Cathay United Bank and Its Subsidiaries
Consolidated Financial Statements
For The Six-Month Periods Ended
June 30, 2012 and 2011
With Independent Auditors' Report

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying consolidated balance sheets of Cathay United Bank (the "Bank") and its subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2012 and 2011. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of June 30, 2012 and 2011, and the consolidated results of its operations and its cash flows for the six-month periods then ended in conformity with requirements of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "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 and its subsidiaries 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

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
August 24, 2012

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets

June 30, 2012 and 2011

(Expressed in thousands of dollars)

		June 30, 2012		June 30, 2011	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$32,778,138	$1,099,937	$30,386,249	$1,055,445
Due from the Central Bank and call loans to banks	IV and V	112,798,754	3,785,193	66,057,796	2,294,470
Financial assets at fair value through profit or loss	II, IV and V	14,211,332	476,890	20,812,313	722,901
Securities purchased under agreements to resell	II	3,256,232	109,270	2,239,305	77,781
Receivables, net	II, III, IV and V	46,248,378	1,551,959	45,828,346	1,591,814
Discounts and loans, net	II, III, IV and V	1,031,259,481	34,606,023	933,461,925	32,423,131
Available-for-sale financial assets, net	II and IV	61,399,487	2,060,385	52,710,063	1,830,846
Held-to-maturity financial assets, net	II and IV	22,156,684	743,513	5,987,687	207,978
Investments accounted for using equity method, net	II and IV	1,543,251	51,787	1,556,471	54,063
Other financial assets, net	II and IV	4,750,434	159,411	4,770,099	165,686
Investments in debt securities with no active market, net	II and IV	372,509,081	12,500,305	454,038,035	15,770,685
Premises and equipment, net	II, IV, V and VII	24,717,379	829,442	25,101,744	871,891
Intangible assets, net	II and IV	7,582,108	254,433	7,683,628	266,885
Other assets, net	II, IV and V	4,975,846	166,975	4,903,630	170,324
TOTAL ASSETS		$1,740,186,585	$58,395,523	$1,655,537,291	$57,503,900

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets (continued)

June 30, 2012 and 2011

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	June 30, 2012		June 30, 2011	
		NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$63,492,065	$2,130,606	$54,560,845	$1,895,132
Funds borrowed from the Central Bank and other banks		1,495,000	50,168	1,440,100	50,021
Financial liabilities at fair value through profit or loss	II, IV, V and XII	4,375,839	146,840	11,554,047	401,322
Securities sold under agreements to repurchase	II, IV and V	14,365,269	482,056	12,292,659	426,977
Payables	IV, V and XII	19,844,582	665,926	22,091,948	767,347
Deposits and remittances	IV and V	1,475,452,309	49,511,822	1,408,908,118	48,937,413
Financial debentures payable	IV, X and XII	40,198,566	1,348,945	35,269,886	1,225,074
Other financial liabilities	II and IV	17,874,814	599,826	9,986,613	346,878
Other liabilities	II, IV, V and XII	3,699,089	124,131	2,753,082	95,626
TOTAL LIABILITIES		1,640,797,533	55,060,320	1,558,857,298	54,145,790
SHAREHOLDERS' EQUITY					
EQUITY ATTRIBUTE TO EQUITY HOLDERS OF PARENT					
Capital stock	IV	52,277,026	1,754,263	52,277,026	1,815,805
Capital reserves	IV	15,213,292	510,513	15,213,292	528,423
Retained earnings	IV				
Legal reserves		22,360,652	750,358	19,009,053	660,266
Special reserves	II, III and IV	271,009	9,094	271,009	9,413
Undistributed earnings	XII	6,650,180	223,160	6,279,207	218,104
Foreign currency translation adjustment	II	(340,744)	(11,434)	(469,572)	(16,310)
Unrealized gains or losses on financial instruments	II	962,610	32,302	1,819,133	63,186
Net loss not recognized as net pension costs	II and IV	(802,336)	(26,924)	(603,625)	(20,967)
Subtotal		96,591,689	3,241,332	93,795,523	3,257,920
MINORITY INTERESTS		2,797,363	93,871	2,884,470	100,190
TOTAL SHAREHOLDERS' EQUITY		99,389,052	3,335,203	96,679,993	3,358,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,740,186,585	$58,395,523	$1,655,537,291	$57,503,900

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of income

For the six-month periods ended June 30, 2012 and 2011

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

ITEMS	NOTES	January 1 - June 30, 2012 NT	January 1 - June 30, 2012 US (Note II)	January 1 - June 30, 2011 NT	January 1 - June 30, 2011 US (Note II)
INTEREST INCOME	II, V and XII	$16,999,525	$570,454	$14,351,507	$498,490
INTEREST EXPENSE	V	(6,575,236)	(220,646)	(5,263,375)	(182,820)
NET INTEREST INCOME		10,424,289	349,808	9,088,132	315,670
NONINTEREST INCOME					
Net fee income	II and V	3,551,463	119,177	3,556,537	123,534
Gain on financial assets and liabilities at fair value through profit or loss	II, VI, V and XII	587,123	19,702	672,601	23,362
Realized gain on available-for-sale financial assets	II	443,160	14,871	1,204,539	41,839
Investment income recognized by the equity method	II and IV	18,876	634	19,294	670
Gain on foreign currency exchange, net	II	540,769	18,147	415,962	14,448
Impairment loss of assets	II	-	-	(42,964)	(1,492)
Gain on financial assets carried at cost		94,591	3,174	6,182	215
Gain on investment in debt securities with no active market		3,796	127	1,858	64
Others	II, III, IV and V	700,773	23,516	576,648	20,029
NET NONINTEREST INCOME		5,940,551	199,348	6,410,657	222,669
NET OPERATING INCOME		16,364,840	549,156	15,498,789	538,339
BAD DEBT EXPENSE	II, III and IV	-	-	(45,870)	(1,593)
OPERATING EXPENSES					
Personnel	II and IV	(4,242,235)	(142,357)	(4,017,778)	(139,555)
Depreciation and amortization	II and IV	(591,641)	(19,854)	(632,883)	(21,983)
Other general and administrative expenses	V and XII	(3,844,076)	(128,996)	(3,361,072)	(116,744)
TOTAL OPERATING EXPENSES		(8,677,952)	(291,207)	(8,011,733)	(278,282)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		7,686,888	257,949	7,441,186	258,464
INCOME TAX EXPENSE	II, IV and XII	(930,112)	(31,212)	(1,019,966)	(35,428)
NET INCOME		$6,756,776	$226,737	$6,421,220	$223,036
ATTRIBUTABLE TO:	IV				
EQUITY HOLDERS OF THE PARENT		$6,650,180	$223,160	$6,246,950	$216,983
MINORITY INTEREST		106,596	3,577	174,270	6,053
NET INCOME		$6,756,776	$226,737	$6,421,220	$223,036
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
EQUITY HOLDERS OF THE PARENT		$1.27	$0.043	$1.19	$0.041
MINORITY INTEREST		0.02	0.001	0.03	0.001
NET INCOME		$1.29	$0.044	$1.22	$0.042

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of changes in shareholders' equity

For the six-month periods ended June 30, 2012 and 2011

(Expressed in thousands of dollars)

						Retained earnings						Equity adjustment											
		Capital stock		Capital reserves		Legal reserves		Special reserves		Undistributed earnings		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Net loss not recognized as net pension costs		Equity holders of the parent		Minority interest		Total	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)
Balance, January 1, 2011 (readjusted)	XII	$52,277,026	$1,815,805	$15,213,292	$528,423	$15,609,529	$542,186	$-	$-	$11,254,310	$390,911	$(428,077)	$(14,869)	$1,908,179	$66,279	$(603,625)	$(20,967)	$95,230,634	$3,307,768	$2,743,073	$95,278	$97,973,707	$3,403,046
Reclassification of reserves for trading losses as special reserves		-	-	-	-	-	-	268,791	9,336	-	-	-	-	-	-	-	-	268,791	9,336	-	-	268,791	9,336
Appropriation and distribution of 2010 earnings (Note):	IV																						
Legal reserves		-	-	-	-	3,399,524	118,080	-	-	(3,399,524)	(118,080)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(7,822,529)	(271,710)	-	-	-	-	-	-	(7,822,529)	(271,710)	-	-	(7,822,529)	(271,710)
Net income for the six-month period ended June 30, 2011 (readjusted)	XII	-	-	-	-	-	-	-	-	6,246,950	216,983	-	-	-	-	-	-	6,246,950	216,983	174,270	6,053	6,421,220	223,036
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	(41,495)	(1,441)	-	-	-	-	(41,495)	(1,441)	-	-	(41,495)	(1,441)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	2,218	77	-	-	-	-	(4,768)	(166)	-	-	(2,550)	(89)	-	-	(2,550)	(89)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	(84,278)	(2,927)	-	-	(84,278)	(2,927)	-	-	(84,278)	(2,927)
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(32,873)	(1,141)	(32,873)	(1,141)
Balance, June 30, 2011 (readjusted)	XII	$52,277,026	$1,815,805	$15,213,292	$528,423	$19,009,053	$660,266	$271,009	$9,413	$6,279,207	$218,104	$(469,572)	$(16,310)	$1,819,133	$63,186	$(603,625)	$(20,967)	$93,795,523	$3,257,920	$2,884,470	$100,190	$96,679,993	$3,358,110
Balance, January 1, 2012		$52,277,026	$1,754,263	$15,213,292	$510,513	$19,009,053	$637,888	$271,009	$9,094	$11,171,996	$374,899	$(51,219)	$(1,719)	$1,089,282	$36,553	$(802,336)	$(26,924)	$98,178,103	$3,294,567	$3,149,171	$105,677	##########	$3,400,244
Appropriation and distribution of 2011 earnings (Note):	IV																						
Legal reserves		-	-	-	-	3,351,599	112,470	-	-	(3,351,599)	(112,470)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(7,820,397)	(262,429)	-	-	-	-	-	-	(7,820,397)	(262,429)	-	-	(7,820,397)	(262,429)
Net income for the six-month period ended June 30, 2012		-	-	-	-	-	-	-	-	6,650,180	223,160	-	-	-	-	-	-	6,650,180	223,160	106,596	3,577	6,756,776	226,737
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	(289,525)	(9,715)	-	-	-	-	(289,525)	(9,715)	-	-	(289,525)	(9,715)
Adjustment for changes in shareholders' equities of equity-accounted investee	II	-	-	-	-	-	-	-	-	-	-	-	-	4,283	144	-	-	4,283	144	-	-	4,283	144
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	(130,955)	(4,395)	-	-	(130,955)	(4,395)	-	-	(130,955)	(4,395)
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(458,404)	(15,383)	(458,404)	(15,383)
Balance, June 30, 2012		$52,277,026	$1,754,263	$15,213,292	$510,513	$22,360,652	$750,358	$271,009	$9,094	$6,650,180	$223,160	$(340,744)	$(11,434)	$962,610	$32,302	$(802,336)	$(26,924)	$96,591,689	$3,241,332	$2,797,363	$93,871	$99,389,052	$3,335,203

Note：Bonus to employees NT$1,500 thousands deducted from Income Statement.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of cash flows

For the six-month periods ended June 30, 2012 and 2011

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1 - June 30, 2012 NT	January 1 - June 30, 2012 US (Note II)	January 1 - June 30, 2011 NT	January 1 - June 30, 2011 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	XII	$6,756,776	$226,737	$6,421,220	$223,036
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	591,641	19,854	632,883	21,983
The differences between investment income recognized by the equity method and the cash dividends received	II	(15,958)	(535)	(19,294)	(670)
Bad debt expense (reversal)	II, III and IV	(328,454)	(11,022)	45,870	1,593
Gain on disposal of premises, equipment and foreclosed properties	II	(1,437)	(48)	(187,166)	(6,501)
Impairment loss of assets	II	-	-	42,964	1,492
Effects of exchange rate changes		33,567	1,126	(1,735)	(60)
(Increase) decrease in operating assets					
Decrease in receivables		655,666	22,002	11,948,164	415,011
(Increase) decrease in deferred income tax assets		(97,905)	(3,285)	3,969	138
Decrease in financial assets at fair value through profit or loss		7,701,422	258,437	45,314,185	1,573,956
Increase in other assets		(197,382)	(6,624)	(246,783)	(8,572)
Increase (decrease) in operating liabilities					
Decrease in payables	XII	(1,694,704)	(56,869)	(13,506,043)	(469,123)
Decrease in deferred income tax liabilities		(46,136)	(1,548)	(21,285)	(739)
Decrease in financial liabilities at fair value through profit or loss	XII	(459,314)	(15,413)	(12,480,063)	(433,486)
Increase (decrease) in tax payables		(21,920)	(736)	24,658	856
Increase in other liabilities	XII	751,419	25,215	132,542	4,604
Net cash provided by operating activities		13,627,281	457,291	38,104,086	1,323,518
CASH FLOWS FROM INVESTING ACTIVITIES:					
Increase in discounts and loans		(30,108,958)	(1,010,368)	(32,717,902)	(1,136,432)
(Increase) decrease in due from the Central Bank and call loans to banks		(10,770,054)	(361,411)	41,998,022	1,458,771
(Increase) decrease in securities purchased under agreements to resell		(947,444)	(31,793)	16,687,088	579,614
(Increase) decrease in available-for-sale financial assets		(13,674,322)	(458,870)	23,168,148	804,729
(Increase) decrease in held-to-maturity financial assets		(2,824,906)	(94,795)	110,194	3,828
Capital return due to capital decrease in equity-accounted investee		1,990	67	-	-
Proceeds from disposal of premises, equipment and foreclosed properties		1,469	49	468,219	16,263
Acquisition of premises, equipment and foreclosed properties		(273,741)	(9,186)	(186,930)	(6,493)
Acquisition of intangible assets		(25,959)	(871)	(86,999)	(3,022)
(Increase) decrease in investments in debt securities with no active market		52,631,185	1,766,147	(151,261,603)	(5,253,963)
(Increase) decrease in other financial assets		90,366	3,032	(53,998)	(1,876)
(Increase) decrease in other assets		(278,300)	(9,339)	38,719	1,345
Net cash used in investing activities		(6,178,674)	(207,338)	(101,837,042)	(3,537,236)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(721,196)	(24,201)	7,540,487	261,914
Increase (decrease) in securities sold under agreements to repurchase		818,807	27,477	(9,386,897)	(326,047)
Increase (decrease) in deposits and remittances		(8,399,922)	(281,877)	66,840,662	2,321,663
Decrease in funds borrowed from the Central Bank and other banks		(19,500)	(655)	(16,400)	(570)
Increase in financial debentures payable	XII	4,212,191	141,349	11,646,968	404,549
Increase in other financial liabilities		7,263,741	243,750	2,138,994	74,296
Increase (decrease) in other liabilities		159,807	5,362	(475,831)	(16,528)
Distribution of cash dividends	IV	(7,820,397)	(262,429)	(7,822,529)	(271,710)
Net cash provided by (used in) financing activities		(4,506,469)	(151,224)	70,465,454	2,447,567
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		(289,121)	(9,702)	(17,618)	(612)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,653,017	89,027	6,714,880	233,237
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		30,125,121	1,010,910	23,671,369	822,208
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$32,778,138	$1,099,937	$30,386,249	$1,055,445
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$6,220,836	$208,753	$4,043,892	$140,462
Income tax paid		$287,372	$9,643	$288,972	$10,037

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Notes to consolidated financial statements

For the six-month periods ended June 30, 2012 and 2011

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

I. Business

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

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

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

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

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

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

As of June 30, 2012 and 2011, the Bank and its subsidiaries employed 7,166 and 6,902 employees, respectively.

II. Summary of significant accounting policies

The consolidated financial statements were prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "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. Principles of Consolidation

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

As of and for the six-month periods ended June 30, 2012 and 2011, the consolidated financial statements included:

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

As of and for the six-month periods ended June 30, 2012 and 2011, respectively, the consolidated financial statements excluded following subsidiaries because its total assets and operating revenues were immaterial impact to the Bank.

Investors	Investees	Business activity	Ownership (%)	Incorporated date
The Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100	Cathay Life Insurance Agent was incorporated on March 23, 2000, dissolved on March 1, 2011, and completed its liquidation process on June 14, 2012.
The Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Dispatched work	100	Seaward Card was incorporated on April 9, 1999.

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

2. Basis of preparation of consolidated financial statements

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

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

3. Foreign-currency transaction and translation

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

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

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

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

4. Financial assets and financial liabilities

The Bank and its subsidiaries adopted the ROC Statements of Financial Accounting Standards ("ROC SFAS") No. 34 and "Regulations Governing the Preparation of Financial Reports by Public Banks" to classify its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, 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 and its subsidiaries commit to purchase or sell the asset) and others are recognized on the settlement date.

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

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

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

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

(5) Financial assets carried at cost

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

(6) Loans and receivables

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

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

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

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

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

Gains and losses are recognized when 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.

5. Derivative financial instruments

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

6. Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

7. Bills and bonds under repurchase or resell agreements

Bills and bonds under repurchase or resell agreements are accounted for under the financing method. Bills and bonds sold under repurchase agreements are presented as “Securities sold under agreements to repurchase” at the sale date. Bills and bonds invested under resell agreements 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.

8. Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

Loans and receivables

Since January 1, 2011, the Bank and its subsidiaries first assess 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 and its subsidiaries shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for loans and receivables with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment. Allowance for doubtful accounts are provided between the amount calculated by adopting the third revision of the SFAS No. 34 “Financial Instruments: Recognition and Measurement” and the lowest amount that should be provided by the amended “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans” of the authority for which is higher. Since the maturity date of the non-performing loans or non-accrual loans and the efforts of collection have failed. The non-performing loans and non-accrual loans will be write-off after the resolution was approved by the board of directors.

9. 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.

10. Investment accounted for using equity method

Investments in other companies with voting rights of at least 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between 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.

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

11. Premises and equipment

(1) Premises and equipment are stated at cost less accumulated depreciation or amortization. Improvements, additions, and major renewals that extend the life of an asset are capitalized while repairs and maintenance are expensed as incurred; relevant promulgated principle should be applied if impairment been found. Upon disposal of premises and equipment, the related cost, accumulated depreciation and accumulated impairment loss are removed from the account. Any gains or losses thereafter are charged to 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~ 8	Years
Transportation equipment	3~ 7	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.

12. Intangible assets and goodwill

(1) Intangible assets

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

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

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

Category	Useful lives	Amortization method
Computer software	3-8 years	Straight-line method
Other intangible assets	4 years	Straight-line method

(2) Goodwill

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

13. Land use rights

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

14. Foreclosed properties

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

15. Asset Impairment

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

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

16. Reserves for possible losses on guarantees

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

17. 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.

18. Pension plans

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

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

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

19. Recognition of interest income and service fees

Interest income of the Bank and its subsidiaries 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.

20. 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.

21. Income tax

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

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

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

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

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

22. 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.

23. 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.

24. Operating segment information

An operating segment is a component of an entity that has the follow 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 resource to be allocated to the segment and assess its performance, and

(3) For which discrete financial information is available.

25. The interim financial statement

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

26. Basis for converting financial statements

The Bank's consolidated financial statements are stated in NT dollars. Translation of the June 30, 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$29.80 and NT$28.79 to US$1.00 on June 30, 2012 and 2011, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. Effective from January 1, 2011, the Bank and its subsidiaries adopted the third revision of the SFAS No. 34 "Financial Instruments: Recognition and Measurement" to treat its financial instruments. No significant effect on the consolidated financial statements for the six-month period ended June 30, 2011.

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

3. In compliance with the Explanatory Letter No. Financial Supervisory Securities Firms 0990073857 issued by Securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the “Regulations Governing Securities Firms” ,the reserves for losses on trading securities are no longer required since January 1, 2011. The remaining balance should be reclassified as special reserve in 2011 according to the Explanatory Letter No. Financial Supervisory Banking Law 10010000440 issued by Banking Bureau of the FSC dated March 23, 2011. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	June 30,			
	2012		2011	
	NT	US	NT	US
Cash on hand	$11,970,811	$401,705	$10,767,652	$374,007
Checks for clearance	8,182,593	274,583	6,008,743	208,709
Due from commercial banks	12,624,734	423,649	13,609,854	472,729
Total	$32,778,138	$1,099,937	$30,386,249	$1,055,445

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

	June 30,			
	2012		2011	
	NT	US	NT	US
Call loans to banks	$51,796,084	$1,738,124	$24,329,432	$845,065
Due from the Central Bank–Statutory reserve on deposits and general deposits	61,002,670	2,047,069	41,728,364	1,449,405
Total	$112,798,754	$3,785,193	$66,057,796	$2,294,470

(1) The Bank

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$39,972,577 (US$1,341,362) and NT$37,822,145 (US$1,313,725) as of June 30, 2012 and 2011, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of June 30, 2012 and 2011, the balance of foreign-currency deposit reserves were NT$146,510 (US$4,916) and NT$237,617 (US$8,253), respectively.

(2) Indovina Bank

In accordance with the provisions of the Law on credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were NT$439,530 (US$14,749) and NT$840,922 (US$29,209) as of June 30, 2012 and 2011, respectively.

3. Financial assets at fair value through profit or loss

	June 30,			
	2012		2011	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$130,061	$4,364	$138,802	$4,821
Short-term bills	5,460,429	183,236	13,131,187	456,102
Bonds	1,739,852	58,384	432,213	15,013
Overseas financial instruments	841,293	28,231	137,054	4,760
Derivative financial instruments	6,039,697	202,675	6,970,329	242,110
Subtotal	14,211,332	476,890	20,809,585	722,806
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	-	-	2,728	95
Total	$14,211,332	$476,890	$20,812,313	$722,901

(1) As of June 30, 2012, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$3,034,700 (US$101,836). Such repurchase agreements amounting to NT$3,344,361 (US$112,227) was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to June 30, 2012 was settled at NT$3,345,571 (US$112,267) prior to August 31, 2012.

(2) As of June 30, 2012 and 2011, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial assets) of derivative financial instruments (including hedging transaction) are summarized as follows (in thousands of US dollars):

	June 30,	
	2012	2011
Forward foreign exchange and currency swap contracts	$20,644,697	$22,332,449
Interest rate swap contracts	9,646,586	9,975,779
Cross-currency swap contracts	620,081	156,576
Options	3,872,269	1,061,273
Futures	-	1,000

(3) Net gains arising from financial assets at fair value through profit or loss for the six-month periods ended June 30, 2012 and 2011 were NT$4,099,882 (US$137,580) and NT$24,069,271 (US$836,029), respectively.

4. Receivables, net

	June 30,			
	2012		2011	
	NT	US	NT	US
Notes receivable	$137,918	$4,628	$73,851	$2,565
Accounts receivable	38,432,567	1,289,683	37,290,543	1,295,260
Interest receivable	3,451,823	115,833	2,343,124	81,387
Related party receivable for allocation of linked-tax system	826,430	27,733	1,524,394	52,948
Foreign currency receivable	270,534	9,078	638,958	22,194
Acceptances	1,884,296	63,231	1,669,774	57,998
Tax refundable	97,492	3,272	109,043	3,788
Factoring receivable	2,207,445	74,075	1,351,960	46,959
Others	956,802	32,108	5,043,722	128,231
Total	48,265,307	1,619,641	48,693,409	1,691,330
Adjustment for discounts and premiums	(4,702)	(158)	(2,011)	(70)
Less: allowance for doubtful accounts	(2,012,227)	(67,524)	(2,863,052)	(99,446)
Net balance	$46,248,378	$1,551,959	$45,828,346	$1,591,814

Information on bad and doubtful accounts are as follows:

	January 1- June 30, 2012					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$129,860	$4,357	$2,624,651	$88,076	$2,754,511	$92,433
Reversal of doubtful accounts	(861,436)	(28,907)	-	-	(861,436)	(28,907)
Write-offs	(155,727)	(5,226)	-	-	(155,727)	(5,226)
Debt counseling recoveries	75,422	2,531	-	-	75,422	2,531
Recoveries	280,292	9,406	-	-	280,292	9,406
Reclassification	637,444	21,391	(718,232)	(24,102)	(80,788)	(2,711)
Effects of exchange rates change	-	-	(47)	(2)	(47)	(2)
Balance, end of the period	$105,885	$3,552	$1,906,372	$63,972	$2,012,227	$67,524

	January 1- June 30, 2011					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,167,737	$75,295	$40,920	$1,421	$2,208,657	$76,716
Reversal of doubtful accounts	(3,887)	(135)	-	-	(3,887)	(135)
Write-offs	(203,802)	(7,079)	-	-	(203,802)	(7,079)
Debt counseling recoveries	76,755	2,666	-	-	76,755	2,666
Recoveries	337,418	11,720	-	-	337,418	11,720
Reclassification	(2,220,200)	(77,117)	2,668,111	92,675	447,911	15,558
Balance, end of the period	$154,021	$5,350	$2,709,031	$94,096	$2,863,052	$99,446

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

5. Discounts and loans, net

	June 30,			
	2012		2011	
	NT	US	NT	US
Outward documentary bills	$393,797	$13,215	$393,968	$13,684
Overdrafts	495,087	16,614	535,843	18,612
Short-term loans	269,260,013	9,035,571	230,652,637	8,011,554
Medium-term loans	313,076,950	10,505,938	241,192,011	8,377,632
Long-term loans	453,791,727	15,227,910	464,398,285	16,130,541
Delinquent accounts	4,085,943	137,112	3,729,062	129,526
Total	1,041,103,517	34,936,360	940,901,806	32,681,549
Adjustment for discounts and premiums	1,056,509	35,453	488,986	16,985
Less: allowance for doubtful accounts	(10,900,545)	(365,790)	(7,928,867)	(275,403)
Net balance	$1,031,259,481	$34,606,023	$933,461,925	$32,423,131

(1) As of June 30, 2012 and 2011, the accounts without interest accrued were NT$3,465,925 (US$116,306) and NT$3,552,313 (US$123,387), respectively. The non-accrued interest on such accounts amounted to NT$26,831 (US$900) and NT$37,510 (US$1,303)for the six-month periods ended June 30, 2012 and 2011, respectively.

(2) For the six-month periods ended June 30, 2012 and 2011, the Bank and its subsidiaries had not written off any loans unless legal proceedings to collect these loans had been initiated.

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

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

A. The Bank

	January 1- June 30, 2012					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,059,807	$102,678	$6,247,744	$209,656	$9,307,551	$312,334
Provision of doubtful accounts	527,591	17,704	-	-	527,591	17,704
Write-offs	(296,495)	(9,949)	-	-	(296,495)	(9,949)
Debt counseling recoveries	62,195	2,087	-	-	62,195	2,087
Recoveries	956,166	32,086	-	-	956,166	32,086
Reclassification	2,711,145	90,978	(2,630,357)	(88,267)	80,788	2,711
Effects of exchange rates change	-	-	(31,110)	(1,044)	(31,110)	(1,044)
Balance, end of the period	$7,020,409	$235,584	$3,586,277	$120,345	$10,606,686	$355,929

	January 1- June 30, 2011					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$2,558,366	$88,863	$4,343,512	$150,869	$6,901,878	$239,732
Reversal of doubtful accounts	(3,335)	(116)	-	-	(3,335)	(116)
Write-offs	(285,708)	(9,924)	-	-	(285,708)	(9,924)
Debt counseling recoveries	29,201	1,014	-	-	29,201	1,014
Recoveries	1,494,310	51,904	-	-	1,494,310	51,904
Reclassification	(1,219,692)	(42,365)	771,781	26,807	(447,911)	(15,558)
Effects of exchange rates change	-	-	9,375	326	9,375	326
Balance, end of the period	$2,573,142	$89,376	$5,124,668	$178,002	$7,697,810	$267,378

B. Indovina Bank

	January 1- June 30,			
	2012		2011	
	NT	US	NT	US
Balance, beginning of the period	$292,192	$9,805	$180,604	$6,273
Provision (reversal) of doubtful accounts	5,391	181	53,092	1,844
Effects of exchange rates change, etc.	(3,724)	(125)	(2,639)	(92)
Balance, end of the period	$293,859	$9,861	$231,057	$8,025

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

6. Available-for-sale financial assets, net

	June 30,			
	2012		2011	
	NT	US	NT	US
Stocks	$9,096,968	$305,267	$9,592,480	$333,188
Mutual funds and beneficiary securities	860,476	28,875	864,692	30,034
Bonds	36,976,476	1,240,821	34,440,543	1,196,268
Overseas financial instruments	14,465,567	485,422	7,812,348	271,356
Net balance	$61,399,487	$2,060,385	$52,710,063	$1,830,846

(1) NT$1,687,630 (US$56,632) and NT$1,481,856 (US$51,471) of the available-for-sale financial assets as of June 30, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of June 30, 2012, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$10,849,400 (US$364,074). Such repurchase agreements amounting to NT$11,020,908 (US$369,829) was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to June 30, 2012 was settled at NT$11,025,971 (US$369,999) prior to September 30, 2012.

As of June 30, 2011, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$11,828,200 (US$410,844). Such repurchase agreements amounting to NT$12,292,659 (US$426,977) was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to June 30, 2011 was settled at NT$12,296,993 (US$427,127) prior to September 30, 2011.

7. Held-to-maturity financial assets, net

	June 30, 2012			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$2,309,632	$77,505	$2,425,791	$81,403
Overseas financial instruments	19,217,159	644,871	19,730,893	662,110
Net balance	$21,526,791	$722,376	$22,156,684	$743,513

	June 30, 2011			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$2,278,532	$79,143	$2,405,272	$83,545
Overseas financial instruments	3,370,122	117,059	3,582,415	124,433
Net balance	$5,648,654	$196,202	$5,987,687	$207,978

NT$577,318 (US$19,373) and NT$620,311 (US$21,546) of held-to-maturity financial assets as of June 30, 2012 and 2011, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	June 30, 2012				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,563	$1,294	100.00	$1,138	$38
Taiwan Real-estate Management Corp.	102,675	3,445	30.15	5,700	192
Taiwan Finance Corp.	1,398,801	46,940	24.57	12,040	404
Vista Technology Venture Capital Corp.	3,212	108	4.76	(2)	-
Total	$1,543,251	$51,787		$18,876	$634

	June 30, 2011				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$40,173	$1,395	100.00	$861	$29
Cathay Life Insurance Agent Co., Ltd	36,100	1,254	100.00	(82)	(3)
Taiwan Real-estate Management Corp.	80,200	2,786	30.15	2,811	98
Taiwan Finance Corp.	1,394,557	48,439	24.57	15,710	546
Vista Technology Venture Capital Corp.	5,441	189	4.76	(6)	-
Total Ltd.	$1,556,471	$54,063		$19,294	$670

(1) On March 1, 2011, Cathay Life Insurance Agent Co., Ltd. was decided its dissolution by the board of directors (according to the Company's Law, the authority of the shareholder meeting acts by board of directors) and completed its liquidation process on June 14, 2012.

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

(3) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the six-month periods ended June 30, 2012 and 2011 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

9. Other financial assets, net

	June 30,			
	2012		2011	
	NT	US	NT	US
Derivative financial assets for hedging	$1,370,098	$45,977	$1,279,009	$44,426
Financial assets carried at cost, stocks	3,378,952	113,388	3,488,956	121,186
Bills purchased	1,384	46	2,134	74
Total	$4,750,434	$159,411	$4,770,099	$165,686

(1) The Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT$385,131 (US$12,924) and NT$304,096 (US$10,563) as of June 30, 2012 and 2011, respectively, due to the existence of objective impairment evidence.

(2) As of June 30, 2012 and 2011, the above derivative financial assets for hedging applies for fair value hedge, and its fair value were NT$1,370,098 (US$45,977) and NT$1,279,009 (US$44,426), respectively. The Bank has recognized gain in hedging in the amount of NT$166,545 (US$5,589) and NT$206,377 (US$7,168) for the six-month periods ended June 30, 2012 and 2011, respectively.

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

	June 30,			
	2012		2011	
	NT	US	NT	US
Preferred stocks	$549,730	$18,447	$549,730	$19,094
Certificates of deposit	349,750,000	11,736,577	445,375,000	15,469,781
Bonds	95,586	3,208	95,586	3,320
Overseas financial instruments	23,639,078	793,258	9,504,927	330,147
Subtotal	374,034,394	12,551,490	455,525,243	15,822,342
Less: accumulated impairment	(1,525,313)	(51,185)	(1,487,208)	(51,657)
Net balance	$372,509,081	$12,500,305	$454,038,035	$15,770,685

(1) NT$50,100,000 (US$1,681,208) and NT$23,500,000 (US$816,256) of certificates of deposit as of June 30, 2012 and 2011, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) The Bank recognized impairment losses amounting NT$1,407,432 (US$47,229) and NT$1,355,748 (US$47,091) as of June 30, 2012 and 2011, respectively, due to the credit deterioration of certain securitization and financial debentures.

The Bank recognized impairment losses amounting NT$117,880 (US$3,956) and NT$131,460 (US$4,566) as of June 30, 2012 and 2011, respectively, due to the default on certain convertible bonds.

12. Premises and equipment, net

	June 30,			
	2012		2011	
	NT	US	NT	US
Cost:				
Land	$14,600,863	$489,962	$14,600,863	$507,151
Buildings	11,666,625	391,498	11,662,517	405,089
Office equipment	4,432,495	148,742	4,446,545	154,447
Transportation equipment	85,896	2,882	87,856	3,052
Leasehold improvements	15,239	511	15,618	542
Other equipment	5,585,476	187,432	5,448,361	189,245
Construction in progress and prepayment for equipment	194,836	6,538	135,567	4,709
Subtotal	36,581,430	1,227,565	36,397,327	1,264,235
Accumulated depreciation:				
Buildings	(3,409,104)	(114,400)	(3,164,835)	(109,928)
Office equipment	(3,735,161)	(125,341)	(3,599,544)	(125,028)
Transportation equipment	(67,918)	(2,279)	(65,462)	(2,274)
Leasehold improvements	(13,094)	(439)	(10,543)	(366)
Other equipment	(4,638,774)	(155,664)	(4,455,199)	(154,748)
Subtotal	(11,864,051)	(398,123)	(11,295,583)	(392,344)
Net balance	$24,717,379	$829,442	$25,101,744	$871,891

12. Intangible assets, net

	January 1 - June 30, 2012											
	January 1,		Additions/Amortization		Reclassifications		Disposal		Effects of exchange rates change		June 30,	
	NT	US	NT	US	NT	US	NT	US	NT	US	NT	US
Good will	$6,673,083	$223,929	$-	$-	$-	$-	$-	$-	$-	$-	$6,673,083	$223,929
Computer software	1,640,066	55,036	25,959	871	19,617	658	(74,244)	(2,491)	(540)	(18)	1,610,858	54,056
Land use rights	369,220	12,390	-	-	-	-	-	-	(4,754)	(160)	364,466	12,230
Amortization	(1,034,331)	(34,709)	(106,702)	(3,581)	-	-	74,244	2,491	490	17	(1,066,299)	(35,782)
Net balance	$7,648,038	$256,646	$(80,743)	$(2,710)	$19,617	$658	$-	$-	$(4,804)	$(161)	$7,582,108	$254,433

	January 1 - June 30, 2011											
	January 1,		Additions/Amortization		Reclassifications		Disposal		Effects of exchange rates change		June 30,	
	NT	US	NT	US	NT	US	NT	US	NT	US	NT	US
Good will	$6,673,083	$231,785	$-	$-	$-	$-	$-	$-	$-	$-	$6,673,083	$231,785
Computer software	1,762,737	61,227	86,999	3,022	(120,528)	(4,187)	(91,472)	(3,177)	(438)	(15)	1,637,298	56,870
Land use rights	355,080	12,333	-	-	-	-	-	-	(3,998)	(139)	351,082	12,194
Amortization	(972,649)	(33,784)	(103,884)	(3,608)	14,275	496	84,019	2,918	404	14	(977,835)	(33,964)
Net balance	$7,818,251	$271,561	$(16,885)	$(586)	$(106,253)	$(3,691)	$(7,453)	$(259)	$(4,032)	$(140)	$7,683,628	$266,885

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$223,929).

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

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

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

① Discount rates

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

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

Assumptions are based on published industry research.

(4) Sensitivity to changes in assumptions:

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

13. Other assets, net

	June 30,			
	2012		2011	
	NT	US	NT	US
Prepayment	$362,328	$12,159	$339,539	$11,794
Temporary payments	38,737	1,300	323,833	11,248
Interbank settlement fund	1,380,841	46,337	1,365,877	47,443
Non-operating assets, net (Accumulated impairment NT$237,055 (US$7,955) and NT$250,207 (US$8,691), on June 30, 2012 and 2011, respectively.)	1,705,514	57,232	1,707,211	59,299
Refundable deposits, net	1,270,649	42,639	1,020,920	35,461
Deferred pension cost	44,802	1,503	84,200	2,924
Deferred tax assets, net	109,730	3,682	-	-
Others	63,245	2,123	62,050	2,155
Total	$4,975,846	$166,975	$4,903,630	$170,324

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

	June 30,			
	2012		2011	
	NT	US	NT	US
Due to commercial banks	$3,011,090	$101,043	$5,348,060	$185,761
Due to Post Co., Ltd.	19,939,165	669,100	19,435,756	675,087
Overdrafts from banks	216,988	7,281	970,607	33,713
Call loans from banks	40,324,822	1,353,182	28,806,422	1,000,571
Total	$63,492,065	$2,130,606	$54,560,845	$1,895,132

15. Financial liabilities at fair value through profit or loss

	June 30,			
	2012		2011	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$4,375,839	$146,840	$6,498,446	$225,719
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	-	-	5,055,601	175,603
Total	$4,375,839	$146,840	$11,554,047	$401,322

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

These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of the Bank.

(2) Net losses arising from financial liabilities at fair value through profit or loss for the six-month periods ended June 30, 2012 and 2011 were NT$3,512,759 (US$117,878) and NT$23,396,670 (US$812,667), respectively.

16. Payables

	June 30,			
	2012		2011	
	NT	US	NT	US
Accounts payable	$8,257,986	$277,114	$8,818,527	$306,305
Accrued interest payable	2,942,036	98,726	2,137,056	74,229
Accrued expenses	3,180,685	106,734	2,498,783	86,793
Foreign currency payable	258,676	8,681	4,541,412	157,743
Acceptance	1,888,544	63,374	1,679,176	58,325
Tax payable	370,270	12,425	510,695	17,739
Receipts under custody	213,450	7,163	225,594	7,836
Others	2,732,935	91,709	1,680,705	58,377
Total	$19,844,582	$665,926	$22,091,948	$767,347

17. Deposits and remittances

	June 30,			
	2012		2011	
	NT	US	NT	US
Check deposits	$15,387,324	$516,353	$13,488,742	$468,522
Demand deposits	238,102,524	7,990,017	220,399,558	7,655,421
Demand savings deposits	559,689,114	18,781,514	557,800,309	19,374,793
Time deposits	376,281,863	12,626,908	354,526,443	12,314,222
Negotiable certificates of deposit	7,153,800	240,060	1,351,600	46,947
Time savings deposits	278,206,739	9,335,797	260,482,110	9,047,659
Outward remittances	337,753	11,334	314,908	10,938
Remittances payable	293,192	9,839	544,448	18,911
Total	$1,475,452,309	$49,511,822	$1,408,908,118	$48,937,413

18. Financial debentures payable

	June 30,			
	2012		2011	
	NT	US	NT	US
Subordinated financial debentures	$38,959,797	$1,307,376	$34,119,404	$1,185,113
Discount in financial debentures	(28,118)	(944)	(34,126)	(1,185)
Valuation adjustment	1,266,887	42,513	1,184,608	41,146
Total	$40,198,566	$1,348,945	$35,269,886	$1,225,074

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

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

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

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

The Bank issued a eight-year subordinated financial debentures totaling NT$3,650,000 with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling NT$1,500,000 with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

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

The Bank issued a ten-year subordinated financial debentures totaling NT$1,500,000 with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.

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

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

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

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

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.

Indovina Bank issued a two-year financial debentures totaling VND $2,000-billion in 2010 with the first year interest rate of 13.5% and the second year interest rate of average interest rate of VND deposit plus 2.5%.

19. Other financial liabilities

	June 30,			
	2012		2011	
	NT	US	NT	US
Borrowed funds	$114,997	$3,859	$162,023	$5,628
Principal received from the sale of structured products	17,759,817	595,967	9,824,590	341,250
Total	$17,874,814	$599,826	$9,986,613	$346,878

20. Other liabilities

	June 30,			
	2012		2011	
	NT	US	NT	US
Accrued pension liabilities	$845,953	$28,388	$687,818	$23,891
Unearned receipts	606,889	20,365	325,067	11,290
Temporary receipts	967,785	32,476	540,484	18,773
Reserve for losses on guarantees	24,892	835	24,892	865
Guarantee deposits received	1,203,103	40,373	1,068,037	37,098
Reserve for land value increment tax	37,986	1,275	37,986	1,319
Deferred tax liabilities	-	-	56,776	1,972
Others	12,481	419	12,022	418
Total	$3,699,089	$124,131	$2,753,082	$95,626

In compliance with the Explanatory Letter No. Financial Supervisory Securities Firms 0990073857 issued by securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the "Regulations Governing Securities Firms", the reserves for losses on trading securities are no longer required since January 1, 2011. The remaining balance should be reclassified as special reserve in 2011 according to the Explanatory Letter No. Financial Supervisory Banking Law 10010000440 issued by Banking Bureau of the FSC dated March 23, 2011. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock.

21. Capital Stock

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

22. Capital reserves

	June 30,			
	2012		2011	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,949,303	$367,426	$10,949,303	$380,316
Additional paid-in capital	4,249,096	142,587	4,249,096	147,590
Others	14,893	500	14,893	517
Total	$15,213,292	$510,513	$15,213,292	$528,423

23. Retained earnings

(1) The Bank's articles of incorporation provide that its annual net income shall be appropriated after paying all outstanding taxes and deducting any deficit of prior years and distributed in the following order:

(a) legal reserve shall be set aside before the total amount of the legal reserve reaches the amount of paid-in capital;
(b) special reserves;
(c) regular dividends; and
(d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.

(2) The government's regulations stipulate that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches 25% of paid-in capital, the portion of legal reserve which exceeds 25% of paid-in capital may distributed by issuing new shares or cash.

(3) The estimation of employee bonus and remuneration of directors for the six-month periods ended June 30, 2012 and 2011 were both NT$750 based on the average actual payment over the past three years and recognized as operating expense. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.

(4) On April 24, 2012, the following are appropriations and distribution approved by the Bank's board of directors (according to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors)：

The appropriation and distribution of earnings in 2011:
(a) NT$3,351,599 (US$112,470) thousands as legal reserves;
(b) NT$7,820,397 (US$262,429) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$50) 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$118,080) thousands as legal reserves;
(b)NT$7,822,529 (US$271,710) thousands as dividends to shareholders.
Bonus to employees NT$1,500 (US$52) 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 six-month periods ended June 30, 2012 and 2011.

	January 1- June 30,			
	2012		2011	
	NT	US	NT	US
Personnel expenses				
Salary	$3,423,017	$114,866	$3,233,065	$112,298
Insurance	424,337	14,240	391,690	13,605
Pension	209,652	7,035	206,140	7,160
Others	185,229	6,216	186,883	6,492
Depreciation expenses	484,939	16,273	528,999	18,375
Amortization expenses	106,702	3,581	103,884	3,608

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 six-month periods ended June 30, 2012 and 2011 are as follows:

	January 1- June 30,			
	2012		2011	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General	$(932,367)	$(31,288)	$(875,739)	$(30,418)
Foreign subsidiaries (the tax rate was 25%)	(76,112)	(2,554)	(121,299)	(4,213)
Deferred tax benefit (expense):				
Allowance for bad debts	116,044	3,894	147,709	5,131
Reversal of allowance for pledged assets taken-over	(996)	(33)	(1,198)	(42)
Foreign investment income recognized by the equity method	51,689	1,735	(29,626)	(1,029)
Valuation allowance	(26,287)	(882)	(28,222)	(980)
Others	(34,592)	(1,161)	(42,851)	(1,489)
Effects of foreign branches' income tax	(37,597)	(1,262)	(9,867)	(343)
Adjustment of prior period's income tax	10,106	339	(58,873)	(2,045)
Income tax expense	$(930,112)	$(31,212)	$(1,019,966)	$(35,428)

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

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

	June 30,			
	2012		2011	
	NT	US	NT	US
The Bank				
Taxable temporary differences:				
Valuation of financial instruments	$369,221	$12,390	$349,221	$12,130
Others	1,873,390	62,865	1,732,949	60,193
Deductible temporary differences:				
Allowance for bad debts	1,989,115	66,749	868,877	30,180
Unrealized impairment loss for pledged assets taken-over	29,311	984	35,170	1,222
Valuation of financial instruments	5,291	178	57,450	1,996
Provisions for possible losses	-	-	3,018	105
Others	662,922	22,246	417,028	14,485
Deferred income tax assets of foreign branches	103,499	3,473	97,466	3,385

	June 30,			
	2012		2011	
	NT	US	NT	US
The Bank				
Deferred tax assets	$560,228	$18,800	$332,328	$11,543
Deferred tax liabilities	(381,244)	(12,793)	(353,969)	(12,295)
Valuation allowance	(71,443)	(2,398)	(34,538)	(1,200)
Net deferred income tax assets (liabilities)	$107,541	$3,609	$(56,179)	$(1,952)
Subsidiaries				
Deferred tax assets (liabilities)	$2,189	$73	$(597)	$(20)

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

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

	June 30,			
	2012		2011	
	NT	US	NT	US
The Bank's imputation credit	$19,066	$640	$1,893	$66
Undistributed earnings	6,650,180	223,160	6,279,207	218,104

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

	2011	2010
Cash dividends	1.33%	2.45%

27. Earnings per share

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

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

	January 1- June 30,			
	2012		2011	
	NT	US	NT	US
Income from continuing operations	$7,686,888	$257,949	$7,441,186	$258,464
Income tax expense	(930,112)	(31,212)	(1,019,966)	(35,428)
Net income	$6,756,776	$226,737	$6,421,220	$223,036
Attributable to:				
Equity holders of the parent	$6,650,180	$223,160	$6,246,950	$216,983
Minority interests	106,596	3,577	174,270	6,053
Net income	$6,756,776	$226,737	$6,421,220	$223,036

	January 1- June 30,			
	2012		2011	
	NT	US	NT	US
Basic earnings per share(in dollars)				
Income from continuing operations	$1.47	$0.050	$1.42	$0.049
Income tax expense	(0.18)	(0.006)	(0.20)	(0.007)
Net income	$1.29	$0.044	$1.22	$0.042
Basic earnings per share(in dollars)				
Equity holders of the parent	$1.27	$0.043	$1.19	$0.041
Minority interests	0.02	0.001	0.03	0.001
Net income	$1.29	$0.044	$1.22	$0.042

V. Related parties transactions

1. Name and relationships of related parties are as follows:

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	〃
Cathay Securities Corp.	〃
Cathay Pacific Venture Capital Co., Ltd.	〃
Cathay Securities Investment Trust Co., Ltd.	〃
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance
Cathay Insurance (Bermuda) Co., Ltd.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance (China) Co., Ltd.	〃
Cathay Life Insurance (Vietnam) Co., Ltd.	〃
Seaward Card Co., Ltd.	Subsidiaries
Cathay Life Insurance Agent Co., Ltd.	Subsidiaries (liquidated on June 14, 2012)
Vietinbank	Major stockholder of Indovina Bank
Cathay Futures Corp.	Subsidiary of Cathay Securities Corp.

Name of related parties	Relationship
Cathay Global Money Market Fund etc.	The funds which are managed by Cathay Securities Investment Trust Co., Ltd.
Cathay Insurance Company Limited (China)	Subsidiary of Cathay Century Insurance Corp.
Cathay Insurance (Vietnam) Co., Ltd.	〃
Cathay General Hospital	Related Party disclosed according to the ROC SFAS No. 6
Lin Yuan Property Management and Maintenance Co., Ltd.	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
Cathay Century Realty Co., Ltd.	Related Party disclosed according to the ROC SFAS No.6 (was decided its dissolution by the board of directors on March 16, 2011 and currently still in the process of dissolution)
Cathay Real-estate Management Corp.	Related Party disclosed according to the ROC SFAS No.6
Cathay Healthcare Inc.	〃
Cathay Lin Yuan Security Co., Ltd.	Related Party disclosed according to the ROC SFAS No.6 (was decided its dissolution by the board of directors on May 25, 2011 and currently still in the process of dissolution)
Seaward Leasing Ltd.	Related Party disclosed according to the ROC SFAS No.6 (incorporated into the Cathay Real Estate Development on July 28, 2011)
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	〃
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Others	Certain Directors, Supervisors, Managers and relatives of the Bank's Chairman and President and etc.

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

(1)Loans and Deposits

	June 30, Account balance			January 1- June 30, Interest income (expense)	
Accounts/Related parties	NT	US	% of Account	NT	US
2012					
Loans					
Cathay Real Estate Development Co., Ltd.	$50,000	$1,678	-	$282	$9
Taiwan Real-estate Management Corp.	75,000	2,517	0.01%	765	26
Cathay General Hospital	103,000	3,456	0.01%	1,515	51
Others	176,520	5,923	0.02%	2,120	71
Total	$404,520	$13,574	0.04%	$4,682	$157
Deposits					
Cathay Financial Holding Co., Ltd.	$4,458	$150	-	$(27)	$(1)
Cathay Life Insurance Co., Ltd.	57,794,645	1,939,418	3.92%	(218,184)	(7,322)
Cathay Century Insurance Co., Ltd.	1,334,248	44,773	0.09%	(5,910)	(198)
Cathay Securities Corp.	843,090	28,291	0.06%	(2,777)	(93)
Cathay Futures Corp.	1,946,704	65,326	0.13%	(9,566)	(321)
Cathay Pacific Venture Capital Co., Ltd.	17,492	587	-	(11)	(1)
Cathay Securities Investment Trust Co., Ltd.	1,565,469	52,532	0.11%	(6,414)	(215)
Cathay Real Estate Development Co., Ltd.	81,599	2,738	-	(100)	(3)
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	-	(58)	(2)
Cathay Global Money Market Fund etc.	2,113,147	70,911	0.14%	(11,472)	(385)
Others	6,450,647	216,465	0.44%	(31,290)	(1,050)
Total	$72,151,499	$2,421,191	4.89%	$(285,809)	$(9,591)

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	June 30, Account balance			January 1- June 30, Interest income (expense)	
Accounts/Related parties	NT	US	% of Account	NT	US
2011					
Loans					
Seaward Leasing Ltd.	$1,435,000	$49,844	0.15%	$3,004	$104
Taiwan Real-estate Management Corp.	85,000	2,952	0.01%	902	31
Cathay General Hospital	153,000	5,314	0.02%	2,517	88
Others	340,171	11,816	0.03%	3,312	115
Total	$2,013,171	$69,926	0.21%	$9,735	$338
Deposits					
Cathay Financial Holding Co., Ltd.	$3,530	$123	-	$(6)	$-
Cathay Life Insurance Co., Ltd.	48,156,494	1,672,681	3.42%	(75,306)	(2,616)
Cathay Century Insurance Co., Ltd.	1,413,352	49,092	0.10%	(2,019)	(70)
Cathay Securities Corp.	200,983	6,981	0.01%	(479)	(17)
Cathay Futures Corp.	1,380,526	47,952	0.10%	(6,283)	(218)
Cathay Pacific Venture Capital Co., Ltd.	11,977	416	-	(6)	-
Cathay Securities Investment Trust Co., Ltd.	1,006,422	34,957	0.07%	(1,485)	(52)
Cathay Real Estate Development Co., Ltd.	321,513	11,168	0.02%	(39)	(1)
Cathay Life Insurance (Vietnam) Co., Ltd.	22,185	770	-	(249)	(9)
Cathay Global Money Market Fund etc.	3,689,097	128,138	0.26%	(9,971)	(346)
Others	6,322,576	219,610	0.45%	(22,769)	(791)
Total	$62,528,655	$2,171,888	4.43%	$(118,612)	$(4,120)

Accounts/Related parties	January 1- June 30, Maximum balance NT	January 1- June 30, Maximum balance US	June 30, Account balance NT	June 30, Account balance US	January 1 - June 30, Interest income (expense) NT	January 1 - June 30, Interest income (expense) US	January 1 - June 30, Interest Rate (%)
2012							
Call loans to banks							
Vietinbank	$3,229,568	$108,375	$3,229,568	$108,375	$103,574	$3,476	0.51%-2.08%
Due from commercial banks							
Vietinbank	14,732	494	14,732	494	6	-	-
Due to commercial banks							
Vietinbank	15,828	531	9,987	335	-	-	-
Call loans from banks							
Vietinbank	-	-	-	-	(72,992)	(2,449)	0.80%-15.00%
2011							
Call loans to banks							
Vietinbank	864,060	30,013	864,060	30,013	33,348	1,158	2.80%-19.00%
Due from commercial banks							
Vietinbank	12,877	447	12,877	447	7	-	-
Due to commercial banks							
Vietinbank	15,109	525	15,109	525	-	-	-
Call loans from banks							
Vietinbank	556,480	19,329	-	-	(27,399)	(952)	11.50%-16.00%

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

(2)Transactions under repurchase agreements

Accounts/Related parties	June 30, Account balance NT	June 30, Account balance US	January 1- June 30, Interest expense NT	January 1- June 30, Interest expense US
2012				
Securities sold under agreements to repurchase				
Cathay Securities Investment Trust Co., Ltd.	$-	$-	$(342)	$(11)
Others	-	-	(138)	(5)
Total	$-	$-	$(480)	$(16)

Accounts/Related parties	June 30, Account balance NT	June 30, Account balance US	January 1- June 30, Interest expense NT	January 1- June 30, Interest expense US
2011				
Securities sold under agreements to repurchase				
Cathay Securities Investment Trust Co., Ltd.	$-	$-	$(53)	$(2)
Others	548,734	19,060	(427)	(15)
Total	$548,734	$19,060	$(480)	$(17)

(3)Lease

	January 1- June 30,			
	2012		2011	
Accounts/Related parties	NT	US	NT	US
Rental income				
Cathay Life Insurance Co., Ltd.	$18,653	$626	$17,821	$619
Cathay Century Insurance Co., Ltd.	3,485	117	3,259	113
Cathay Securities Corp.	4,007	134	5,873	204
Culture and Charity Foundation of Cathay United Bank	167	6	500	17
Rental expense				
Cathay Life Insurance Co., Ltd.	174,843	5,867	170,511	5,923
Cathay Real Estate Development Co., Ltd.	13,070	439	4,642	161
Seaward Leasing Ltd.	-	-	7,491	260
Refundable deposits				
Cathay Life Insurance Co., Ltd.	71,897	2,413	71,749	2,492
Cathay Real Estate Development Co., Ltd.	3,786	127	2,180	76
Seaward Leasing Ltd.	-	-	1,606	56
Guarantee deposit received				
Cathay Life Insurance Co., Ltd.	8,921	299	8,921	310
Cathay Century Insurance Co., Ltd.	2,085	70	1,620	56
Cathay Securities Corp.	2,491	84	2,751	96

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- June 30, 2012 NT	2012 US	2011 NT	2011 US
(4) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$1,345,681	$45,157	$846,091	$29,388
Cathay Century Insurance Co., Ltd.	37,350	1,253	35,983	1,250
Cathay Securities Corp.	3,173	106	4,696	163
Cathay Securities Investment Trust Co., Ltd.	20,889	701	10,677	371
Cathay Securities Investment Consulting Co., Ltd.	2,355	79	2,186	76
(5) Other operating income				
Cathay Century Insurance Co., Ltd.	2,751	92	285	10
(6) Operating expenses				
Cathay Life Insurance Co., Ltd.	52,100	1,748	53,232	1,849
Seaward Card Co., Ltd.	127,934	4,293	130,628	4,537
Symphox Information Co., Ltd.	213,882	7,177	255,038	8,859
Cathay Real Estate Development Co., Ltd.	2,839	95	3,610	125
Cathay Lin Yuan Security Co., Ltd.	-	-	1,010	35
Cathay General Hospital	570	19	1,603	56
Lin Yuan Property Management and Maintenance Co., Ltd.	3,397	114	3,027	105
Cathay Healthcare Inc.	722	24	-	-
(7) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	320,224	10,746	304,963	10,593
Cathay Century Insurance Co., Ltd.	30,982	1,040	32,909	1,143

Accounts/Related parties	June 30, 2012 NT	2012 US	2011 NT	2011 US
(8) Related party receivables for allocation of linked-tax system				
Cathay Financial Holding Co., Ltd.	$826,430	$27,733	$1,524,394	$52,949
(9) Other receivables–cash dividends				
Taiwan Finance Corp.	22,828	766	38,044	1,321

Accounts/Related parties	June 30, 2012 NT	2012 US	2011 NT	2011 US
(10) Refundable deposits				
Cathay Futures Corp.	$64,345	$2,159	$52,064	$1,808
(11) Accrued expenses				
Seaward Card Co., Ltd.	26,579	892	25,630	890
(12) Other payables-cash dividends				
Vietinbank	418,600	14,047	-	-
(13) Accounts payable				
Cathay Century Insurance Co., Ltd.	2,707	91	10,348	359
Symphox Information Co., Ltd.	14,844	498	27,420	952

(14) Others

a. The Bank sold its land and building in Taipei to Cathay Life Insurance Co., Ltd. for NT$316,210 (US$10,983) (taxes were deducted) during the six-month period ended June 30, 2011, the relevant carrying values were NT$146,959 (US$5,104) and the disposal gains of premises and equipment were NT$169,251 (US$5,879).

b. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT$2,455 (US$82) and NT$2,909 (US$101) during the six-month periods ended June 30, 2012 and 2011, respectively.

c. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the six-month periods ended June 30, 2012 and 2011. As of June 30, 2012 and 2011, the bonus points which not converting amount were NT$28,888 (US$969) and NT$31,658 (US$1,110), respectively.

d. The Bank entered into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount were NT$380,000 (US$13,199) during the six-month periods ended June 30, 2011.

e. Cathay Century Realty Co., Ltd. acted as a broker for the Bank to dispose of real estate, the commissions of NT$2,915 (US$101) were included in disposal gains of premises and equipment, during the six-month periods ended June 30, 2011.

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

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

(15) Transactions of derivative financial instruments

			Notional amount		Valuation gains (losses)	
Related parties	Category of agreements	Term of agreements	NT	US	NT	US
June 30, 2012						
Cathay Life						
Insurance Co., Ltd.	Currency swap	2010.03.08~2014.05.02	$52,952,000	$1,776,913	$190,976	$6,409
Cathay Century						
Insurance Co., Ltd.	Currency swap	2011.01.05~2013.06.13	1,466,595	49,215	22,281	748
	Interest rate swap	2010.03.08~2014.05.02	600,000	20,134	(27,884)	(936)
The funds which are managed by Cathay Securities Investment Trust Co., Ltd.	Currency swap	2012.05.02~2012.07.31	269,100	9,030	8,649	290
June 30, 2011						
Cathay Life						
Insurance Co., Ltd.	Forward	2010.07.21~2011.11.21	19,702,998	684,370	(2,990,479)	(103,872)
	Currency swap	2009.10.09~2012.05.22	41,647,692	1,446,603	(6,598,414)	(229,191)
Cathay Century						
Insurance Co., Ltd.	Currency swap	2011.01.05~2012.06.13	1,182,322	41,067	(77,518)	(2,693)
	Interest rate swap	2007.09.29~2015.04.30	600,000	20,841	(34,084)	(1,184)
The funds which are managed by Cathay Securities Investment	Forward	2011.06.01~2011.07.07	20,161	700	(3,229)	(112)
Trust Co., Ltd.	Non-delivery forward	2011.06.01~2011.07.07	40,323	1,401	(190)	(7)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2012, the Bank and its subsidiaries had the following commitments and contingent liabilities, which are not reflected in the financial statements:

1. The Bank

	NT	US
(1) Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$285,916,707	$9,594,520
Travelers checks for sale	435,621	14,618
Bills for collection	45,784,675	1,536,398
Book-entry for government bonds and depository for short-term marketable securities under management	531,974,700	17,851,500
Entrusted financial management business	2,536,040	85,102
Guarantees on duties and contracts	14,962,008	502,081
Unused commercial letters of credit	6,008,821	201,638
Irrevocable loan commitments	51,671,365	1,733,938
Credit card lines commitments	289,669,033	9,720,437
Stamp tax, securities and memorial currency consignments	1,006	34

(2) As of June 30, 2012, the Bank's significant lawsuits and proceedings are as follows:

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT$0.99 billion (US$33 million) and NT$3.09 billion (US$104 million), respectively. The lawsuit was in the litigation procedures in July, 2007 and is still under trial by Taipei District Court. The Bank is in mediation procedure with SanDisk Corporation. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

(3) As of June 30, 2012, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$269,455 (US$9,042) with prepayments of NT$86,989 (US$2,919).

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

Periods	NT	US
2012.7.1~2013.6.30	$619,674	$20,794
2013.7.1~2014.6.30	287,598	9,651
2014.7.1~2015.6.30	162,791	5,463
2015.7.1~2016.6.30	50,583	1,697
2016.7.1~2017.6.30	25,850	867

2. Indovina Bank

(1) As of June 30, 2012, Indovina Bank's outstanding off-balance sheet financial instruments on concentrations of credit risk are as follows:

	NT	US
Unused commercial letters of credit	$1,538,731	$51,635
Guarantees	663,282	22,258

(2) As of June 30, 2012, Indovina Bank had outstanding commitments under non-cancelable operating leases, which fall due as follows:

Years	NT	US
2012.7.1~2013.6.30	$44,054	$1,478
2013.7.1~2017.6.30	77,334	2,595

VIII. Significant disaster losses

None

IX. Significant subsequent event

None

X. Disclosure of financial instruments information

1. Information of fair value

	June 30, 2012			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Assets				
Financial assets at fair value through profit or loss	$8,171,635	$274,215	$8,171,635	$274,215
Available-for-sale financial assets	61,399,487	2,060,385	61,399,487	2,060,385
Held-to-maturity financial assets and investment in debt securities with no active market	394,665,765	13,243,818	394,750,135	13,246,649
Other financial assets-financial assets carried at cost	3,378,952	113,388	(Note)	(Note)
Others	1,227,613,016	41,195,067	1,227,613,016	41,195,067
Liabilities				
Financial debentures payable	40,198,566	1,348,945	40,198,566	1,348,945
Others	1,593,727,142	53,480,777	1,593,727,142	53,480,777
Derivative financial instruments of the Bank				
Assets				
Forward	260,793	8,752	260,793	8,752
Non-delivery forward	156,520	5,253	156,520	5,253
Currency swap	2,800,815	93,987	2,800,815	93,987
Interest rate swap	3,224,461	108,204	3,224,461	108,204
Cross currency swap	389,258	13,062	389,258	13,062
Options	577,948	19,394	577,948	19,394
Liabilities				
Forward	176,242	5,914	176,242	5,914
Non-delivery forward	161,774	5,428	161,774	5,428
Currency swap	1,425,652	47,841	1,425,652	47,841
Interest rate swap	1,709,530	57,367	1,709,530	57,367
Cross currency swap	368,389	12,362	368,389	12,362
Options	534,252	17,928	534,252	17,928

	June 30, 2011			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Assets				
Financial assets at fair value through profit or loss	$13,841,984	$480,791	$13,841,984	$480,791
Available-for-sale financial assets	52,710,063	1,830,846	52,710,063	1,830,846
Held-to-maturity financial assets and investment in debt securities with no active market	460,025,722	15,978,663	460,085,814	15,980,751
Other financial assets-financial assets carried at cost	3,488,956	121,186	(Note)	(Note)
Others	1,078,996,675	37,478,176	1,078,996,675	37,478,176
Liabilities				
Financial liabilities at fair value through profit or loss	5,055,601	175,603	5,055,601	175,603
Financial debentures payable	35,269,886	1,225,074	35,269,886	1,225,074
Others	1,510,348,320	52,460,866	1,510,348,320	52,460,866
Derivative financial instruments of the Bank				
Assets				
Forward	520,794	18,090	520,794	18,090
Non-delivery forward	31,135	1,082	31,135	1,082
Currency swap	4,085,902	141,921	4,085,902	141,921
Interest rate swap	3,137,446	108,977	3,137,446	108,977
Cross currency swap	273,350	9,495	273,350	9,495
Options	200,644	6,969	200,644	6,969
Future	67	2	67	2
Liabilities				
Forward	3,815,570	132,531	3,815,570	132,531
Non-delivery forward	35,330	1,227	35,330	1,227
Currency swap	555,091	19,281	555,091	19,281
Interest rate swap	1,630,937	56,650	1,630,937	56,650
Cross currency swap	265,453	9,220	265,453	9,220
Options	196,065	6,810	196,065	6,810

Note: Fair value cannot be reliably estimated.

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

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

(2) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments, held-to-maturity financial assets and 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 and its subsidiaries use 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 and its subsidiaries assess 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:

	June 30, 2012							
	Total		1st Level		2nd Level		3rd Level	
Financial instruments measured at fair value item	NT	US	NT	US	NT	US	NT	US
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss:								
Financial assets for trading								
Bonds	$2,581,145	$86,615	$2,433,206	$81,651	$147,939	$4,964	$-	$-
Others	5,460,429	183,236	-	-	5,460,429	183,236	-	-
Available-for-sale financial assets								
Stocks	9,096,968	305,267	9,096,968	305,267	-	-	-	-
Bonds	50,640,846	1,699,357	13,871,275	465,479	36,769,571	1,233,878	-	-
Others	1,151,582	38,644	1,151,582	38,644	-	-	-	-
Other financial assets:								
Investments in debt securities with no active market	372,509,081	12,500,305	-	-	372,509,081	12,500,305	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	6,039,697	202,675	-	-	6,039,697	202,675	-	-
Other financial assets								
Derivatives financial assets for hedging	1,370,098	45,977	-	-	1,370,098	45,977	-	-
Liabilities								
Financial liabilities at fair value through profit or loss	4,375,839	146,840	-	-	4,375,839	146,840	-	-

	June 30, 2011							
	Total		1st Level		2nd Level		3rd Level	
Financial instruments measured at fair value item	NT	US	NT	US	NT	US	NT	US
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss:								
Financial assets for trading								
Bonds	$569,267	$19,773	$432,213	$15,013	$137,054	$4,760	$-	$-
Others	13,131,187	456,102	-	-	13,131,187	456,102	-	-
Financial assets designated at fair value through profit or loss	2,728	95	-	-	2,728	95	-	-
Available-for-sale financial assets								
Stocks	9,592,480	333,188	9,592,480	333,188	-	-	-	-
Bonds	41,390,998	1,437,686	7,179,659	249,380	34,211,339	1,188,306	-	-
Others	1,222,040	42,447	1,222,040	42,447	-	-	-	-
Other financial assets:								
Investments in debt securities with no active market	454,038,035	15,770,685	-	-	454,038,035	15,770,685	-	-
Liabilities								
Financial liabilities at fair value through profit or loss	5,055,601	175,603	-	-	5,055,601	175,603	-	-

	June 30, 2011							
	Total		1st Level		2nd Level		3rd Level	
Financial instruments measured at fair value item	NT	US	NT	US	NT	US	NT	US
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	$6,970,329	$242,110	$3,577	$125	$6,966,752	$241,985	$-	$-
Other financial assets								
Derivatives financial assets for hedging	1,279,009	44,426	-	-	1,279,009	44,426	-	-
Liabilities								
Financial liabilities at fair value through profit or loss	6,498,446	225,719	-	-	6,498,446	225,719	-	-

4. Gains recognized for the changes in fair value of financial assets or liabilities determined by pricing models were NT$21,666 (US$727) and NT$24,726 (US$859) for the six-month periods ended June 30, 2012 and 2011, respectively.

5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the six-month periods ended June 30, 2012 and 2011 were NT$15,746,178 (US$528,395) and NT$12,841,090 (US$446,026) and expenses were NT$5,665,215 (US$190,108) and NT$4,219,964 (US$146,577), respectively.

6. The Bank and its subsidiaries recognized an unrealized gains or losses of NT$312,205 (US$10,476) and losses of NT$853,799 (US$29,656) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$443,160 (US$14,871) and NT$938,077 (US$32,583) in the income statement, for the six-month periods ended June 30, 2012 and 2011, respectively.

7. Information on financial risk

(1) Market risk

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

① Interest rate risk

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

② Foreign exchange risk

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

③ Equity securities price risk

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

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

June 30, 2012						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$531,841	$17,847	$876,417	$29,410	$296,744	$9,958
Foreign exchange	158,216	5,309	177,844	5,968	131,154	4,401
Equity Securities price	130,161	4,368	207,076	6,949	60,704	2,037

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

④ Market risk factor sensitivity

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

		June 30, 2012	
		NTD	USD
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	$521,149	$17,488
	HKD+1%	3,146	106
	JPY+1%	5,664	190
	NTD+1%	(553,605)	(18,577)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(22,404)	(752)
	Yield curves (HKD) parallel shift+1bp	(46)	(2)
	Yield curves (JPY) parallel shift+1bp	(12)	-
	Yield curves (NTD) parallel shift+1bp	(8,686)	(291)
Equity securities price factor sensitivity (Equity Delta)		125,097	4,198

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

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

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

⑤ Stress testing of the Bank

Stress Test			
Market/ Product	Scenarios	June 30, 2012	
		NT	US
Stock Market	Major Stock Exchanges +15%	$1,876,450	$62,968
	Major Stock Exchanges -15%	(1,876,450)	(62,968)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(3,108,839)	(104,323)
	Major Interest Rate - 100bp	2,603,266	87,358
Foreign Exchange Market	Major Currencies +3%	1,729,298	58,030
	Major Currencies -3%	(1,628,561)	(54,650)
Composite	Major Stock Exchanges -15% Major Interest Rate + 100bp Major Currencies +3%	(3,255,991)	(109,261)

(2) Credit risk

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

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

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

① Information on concentrations of credit risk:

	June 30, 2012			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Financial assets at fair value through profit or loss	$8,171,635	$274,215	$8,171,635	$274,215
Available-for-sale financial assets	61,399,487	2,060,385	61,399,487	2,060,385
Held-to-maturity financial assets and investment in debt securities with no active market	394,665,765	13,243,818	394,665,765	13,243,818
Other financial assets-financial assets carried at cost	3,378,952	113,388	3,378,952	113,388
Other assets	1,227,613,016	41,195,067	1,227,613,016	41,195,067
Guarantees on duties and contracts	-	-	15,625,290	524,339
Unused commercial letters of credit	-	-	7,547,552	253,273
Irrevocable loan commitments	-	-	51,671,365	1,733,938
Credit card line commitments	-	-	289,669,033	9,720,437
Derivative financial instruments of the Bank				
Forward	260,793	8,752	260,793	8,752
Non-delivery forward	156,520	5,253	156,520	5,253
Currency swap	2,800,815	93,987	2,800,815	93,987
Interest rate swap	3,224,461	108,204	3,224,461	108,204
Cross currency swap	389,258	13,062	389,258	13,062
Options	577,948	19,394	577,948	19,394

	June 30, 2011			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments of the Bank and its subsidiaries				
Financial assets at fair value through profit or loss	$13,841,984	$480,791	$13,841,984	$480,791
Available-for-sale financial assets	52,710,063	1,830,846	52,710,063	1,830,846
Held-to-maturity financial assets and investment in debt securities with no active market	460,025,722	15,978,663	460,025,722	15,978,663
Other financial assets-financial assets carried at cost	3,488,956	121,186	3,488,956	121,186
Other assets	1,078,996,675	37,478,176	1,078,996,675	37,478,176
Guarantees on duties and contracts	-	-	14,952,939	519,380
Unused commercial letters of credit	-	-	5,967,277	207,269
Irrevocable loan commitments	-	-	56,006,043	1,945,330
Credit card line commitments	-	-	276,910,487	9,618,287
Derivative financial instruments of the Bank				
Forward	520,794	18,090	520,794	18,090
Non-delivery forward	31,135	1,082	31,135	1,082
Currency swap	4,085,902	141,921	4,085,902	141,921
Interest rate swap	3,137,446	108,977	3,137,446	108,977
Cross currency swap	273,350	9,495	273,350	9,495
Options	200,644	6,969	200,644	6,969
Futures	67	2	67	2

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

	June 30,			
	2012		2011	
	NT	US	NT	US
Loans, customers' liabilities under acceptances, bills purchased and guarantees account				
Industry type				
Manufacturing	$142,869,751	$4,794,287	$137,870,223	$4,788,823
Financial institutions and insurance	38,024,104	1,275,977	36,442,818	1,265,815
Leasing and real estate	93,968,120	3,153,292	98,529,134	3,422,339
Individuals	492,380,537	16,522,837	475,116,829	16,502,842
Others	291,371,975	9,777,583	209,567,649	7,279,182
Total	1,058,614,487	35,523,976	957,526,653	33,259,001
Valuation allowance	(10,908,888)	(366,070)	(7,939,620)	(275,777)
Maximum credit risk exposed	$1,047,705,599	$35,157,906	$949,587,033	$32,983,224
Geographic Region				
Domestic	$919,570,105	$30,858,057	$848,515,987	$29,472,594
South East Asia	52,610,104	1,765,440	36,652,089	1,273,084
North East Asia	685,322	22,997	1,025,691	35,627
America	24,374,029	817,921	13,848,744	481,026
Others	61,374,927	2,059,561	57,484,142	1,996,670
Total	1,058,614,487	35,523,976	957,526,653	33,259,001
Valuation allowance	(10,908,888)	(366,070)	(7,939,620)	(275,777)
Maximum credit risk exposed	$1,047,705,599	$35,157,906	$949,587,033	$32,983,224

(3) Liquidity risk

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

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

The Bank's 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 31.39%. Capital and working capitals of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

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

As of June 30, 2012 and 2011, respectively, the effective interest rates of financial instruments held and issued by the Bank and its subsidiaries are classified as follows:

	Effective interest rate (%)	
Financial instruments	June 30, 2012	June 30, 2011
Available-for-sale financial assets		
Bonds	0.82-13.10	0-5.9295
Overseas financial instruments	0-9.3714	0-6.3574
Held-to-maturity financial assets		
Bonds	2.2292-18.50	2.2292-18.00
Overseas financial instruments	0-8.2501	0-7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.506-1.065	0.342-0.97
Overseas financial instruments	0-5.15	0-5.15
Financial debentures payable	1.48-16.50	1.65-13.50

8. Fair value hedge

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

		Hedging instruments			
		Financial assets Fair value			
	Derivative designated as	June 30, 2012		June 30, 2011	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$1,370,098	$45,977	$1,279,009	$44,426

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:

	June 30, 2012			June 30, 2011		
	Foreign Currency	Exchange Rate	NT	Foreign Currency	Exchange Rate	NT
Financial Assets						
Monetary Items						
USD	$6,858,430	29.9000	$205,067,057	$4,906,281	28.8020	$141,310,705
HKD	3,861,708	3.8551	14,887,271	3,276,238	3.7008	12,124,702
RMB	841,265	4.7001	3,954,030	-	-	-
Financial Liabilities						
Monetary Items						
USD	5,769,135	29.9000	172,497,137	4,974,257	28.8020	143,268,550
AUD	229,576	30.3739	6,973,118	160,452	30.9031	4,958,464
RMB	951,147	4.7001	4,470,486	267,371	4.4562	1,191,459

Note: Disclose the foreign currency part from functional currency which transferred (rather than original bargain currency).

XI. Operating segment information

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

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

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

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

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

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

January 1- June 30, 2012	Corporate Banking Segment		Retail Banking Segment		Offshore Banking Segment		Other Segment		Consolidated	
	NT	US	NT	US	NT	US	NT	US	NT	US
Net interest income (from external customer)	$3,718,843	$124,793	$1,873,085	$62,855	$3,018,346	$101,287	$1,814,015	$60,873	$10,424,289	$349,808
Inter-segment revenues	$(1,945,561)	$(65,287)	$4,187,412	$140,517	$(323,864)	$(10,868)	$(1,917,987)	$(64,362)	$-	$-
Segment net income	$1,441,421	$48,370	$5,217,842	$175,095	$3,094,736	$103,850	$(2,067,111)	$(69,366)	$7,686,888	$257,949
Income tax expense									(930,112)	(31,212)
Net income after income taxes									$6,756,776	$226,737

January 1- June 30, 2011	Corporate Banking Segment		Retail Banking Segment		Offshore Banking Segment		Other Segment		Consolidated	
	NT	US	NT	US	NT	US	NT	US	NT	US
Net interest income (from external customer)	$3,292,947	$114,378	$2,589,404	$89,941	$1,592,238	$55,305	$1,613,543	$56,046	$9,088,132	$315,670
Inter-segment revenues	$(1,430,777)	$(49,697)	$3,273,934	$113,718	$(74,618)	$(2,592)	$(1,768,539)	$(61,429)	$-	$-
Segment net income	$2,465,820	$85,648	$3,765,443	$130,790	$1,916,843	$66,580	$(706,920)	$(24,554)	$7,441,186	$258,464
Income tax expense									(1,019,966)	(35,428)
Net income after income taxes									$6,421,220	$223,036

Note:

1. No revenue from transactions with a single external customer amounted to 10% or more of the Bank and its subsidiaries' total revenue during the six-month period ended June 30, 2012 and 2011.

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

Pursuant to Interpretation 2010-151 issued by the Accounting Research and Development Foundation, the Bank and its subsidiaries' 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

(1) The Bank

	January 1- June 30, 2012		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$40,060,890	$1,344,325	0.56%
Time certificates, discounted bills and others	413,134,375	13,863,570	0.89%
Due from commercial banks and call loans to banks	46,280,185	1,553,026	2.08%
Discounts and loans	1,002,773,503	33,650,118	2.04%
Bills purchased	2,424	81	3.97%
Bonds	87,356,490	2,931,426	3.45%
Receivables-credit card revolving balance	15,490,369	519,811	13.69%
Securities purchased under agreements to resell	5,526,943	185,468	0.74%
Liabilities			
Due to banks	55,778,914	1,871,776	0.93%
Demand deposits	222,975,924	7,482,414	0.12%
Saving deposits	853,510,553	28,641,294	0.60%
Time deposits	393,181,211	13,194,000	1.04%
Negotiable certificates of deposit	473,974	15,905	0.92%
Securities sold under agreements to repurchase	16,180,165	542,959	0.56%
Financial debentures	32,271,129	1,082,924	3.18%
Funds borrowed from the Central Bank and other banks	1,251,138	41,984	0.69%
Principals received from the sale of structured products	15,021,309	504,071	1.53%

	January 1- June 30, 2011		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$36,849,451	$1,279,939	0.47%
Time certificates, discounted bills and others	397,531,622	13,807,976	0.75%
Due from commercial banks and call loans to banks	27,801,515	965,666	0.62%
Discounts and loans	901,591,271	31,316,126	1.86%
Bills purchased	3,179	110	3.23%
Bonds	63,846,329	2,217,656	2.87%
Receivables-credit card revolving balance	16,541,316	574,551	14.06%
Securities purchased under agreements to resell	12,483,029	433,589	0.43%
Liabilities			
Due to banks	43,956,215	1,526,788	0.84%
Demand deposits	209,711,322	7,284,172	0.10%
Saving deposits	817,758,829	28,404,266	0.52%
Time deposits	309,849,200	10,762,390	0.87%
Negotiable certificates of deposit	1,306,251	45,372	0.23%
Securities sold under agreements to repurchase	15,672,869	544,386	0.29%
Financial debentures	27,829,642	966,643	3.41%
Funds borrowed from the Central Bank and other banks	1,632,742	56,712	0.70%
Principals received from the sale of structured products	9,802,336	340,477	1.07%

(2) Indovina Bank

	January 1- June 30, 2012		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$770,064	$25,841	0.42%
Due from commercial banks and call loans to banks	9,546,421	320,350	8.10%
Discounts and loans	16,593,696	556,835	9.93%
Bonds	1,665,751	55,898	16.47%
Liabilities			
Due to banks and Funds borrowed from the Central Bank and other banks	5,072,062	170,203	8.35%
Demand deposits	5,799,292	194,607	0.64%
Time deposits	8,848,732	296,937	9.97%
Financial debentures	2,871,135	96,347	16.50%

	January 1- June 30, 2011		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$576,859	$20,037	0.55%
Due from commercial banks and call loans to banks	8,435,107	292,987	9.31%
Discounts and loans	18,621,230	646,795	10.89%
Bonds	1,458,171	50,649	13.81%
Liabilities			
Due to banks and Funds borrowed from the Central Bank and other banks	6,850,053	237,932	10.01%
Demand deposits	6,493,771	225,556	2.11%
Time deposits	11,150,738	387,313	10.26%
Financial debentures	2,790,205	96,916	11.90%

2. Regulatory capital ratio

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

As of June 30, 2012 and 2011, the ratios of the Bank and its subsidiaries' eligible capital to its consolidated risk-weighted assets were 11.18% and 12.16%.

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

Balance Sheet Based on Trust
June 30, 2012

Trust Assets	NT	US	Trust Liabilities	NT	US
Bank deposits	$10,063,183	$337,691	Payables	$2,591	$87
Bonds	160,450,476	5,384,244	Custody securities payable	129,539,519	4,346,964
Common stock	2,175,333	72,998	Other liabilities	56	2
Mutual funds	161,624,118	5,423,628	Trust capital	354,624,667	11,900,156
Insurance product	1,992,303	66,856	Accumulated Losses		
Receivables	4	-	Earnings distribution	(30,568)	(1,026)
Real estate			Net income	47,826	1,605
Land	17,971,861	603,082	Retained Losses	(167,090)	(5,607)
Buildings, net	34,418	1,155	Net assets		
Custody securities	129,539,519	4,346,964	Capital account	244,596	8,208
Other	410,868	13,787	Distributable revenue	486	16
Total	$484,262,083	$16,250,405	Total	$484,262,083	$16,250,405

Balance Sheet Based on Trust
June 30, 2011

Trust Assets	NT	US	Trust Liabilities	NT	US
Bank deposits	$4,939,159	$171,558	Payables	$1,936	$67
Bonds	142,294,514	4,942,498	Taxes payable	52	2
Common stock	2,976,674	103,393	Custody securities payable	124,825,905	4,335,738
Mutual funds	154,391,681	5,362,684	Other liabilities	56	2
Insurance product	1,713,133	59,505	Trust capital	322,679,197	11,208,031
Receivables	1	-	Accumulated Losses		
Real estate			Earnings distribution	(24,005)	(834)
Land	15,034,451	522,211	Net income	14,570	506
Buildings, net	22,986	798	Retained Losses	(167,959)	(5,834)
Construction in progress	1,391,904	48,347	Net assets		
Custody securities	124,825,905	4,335,738	Capital account	260,083	9,034
			Distributable revenue	573	20
Total	$447,590,408	$15,546,732	Total	$447,590,408	$15,546,732

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Income Statement Based on Trust

Items	January 1- June 30, 2012 NT	January 1- June 30, 2012 US
Trust revenue		
Interest income	$19,399	$651
Rental income	168	6
Cash dividend income	4,002	134
Investment income-stock	28,009	940
Investment income-funds	8,770	294
Subtotal	60,348	2,025
Trust expense		
Management fee	5,695	191
Supervisor fee	170	6
Taxes	1,420	47
Processing fee	335	11
Service fee	174	6
Investment loss-stock	2,033	68
Investment loss-funds	2,404	81
Others	61	2
Subtotal	12,292	412
Net income before tax	48,056	1,613
Income equalization	(230)	(8)
Net income	$47,826	$1,605

Items	January 1- June 30, 2011 NT	January 1- June 30, 2011 US
Trust revenue		
Interest income	$11,606	$403
Rental income	168	6
Cash dividend income	2,593	90
Investment income-stock	5,387	187
Investment income-funds	4,554	158
Subtotal	24,308	844
Trust expense		
Management fee	5,200	181
Supervisor fee	127	4
Taxes	952	33
Processing fee	577	20
Service fee	174	6
Investment loss-stock	792	27
Investment loss-funds	2,271	79
Others	54	2
Subtotal	10,147	352
Net income before tax	14,161	492
Income equalization	409	14
Net income	$14,570	$506

Details of Trust Properties

Items	June 30, 2012 NT	June 30, 2012 US
Bank deposits	$10,063,183	$337,691
Bonds	160,450,476	5,384,244
Common stock	2,175,333	72,998
Mutual fund	161,624,118	5,423,628
Insurance product	1,992,303	66,856
Real estate		
Land	17,971,861	603,082
Buildings, net	34,418	1,155
Custody securities	129,539,519	4,346,964
Other assets	410,868	13,787
Total	$484,262,079	$16,250,405

Items	June 30, 2011 NT	June 30, 2011 US
Bank deposits	$4,939,159	$171,558
Bonds	142,294,514	4,942,498
Common stock	2,976,674	103,393
Mutual fund	154,391,681	5,362,684
Insurance product	1,713,133	59,505
Real estate		
Land	15,034,451	522,211
Buildings, net	22,986	798
Construction in progress	1,391,904	48,347
Custody securities	124,825,905	4,335,738
Total	$447,590,407	$15,546,732

5. The bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of June 30, 2012 and 2011 are as follows:

Items	June 30, 2012 NT	June 30, 2012 US
Special trust of money that invest in foreign securities	$273,514,104	$9,178,326
Special trust money that invest in domestic securities	47,278,528	1,586,528
Trust of money-custody securities	129,539,519	4,346,964
Trust of real estate	19,245,046	645,807
Trust of real estate price	3,989,101	133,862
Trust of insurance claims	96,536	3,239
Personal and corporate trust	5,497,287	184,473
Trust of business employee's savings	2,626,694	88,144
Trust of securities	1,816,755	60,965
Collective investment trust funds	247,595	8,308
Trust of loans and related securities interests	410,918	13,789
Total	$484,262,083	$16,250,405

Items	June 30, 2011 NT	June 30, 2011 US
Special trust of money that invest in foreign securities	$249,438,739	$8,664,076
Special trust money that invest in domestic securities	46,289,400	1,607,829
Trust of money-custody securities	124,825,905	4,335,738
Trust of real estate	16,494,991	572,942
Trust of real estate price	711,343	24,708
Trust of insurance claims	67,371	2,340
Personal and corporate trust	4,308,799	149,663
Trust of business employee's savings	2,596,565	90,190
Trust of securities	2,594,599	90,121
Collective investment trust funds	262,696	9,125
Total	$447,590,408	$15,546,732

6. 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$20,599 (US$715) for the six-month period ended June 30, 2011, and the increment of retained earnings were made by NT$32,257 (US$1,121) and NT$52,856 (US$1,836) as of January 1, 2011 and June 30, 2011, respectively. Accordingly, the relevant accounts of assets, liabilities, profit or loss has been adjusted, while preparing the comparative financial statements.

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

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

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

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

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

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

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

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

Accounting Issues	Description of differences
Other employee benefits(employee preferential interest rate deposits)	According to internal regulation of the Bank or hiring agreement, the excess interest of retiring interest rate employee preferential deposits is adapted to IAS 19 "Employee Benefit" once the employee is retired.
Customer loyalty Programmes	The Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. However under the requirements of IFRIC 13 "Customer Loyalty Programmes", the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale; the consideration allocated to the award credits should be deferred and only recognized as revenue when award credit are redeemed and the Bank fulfills its obligations to supply awards.
Regular way purchase or sale of a financial asset	The bond trading is recognized on the settlement date under the Bank's regular way purchase and sale. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting.

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

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

	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Other assets (A、C、D)	$1,738,125,272	$58,326,351	$857,862	$28,788	$1,738,983,134	$58,355,139
Total assets	1,738,125,272	58,326,351	857,862	28,788	1,738,983,134	58,355,139
Payables (B、D)	21,149,593	709,718	(771,648)	(25,894)	20,377,945	683,824
Provision (A、D)	-	-	2,075,802	69,658	2,075,802	69,658
Other liabilities (B、C、D)	1,615,648,405	54,216,389	947,085	31,781	1,616,595,490	54,248,170
Total liabilities	1,636,797,998	54,926,107	2,251,239	75,545	1,639,049,237	55,001,652

	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Common Stock	$52,277,026	$1,754,263	$-	$-	$52,277,026	$1,754,263
Capital Reserves	15,213,292	510,513	-	-	15,213,292	510,513
Retained Earnings (A、B、C)	30,452,058	1,021,881	(2,194,528)	(73,642)	28,257,530	948,239
Other Stockholders' Equity (A、D)	235,727	7,910	801,151	26,885	1,036,878	34,795
Minority Interest	3,149,171	105,677	-	-	3,149,171	105,677
Stockholders' Equity	101,327,274	3,400,244	(1,393,377)	(46,757)	99,933,897	3,353,487

A. The Bank adopts IAS 19, "Employee benefits", the relevant adjustment resulted in a decrease of the deferred pension cost by NT$44,802 (US$1,504), a reverse of the net loss not recognized as net pension cost by NT$801,151 (US$26,884), an increase of the provisions by NT$1,204,956 (US$40,434), and a corresponding decrease of retained earnings of NT$2,050,909 (US$68,822).

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$17,190), an increase of the deferred income by NT$1,105,371 (US$37,093) and a corresponding decrease of retained earnings of NT$593,100 (US$19,903).

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$2,922) and NT$536,567 (US$18,005), respectively, and resulted in an increase of retained earnings of NT$449,481 (US$15,083).

D. Other explanations are as follows:

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

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

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

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

	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Financial Assets (E)	$475,027,018	$15,940,504	$2,353,347	$78,971	$477,380,365	$16,019,475
Other assets (A、D、E)	1,265,159,567	42,455,019	1,227,001	41,175	1,266,386,568	42,496,194
Total assets	1,740,186,585	58,395,523	3,580,348	120,146	1,743,766,933	58,515,669
Payables (B、C、E)	19,844,582	665,926	1,494,828	50,162	21,339,410	716,088
Provision (A、E)	-	-	1,990,549	66,797	1,990,549	66,797
Other liabilities (B、D、E)	1,620,952,951	54,394,394	972,001	32,617	1,621,924,952	54,427,011
Total liabilities	1,640,797,533	55,060,320	4,457,378	149,576	1,645,254,911	55,209,896
Common Stock	52,277,026	1,754,263	-	-	52,277,026	1,754,263
Capital Reserves	15,213,292	510,513	-	-	15,213,292	510,513
Retained Earnings (A、B、C、D、E)	29,281,841	982,612	(2,141,333)	(71,857)	27,140,508	910,755
Other Stockholders' Equity(A、D、E)	(180,470)	(6,056)	1,264,303	42,425	1,083,833	36,371
Minority Interest	2,797,363	93,871	-	-	2,797,363	93,871
Stockholders' Equity	99,389,052	3,335,203	(877,030)	(29,430)	98,512,022	3,305,773

A. The Bank adopts IAS 19, "Employee benefits", the relevant adjustment resulted in a decrease the deferred pension cost by NT$44,802 (US$1,504), a reverse of the net loss not recognized as net pension cost by NT$801,151 (US$26,884), an increase of the provisions by NT$1,119,703 (US$37,574), and a corresponding decrease of retained earnings of NT$1,965,656 (US$65,962).

B. The Bank adopt IFRIC 13 "Customer Loyalty Programmes", the relevant adjustment resulted in a decrease of the accrued expenses by NT$516,182 (US$17,322), an increase of the deferred income by NT$1,128,520 (US$37,870) and a corresponding decrease of retained earnings of NT$612,338 (US$20,548).

C. The Bank adopt IAS 17 "Leases", the adjustment resulted in an increase of accrued expenses by NT$2,534 (US$85) 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$2,922) and NT$525,567 (US$17,636), respectively, and resulted in an increase in retained earnings of NT$438,481 (US$14,714).

E. Other explanations are as follows:

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

(b) The bond trading is recognized on the settlement date under the Bank's regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Therefore, the Bank replaces the settlement date accounting with the trade date accounting and resulted in an increase of retained earnings by NT$714 (US$24).

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

③ Reconciliation of the income statement for the six months period ended June 30, 2012:

	ROC GAAP		Adjustments		IFRSs	
	NT	US	NT	US	NT	US
Net interest income(A、E)	$10,424,289	$349,808	$79,029	$2,652	$10,503,318	$352,460
Noninterest income(B、E)	5,940,551	199,348	36,093	1,211	5,976,644	200,559
Net operating income	16,364,840	549,156	115,122	3,863	16,479,962	553,019
Operating expenses (A、B、C)	(8,677,952)	(291,207)	(50,927)	(1,708)	(8,728,879)	(292,915)
Net income before income tax	7,686,888	257,949	64,195	2,155	7,751,083	260,104
Income tax expense(D)	(930,112)	(31,212)	(11,000)	(369)	(941,112)	(31,581)
Net income after income tax	6,756,776	226,737	53,195	1,786	6,809,971	228,523

A. The Bank adopts IAS 19, "Employee benefits", the relevant adjustment resulted in an increase personnel expenses by NT$52,304 (US$1,755) and a decrease of interest expense by NT$137,556 (US$4,616), respectively.

B. The Bank adopt IFRIC 13 "Customer Loyalty Programmes", the relevant adjustment resulted in a decrease of handling fees income by NT$23,148 (US$777) and a decrease of other general and administrative expense by NT$3,911 (US$132) , respectively.

C. The Bank adopt IAS 17 "Leases", the adjustment resulted in an increase of rental expenses NT$2,534 (US$85).

D. In summary, the Bank adopt IAS 12 "Income Tax", the adjustment resulted in an increase the income tax expense by NT$11,000 (US$369).

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$3 (US$0) and an increase of realized gain on available-for-sale financial assets by NT$717 (US$24).

(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.