u>	<u>\$2,789,321</u>	<u>\$94,875</u>

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

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5. Discounts and loans, net

	March 31,			
	2012		2011	
	NT	US	NT	US
Outward documentary bills	\$417,320	\$14,146	\$231,262	\$7,866
Overdrafts	500,854	16,978	480,820	16,354
Short-term loans	265,777,108	9,009,394	222,304,835	7,561,389
Medium-term loans	291,340,554	9,875,951	235,155,097	7,998,473
Long-term loans	441,785,235	14,975,771	455,763,006	15,502,143
Delinquent accounts	2,492,263	84,483	3,484,880	118,533
Total	1,002,313,334	33,976,723	917,419,900	31,204,758
Adjustment for discounts and premiums	988,405	33,505	258,472	8,792
Less: allowance for doubtful accounts	(10,386,309)	(352,078)	(7,203,854)	(245,029)
Net balance	\$992,915,430	\$33,658,150	\$910,474,518	\$30,968,521

(1) As of March 31, 2012 and 2011, the accounts without interest accrued were NT\$2,607,249 (US\$88,381) and NT\$3,484,880 (US\$118,533), respectively. The non-accrued interest on such accounts amounted to NT\$17,989 (US\$610) and NT\$26,594 (US\$905) for the three-month periods ended March 31, 2012 and 2011, respectively.

(2) For the three-month periods ended March 31, 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- March 31, 2012					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$3,059,807	\$103,722	\$6,247,744	\$211,788	\$9,307,551	\$315,510
Provision of doubtful accounts	498,326	16,893	-	-	498,326	16,892
Write-offs	(26,615)	(902)	-	-	(26,615)	(902)
Debt counseling recoveries	19,502	661	-	-	19,502	661
Recoveries	572,809	19,417	-	-	572,809	19,417
Reclassification	(589,646)	(19,988)	604,382	20,487	14,736	500
Balance, end of the period	\$3,534,183	\$119,803	\$6,852,126	\$232,275	\$10,386,309	\$352,078

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January 1 - March 31, 2011						
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	\$2,558,366	\$87,019	\$4,343,512	\$147,738	\$6,901,878	\$234,757
Reversal of doubtful accounts	(144,592)	(4,918)	-	-	(144,592)	(4,918)
Write-offs	(61,758)	(2,101)	-	-	(61,758)	(2,101)
Debt counseling recoveries	9,212	314	-	-	9,212	314
Recoveries	961,668	32,710	-	-	961,668	32,710
Reclassification	(440,787)	(14,993)	(47,344)	(1,610)	(488,131)	(16,603)
Effects of exchange rates change	-	-	25,577	870	25,577	870
Balance, end of the period	<u>\$2,882,109</u>	<u>\$98,031</u>	<u>\$4,321,745</u>	<u>\$146,998</u>	<u>\$7,203,854</u>	<u>\$245,029</u>

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

	March 31,			
	2012		2011	
	NT	US	NT	US
Stocks	\$6,191,620	\$209,885	\$8,885,644	\$302,233
Mutual funds and beneficiary securities	888,122	30,106	395,944	13,467
Bonds	31,117,094	1,054,817	35,464,861	1,206,288
Overseas financial instruments	13,655,125	462,886	10,547,857	358,771
Net balance	<u>\$51,851,961</u>	<u>\$1,757,694</u>	<u>\$55,294,306</u>	<u>\$1,880,759</u>

(1) NT\$1,687,659 (US\$57,209) and NT\$1,488,516 (US\$50,630) of the available-for-sale financial assets as of March 31, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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(2)As of March 31, 2012, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$15,976,300 (US\$541,569). Such repurchase agreements amounting to NT\$16,161,158 (US\$547,836) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2012 was settled at NT\$16,199,577 (US\$549,138) prior to June 30, 2012.

As of March 31, 2011, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$12,287,700 (US\$417,949). Such repurchase agreements amounting to NT\$12,714,880 (US\$432,479) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2011 was settled at NT\$12,718,108 (US\$432,589) prior to June 30, 2011.

7. Held-to-maturity financial assets, net

		March 31, 2012			
		Face value		Amortized cost	
		NT	US	NT	US
Bonds		\$1,154,000	\$39,119	\$1,272,771	\$43,145
Overseas financial instruments		17,759,577	602,019	18,272,352	619,402
Net balance		\$18,913,577	\$641,138	\$19,545,123	\$662,547

		March 31, 2011			
		Face value		Amortized cost	
		NT	US	NT	US
Bonds		\$1,154,000	\$39,252	\$1,283,301	\$43,649
Overseas financial instruments		3,460,934	117,719	3,682,934	125,270
Net balance		\$4,614,934	\$156,971	\$4,966,235	\$168,919

NT\$487,257 (US\$16,517) and NT\$561,527 (US\$19,100) of held-to-maturity financial assets as of March 31, 2012 and 2011, respectively, were pledged to other parties as collateral of business reserves and guarantees.

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8. Investments accounted for using equity method, net

	March 31, 2012				
	Carrying value		% of ownership	Investment income (loss)	
	NT	US		NT	US
Seaward Card Co., Ltd.	\$39,465	\$1,338	100.00	\$263	\$9
Indovina Bank	3,144,176	106,582	50.00	74,484	2,525
Taiwan Real-estate Management Corp.	98,985	3,356	30.15	870	29
Taiwan Finance Corp.	1,410,968	47,829	24.57	5,661	192
Vista Technology Venture Capital Corp.	5,202	176	4.76	(2)	-
Total	<u>\$4,698,796</u>	<u>\$159,281</u>		<u>\$81,276</u>	<u>\$2,755</u>

	March 31, 2011				
	Carrying value		% of ownership	Investment income (loss)	
	NT	US		NT	US
Seaward Card Co., Ltd.	\$39,617	\$1,348	100.00	\$305	\$10
Cathay Life Insurance Agent Co., Ltd	36,165	1,230	100.00	(17)	(1)
Indovina Bank	2,887,697	98,221	50.00	117,436	3,995
Taiwan Real-estate Management Corp.	79,035	2,688	30.15	1,646	56
Taiwan Finance Corp.	1,430,152	48,645	24.57	11,168	380
Vista Technology Venture Capital Corp.	5,442	185	4.76	(4)	-
Total	<u>\$4,478,108</u>	<u>\$152,317</u>		<u>\$130,534</u>	<u>\$4,440</u>

(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 August 1, 2011.

(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 three-month periods ended March 31, 2012 and 2011 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

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9. Other financial assets, net

	March 31,			
	2012		2011	
	NT	US	NT	US
Derivatives financial assets for hedging	\$1,476,373	\$50,046	\$1,232,997	\$41,938
Financial assets carried at cost, stocks	3,384,865	114,741	3,497,364	118,958
Bills purchased	1,905	65	2,170	74
Total	\$4,863,143	\$164,852	\$4,732,531	\$160,970

(1)The Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT\$386,131 (US\$13,089) and NT\$387,386 (US\$13,176) as of March 31, 2012 and 2011, respectively, due to the existence of objective impairment evidence.

(2)As of March 31, 2012 and 2011, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT\$1,476,373 (US\$50,046) and NT\$1,232,997 (US\$41,938), respectively. The Bank has recognized gain in hedging in the amount of NT\$94,008 (US\$3,187) and NT\$101,164 (US\$3,441) for the three-month periods ended March 31, 2012 and 2011, respectively.

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

	March 31,			
	2012		2011	
	NT	US	NT	US
Preferred stocks	\$549,730	\$18,635	\$549,730	\$18,699
Certificates of deposit	415,250,000	14,076,271	360,375,000	12,257,653
Bonds	95,586	3,240	95,586	3,251
Overseas financial instruments	22,377,470	758,558	10,036,637	341,382
Subtotal	438,272,786	14,856,704	371,056,953	12,620,985
Less: accumulated impairment	(1,510,263)	(51,195)	(1,517,734)	(51,624)
Net balance	\$436,762,523	\$14,805,509	\$369,539,219	\$12,569,361

(1)NT\$50,100,000 (US\$1,698,305) and NT\$23,500,000 (US\$799,320) of certificates of deposit as of March 31, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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(2)The Bank recognized impairment losses amounting NT\$1,390,016 (US\$47,119) and NT\$1,384,744 (US\$47,100) as of March 31, 2012 and 2011, respectively, due to the credit deterioration of certain securitization and financial debentures.

The Bank recognized impairment losses amounting NT\$120,247 (US\$4,076) and NT\$132,990 (US\$4,524) as of March 31, 2012 and 2011, respectively, due to the default on certain convertible bonds.

11. Premises and equipment, net

	March 31,			
	2012		2011	
	NT	US	NT	US
Cost:				
Land	\$14,600,863	\$494,944	\$14,600,863	\$496,628
Buildings	11,553,739	391,652	11,553,739	392,984
Office equipment	4,267,480	144,660	4,387,513	149,235
Transportation equipment	36,538	1,239	45,963	1,563
Leasehold improvements	15,050	510	15,812	538
Other equipment	5,557,767	188,399	5,464,971	185,884
Construction in progress and prepayment for equipment	147,086	4,986	88,955	3,026
Subtotal	36,178,523	1,226,390	36,157,816	1,229,858
Accumulated depreciation:				
Buildings	(3,306,541)	(112,086)	(3,075,583)	(104,612)
Office equipment	(3,612,700)	(122,464)	(3,511,720)	(119,447)
Transportation equipment	(35,923)	(1,218)	(44,557)	(1,515)
Leasehold improvements	(12,278)	(416)	(10,013)	(340)
Other equipment	(4,587,539)	(155,510)	(4,420,668)	(150,363)
Subtotal	(11,554,981)	(391,694)	(11,062,541)	(376,277)
Net balance	\$24,623,542	\$834,696	\$25,095,275	\$853,581

12. Intangible assets, net

	January 1- March 31, 2012									
	January 1,		Additions/Amortization		Reclassifications		Disposals		March 31,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Goodwill	\$6,673,083	\$226,206	\$-	\$-	\$-	\$-	\$-	\$-	\$6,673,083	\$226,206
Computer software	1,598,028	54,171	6,760	229	10,614	360	(68,936)	(2,337)	1,546,466	52,423
Amortization	(994,038)	(33,696)	(51,683)	(1,752)	-	-	68,936	2,337	(976,785)	(33,111)
Net balance	\$7,277,073	\$246,681	\$(44,923)	\$(1,523)	\$10,614	\$360	\$-	\$-	\$7,242,764	\$245,518

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	January 1- March 31, 2011									
	January 1,		Additions/Amortization		Reclassifications		Disposals		March 31,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Goodwill	\$6,673,083	\$226,976	\$-	\$-	\$-	\$-	\$-	\$-	\$6,673,083	\$226,976
Computer										
software	1,723,810	58,633	78,919	2,684	(120,635)	(4,103)	(53,014)	(1,803)	1,629,080	55,411
Amortization	(939,597)	(31,959)	(50,146)	(1,705)	14,275	485	45,562	1,549	(929,906)	(31,630)
Net balance	\$7,457,296	\$253,650	\$28,773	\$979	\$(106,360)	\$(3,618)	\$(7,452)	\$(254)	\$7,372,257	\$250,757

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\$226,206).

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

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

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

① Discount rates

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

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

Assumptions are based on published industry research.

(4) Sensitivity to changes in assumptions:

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

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13. Other assets, net

	March 31,			
	2012		2011	
	NT	US	NT	US
Prepayment	\$383,636	\$13,005	\$424,753	\$14,447
Temporary payments	39,789	1,349	55,902	1,902
Interbank settlement fund	1,355,297	45,942	1,358,578	46,210
Non-operating assets, net (Accumulated impairment NT\$237,055 (US\$8,036) and NT\$224,617 (US\$7,640) on March 31, 2012 and 2011, respectively.)	1,709,611	57,953	2,009,149	68,338
Refundable deposits, net	1,046,926	35,489	1,138,572	38,727
Deferred pension cost	44,802	1,519	84,201	2,864
Deferred tax assets, net	51,068	1,731	-	-
Others	61,731	2,092	60,091	2,044
Total	<u>\$4,692,860</u>	<u>\$159,080</u>	<u>\$5,131,246</u>	<u>\$174,532</u>

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

	March 31,			
	2012		2011	
	NT	US	NT	US
Due to commercial banks	\$2,999,125	\$101,665	\$3,095,611	\$105,293
Due to Post Co., Ltd.	19,399,957	657,626	19,435,756	661,080
Overdrafts from banks	56,313	1,909	151,909	5,167
Call loans from banks	36,829,973	1,248,474	22,086,253	751,233
Total	<u>\$59,285,368</u>	<u>\$2,009,674</u>	<u>\$44,769,529</u>	<u>\$1,522,773</u>

15. Financial liabilities at fair value through profit or loss

	March 31,			
	2012		2011	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	\$3,999,420	\$135,574	\$8,876,866	\$301,934
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	-	-	5,073,703	172,575
Total	<u>\$3,999,420</u>	<u>\$135,574</u>	<u>\$13,950,569</u>	<u>\$474,509</u>

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(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 are 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 three-month periods ended March 31, 2012 and 2011 were NT\$3,448,114 (US\$116,885) and NT\$17,664,488 (US\$600,833), respectively.

16. Payables

	March 31,			
	2012		2011	
	NT	US	NT	US
Accounts payable	\$8,163,286	\$276,722	\$8,141,422	\$276,919
Accrued interest payable	2,620,370	88,826	2,066,257	70,281
Accrued expenses	2,554,989	86,610	2,224,779	75,673
Foreign currency payable	86,027	2,916	6,380,065	217,009
Acceptance	766,477	25,982	1,062,595	36,143
Tax payable	297,636	10,089	392,261	13,342
Receipts under custody	306,747	10,398	419,286	14,261
Others	3,441,521	116,662	1,599,519	54,406
Total	\$18,237,053	\$618,205	\$22,286,184	\$758,034

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17. Deposits and remittances

	March 31,			
	2012		2011	
	NT	US	NT	US
Check deposits	\$13,079,947	\$443,388	\$12,490,496	\$424,847
Demand deposits	224,878,918	7,623,014	213,921,600	7,276,245
Demand savings deposits	583,458,786	19,778,264	565,453,076	19,233,098
Time deposits	395,973,418	13,422,828	303,003,295	10,306,234
Negotiable certificates of deposit	1,978,900	67,081	1,328,700	45,194
Time savings deposits	280,383,479	9,504,525	250,985,064	8,536,907
Outward remittances	412,231	13,974	404,335	13,753
Remittances payable	139,645	4,734	314,588	10,700
Total	<u>\$1,500,305,324</u>	<u>\$50,857,808</u>	<u>\$1,347,901,154</u>	<u>\$45,846,978</u>

18. Financial debentures payable

	March 31,			
	2012		2011	
	NT	US	NT	US
Subordinated financial debentures	\$31,567,531	\$1,070,086	\$25,130,865	\$854,791
Discount in financial debentures	(29,572)	(1,003)	(36,573)	(1,244)
Valuation adjustment	1,272,987	43,152	1,039,339	35,352
Total	<u>\$32,810,946</u>	<u>\$1,112,235</u>	<u>\$26,133,631</u>	<u>\$888,899</u>

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.

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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.

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

	March 31,			
	2012		2011	
	NT	US	NT	US
Borrowed funds	\$121,410	\$4,115	\$171,000	\$5,816
Principals received from the sale of structured products	16,287,412	552,116	9,623,620	327,334
Total	\$16,408,822	\$556,231	\$9,794,620	\$333,150

20. Other liabilities

	March 31,			
	2012		2011	
	NT	US	NT	US
Accrued pension liabilities	\$845,953	\$28,676	\$687,818	\$23,395
Unearned receipts	463,845	15,724	323,487	11,003
Temporary receipts	666,997	22,610	551,694	18,765
Reserve for losses on guarantees	24,892	844	24,892	847
Guarantee deposits received	949,211	32,176	910,098	30,956
Reserve for land value increment tax	37,986	1,288	40,336	1,372
Deferred tax liabilities	-	-	97,967	3,332
Total	\$2,988,884	\$101,318	\$2,636,292	\$89,670

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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 balances 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 December 31, 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

	March 31,			
	2012		2011	
	NT	US	NT	US
Capital reserves from the merger	\$10,949,303	\$371,163	\$10,949,303	\$372,425
Bank				
Additional paid-in capital	4,249,096	144,037	4,249,096	144,527
Others	14,893	505	14,893	507
Total	\$15,213,292	\$515,705	\$15,213,292	\$517,459

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 be distributed by issuing new shares or by cash.
- (3) The estimation of employee bonus and remuneration of directors for the first quarter of 2012 and 2011 were both NT\$375 based on the average actual payment over the past three years and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.
- (4) On March 16, 2012, the following are appropriations and distribution approved by the Bank's board of directors:

The appropriation and distribution of earnings in 2011:

(a) NT\$3,351,599 (US\$113,614) thousands as legal reserves;

(b) NT\$7,820,397 (US\$265,098) 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\$115,630) thousands as legal reserves;

(b) NT\$7,822,529 (US\$266,072) thousands as dividends to shareholders.

Bonus to employees NT\$1,500 (US\$51) 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 three-month periods ended March 31, 2012 and 2011.

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	January 1- March 31,			
	2012		2011	
	NT	US	NT	US
Personnel expenses				
Salary	\$1,670,328	\$56,621	\$1,550,380	\$52,734
Insurance	206,583	7,003	189,405	6,442
Pension	104,994	3,559	100,993	3,435
Others	87,789	2,976	93,064	3,166
Depreciation expenses	243,078	8,240	262,775	8,938
Amortization expenses	51,683	1,752	50,146	1,705

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 three-month periods ended March 31, 2012 and 2011 are as follows:

	January 1- March 31,			
	2012		2011	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General	\$(460,214)	\$(15,600)	\$(446,640)	\$(15,192)
Deferred tax benefit (expense):				
Allowance for bad debt	74,461	2,524	24,981	850
Reversal of allowance for pledged assets taken-over	-	-	(1,198)	(41)
Foreign investment income recognized by the equity method	(12,662)	(429)	(19,964)	(679)
Valuation allowance	(24,116)	(818)	(4,847)	(165)
Others	(39,999)	(1,356)	(25,403)	(864)
Effect of foreign branches' income tax	6,530	221	15,952	543
Adjustment of prior period's income tax	-	-	(11,753)	(400)
Income tax expense	<u>\$(456,000)</u>	<u>\$(15,458)</u>	<u>\$(468,872)</u>	<u>\$(15,948)</u>

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

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

	March 31,			
	2012		2011	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	\$420,779	\$14,264	\$341,705	\$11,623
Others	2,172,085	73,630	1,586,040	53,947
Deductible temporary differences:				
Allowance for bad debts	1,756,470	59,541	146,949	4,998
Unrealized impairment loss for pledged assets taken-over	35,170	1,192	23,892	813
Valuation of financial instruments	4,535	154	76,978	2,618
Provisions for possible losses	3,018	102	139,925	4,759
Others	343,914	11,658	443,832	15,096
Deferred income tax assets of foreign branches	196,799	6,671	99,543	3,386
(3)Deferred tax assets	\$561,127	\$19,021	\$240,911	\$8,194
Deferred tax liabilities	(440,787)	(14,942)	(327,716)	(11,147)
Valuation allowance	(69,272)	(2,348)	(11,162)	(379)
Net deferred tax assets (liabilities)	<u>\$51,068</u>	<u>\$1,731</u>	<u>\$(97,967)</u>	<u>\$(3,332)</u>

(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:

	March 31,			
	2012		2011	
	NT	US	NT	US
The Bank's imputation credit	\$149,097	\$5,054	\$275,813	\$9,381
Undistributed earnings	14,596,538	494,798	14,458,810	491,796

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

	2011 (Expected)	2010
Cash dividends	1.33%	2.45%

27. Earnings per share

The computations of earnings per share are as follows:

	January 1- March 31, In thousands of shares	
	2012	2011
Weighted-average shares outstanding	5,227,703	5,227,703

	January 1- March 31,							
	2012				2011			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Net income	\$3,880,542	\$131,544	\$3,424,542	\$116,086	\$3,673,372	\$124,945	\$3,204,500	\$108,997
Earnings per share (in dollars)								
Net income	\$0.74	\$0.025	\$0.66	\$0.022	\$0.70	\$0.024	\$0.61	\$0.021

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.	"

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Name of related parties	Relationship
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance
Cathay Insurance (Bermuda) Co., Ltd.	"
Symphox Information Co., Ltd.	"
Cathay Life Insurance (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 August 1, 2011)
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
Li Yuan Property Management and Maintenance Co., Ltd.	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Corp.	"
Cathay Century Realty Co., Ltd.	"
Cathay Real-estate Management Corp.	"
Seaward Leasing Ltd.	Related Party disclosed according to the ROC SFAS No.6 (incorporated into the Cathay Real Estate Development on July 28, 2011)
Cathay Lin Yuan Security 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.

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

(1) Loans and Deposits

Accounts/Related parties	March 31, Account balance			January 1- March 31, Interest income (expense)	
	NT	US	% of Account	NT	US
<u>2012</u>					
<u>Loans</u>					
Cathay Real Estate					
Development Co., Ltd.	\$50,000	\$1,695	0.01	\$82	\$3
Taiwan Real-estate					
Management Corp.	75,000	2,542	0.01	392	13
Cathay General Hospital	103,000	3,492	0.01	757	26
Others	227,739	7,720	0.02	1,085	37
Total	<u>\$455,739</u>	<u>\$15,449</u>	<u>0.05</u>	<u>\$2,316</u>	<u>\$79</u>
<u>Deposits</u>					
Cathay Financial Holding Co., Ltd.	\$13,133	\$445	-	\$(8)	\$-
Cathay Life Insurance Co., Ltd.	65,477,898	2,219,590	4.37	(113,318)	(3,841)
Cathay Century Insurance Co., Ltd.	1,363,360	46,216	0.09	(2,986)	(101)
Cathay Securities Corp.	638,603	21,648	0.04	(1,403)	(48)
Cathay Futures Corp	1,572,657	53,310	0.11	(4,157)	(141)
Cathay Pacific Venture Capital Co., Ltd.	6,238	211	-	-	-
Cathay Securities Investment Trust Co., Ltd	1,744,465	59,134	0.12	(3,374)	(115)
Cathay Real Estate Development Co., Ltd.	339,444	11,507	0.02	(31)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd.	22,827	774	-	-	-
Cathay Global Money Market Fund etc.	2,973,708	100,804	0.20	(7,294)	(247)
Others	6,493,071	220,104	0.43	(15,254)	(517)
Total	<u>\$80,645,404</u>	<u>\$2,733,743</u>	<u>5.38</u>	<u>\$(147,825)</u>	<u>\$(5,011)</u>

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Accounts/Related parties	March 31,			January 1- March 31,	
	Account balance			Interest income (expense)	
	NT	US	% of Account	NT	US
<u>2011</u>					
<u>Loans</u>					
Seaward Leasing Ltd.	\$420,000	\$14,286	0.05	\$934	\$32
Taiwan Real-estate Management Corp.	95,000	3,231	0.01	452	15
Cathay General Hospital	153,000	5,204	0.02	1,443	49
Others	290,833	9,892	0.03	1,609	55
Total	<u>\$958,833</u>	<u>\$32,613</u>	<u>0.11</u>	<u>\$4,438</u>	<u>\$151</u>
<u>Deposits</u>					
Cathay Financial Holding Co., Ltd.	\$1,151	\$39	-	\$(1)	\$-
Cathay Life Insurance Co., Ltd.	26,175,441	890,321	1.94	(12,657)	(431)
Cathay Century Insurance Co., Ltd.	1,369,658	46,587	0.10	(1,058)	(36)
Cathay Securities Corp.	584,554	19,883	0.04	(187)	(6)
Cathay Futures Corp.	1,264,618	43,014	0.09	(2,591)	(88)
Cathay Pacific Venture Capital Co., Ltd.	18,818	640	-	-	-
Cathay Securities Investment Trust Co., Ltd.	926,853	31,526	0.07	(474)	(16)
Cathay Real Estate Development Co., Ltd.	61,425	2,089	0.01	(20)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd.	22,525	766	-	-	-
Cathay Global Money Market Fund etc.	4,984,473	169,540	0.37	(6,845)	(233)
Others	5,351,352	182,019	0.40	(10,648)	(362)
Total	<u>\$40,760,868</u>	<u>\$1,386,424</u>	<u>3.02</u>	<u>\$(34,481)</u>	<u>\$(1,173)</u>

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Accounts / Related parties	January 1- March 31,		March 31,		January 1- March 31,		Interest Rate (%)
	Maximum balance		Account balance		Interest income (expense)		
	NT	US	NT	US	NT	US	
<u>2012</u>							
<u>Call loans to banks</u>							
Indovina Bank	\$2,067,100	\$70,071	\$1,624,150	\$55,056	\$6,580	\$223	0.51-2.08
<u>Due from commercial banks</u>							
Indovina Bank	75,631	2,564	1,421	48	10	-	0.10-2.40
<u>Call loans from banks</u>							
Indovina Bank	324,830	11,011	265,770	9,009	(4)	-	0.15-0.28
<u>Due to commercial banks</u>							
Indovina Bank	104,208	3,532	14,825	503	-	-	-
Vietinbank	11,801	400	11,801	400	-	-	-
<u>2011</u>							
<u>Call loans to banks</u>							
Indovina Bank	1,176,720	40,024	1,176,720	40,024	44	1	0.68
<u>Due from commercial banks</u>							
Indovina Bank	548,905	18,670	2,108	72	9	-	0.10-2.40
<u>Call loans from banks</u>							
Indovina Bank	882,540	30,018	735,450	25,015	(399)	(14)	0.18-0.32
<u>Due to commercial banks</u>							
Indovina Bank	72,657	2,471	31,568	1,074	-	-	-
Vietinbank	13,049	444	4,805	163	-	-	-

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

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(2) Transactions under repurchase agreements

Accounts/Related parties	March 31, Account balance		January 1- March 31, Interest expense	
	NT	US	NT	US
<u>2012</u>				
<u>Securities sold under agreements to repurchase</u>				
Cathay Securities Investment Trust Co., Ltd.	\$60,000	\$2,034	\$(79)	\$(3)
Others	100,120	3,394	(138)	(4)
Total	<u>\$160,120</u>	<u>\$5,428</u>	<u>\$(217)</u>	<u>\$(7)</u>
<u>2011</u>				
<u>Securities sold under agreements to repurchase</u>				
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$(25)	\$(1)
Others	338,630	11,518	(181)	(6)
Total	<u>\$338,630</u>	<u>\$11,518</u>	<u>\$(206)</u>	<u>\$(7)</u>

(3) Lease

Accounts/Related parties	January 1- March 31,			
	2012		2011	
	NT	US	NT	US
<u>Rental income</u>				
Cathay Life Insurance Co., Ltd.	\$9,320	\$316	\$8,823	\$300
Cathay Century Insurance Co., Ltd.	1,670	57	1,629	55
Cathay Securities Corp.	1,967	67	2,941	100
Culture and Charity Foundation of Cathay United Bank	167	6	250	9
<u>Rental expense</u>				
Cathay Life Insurance Co., Ltd.	87,622	2,970	85,802	2,918
Cathay Real Estate Development Co., Ltd.	6,481	220	2,321	79
Seaward Leasing Ltd.	-	-	3,731	127
Accounts/Related parties	March 31,			
	2012		2011	
	NT	US	NT	US
<u>Refundable deposits</u>				
Cathay Life Insurance Co., Ltd.	\$71,897	\$2,437	\$71,606	\$2,436
Cathay Real Estate Development Co., Ltd.	3,786	128	2,180	74
Seaward Leasing Ltd.	-	-	1,608	55

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Accounts/Related parties	March 31,			
	2012		2011	
	NT	US	NT	US
<u>Guarantee deposit received</u>				
Cathay Life Insurance Co., Ltd.	\$8,921	\$302	\$8,438	\$287
Cathay Century Insurance Co., Ltd.	1,661	56	1,620	55
Cathay Securities Corp.	2,491	84	2,751	94

Transaction terms with the related parties are similar to those with third parties. Contract prices for related-party contracts are consistent with market prices, and payments are duly made and received in accordance with the terms of the contracts.

Accounts/Related parties	January 1- March 31,			
	2012		2011	
	NT	US	NT	US
<u>(4) Commissions and handling fees income</u>				
Cathay Life Insurance Co., Ltd.	\$538,300	\$18,247	\$331,698	\$11,282
Cathay Century Insurance Co., Ltd.	18,143	615	16,942	576
Cathay Securities Co., Ltd.	1,310	44	2,431	83
Cathay Securities Investment Trust Co., Ltd.	6,855	232	6,472	220
Cathay Securities Investment Consulting Co., Ltd.	1,051	36	886	30
<u>(5) Other operating income</u>				
Cathay Century Insurance Co., Ltd.	2,588	88	267	9
<u>(6) Operating expenses</u>				
Cathay Life Insurance Co., Ltd.	20,269	687	24,269	825
Cathay Securities Corp.	600	20	600	20
Seaward Card Co., Ltd.	63,755	2,161	76,869	2,615
Symphox Information Co., Ltd.	110,904	3,759	150,512	5,119
Cathay Real Estate Development Co., Ltd.	1,519	51	1,805	61
Cathay Lin Yuan Security Co., Ltd.	-	-	505	17
Cathay General Hospital	476	16	1,119	38
<u>(7) Insurance expenses paid</u>				
Cathay Life Insurance Co., Ltd.	160,037	5,425	151,822	5,164
Cathay Century Insurance Co., Ltd.	16,270	552	19,250	655

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Accounts/Related parties	March 31,			
	2012		2011	
	NT	US	NT	US
(8) <u>Related party receivables for allocation of linked-tax system</u>				
Cathay Financial Holdings Co., Ltd.	\$264,756	\$8,975	\$1,090,943	\$37,107
(9) <u>Available-for-sale financial assets</u>				
Cathay Securities Investment Trust Co., Ltd.				
(Note)	-	-	300,000	10,204
(10) <u>Accrued expenses</u>				
Seaward Card Co., Ltd.	26,548	900	-	-
(11) <u>Refundable deposit</u>				
Cathay Futures Corp.	64,345	2,181	50,247	1,709
(12) <u>Accounts payable</u>				
Cathay Century Insurance Co., Ltd	10,484	355	14,878	506
Symphox Information Co., Ltd.	14,163	480	29,116	990

(13) Others

- a. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT\$3,519 (US\$119) and NT\$2,864 (US\$97) during the three-month periods ended March 31, 2012 and 2011, respectively.
- b. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the three-month periods ended March 31, 2012 and 2011, respectively. As of March 31, 2012 and 2011, the bonus points which not converting amount were NT\$30,258 (US\$1,026) and NT\$36,009 (US\$1,225).
- c. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the commissions of NT\$0 (US\$0) and NT\$2,915 (US\$99) were included in disposal gains of premises and equipment, during the three-month periods ended March 31, 2012 and 2011, respectively.

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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.

(14) Transactions of derivative financial instruments

Related parties	Category of agreements	Term of agreements	Notional amount		Valuation gains (losses)	
			NT	US	NT	US
<u>2012</u>						
Cathay Life						
Insurance Co., Ltd.	Currency swap	2011.06.03-2012.09.28	\$55,132,510	\$1,868,899	\$(636,225)	\$(21,567)
Cathay Century						
Insurance Co., Ltd.	Currency swap	2011.04.13-2013.01.22	1,300,797	44,095	481	16
	Interest rate swap	2007.09.27-2015.04.30	600,000	20,339	(26,904)	912
<u>2011</u>						
Cathay Life						
Insurance Co., Ltd.	Forward	2010.07.12-2011.11.01	26,361,010	896,633	(1,665,320)	(56,644)
	Currency swap	2009.10.09-2011.11.08	60,386,064	2,053,948	(4,199,412)	(142,837)
Cathay Century						
Insurance Co., Ltd.	Currency swap	2010.04.22-2011.09.06	1,207,609	41,075	(57,098)	(1,942)
	Interest rate swap	2007.09.27-2015.04.30	600,000	20,408	(34,491)	(1,173)
The funds which are						
managed by Cathay	Forward	-	-	-	(2,205)	(75)
Securities Investment Trust Co., Ltd.	Non-delivery forward	2011.03.29-2011.05.06	47,069	1,601	(248)	(8)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2012, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

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	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	\$279,697,787	\$9,481,281
Travelers checks for sale	444,197	15,058
Bills for collection	43,991,208	1,491,227
Book-entry for government bonds and depository for short-term marketable securities under management	547,176,405	18,548,353
Entrusted financial management business	2,551,381	86,487
Guarantees on duties and contracts	13,684,917	463,895
Unused commercial letters of credit	5,178,705	175,549
Irrevocable loan commitments	52,057,334	1,764,655
Credit card lines commitments	286,428,584	9,709,444
Stamp tax, securities and memorial currency consignments	1,005	34

2. As of March 31, 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 Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

3. As of March 31, 2012, the Bank had entered into certain contracts to purchase premises and equipments totaling NT\$241,178 (US\$8,176) with prepayments of NT\$147,086 (US\$4,986).

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

Periods	NT	US
2012.4.1~2013.3.31	\$766,069	\$25,968
2013.4.1~2014.3.31	367,437	12,455
2014.4.1~2015.3.31	180,508	6,119
2015.4.1~2016.3.31	94,286	3,196
2016.4.1~2017.3.31	45,762	1,551

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VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	March 31, 2012			
	Carrying value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$15,600,852	\$528,843	\$15,600,852	\$528,843
Available-for-sale financial assets	51,851,961	1,757,694	51,851,961	1,757,694
Held-to-maturity financial assets and investments in debt securities with no active market	456,307,646	15,468,056	456,387,826	15,470,774
Other financial assets-financial assets carried at cost	3,384,865	114,741	(Note)	(Note)
Others	1,180,022,497	40,000,763	1,180,022,497	40,000,763
Liabilities				
Financial debentures payable	32,810,946	1,112,235	32,810,946	1,112,235
Others	1,612,972,214	54,677,024	1,612,972,214	54,677,024
<u>Derivative financial instruments</u>				
Assets				
Forward	271,382	9,199	271,382	9,199
Non-delivery forward	43,746	1,483	43,746	1,483
Currency swap	972,947	32,981	972,947	32,981
Interest rate swap	3,181,009	107,831	3,181,009	107,831
Cross currency swap	195,192	6,616	195,192	6,616
Options	565,312	19,163	565,312	19,163
Liabilities				
Forward	200,954	6,812	200,954	6,812
Non-delivery forward	51,335	1,740	51,335	1,740
Currency swap	1,586,473	53,779	1,586,473	53,779
Interest rate swap	1,511,473	51,236	1,511,473	51,236
Cross currency swap	193,131	6,547	193,131	6,547
Options	456,054	15,460	456,054	15,460

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March 31, 2011				
	Carrying value		Fair value	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$24,470,864	\$832,342	\$24,470,864	\$832,342
Available-for-sale financial assets	55,294,306	1,880,759	55,294,306	1,880,759
Held-to-maturity financial assets and investment in debt securities with no active market	374,505,454	12,738,280	374,571,999	12,740,544
Other financial assets - financial assets carried at cost	3,497,364	118,958	(Note)	(Note)
Others	1,070,584,715	36,414,447	1,070,584,715	36,414,447
Liabilities				
Financial liabilities at fair value through profit or loss	5,073,703	172,575	5,073,703	172,575
Financial debentures payable	26,133,631	888,899	26,133,631	888,899
Others	1,440,025,944	48,980,475	1,440,025,944	48,980,475
<u>Derivative financial instruments</u>				
Assets				
Forward	1,053,740	35,841	1,053,740	35,841
Non-delivery forward	42,407	1,442	42,407	1,442
Currency swap	5,488,269	186,676	5,488,269	186,676
Interest rate swap	3,493,034	118,811	3,493,034	118,811
Cross currency swap	256,127	8,712	256,127	8,712
Options	299,012	10,170	299,012	10,170
Futures	349	12	349	12
Liabilities				
Forward	5,677,065	193,098	5,677,065	193,098
Non-delivery forward	46,304	1,575	46,304	1,575
Currency swap	629,129	21,399	629,129	21,399
Interest rate swap	1,976,954	67,243	1,976,954	67,243
Cross currency swap	248,636	8,457	248,636	8,457
Options	298,355	10,148	298,355	10,148
Futures	423	14	423	14

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:

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		March 31, 2012							
		Total		1 st Level		2 nd Level		3 rd Level	
Financial instruments									
Measured at fair value item		NT	US	NT	US	NT	US	NT	US
<u>Non-derivative financial instruments</u>									
Assets									
Financial assets at fair value through profit or loss									
Financial assets for trading									
Bonds		\$740,084	\$25,088	\$596,288	\$20,213	\$143,796	\$4,875	\$-	\$-
Others		14,860,768	503,755	-	-	14,860,768	503,755	-	-
Available-for-sale financial assets									
Stocks		6,191,620	209,885	6,191,620	209,885	-	-	-	-
Bonds		44,462,588	1,507,207	13,055,273	442,552	31,407,315	1,064,655	-	-
Others		1,197,753	40,602	1,197,753	40,602	-	-	-	-
Other financial assets:									
Investments in debt securities with no active market		436,762,523	14,805,509	-	-	436,762,523	14,805,509	-	-
<u>Derivative financial instruments</u>									
Assets									
Financial assets at fair value through profit or loss		3,753,215	127,227	103,600	3,512	3,649,615	123,715	-	-
Other financial assets:									
Derivatives financial assets for hedging		1,476,373	50,046	-	-	1,476,373	50,046	-	-
Liabilities									
Financial liabilities at fair value through profit or loss		3,999,420	135,574	-	-	3,999,420	135,574	-	-
		March 31, 2011							
		Total		1 st Level		2 nd Level		3 rd Level	
Financial instruments									
Measured at fair value item		NT	US	NT	US	NT	US	NT	US
<u>Non-derivative financial instruments</u>									
Assets									
Financial assets at fair value through profit or loss									
Financial assets for trading									
Bonds		\$729,115	\$24,800	\$468,722	\$15,943	\$260,393	\$8,857	\$-	\$-
Others		23,738,938	807,447	-	-	23,738,938	807,447	-	-
Financial assets designated at fair value through profit		2,811	95	-	-	2,811	95	-	-
Available-for-sale financial assets									
Stocks		8,885,644	302,233	8,885,644	302,233	-	-	-	-
Bonds		45,758,227	1,556,402	10,008,364	340,420	35,749,863	1,215,982	-	-
Others		650,435	22,124	650,435	22,124	-	-	-	-
Other financial assets									
Investments in debts securities with no active market		369,539,219	12,569,361	-	-	369,539,219	12,569,361	-	-
Liabilities									
Financial liabilities at fair value through profit or loss		5,073,703	172,575	-	-	5,073,703	172,575	-	-
<u>Derivative financial instruments</u>									
Assets									
Financial assets at fair value through profit or loss		9,399,941	319,726	349	12	9,399,592	319,714	-	-
Other financial assets									
Derivatives financial assets for hedging		1,232,997	41,938	-	-	1,232,997	41,938	-	-
Liabilities									
Financial liabilities at fair value through profit or loss		8,876,866	301,934	423	14	8,876,443	301,920	-	-

4. Gains recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT\$154,420 (US\$5,235) and NT\$61,432 (US\$2,090) for the three-month periods ended March 31, 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 three-month periods ended March 31, 2012 and 2011 were NT\$7,782,204 (US\$263,804) and NT\$6,172,370 (US\$209,945), and expenses were NT\$2,843,553 (US\$96,392) and NT\$1,963,679 (US\$66,792), respectively.
6. The Bank recognized an unrealized gains or losses of NT\$549,634 (US\$18,632) and NT\$119,443 (US\$4,063) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$143,864 (US\$4,877) and NT\$831,981 (US\$28,299) in the income statements, for the three-month periods ended March 31, 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.

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

March 31, 2012						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT	US	NT	US	NT	US
Interest rate	\$425,818	\$14,435	\$628,526	\$21,306	\$258,043	\$8,747
Foreign exchange	149,576	5,070	177,844	6,029	92,593	3,139
Equity Securities price	127,989	4,339	207,076	7,020	60,704	2,058

The Bank enters into a variety of derivatives transactions for both trading and nontrading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage the Bank's exposure to risks and to generate revenues through trading activities. The Bank provides trades derivative instruments on behalf of customers and for its own positions. The Bank provides derivative contracts to address customer demands for customized derivatives and also takes proprietary positions for its own accounts.

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

				March 31, 2012	
				NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)					
	USD+1%			\$480,943	\$16,303
	HKD+1%			6,907	234
	JPY+1%			5,435	184
	NTD+1%			(516,703)	(17,515)
Interest rate factor sensitivity (PVBP)					
	Yield curves (USD) parallel shift+1bp			(19,999)	(678)
	Yield curves (HKD) parallel shift+1bp			(53)	(2)
	Yield curves (JPY) parallel shift+1bp			(8)	-
	Yield curves (NTD) parallel shift+1bp			(6,615)	(224)
Equity securities price factor sensitivity (Equity Delta)				42,380	1,437

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

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

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

⑤ Stress testing

Stress Test			
Market/ Product	Scenarios	March 31, 2012	
		NT	US
Stock Market	Major Stock Exchanges +15%	\$635,695	\$21,549
	Major Stock Exchanges -15%	(635,695)	(21,549)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,681,169)	(90,887)
	Major Interest Rate - 100bp	2,479,785	84,061
Foreign Exchange Market	Major Currencies +3%	1,611,429	54,625
	Major Currencies -3%	(1,522,797)	(51,620)
Composite	Major Stock Exchanges -15%	(1,705,435)	(57,811)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(2)Credit risk

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

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

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

① Information on concentrations of credit risk

Financial assets	March 31, 2012			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$15,600,852	\$528,843	\$15,600,852	\$528,843
Available-for-sale financial assets	51,851,961	1,757,694	51,851,961	1,757,694
Held-to-maturity financial assets and investments in debt securities with no active market	456,307,646	15,468,056	456,307,646	15,468,056
Other financial assets – financial assets carried at cost	3,384,865	114,741	3,384,865	114,741
Other assets	1,180,022,497	40,000,763	1,180,022,497	40,000,763
Guarantees on duties and contracts	-	-	13,684,917	463,895
Unused commercial letters of credit	-	-	5,178,705	175,549
Irrevocable loan commitments	-	-	52,057,334	1,764,655
Credit card line commitments	-	-	286,428,584	9,709,444
<u>Derivative financial instruments</u>				
Forward	271,382	9,199	271,382	9,199
Non-delivery forward	43,746	1,483	43,746	1,483
Currency swap	972,947	32,981	972,947	32,981
Interest rate swap	3,181,009	107,831	3,181,009	107,831
Cross currency swap	195,192	6,616	195,192	6,616
Options	565,312	19,163	565,312	19,163

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Financial assets	March 31, 2011			
	Carrying value		Maximum credit risk exposed	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit				
or loss	\$24,470,864	\$832,342	\$24,470,864	\$832,342
Available-for-sale financial assets	55,294,306	1,880,759	55,294,306	1,880,759
Held-to-maturity financial assets and				
investments in debt securities with no				
active market	374,505,454	12,738,280	374,505,454	12,738,280
Other financial assets – financial assets				
carried at cost	3,497,364	118,958	3,497,364	118,958
Other assets	1,070,584,715	36,414,447	1,070,584,715	36,414,447
Guarantees on duties and contracts	-	-	14,682,851	499,417
Unused commercial letters of credit	-	-	6,992,098	237,826
Irrevocable loan commitments	-	-	56,293,364	1,914,740
Credit card line commitments	-	-	271,845,378	9,246,441
<u>Derivative financial instruments</u>				
Forward	1,053,740	35,841	1,053,740	35,841
Non-delivery forward	42,407	1,442	42,407	1,442
Currency swap	5,488,269	186,676	5,488,269	186,676
Interest rate swap	3,493,034	118,811	3,493,034	118,811
Cross currency swap	256,127	8,712	256,127	8,712
Options	299,012	10,170	299,012	10,170
Futures	349	12	349	12

- 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:

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	March 31,			
	2012		2011	
	NT	US	NT	US
Loans, customers' liabilities under acceptances, bills purchased and guarantees account				
Industry type				
Manufacturing	\$56,334,747	\$1,909,652	\$121,486,637	\$4,132,199
Financial institutions and insurance	35,970,404	1,219,336	34,604,928	1,177,038
Leasing and real estate	92,845,937	3,147,320	96,392,197	3,278,646
Individuals	480,197,571	16,277,884	464,163,846	15,787,886
Others	351,413,425	11,912,319	216,518,047	7,364,559
Total	1,016,762,084	34,466,511	933,165,655	31,740,328
Valuation allowance	(10,389,270)	(352,178)	(7,211,359)	(245,284)
Maximum credit risk exposed	<u>\$1,006,372,814</u>	<u>\$34,114,333</u>	<u>\$925,954,296</u>	<u>\$31,495,044</u>
Geographic Region				
Domestic	\$887,896,376	\$30,098,182	\$829,609,654	\$28,218,015
South East Asia	43,658,647	1,479,954	30,648,946	1,042,482
North East Asia	748,510	25,373	1,207,376	41,067
America	22,533,783	763,857	13,405,672	455,975
Others	61,924,768	2,099,145	58,294,007	1,982,789
Total	1,016,762,084	34,466,511	933,165,655	31,740,328
Valuation allowance	(10,389,270)	(352,178)	(7,211,359)	(245,284)
Maximum credit risk exposed	<u>\$1,006,372,814</u>	<u>\$34,114,333</u>	<u>\$926,954,296</u>	<u>\$31,495,044</u>

(3) Liquidity risk

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

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

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

The liquidity risk rate was 32.90%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of March 31, 2012, there is no significant change in these dates.

As of March 31, 2012 and 2011, respectively, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%)	
	March 31, 2012	March 31, 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	0-7.853	0-7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.87-1.065	0.678-0.9
Overseas financial instruments	0-5.15	0-5.15
Financial debentures payable	1.65-5.593	1.65-5.593

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8. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets fair value			
		March 31, 2012		March 31, 2011	
		NT	US	NT	US
Financial debentures payable	Interest rate swap	\$1,476,373	\$50,046	\$1,232,997	\$41,938

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:

	March 31, 2012			March 31, 2011		
	Foreign Currency	Exchange Rate	NT	Foreign Currency	Exchange Rate	NT
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$5,248,488	29.5300	\$154,987,851	\$3,693,571	29.4180	\$108,657,472
HKD	3,803,204	3.8036	14,465,867	3,215,359	3.7790	12,150,842
CNY	626,532	4.6791	2,931,606	-	-	-
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	5,383,066	29.5300	158,961,939	4,184,011	29.4180	123,085,236
HKD	1,167,472	3.8036	4,440,596	1,370,435	3.7790	5,178,874
AUD	172,411	30.6950	5,292,156	145,046	30.4020	4,409,688

XI. Operating segment information

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

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1. Corporate banking - syndication loans, large-sized loans, group loans and general loans, etc.
2. Retail banking - 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 - 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 Note II mentioned above.

First Quarter of 2012	Corporate Banking		Retail Banking		Offshore Banking		Other Segment		Consolidated	
	Segment		Segment		Segment		Segment		Segment	
	NT	US	NT	US	NT	US	NT	US	NT	US
Net interest income (from										
external customer)	\$1,860,882	\$63,081	\$915,642	\$31,039	\$1,236,626	\$41,919	\$958,351	\$32,486	\$4,971,501	\$168,525
Inter-segment revenues	\$(956,484)	\$(32,423)	\$2,125,627	\$72,055	\$(175,058)	\$(5,934)	\$(994,085)	\$(33,698)	\$-	\$-
Segment net income	\$926,164	\$31,396	\$3,245,155	\$110,005	\$1,339,450	\$45,405	\$(1,630,227)	\$(55,262)	\$3,880,542	\$131,544
Income tax expense									(456,000)	(15,458)
Net income after income taxes									\$3,424,542	\$116,086

First Quarter of 2011	Corporate Banking		Retail Banking		Offshore Banking		Other Segment		Consolidated	
	Segment		Segment		Segment		Segment		Segment	
	NT	US	NT	US	NT	US	NT	US	NT	US
Net interest income (from										
external customer)	\$1,628,901	\$55,405	\$1,360,064	\$46,261	\$517,134	\$17,589	\$735,662	\$25,022	\$4,241,761	\$144,277
Inter-segment revenues	\$(686,481)	\$(23,350)	\$1,532,598	\$52,129	\$(28,454)	\$(968)	\$(817,663)	\$(27,811)	\$-	\$-
Segment net income	\$1,514,194	\$51,503	\$2,080,289	\$70,758	\$662,225	\$22,525	\$(583,336)	\$(19,841)	\$3,673,372	\$124,945
Income tax expense									(468,872)	(15,948)
Net income after income taxes									\$3,204,500	\$108,997

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Note:

1. No revenue from transactions with a single external customer amounted to 10% or more of the Bank's total revenue during the three-month period ended March 31, 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 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- March 31, 2012		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	\$39,689,563	\$1,345,409	0.56%
Time certificates, discounted bills and others	438,717,847	14,871,791	0.89%
Due from commercial banks and call loans to banks	41,843,830	1,418,435	2.21%
Discounts and loans	992,763,794	33,653,010	2.03%
Bills purchased	2,282	77	3.85%
Bonds	82,131,842	2,784,130	3.45%
Receivables-credit card revolving balance	15,539,052	526,748	13.74%
Securities purchased under agreements to resell	4,302,294	145,840	0.73%
Liabilities			
Due to banks	57,561,174	1,951,226	0.99%
Demand deposits	220,943,426	7,489,608	0.12%
Saving deposits	858,035,779	29,085,959	0.60%
Time deposits	396,494,923	13,440,506	1.04%
Negotiable certificates of deposit	473,974	16,067	1.83%
Securities sold under agreements to repurchase	16,633,053	563,832	0.57%
Financial debentures	31,672,503	1,073,644	3.16%
Funds borrowed from the Central Bank and other banks	897,221	30,414	0.84%
Principals received from the sale of structured products	13,327,059	451,765	1.43%

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	January 1- March 31, 2011		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	\$36,567,736	\$1,243,801	0.44%
Time certificates, discounted bills and others	365,007,634	12,415,226	0.71%
Due from commercial banks and call loans to banks	31,361,263	1,066,710	0.49%
Discounts and loans	891,106,556	30,309,747	1.82%
Bills purchased	3,114	106	2.66%
Bonds	70,341,476	2,392,567	2.94%
Receivables-credit card revolving balance	16,699,675	568,016	14.16%
Securities purchased under agreements to resell	19,539,811	664,619	0.42%
Liabilities			
Due to banks	42,555,339	1,447,461	0.81%
Demand deposits	210,733,978	7,167,822	0.10%
Saving deposits	814,016,027	27,687,620	0.49%
Time deposits	286,825,235	9,755,960	0.84%
Negotiable certificates of deposit	1,265,937	43,059	0.21%
Securities sold under agreements to repurchase	20,858,502	709,473	0.28%
Financial debentures	24,992,959	850,101	3.65%
Funds borrowed from the Central Bank and other banks	1,652,635	56,212	0.68%
Principals received from the sale of structured products	9,293,623	316,110	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 December 31, 2011 and 2010, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets were 11.78% and 11.17%, 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 March 31, 2012 and 2011, the assets and liabilities managed under the Bank’s trust were NT\$483,024,658 (US\$16,373,717) and NT\$438,174,892 (US\$14,903,908), 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\$10,496 (US\$357) for the three-month period ended March 31, 2011, and the increment of retained earnings were made by NT\$32,257 (US\$1,097) and NT\$42,753 (US\$1,454) as of January 1, 2011 and March 31, 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 three-month period ended March 31, 2011 have been reclassified in order to comparable with those in the financial statements for the three-month period ended March 31, 2012.
7. Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Financial Supervisory Commission (“FSC”) requires companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations translated and promulgated by the Accounting Research and Development Foundation of the Republic of China, (collectively referred to as “IFRSs”) starting 2013.

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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 as of March 31, 2012, were as follows:

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

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

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- (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 policies 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.

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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 employee preferential interest rate 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.

(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 Guidelines 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	\$57,909,822	\$857,862	\$29,080	\$1,709,197,609	\$57,938,902
Total assets	1,708,339,747	57,909,822	857,862	29,080	1,709,197,609	57,938,902
Payables (B)	20,520,083	695,596	(725,264)	(24,585)	19,794,819	671,011
Provision (A 、 C)	-	-	2,075,802	70,366	2,075,802	70,366
Other liabilities (B 、 C 、 D)	1,589,641,561	53,886,155	900,701	30,532	1,590,542,262	53,916,687
Total liabilities	1,610,161,644	54,581,751	2,251,239	76,313	1,612,412,883	54,658,064

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	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Common Stock	\$52,277,026	\$1,772,102	\$-	\$-	\$52,277,026	\$1,772,102
Capital Reserves	15,213,292	515,705	-	-	15,213,292	515,705
Retained Earnings (A、B、C)	30,452,058	1,032,273	(2,194,528)	(74,391)	28,257,530	957,882
Other Stockholders' Equity (A、D)	235,727	7,991	801,151	27,158	1,036,878	35,149
Stockholders' Equity	98,178,103	3,328,071	(1,393,377)	(47,233)	96,784,726	3,280,838

A. The Bank adopt IAS 19, "Employee benefits", the relevant adjustment resulted in a decrease of the deferred pension cost by NT\$44,802 (US\$1,519), a reverse of the net loss not recognized as net pension cost by NT\$801,151 (US\$27,158), an increase of the provisions by NT\$1,204,956 (US\$40,846) and a corresponding decrease of retained earnings of NT\$2,050,909 (US\$69,523).

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\$17,365), an increase of the deferred income by NT\$1,105,371 (US\$37,470) and a corresponding decrease of retained earnings of NT\$593,100 (US\$20,105).

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\$2,952) and NT\$536,567 (US\$18,189), respectively, and resulted in an increase of retained earnings of NT\$449,481 (US\$15,237).

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.

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② Reconciliation of the balance sheet as at March 31, 2012:

	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Financial assets (E)	\$532,376,817	\$18,046,672	\$14,436,851	\$489,384	\$546,813,668	\$18,536,056
Other assets (A、D、E)	1,220,231,628	41,363,784	3,005,746	101,890	1,223,237,374	41,465,674
Total assets	1,752,608,445	59,410,456	17,442,597	591,274	1,770,051,042	60,001,730
Payables (B、C、E)	18,237,053	618,205	15,776,083	534,783	34,013,136	1,152,988
Provisions (A、E)	-	-	2,027,315	68,722	2,027,315	68,722
Other liabilities (B、D、E)	1,633,585,200	55,375,770	992,549	33,645	1,634,577,749	55,409,415
Total liabilities	1,651,822,253	55,993,975	18,795,947	637,150	1,670,618,200	56,631,125
Common Stock	52,277,026	1,772,102	-	-	52,277,026	1,772,102
Capital Reserves	15,213,292	515,705	-	-	15,213,292	515,705
Retained Earnings (A、B、C、D、E)	33,876,600	1,148,360	(2,159,094)	(73,190)	31,717,506	1,075,170
Other Stockholders' Equity(A、D、E)	(580,726)	(19,686)	805,744	27,314	225,018	7,628
Stockholders' Equity	100,786,192	3,416,481	(1,353,350)	(45,876)	99,432,842	3,370,605

A. The Bank adopt IAS 19, “Employee benefits”, the relevant adjustment resulted in a decrease of the deferred pension cost by NT\$44,802 (US\$1,519), a reverse of the net loss not recognized as net pension cost by NT\$801,151 (US\$27,158), an increase of the provisions by NT\$1,156,469 (US\$39,202) and a corresponding decrease of retained earnings of NT\$2,002,422 (US\$67,879).

B. The Bank adopt IFRIC 13 “Customer Loyalty Programmes”, the relevant adjustment resulted in a decrease of the accrued expenses by NT\$509,502 (US\$17,271), an increase of the deferred income by NT\$1,108,721 (US\$37,583) and a corresponding decrease of retained earnings of NT\$599,219 (US\$20,312).

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C. The Bank adopt IAS 17 “Leases”, the adjustment resulted in an increase of accrued expenses by NT\$530(US\$18) 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\$2,952) and NT\$529,626 (US\$17,953), respectively, and the unrealized gains financial instruments decreased by NT\$941 (US\$32) and resulted in an increase of retained earnings of NT\$443,481 (US\$15,033).

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 a decrease of retained earnings by NT\$404 (US\$14).

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

③ Reconciliation of the income statement for the three-month period ended March 31, 2012:

	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Net interest income(A、E)	\$4,971,501	\$168,525	\$42,240	\$1,432	\$5,013,741	\$169,957
Noninterest income(B、E)	3,264,130	110,649	29,096	986	3,293,226	111,635
Net operating income	8,235,631	279,174	71,336	2,418	8,306,967	281,592
Operating expenses(A、B、C)	(4,355,089)	(147,630)	(29,902)	(1,014)	(4,384,991)	(148,644)
Net income before income tax	3,880,542	131,544	41,434	1,404	3,921,976	132,948
Income tax expense(D)	(456,000)	(15,458)	(6,000)	(203)	(462,000)	(15,661)
Net income after income tax	3,424,542	116,086	35,434	1,201	3,459,976	117,287

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- A. The Bank adopt IAS 19, “Employee benefits”, the relevant adjustment resulted in an increase personnel expenses by NT\$26,603 (US\$902) and a decrease of interest expense by NT\$75,090 (US\$2,545), respectively.
- B. The Bank adopt IFRIC 13 “Customer Loyalty Programmes”, the relevant adjustment resulted in a decrease of handling fees income by NT\$3,349 (US\$114) and an increase of other general and administrative expense by NT\$2,270 (US\$77), respectively.
- C. The Bank adopt IAS 17 “Leases”, the adjustment resulted in an increase of rental expense by NT\$530 (US\$18).
- D. In summary, the Bank adopt IAS 12 "Income Tax", the adjustment resulted in an increase of income tax expense by NT\$6,000 (US\$203).
- 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 a decrease of gain on financial assets and liabilities at fair value through profit or loss by NT\$404 (US\$14).
- (b) 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.