Cathay Life Insurance Co., Ltd.
Financial Statements
As of March 31, 2009 and 2010
With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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Index to financial statements

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of March 31, 2009 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China ("R.O.C."). A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three-month periods ended March 31, 2009 and 2010 in order for them to be in conformity with requirements of the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Industry of Life Insurance, and accounting principles generally accepted in the Republic of China.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C.
April 16, 2010

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited balance sheets
As of March 31, 2009 and 2010
(Expressed in thousands of dollars)

Assets	Notes	March 31, 2009 NT$	March 31, 2009 US$	March 31, 2010 NT$	March 31, 2010 US$
Current assets					
Cash and cash equivalents	2,4,27	$209,878,086	$6,196,578	$438,016,344	$13,804,486
Financial assets at fair value through profit or loss - current	2,5,13,27	135,649,763	4,005,012	67,477,479	2,126,615
Available-for-sale financial assets - current	2,6,13	121,988,785	3,601,677	169,809,629	5,351,706
Held-to-maturity financial assets - current	2,13,27	35,943,812	1,061,229	22,739,877	716,668
Derivative financial assets for hedging - current	2,7	2,102,486	62,075	2,135,980	67,317
Investments in debt securities with no active market - current	2,13	11,629,131	343,346	6,713,163	211,572
Notes receivable - net of bad debt allowance	2	4,398,302	129,858	5,251,983	165,521
Prepaid reinsurance premium		2,288,042	67,554	6,201,705	195,452
Claims recoverable from reinsurers		2,689	80	-	-
Reinsurance accounts receivable		32,252	952	35	1
Other accounts receivable - net of bad debt allowance	2,27	47,081,817	1,390,074	42,763,055	1,347,717
Other financial assets - current		8,000,000	236,197	2,500,000	78,790
Prepayments	27	93,382	2,757	85,332	2,689
Deferred income tax assets - current	2,25	-	-	456,953	14,401
Other current assets		162,516	4,798	365,205	11,510
Subtotal		579,251,063	17,102,187	764,516,740	24,094,445
Loans	2,8,27				
Policy loans		196,054,705	5,788,447	192,883,762	6,078,908
Secured loans - net of bad debt allowance		337,111,400	9,953,097	303,125,887	9,553,290
Subtotal		533,166,105	15,741,544	496,009,649	15,632,198
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,13	245,487,218	7,247,925	270,738,277	8,532,565
Held-to-maturity financial assets - noncurrent	2,10,13	592,097,799	17,481,482	643,768,905	20,288,966
Financial assets carried at cost - noncurrent	2,11	19,072,499	563,109	10,244,346	322,860
Investments in debt securities with no active market - noncurrent	2,12	108,286,322	3,197,116	163,497,496	5,152,773
Long-term investments under the equity method	2,14	6,716,768	198,310	4,977,152	156,860
Investments in real estate - net of accumulated depreciation and impairment	2,15	114,811,515	3,389,770	122,357,676	3,856,214
Other financial assets - noncurrent	27	4,250,000	125,480	42,300,000	1,333,123
Subtotal		1,090,722,121	32,203,192	1,257,883,852	39,643,361
Property and equipment	2,16,27				
Land		4,751,206	140,278	4,599,618	144,961
Buildings and construction		10,329,315	304,969	10,497,591	330,841
Computer equipment		2,137,596	63,112	2,152,026	67,823
Communication and transportation equipment		12,942	382	12,758	402
Other equipment		3,004,228	88,699	3,035,062	95,653
Revaluation increments		1,303	38	583	18
Less: Accumulated depreciation		(7,478,340)	(220,795)	(8,153,732)	(256,972)
Less: Accumulated impairment		(85,519)	(2,525)	(85,519)	(2,695)
Construction in progress and prepayment for equipment		86,056	2,541	4,033	127
Subtotal		12,758,787	376,699	12,062,420	380,158
Intangible assets	2				
Computer software cost	17	609,392	17,992	532,699	16,789
Deferred pension cost		155,201	4,582	-	-
Subtotal		764,593	22,574	532,699	16,789
Other assets					
Guarantee deposits paid	2,27,28	11,632,382	343,442	11,914,842	375,507
Deferred income tax assets - noncurrent	2,25	10,023,233	295,932	5,179,799	163,246
Other overdue receivables	2,18,27	278,846	8,233	210,053	6,620
Separate account product assets	2,32	195,593,488	5,774,830	271,466,764	8,555,524
Other assets - other		3,167,724	93,526	2,049,150	64,581
Subtotal		220,695,673	6,515,963	290,820,608	9,165,478
Total assets		$2,437,358,342	$71,962,159	$2,821,825,968	$88,932,429

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2009 and 2010 were NT$33.87 and NT$31.73 to US$1.00)

The accompanying notes are an integral part of these unaudited financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Balance sheets - (continued)
As of March 31, 2009 and 2010
(Expressed in thousands of dollars)

		March 31, 2009		March 31, 2010	
Liabilities & stockholders' equity	Notes	NT$	US$	NT$	US$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,19	$22,039,951	$650,722	$1,672,256	$52,703
Derivative financial liabilities for hedging - current	2,20	98,083	2,896	19,568	617
Notes payable		1,764	52	1,433	45
Commissions payable		951,447	28,091	1,291,001	40,687
Life insurance proceeds payable		2,200	65	1,553	49
Reinsurance accounts payable		1,087,222	32,100	2,773,125	87,397
Others payable	2,27	6,812,269	201,130	21,696,122	683,773
Accounts collected in advance		134,432	3,969	120,126	3,786
Deferred income tax liabilities - current	2,25	4,216,069	124,478	-	-
Subtotal		35,343,437	1,043,503	27,575,184	869,057
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	106	3,487	110
Accrued pension liability	2	1,824,242	53,860	1,402,660	44,206
Preferred stock liability - noncurrent	2,21	15,000,000	442,870	25,000,000	787,898
Subtotal		16,827,823	496,836	26,406,147	832,214
Reserve for operations and liabilities	2				
Unearned premium reserve		11,248,977	332,122	10,341,335	325,917
Reserve for life insurance liabilities		2,091,851,840	61,761,200	2,356,449,098	74,265,651
Special reserve		16,206,844	478,501	13,906,974	438,291
Reserve for claims		1,476,374	43,589	3,377,812	106,455
Premium deficiency reserve		2,728,588	80,561	4,902,800	154,516
Subtotal		2,123,512,623	62,695,973	2,388,978,019	75,290,830
Other liabilities					
Guarantee deposits received	27	1,565,780	46,229	1,642,245	51,757
Separate account product liabilities	2,32	195,593,488	5,774,830	271,466,764	8,555,524
Other liabilities - other		968,080	28,582	2,867,104	90,359
Subtotal		198,127,348	5,849,641	275,976,113	8,697,640
Total liabilities		2,373,811,231	70,085,953	2,718,935,463	85,689,741
Stockholders' equity					
Capital stock					
Common stock	2,22	52,686,158	1,555,541	52,686,158	1,660,452
Capital surplus	2	13,009,648	384,105	13,009,649	410,011
Retained earnings	2,23				
Legal reserve		23,535,758	694,885	20,328,674	640,677
Special reserve		19,169,006	565,958	20,402,545	643,005
Unappropriated retained earnings		1,629,481	48,110	(1,357,590)	(42,786)
Equity adjustments					
Unrealized (losses) gains on financial instruments	2,23	(46,524,333)	(1,373,615)	(2,058,620)	(64,879)
Unrealized revaluation increments	2	2,105	62	1,462	46
Cumulative conversion adjustments	2	303,592	8,963	(121,773)	(3,838)
Net loss not recognized as pension cost		(264,304)	(7,803)	-	-
Total stockholders' equity		63,547,111	1,876,206	102,890,505	3,242,688
Total liabilities and stockholders' equity		$2,437,358,342	$71,962,159	$2,821,825,968	$88,932,429

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2009 and 2010 were NT$33.87 and NT$31.73 to US$1.00)

The accompanying notes are an integral part of these unaudited financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited statements of income
For the three months ended March 31, 2009 and 2010
(Expressed in thousands of dollars, except earnings per share)

		January 1-March 31, 2009		January 1-March 31, 2010	
Item	Notes	NT$	US$	NT$	US$
Operating revenues	2,27				
Premiums income		$97,280,271	$2,872,166	$137,441,231	$4,331,586
Reinsurance commission earned		1,382,646	40,822	2,681,597	84,513
Claims recovered from reinsures		126,574	3,737	2,764,372	87,122
Recovered premium reserve		31,410,768	927,392	54,263,756	1,710,172
Recovered special reserve		42,480	1,254	1,511,472	47,635
Handling fees earned	32	391,895	11,571	532,572	16,785
Interest income		18,862,005	556,894	18,290,756	576,450
Gains from valuation on financial assets		120,883	3,569	-	-
Gains from valuation on financial liabilities		8,222,644	242,771	752,838	23,726
Gains on long-term equity investments		42,830	1,265	-	-
Gains on foreign exchange		23,906,575	705,834	-	-
Gains on disposal of investments		-	-	8,744,960	275,605
Gains on investments - real estate		1,532,217	45,238	1,639,948	51,685
Separate account product revenues	32	18,490,121	545,914	23,811,925	750,455
Subtotal		201,811,909	5,958,427	252,435,427	7,955,734
Operating costs	2,27				
Reinsurance premiums ceded		(370,967)	(10,953)	(6,139,717)	(193,499)
Brokerage expenses	24	(6,997,327)	(206,594)	(6,992,792)	(220,384)
Commissions expenses		(45,472)	(1,343)	(222,061)	(6,999)
Insurance claim payments		(41,438,748)	(1,223,465)	(67,180,768)	(2,117,263)
Provision for premium reserve		(99,245,275)	(2,930,182)	(136,661,901)	(4,307,025)
Provision for special reserve		(112,239)	(3,314)	(75,623)	(2,383)
Contribution to the stabilization funds		(97,224)	(2,870)	(137,387)	(4,330)
Provision for claim reserve		(34,793)	(1,027)	(1,788,492)	(56,366)
Provision for premium deficiency reserve		(37,250)	(1,100)	(1,344,573)	(42,375)
Handling fees paid		(474,864)	(14,020)	(226,966)	(7,153)
Interest expenses		(9,763)	(288)	(5,887)	(186)
Losses from valuation on financial assets		-	-	(5,425,299)	(170,983)
Losses on long-term equity investments	14	-	-	(90,541)	(2,854)
Losses on foreign exchange		-	-	(5,510,393)	(173,665)
Losses on disposal of investments		(27,969,065)	(825,777)	-	-
Separate account product expenses	32	(18,490,121)	(545,914)	(23,811,925)	(750,455)
Other operating cost		(211,154)	(6,234)	(7,683)	(242)
Subtotal		(195,534,262)	(5,773,081)	(255,622,008)	(8,056,162)
Operating gross profit (loss)		6,277,647	185,346	(3,186,581)	(100,428)
Operating expenses	2,3,17,23,24,27				
Marketing expenses		(667,832)	(19,718)	(702,807)	(22,150)
Administrative and general expenses		(1,702,281)	(50,259)	(1,736,134)	(54,716)
Subtotal		(2,370,113)	(69,977)	(2,438,941)	(76,866)
Operating income (loss)		3,907,534	115,369	(5,625,522)	(177,294)
Non-operating revenues and gains	2,27				
Gains on disposal of property and equipment		75	2	-	-
Other non-operating revenues and gains		317,908	9,386	548,744	17,294
Subtotal		317,983	9,388	548,744	17,294
Non-operating expenses and losses	2,27				
Losses on disposal of property and equipment		(10)	-	(35)	(1)
Dividend on preferred stock liabilities		(129,452)	(3,822)	(200,959)	(6,333)
Miscellaneous expenses		(7,852)	(232)	(1,828)	(58)
Subtotal		(137,314)	(4,054)	(202,822)	(6,392)
Income (loss) from continuing operations before income taxes		4,088,203	120,703	(5,279,600)	(166,392)
Income taxes (expense) benefit	2,25	(485,177)	(14,325)	1,259,709	39,701
Net income (loss)		$3,603,026	$106,378	$(4,019,891)	$(126,691)
Earnings per share (In dollars)	26				
Net income (loss)		$0.68	$0.02	$(0.76)	$(0.02)

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2009 and 2010 were NT$33.87 and NT$31.73 to US$1.00)

The accompanying notes are an integral part of these unaudited financial statements.

Cathay Life Insurance Co., Ltd.
Unaudited statements of changes in stockholders' equity
For the three months ended March 31, 2009 and 2010
(Expressed in thousands of dollars)

					Retained earnings						Equity adjustment									
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains on financial instruments		Unrealized revaluation increments		conversion adjustments		Net loss not recognized as pension cost		Total	
Summary	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2009	$52,686,158	$1,555,541	$13,009,648	$384,105	$23,535,758	$694,885	$19,169,006	$565,958	$(1,973,545)	$(58,268)	$(52,489,299)	$(1,549,729)	$2,105	$62	$209,017	$6,171	$(264,304)	$(7,803)	$53,884,544	$1,590,922
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	5,964,966	176,114	-	-	-	-	-	-	5,964,966	176,114
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	94,575	2,792	-	-	94,575	2,792
Net income for the three months ended March 31, 2009	-	-	-	-	-	-	-	-	3,603,026	106,378	-	-	-	-	-	-	-	-	3,603,026	106,378
Balance on March 31, 2009	$52,686,158	$1,555,541	$13,009,648	$384,105	$23,535,758	$694,885	$19,169,006	$565,958	$1,629,481	$48,110	$(46,524,333)	$(1,373,615)	$2,105	$62	$303,592	$8,963	$(264,304)	$(7,803)	$63,547,111	$1,876,206
Balance on January 1, 2010	$52,686,158	$1,660,452	$13,009,649	$410,011	$20,328,674	$640,677	$20,402,545	$643,005	$2,662,301	$83,905	$4,081,157	$128,622	$1,462	$46	$(42,249)	$(1,332)	$-	$-	$113,129,697	$3,565,386
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(6,139,777)	(193,501)	-	-	-	-	-	-	(6,139,777)	(193,501)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(79,524)	(2,506)	-	-	(79,524)	(2,506)
Net loss for the three months ended March 31, 2010	-	-	-	-	-	-	-	-	(4,019,891)	(126,691)	-	-	-	-	-	-	-	-	(4,019,891)	(126,691)
Balance on March 31, 2010	$52,686,158	$1,660,452	$13,009,649	$410,011	$20,328,674	$640,677	$20,402,545	$643,005	$(1,357,590)	$(42,786)	$(2,058,620)	$(64,879)	$1,462	$46	$(121,773)	$(3,838)	$-	$-	$102,890,505	$3,242,688

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2009 and 2010 were NT$33.87 and NT$31.73 to US$1.00)

The accompanying notes are an integral part of these unaudited financial statements.

Cathay Life Insurance Co., Ltd.
Unaudited statements of cash flows
For the three months ended March 31, 2009 and 2010
(Expressed in thousands of dollars)

	January 1-March 31, 2009		January 1-March 31, 2010	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income (loss) for the periods	$3,603,026	$106,378	$(4,019,891)	$(126,691)
Adjustments:				
(Gains) losses from valuation of financial assets	(120,883)	(3,569)	5,425,299	170,983
Gains from valuation of financial liabilities	(8,222,644)	(242,771)	(752,838)	(23,726)
Provision (recovered) bad debt	107,970	3,188	(722,090)	(22,757)
Depreciation	575,027	16,977	599,184	18,884
Amortization	51,553	1,522	50,709	1,598
Provision or recovered for each reserve	67,976,465	2,006,982	83,999,820	2,647,331
(Gains) losses on disposal of property and equipment	(64)	(2)	35	1
Gains on disposal of investments in real estate	(14,683)	(433)	-	-
Gains on long-term equity investments less (more) than cash dividends received	(42,830)	(1,264)	90,541	2,854
(Increase) decrease in financial assets at fair value through profit or loss - current	(60,249,775)	(1,778,854)	26,470,772	834,251
(Increase) decrease in available-for-sale financial assets - current	(5,792,729)	(171,028)	15,212,444	479,434
Increase in held-to-maturity financial assets - current	(6,833,320)	(201,751)	(9,465,214)	(298,305)
Decrease in derivative financial assets for hedging - current	63,725	1,881	755,381	23,806
Increase in investments in debt securities with no active market - current	(7,919,051)	(233,807)	(1,550,588)	(48,868)
Decrease in notes receivable	1,524,295	45,004	2,110,079	66,501
(Increase) decrease in prepaid reinsurance premium	(2,094,886)	(61,851)	312,438	9,847
Decrease in claims recoverable from reinsurers	882	26	10,963	345
(Increase) decrease in reinsurance accounts receivable	(1,351)	(40)	22,522	710
Increase in other accounts receivable	(20,384,713)	(601,852)	(4,754,816)	(149,852)
Increase in other financial assets - current	(8,000,000)	(236,197)	(500,000)	(15,758)
Increase in prepayments	(63,142)	(1,864)	(64,312)	(2,027)
Decrease (increase) in deferred income tax assets - current	3,081,779	90,988	(456,953)	(14,401)
Decrease (increase) in other current assets	6,971	206	(60,219)	(1,898)
(Increase) decrease in deferred income tax assets - noncurrent	(6,244,085)	(184,354)	8,546	269
Increase in other assets - other	(1,445,520)	(42,678)	(180,233)	(5,680)
Decrease in financial liabilities at fair value through profit or loss - current	-	-	(3,007)	(95)
Increase (decrease) in derivative financial liabilities for hedging - current	1,055	31	(9,154)	(289)
Decrease in notes payable	(58)	(2)	(366)	(12)
Increase in commissions payable	99,309	2,932	428,410	13,502
Decrease in life insurance proceeds payable	(844)	(25)	(1,275)	(40)
Increase in reinsurance accounts payable	902,060	26,633	217,687	6,861
Increase in others payable	1,784,985	52,701	9,357,692	294,916
Increase in accounts collected in advance	22,740	671	10,571	333
Increase (decrease) in deferred income tax liabilities - current	4,216,068	124,478	(1,407,046)	(44,344)
Increase (decrease) in accrued pension liability	12,564	371	(35,680)	(1,124)
Decrease in other liabilities - other	(662,800)	(19,569)	(291,785)	(9,196)
Net cash (used in) provided by operating activities	(44,062,904)	(1,300,942)	120,807,626	3,807,363
Cash flows from investing activities				
Decrease in policy loans	3,055,672	90,218	2,294,464	72,312
Decrease in secured loans	5,225,351	154,277	8,082,302	254,721
Decrease (increase) in available-for-sale financial assets - noncurrent	24,402,329	720,470	(17,218,428)	(542,654)
Decrease in held-to-maturity financial assets - noncurrent	25,334,051	747,979	7,844,587	247,229
(Increase) decrease in financial assets carried at cost - noncurrent	(108,253)	(3,196)	9,848,079	310,371
Increase in investments in debt securities with no active market - noncurrent	(22,447,171)	(662,745)	(18,271,974)	(575,858)
Disposal of investments in real estate	28,577	844	-	-
Acquisition of investments in real estate	(5,781,431)	(170,695)	(5,207,143)	(164,108)
Decrease (increase) in other financial assets - noncurrent	1,850,000	54,621	(6,000,000)	(189,095)
Disposal of property and equipment	287	8	-	-
Acquisition of property and equipment	(108,692)	(3,209)	(31,962)	(1,007)
Acquisition of intangible assets	(52,079)	(1,538)	(22,890)	(721)
Decrease (increase) in guarantee deposits paid	539,151	15,918	(643,984)	(20,296)
Decrease in other overdue receivables	13,404	396	455,551	14,357
Net cash provided by (used in) investing activities	31,951,196	943,348	(18,871,398)	(594,749)

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2009 and 2010 were NT$33.87 and NT$31.73 to US$1.00)

The accompanying notes are an integral part of these unaudited financial statements.

Cathay life insurance Co., Ltd.
Unaudited statements of cash flows - (continued)
For the three months ended March 31, 2009 and 2010
(Expressed in thousands of dollars)

	January 1-March 31, 2009		January 1-March 31, 2010	
	NT$	US$	NT$	US$
Cash flows from financing activities				
Increase in guarantee deposits received	22,881	676	25,591	806
Net cash provided by financing activities	22,881	676	25,591	806
(Decrease) increase in cash and cash equivalents	(12,088,827)	(356,918)	101,961,819	3,213,420
Cash and cash equivalents at the beginning of the periods	221,966,913	6,553,496	336,054,525	10,591,066
Cash and cash equivalents at the end of the periods	$209,878,086	$6,196,578	$438,016,344	$13,804,486
Supplemental disclosure of cash flows information				
Interest paid during the period	$4,560	$135	$2,667	$84
Interest paid (excluding capitalized interest)	$4,560	$135	$2,667	$84
Income tax paid	$328,330	$9,694	$225,609	$7,110

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2009 and 2010 were NT$33.87 and NT$31.73 to US$1.00)

The accompanying notes are an integral part of these unaudited financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Notes to unaudited financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2009 and 2010

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the "Company") was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act of the Republic of China ("R.O.C."). The Company mainly engages in the business of life insurance. On March 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holding") by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C. in order to gain benefit of synergistic operation and enhance the Company's competitiveness in the financial market.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of March 31, 2009 and 2010, total numbers of employees in the Company were 30,712 and 31,136, respectively.

2. Summary of significant accounting policies

The Company prepares the financial statements in accordance with the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Industry of Life Insurance, and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies is as follows:

(1) Current and non-current assets and liabilities

Current assets are assets which can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are liabilities which will be paid-off within one year. Liabilities other than current liabilities are non-current liabilities.

(2) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they are subject to insignificant risk of changes in value due to fluctuations of interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less are considered cash equivalents.

(3) Recognition of financial assets and liabilities

According to the Statements of Financial Accounting Standards of the R.O.C. ("R.O.C. SFAS") No.34 "Accounting for Financial Instruments" and "Guidelines Governing the Preparation of Financial Reports by Industry of Life Insurance", financial assets are categorized as the "financial assets at fair value through profit or loss", "held-to-maturity financial assets", "investments in debt securities with no active market", "available-for-sale financial assets", "financial assets carried at cost" and "derivative financial assets for hedging". Financial liabilities are categorized as either "financial liabilities at fair value through profit or loss" or "derivative financial liabilities for hedging". Upon their initial recognition, financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets.

All "regular way" purchases and sales of financial assets are recorded using trade date (the date that the Company commits to purchase or sell the asset) accounting. "Regular way" purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets held for trading include products acquired primarily for the purpose of sale in the near term and derivative financial assets, except for those that are designated as hedging instruments and are effective. Such assets are subsequently measured at fair value with changes in fair value recognized in profit or loss.

Apart from derivatives and financial instruments designated as at fair value through profit or loss, financial instruments may be reclassified out of the fair value through profit or loss category if the financial instruments are no longer held for the purpose of selling or repurchasing them in the near term, and the following requirements are met:

a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

b. Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

The financial instrument shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable.

Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized or impaired. The amortized cost is computed as the cost amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial assets, transactions costs, fees and premiums/discounts are taken into consideration when calculating the effective interest rate.

C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair value are recognized in profit or loss when the investments in debt securities with no active market are derecognized or impaired.

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in equity, except for impairment losses and gains or losses arising from the translation of monetary financial assets. When the financial assets are derecognized, the cumulative gains or losses previously recorded in equity are recognized in profit or loss.

Available-for-sale financial asset that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Upon reclassification, the fair value on the date of reclassification becomes its new cost or amortized cost, as applicable. Any previous gain or loss on the asset that has been recognized in stockholders' equity shall be amortized over the remaining life of the asset.

E. Financial assets carried at cost

Financial assets carried at cost are investments in equity instruments to non-listed companies which the Company has no significant influence over. They are recorded at initial cost as the fair values cannot be reliably measured. If there is objective evidence that an impairment loss has been incurred, the impairment loss is recognized. Such impairment loss shall not be reversed.

F. Derivative financial assets for hedging

Derivative financial assets that have been designated in hedge accounting and are effective hedging instruments are measured at fair value.

The fair value, as mentioned above, for a listed stock or a depositary receipt is based on the closing price on the balance sheet date, while for an open-end fund, the fair value is determined based on its net asset value as at the balance sheet date.

Financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging are measured at fair value.

(4) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset or a portion of a financial asset is derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. A transfer of a financial asset or a portion of the asset in which the Company surrenders control over the asset in exchange of consideration received is deemed a sale.

If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the Company accounts for the transaction as a secured borrowing. In that case, the Company's right to reacquire the asset is not a derivative financial instrument.

B. Financial liabilities

An entire or a part of a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Where an existing financial liability is replaced by another one from the same creditor with substantially different terms of agreement, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognization of the original liability and a recognition of a new liability. The difference between the respective carrying amounts is recognized as a gain or loss for the period.

(5) Accounting for impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such equity instrument has been incurred, the amount of the loss is recorded and 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 similar financial asset. Such impairment loss shall not be reversed.

C. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss that had been recognized in equity shall be reclassified from equity to profit or loss. The amount of the impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value or recoverable amount, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall be reversed through equity, rather than through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed through profit or loss.

(6) Derivative financial instruments

The Company engages in derivative financial instrument transactions, such as forward currency contracts and interest rate swaps, to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives 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 of derivatives that no longer meets the criteria for hedge accounting are taken directly to profit or loss for the period.

Hedging relationships consist of three types:

A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss.

B. Cash flow hedges: a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or with a highly probable forecast transaction and could affect profit or loss.

C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company assesses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated for the hedge.

Hedges in compliance with hedge accounting requirements as mentioned above are accounted for as follows:

Fair value hedges

The carrying amount of the hedged item is adjusted and gain or loss attributable to the hedged risk is recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the R.O.C. SFAS No. 14 "The Effects of Changes in Foreign Exchange Rates" (for a non-derivative hedging instrument) is recognized in profit or loss.

For a hedged interest-bearing financial instrument, the adjustment arising from above paragraph to its carrying amount is amortized to profit or loss based on an effective interest rate over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be subject to hedge accounting.

The Company discontinues fair value hedge accounting when the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Company revokes the designation.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in equity, while the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in equity shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses initially recognized in equity shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the cumulative gain or loss that was previously recognized in equity remains in equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from equity to profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized in equity, while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative gains or losses recognized in equity is transferred to profit or loss.

(7) Allowance for bad and doubtful debts

The Company refers the "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises" pursuant to the second paragraph of Article 148-3 of the Insurance Act to assess its loan assets. In the assessment of its loan assets, the insurance enterprise shall consider the status and the overdue period of repayment of the loans and classify those into categories as follows:

Class I – normal loan assets;
Class II – overdue loan assets under notice;
Class III – overdue loan assets possible to be recovered;
Class IV – overdue loan assets difficult to be recovered;
Class V – overdue loan assets with no chance of recovery.

The insurance enterprise shall actually assess the loan assets and set aside minimum allowance for bad debts in the sum of 2% of claim balance of Class II loan assets, 10% of Class III, 50% of Class IV and entire claim balance of Class V loan assets.

Accordingly, the Company estimated the allowance for bad debts based upon above guidelines, and considerations for the repayment capability and security status of the rights of creditor as of each balance sheet date for its receivables, secured loans and overdue receivables.

(8) Long-term investments under the equity method

Long-term investments in equity securities are accounted for under the equity method where the Company holds more than 20% of the investee's voting rights or has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company at the acquisition date is analyzed and accounted for in conformity with the acquisition cost allocation as provided in R.O.C. SFAS No.25 "Business Combination - Accounting Treatment under Purchase Method". Goodwill is no longer amortized.

Adjustment to additional paid-in capital is required when the holding percentage changes due to disproportional subscription to new issue of investee's shares. If the balance of additional paid-in capital is insufficient, retained earnings are adjusted.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses arising from sales of depreciable assets between the Company and its subsidiaries are amortized over the economic service life of the assets. Gains or losses arising from other types of intercompany transactions are recognized when realized.

The Company prepares semi-annual and annual consolidated financial statements including all subsidiaries over which the Company has a controlling interest, with the exception of subsidiaries whose total revenues and total assets are relatively immaterial to the Company.

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed as incurred.

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains or losses are recorded in operating gains or losses.

Depreciation is calculated using the straight-line method in accordance with the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the R.O.C. (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. Upon revaluation, land and depreciable properties shall be reevaluated separately. Property increments shall be recorded in “unrealized reevaluation increments” under stockholders’ equity.

Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

According to the R.O.C. SFAS No. 37 “Accounting for Intangible Assets” effective on January 1, 2007, intangible assets are initially recognized at cost. After the initial recognition, the intangible assets shall be carried at cost plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets of the Company are deemed finite.

The intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets. The Company will reassess the useful lives and amortization methods for its intangible assets with finite useful lives at each balance sheet date. If there is any change to be made, it will be treated as changes in accounting estimates.

(12) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”, both of which are off balance sheet accounts. From January 1, 1993 to March 31, 2010, an aggregate of NT$4,078,278 (US$128,531) thousands was appropriated to this fund.

(13) Accounting for assets impairment

Pursuant to R.O.C. SFAS No. 35, the Company evaluates whether indicators of impairment exist at each balance sheet date for all assets subject to guidelines set forth under the Statement. If impairment indicators exist, the Company shall perform impairment testing by comparing the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”). Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount which is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any evidence that the impairment loss may no longer exist or may have decreased. If there is any, the recoverable amount of the asset shall be subsequently re-evaluated. The impairment loss may be reversed to reflect the asset’s estimated increase in future service potential since the date of its last recognition of impairment loss. However, the carrying amount of the asset after the reversal of impairment loss shall not exceed the carrying amount of the asset that would have been, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. If the recoverable amount of the CGU assets or the group of CGUs assets is smaller than their carrying amount, impairment loss should be recognized to reduce the carrying amount of the assets in the following order:

A. first, reduce the carrying amount of the goodwill allocated to the CGU or group of CGUs; and

B. then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the CGU or group of CGUs.

Recognized impairment loss for goodwill should not be reversed. Impairment loss (reversal) is classified as non-operating losses (income).

(14) Guaranteed depository insurance payment

According to Article 141 of the R.O.C. Insurance Act (the "Insurance Act"), an amount equal to 15% of the Company's capital stock must be deposited in the form of a bond with the Central Bank of China (the "Central Bank") as the "Guaranteed Depository Insurance".

(15) Reserve for operations

Reserves for operations, including unearned premium reserve, claim reserve, special reserve, reserve for claims, and premium deficiency reserve, are recorded in accordance with insurance related acts based on Actuaries' figures.

In addition, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and related insurance regulations, when the cumulative provisions for special risk-volatility reserve exceed 30% of the amount of retained earned premiums for the current year, that portion in excess may be retired and treated as income. However, the retired reserves are appropriated as special reserve in equity and shall not be distributed or used for other purposes unless approved by the R.O.C Ministry of Finance (the "MOF").

As of March 31, 2010, the cumulative special reserves released from the special risk-volatility reserves amounted to NT$20,402,545 (US$643,005) thousands.

(16) Insurance premium income and expenses

In accordance with "The General Accounting Systems for Insurance Companies" issued by the Finance Ministry of the R.O.C., the Company records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(17) Pension plan

The Company has established a pension plan for all employees since 1972. Pension plan benefits are primarily based on participants' compensation and the length of service period. The Company has established a pension fund committee in 1981 to independently administer the pension fund. Prior to the establishment of the pension fund committee, the Company had provided for 4% of the employees' salaries into the pension fund; after the establishment of the committee, 8% were provided for.

The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or other pension mechanism under the Labor Standards Act. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis of no less than 6% of the employees' monthly wages.

In compliance with R.O.C. Securities and Futures Commissions ("SFC") regulations, the Company adopted the R.O.C. SFAS No. 18, "Accounting for Pensions" to account for its pension plan. An actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets. When providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense as incurred.

According to the R.O.C. SFAS No. 23, "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS No. 18, "Accounting for Pensions".

(18) Foreign currency transactions

A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate as at the balance sheet date and the resulting exchange differences shall be recognized in profit or loss for the period. Non-monetary assets or liabilities denominated in foreign currencies that are measured at fair value 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 asset or liability is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary assets or liabilities denominated in foreign currencies that are measured at historical cost shall be translated using the exchange rate at the date of the initial transaction.

B. Translation of subsidiaries' financial statements in foreign currencies

Financial statements of foreign subsidiaries accounted for under the equity method are translated into NT dollars as follows: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate on the balance sheet date. Stockholders' equity items are translated at the historical rates except for the opening balance of retained earnings, which is carried forward directly from the year end balance of previous year. Revenue and expense items are translated by the weighted-average exchange rate for the fiscal year. Translation differences arising from above conversion are reported as "cumulative conversion adjustments" under stockholders' equity.

(19) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, loss carry-forward and investment tax credits. A valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to any assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

The Company has adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with income tax credits. Accordingly, the income tax credits resulting from expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for using the flow-through method.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders' meeting in which the shareholders have resolved that the earnings shall be retained.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

Effective from January 1, 2006, the Company adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate and file joint income basic tax.

(20) Capital expenditure expenses

Capital expenditure is capitalized and amortized over its useful life if it involves a significant amount and may generate revenues in future periods. Otherwise, it is expensed in the year as incurred.

(21) Separate account products

The Company sells Separate account products, of which the insured pays the insurance fees according to the agreement amount less the expenses incurred by the insured. In addition, the investment distribution is approved by the insured and then transferred to specific accounts as requested by the insured. The value of these specific accounts is determined based on the market value on the applicable date, and its fair value is determined based on the accounting principles and practices generally accepted in the R.O.C.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of "Accounting standards in separate account". The above accounts are recorded under the line items of "Separate account products assets", "Separate account products liabilities", "Separate account products revenues" and "Separate account products expenses".

(22) Employee bonus and remuneration of directors and supervisors

Pursuant to (96) Article 052 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors and supervisors are accounted for as expenses instead of distribution of earnings.

(23) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of March 31, 2009 and 2010 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$33.87 and NT$31.73 provided by Federal Reserve Bank of New York of March 31, 2009 and 2010 are used for the conversion.

3. Reasons and effects for changes in accounting principles

None.

4. Cash and cash equivalents

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Cash on hand	$278,669	$8,228	$243,282	$7,667
Cash in banks	15,098,450	445,777	32,033,854	1,009,576
Time deposits	172,361,872	5,088,924	327,477,671	10,320,759
Cash equivalents	22,139,095	653,649	78,261,537	2,466,484
Total	$209,878,086	$6,196,578	$438,016,344	$13,804,486

As of March 31, 2009 and 2010, the amounts of time deposits with maturities beyond one year were NT$- (US$-) thousands and NT$9,500,000 (US$299,401) thousands, respectively.

The cash equivalent usually includes commercial paper and repurchase agreement with maturity shorter than three months.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

5. Financial assets at fair value through profit or loss - current

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Listed stocks	$8,742,549	$258,121	$4,054,767	$127,790
Overseas stocks	1,192,894	35,220	562,036	17,713
Beneficiary certificates	98,671,932	2,913,254	45,225,240	1,425,315
Exchange traded funds	4,058,596	119,829	105,037	3,310
Overseas bonds	11,459,789	338,346	1,073,659	33,837
Corporate bonds	3,369,834	99,493	3,257,683	102,669
Government bonds	4,438,135	131,034	51,767	1,632
Derivative financial instruments	42,227	1,247	28,666	903
Structured time deposits	1,000,000	29,525	1,000,000	31,516
Subtotal	132,975,956	3,926,069	55,358,855	1,744,685
Add: Adjustment of valuation	2,673,807	78,943	12,118,624	381,930
Total	$135,649,763	$4,005,012	$67,477,479	$2,126,615

6. Available-for-sale financial assets - current

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Listed stocks	$125,084,254	$3,693,069	$114,906,565	$3,621,385
Overseas stocks	15,901,822	469,496	9,922,314	312,711
Beneficiary certificates	22,272,879	657,599	22,113,112	696,915
Exchange traded funds	4,175,790	123,289	4,918,490	155,011
Real estate investment trust	8,725,208	257,609	8,725,208	274,983
Financial debentures	99,848	2,948	4,750,000	149,701
Corporate bonds	-	-	6,198,173	195,341
Government bonds	-	-	254,902	8,033
Overseas bonds	-	-	4,999,610	157,567
Subtotal	176,259,801	5,204,010	176,788,374	5,571,647
Less : Adjustment of valuation	(54,271,016)	(1,602,333)	(6,978,745)	(219,941)
Total	$121,988,785	$3,601,677	$169,809,629	$5,351,706

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

7. Derivative financial assets for hedging - current

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$591,834	$18,652
Add: Adjustment of valuation	2,102,486	62,075	1,544,146	48,665
Total	$2,102,486	$62,075	$2,135,980	$67,317

8. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

B. Pursuant to MOF regulations, policyholder may state on the application form or issue a written statement prior within grace period for premium payment to request the insurance enterprise to automatically deduct the due premiums and interest of the premium loan (as well as the principal and interest of the policy loan, if applicable) from the policyholder's policy value reserve after the second installment becomes overdue in order to remain the insurance policy to be constantly effective. Policyholder may also inform the enterprise in written to stop the automatic premium loan option prior to the next due date of premium payment.

(2) Secured loans

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Secured loans	$332,389,819	$9,813,694	$298,625,471	$9,411,455
Secured loans - related parties	4,533,505	133,850	4,255,859	134,127
Less: Allowance for bad debts	(514,469)	(15,189)	(207,023)	(6,524)
Subtotal	336,408,855	9,932,355	302,674,307	9,539,058
Overdue receivables	2,341,818	69,141	1,505,266	47,440
Less: Allowance for bad debts	(1,639,273)	(48,399)	(1,053,686)	(33,208)
Subtotal	702,545	20,742	451,580	14,232
Total	$337,111,400	$9,953,097	$303,125,887	$9,553,290

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

9. Available-for-sale financial assets – noncurrent

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Corporate bonds	$20,762,235	$612,998	$22,172,629	$698,791
Government bonds	66,225,010	1,955,271	33,574,068	1,058,117
Financial debentures	128,181,834	3,784,524	138,814,992	4,374,882
Collateralized loans obligation and collateralized bonds obligation	2,858,605	84,399	2,154,996	67,917
Overseas bonds	24,398,670	720,362	71,886,799	2,265,578
Subtotal	242,426,354	7,157,554	268,603,484	8,465,285
Add: Adjustment of valuation	3,060,864	90,371	2,869,793	90,444
Less: Accumulated impairment	-	-	(735,000)	(23,164)
Total	$245,487,218	$7,247,925	$270,738,277	$8,532,565

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with collateralized loans obligation held by the Company. As of March 31, 2009 and 2010 the Company recognized impairment losses amounting to NT$- (US$-) and NT$735,000 (US$23,164) thousands, respectively.

10. Held-to-maturity financial assets – noncurrent

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Corporate bonds	$4,021,254	$118,726	$6,974,154	$219,797
Government bonds	42,590,549	1,257,472	92,283,753	2,908,407
Financial debentures	9,900,000	292,294	9,400,000	296,249
Collateralized loans obligation and collateralized bonds obligation	13,749,532	405,950	7,050,014	222,188
Overseas bonds	529,883,820	15,644,636	536,789,808	16,917,422
Subtotal	600,145,155	17,719,078	652,497,729	20,564,063
Less: Securities serving as deposits paid - bonds	(7,877,782)	(232,589)	(8,728,824)	(275,097)
Less: Accumulated impairment	(169,574)	(5,007)	-	-
Total	$592,097,799	$17,481,482	$643,768,905	$20,288,966

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

A CDO impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company. As of March 31, 2009 and 2010 the Company recognized impairment losses amounting to NT$169,574 (US$5,007) thousands and NT$- (US$-), respectively.

11. Financial assets carried at cost – noncurrent

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Stocks	$19,815,943	$585,059	$9,559,911	$301,289
Beneficiary certificates	558,841	16,499	1,985,942	62,589
Subtotal	20,374,784	601,558	11,545,853	363,878
Less: Accumulated impairment	(1,302,285)	(38,449)	(1,301,507)	(41,018)
Total	$19,072,499	$563,109	$10,244,346	$322,860

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. As of March 31, 2009 and 2010 the Company recognized impairment losses amounting to NT$1,302,285 (US$38,449) thousands and NT$1,301,507 (US$41,018) thousands, respectively.

12. Investments in debt securities with no active market - noncurrent

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Stocks	$316,000	$9,330	$1,108,000	$34,920
Corporate bonds	10,000,000	295,246	14,500,000	456,981
Collateralized loans obligation and collateralized bonds obligation	353,220	10,429	-	-
Overseas bonds	98,058,023	2,895,129	148,303,143	4,673,909
Subtotal	108,727,243	3,210,134	163,911,143	5,165,810
Less: Accumulated impairment	(440,921)	(13,018)	(413,647)	(13,037)
Total	$108,286,322	$3,197,116	$163,497,496	$5,152,773

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

A CDO impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the overseas bonds held by the Company. As of March 31, 2009 and 2010, the Company recognized impairment losses amounting to NT$440,921 (US$13,018) and NT$413,647 (US$13,037) thousands.

13. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT$37,701,169 (US$1,113,114) thousands and NT$38,757,965 (US$1,221,493) thousands as of March 31, 2009 and 2010, respectively. The details of structured notes are listed below:

	March 31, 2009					
Item	Cost		Adjustment of valuation		Book value	
	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss - current	$668,744	$19,745	$(7,156)	$(212)	$661,588	$19,533
Available-for-sale financial assets	8,900,000	262,769	(11,323)	(334)	8,888,677	262,435
Held-to-maturity financial assets	28,150,904	831,146	-	-	28,150,904	831,146
Total	$37,719,648	$1,113,660	$(18,479)	$(546)	$37,701,169	$1,113,114

	March 31, 2010					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss - current	$588,898	$18,560	$11,250	$354	$600,148	$18,914
Available-for-sale financial assets	8,900,000	280,492	(6,757,000)	(212,953)	2,143,000	67,539
Held-to-maturity financial assets	32,415,001	1,021,588	74,981	2,363	32,489,982	1,023,952
Investments in debt securities with no active market - current	3,426,635	107,993	98,200	3,095	3,524,835	111,088
Total	$45,330,534	$1,428,633	$(6,572,569)	$(207,141)	$38,757,965	$1,221,493

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

14. Long-term investments under the equity method

(1) Long-term investments under the equity method are as follows:

	March 31,			
	2009		2010	
Investee	NT$	US$	NT$	US$
WK Technology Fund VI Co., Ltd.	$317,658	$9,379	$350,252	$11,039
Vista Technology Venture Capital Corp.	31,995	945	28,484	898
Omnitek Venture Capital Corp.	88,431	2,611	66,328	2,090
Wa Tech Venture Capital Co., Ltd.	95,784	2,828	98,905	3,117
IBT Venture Capital Corp.	262,450	7,749	110,209	3,473
Cathay Insurance (Bermuda) Co., Ltd.	97,718	2,885	100,363	3,163
Symphox Information Co., Ltd.	319,307	9,427	353,694	11,147
Cathay Securities Investment Trust Co., Ltd.	393,236	11,610	409,268	12,899
Cathay Venture Capital Corp.	369,925	10,922	-	-
Cathay Securities Investment Consulting Co., Ltd.	171,396	5,060	170,968	5,388
Cathay Life Insurance Ltd. (Shanghai)	1,265,168	37,354	754,080	23,766
Cathay Life Insurance (Vietnam) Co., Ltd.	2,363,766	69,789	1,732,897	54,614
Cathay Insurance Company Limited. (Shanghai)	939,934	27,751	801,704	25,266
Total	$6,716,768	$198,310	$4,977,152	$156,860

As of August 10, 2009, the acquisition date, Cathay Venture Capital Corp., a subsidiary of the Company, merged with Cathay Pacific Venture Capital Co., Ltd. with a stock exchange ratio of 1.06359 to 1 in accordance with resolution of the Board of Directors' meeting of Cathay Financial Holding Co., Ltd.. Cathay Pacific Venture Capital Co., Ltd. is the surviving company. As of October 14, 2009, all stocks of Cathay Pacific Venture Capital Co., Ltd. were sold to Cathay Financial Holding Co., Ltd..

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Changes in long-term investments under the equity method are summarized below:

	For the three months ended March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Balance as of January 1	$6,466,022	$190,907	$5,266,745	$165,986
Add (less) :				
Gains (losses) on long-term equity investments	42,830	1,265	(90,541)	(2,853)
Cumulative conversion adjustments	94,575	2,792	(79,525)	(2,506)
Unrealized gain or loss on financial instruments	113,341	3,346	(119,527)	(3,767)
Balance as of March 31	$6,716,768	$198,310	$4,977,152	$156,860

(3) The recognized equity investment gains (losses) for the three months ended March 31, 2009 and 2010 are listed below:

	For the three months ended March 31,			
	2009		2010	
Investee	NT$	US$	NT$	US$
WK Technology Fund VI Co., Ltd.	$6,271	$185	$(5,291)	$(167)
Vista Technology Venture Capital Corp.	(1)	-	(28)	(1)
Omnitek Venture Capital Corp.	(466)	(14)	55	2
Wa Tech Venture Capital Co., Ltd.	(17,082)	(504)	1,188	38
IBT Venture Capital Corp.	14,382	425	(3,890)	(123)
Cathay Insurance (Bermuda) Co., Ltd.	(227)	(7)	1,379	44
Symphox Information Co., Ltd.	10,863	321	13,019	410
Cathay Securities Investment Trust Co., Ltd.	24,793	732	45,089	1,421
Cathay Venture Capital Corp.	(2,933)	(87)	-	-
Cathay Securities Investment Consulting Co., Ltd.	6,051	179	18,016	568
Cathay Life Insurance Ltd. (Shanghai)	(944)	(28)	(110,122)	(3,471)
Cathay Life Insurance (Vietnam) Co., Ltd.	7,253	214	(3,334)	(105)
Cathay Insurance Company Limited. (Shanghai)	(5,130)	(151)	(46,622)	(1,469)
Total	$42,830	$1,265	$(90,541)	$(2,853)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

A. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the three months ended March 31, 2009, except for WK Technology Fund VI Co., Ltd., Wa Tech Venture Capital Co., Ltd.and IBT Venture Capital Corp. were recognized based on unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the three months ended March 31, 2009, were reviewed by other auditors. Unqualified review reports were issued for all above investee companies except the Symphox Information Co., Ltd. and Cathay Venture Capital Corp., of which modified unqualified reviewed report was issued.

B. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the three months ended March 31, 2010, except for WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. were recognized based on unreviewed financial statements. The financial statements of Cathay Securities Investment Trust Co., Ltd. for the three months ended March 31, 2010, were reviewed by other auditors. Unqualified review reports were issued for all above investee companies.

15. Investments in real estate

	March 31, 2009									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$127,721,445	$3,770,932	$4,384	$129	$(17,458,168)	$(515,446)	$(195,594)	$(5,775)	$110,072,067	$3,249,840
Construction	2,261,912	66,782	-	-	-	-	-	-	2,261,912	66,782
Prepayments for buildings and land	2,477,536	73,148	-	-	-	-	-	-	2,477,536	73,148
Total	$132,460,893	$3,910,862	$4,384	$129	$(17,458,168)	$(515,446)	$(195,594)	$(5,775)	$114,811,515	$3,389,770

	March 31, 2010									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$136,968,624	$4,316,691	$4,366	$138	$(19,252,865)	$(606,772)	$(195,594)	$(6,164)	$117,524,531	$3,703,893
Construction	2,764,934	87,139	-	-	-	-	-	-	2,764,934	87,139
Prepayments for buildings and land	2,068,211	65,182	-	-	-	-	-	-	2,068,211	65,182
Total	$141,801,769	$4,469,012	$4,366	$138	$(19,252,865)	$(606,772)	$(195,594)	$(6,164)	$122,357,676	$3,856,214

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(1) The real estate investments are held mainly for lease business.

(2) All the lease agreements of the Company's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.

(3) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(4) As of March 31, 2009 and 2010, no investments in real estate were pledged as collateral.

16. Property and equipment

	March 31, 2009									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$4,751,206	$140,278	$1,303	$38	$-	$-	$(51,331)	$(1,516)	$4,701,178	$138,800
Buildings and construction	10,329,315	304,969	-	-	(3,628,738)	(107,137)	(34,188)	(1,009)	6,666,389	196,823
Computer equipment	2,137,596	63,112	-	-	(1,536,363)	(45,361)	-	-	601,233	17,751
Communication and transportation equipment	12,942	382	-	-	(11,457)	(338)	-	-	1,485	44
Other equipment	3,004,228	88,699	-	-	(2,301,782)	(67,959)	-	-	702,446	20,740
Subtotal	20,235,287	597,440	1,303	38	(7,478,340)	(220,795)	(85,519)	(2,525)	12,672,731	374,158
Construction in progress and prepayment for equipment	86,056	2,541	-	-	-	-	-	-	86,056	2,541
Total	$20,321,343	$599,981	$1,303	$38	$(7,478,340)	$(220,795)	$(85,519)	$(2,525)	$12,758,787	$376,699

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	March 31, 2010									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$4,599,618	$144,961	$583	$18	$-	$-	$(51,331)	$(1,618)	$4,548,870	$143,361
Buildings and construction	10,497,591	330,841	-	-	(3,887,224)	(122,509)	(34,188)	(1,077)	6,576,179	207,255
Computer equipment	2,152,026	67,823	-	-	(1,761,980)	(55,530)	-	-	390,046	12,293
Communication and transportation equipment	12,758	402	-	-	(11,897)	(375)	-	-	861	27
Other equipment	3,035,062	95,653	-	-	(2,492,631)	(78,558)	-	-	542,431	17,095
Subtotal	20,297,055	639,680	583	18	(8,153,732)	(256,972)	(85,519)	(2,695)	12,058,387	380,031
Construction in progress and prepayment for equipment	4,033	127	-	-	-	-	-	-	4,033	127
Total	$20,301,088	$639,807	$583	$18	$(8,153,732)	$(256,972)	$(85,519)	$(2,695)	$12,062,420	$380,158

No properties or equipment was pledged as collaterals as of March 31, 2009 and 2010.

17. Computer software cost

	January 1, 2009		Increase		Decrease		March 31, 2009	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,101,193	$32,512	$52,079	$1,538	$-	$-	$1,153,272	$34,050
Amortized and impairment:								
Amortized	(492,327)	(14,536)	(51,553)	(1,522)	-	-	(543,880)	(16,058)
Book value	$608,866	$17,976	$526	$16	$-	$-	$609,392	$17,992

	January 1, 2010		Increase		Decrease		March 31, 2010	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,293,201	$40,757	$22,890	$721	$-	$-	$1,316,091	$41,478
Amortized and impairment:								
Amortized	(732,683)	(23,091)	(50,709)	(1,598)	-	-	(783,392)	(24,689)
Book value	$560,518	$17,666	$(27,819)	$(877)	$-	$-	$532,699	$16,789

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

18. Other overdue receivables

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Overdue receivables	$368,644	$10,884	$312,083	$9,836
Less: Allowance for doubtful accounts	(89,798)	(2,651)	(102,030)	(3,216)
Total	$278,846	$8,233	$210,053	$6,620

Allowance for doubtful accounts is evaluated and recorded based on the collectibility of each overdue receivable in pursuant to "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises".

19. Financial liabilities at fair value through profit or loss - current

	March 31,			
	2009		2010	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$453,421	$14,290
Add: Adjustment of valuation	22,039,951	650,722	1,218,835	38,413
Total	$22,039,951	$650,722	$1,672,256	$52,703

20. Derivative financial liabilities for hedging - current

	March 31,			
	2009		2010	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	98,083	2,896	19,568	617
Total	$98,083	$2,896	$19,568	$617

21. Preferred stock liabilities - noncurrent

(1) In accordance with the resolution of the Board of Directors' meeting on November 6, 2008, the Company issued 300,000 thousand shares of Class A preferred stocks at par value of NT$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on November 18, 2008.

Primary terms and conditions of the privately offered Class A preferred stocks are listed as follows:

A. Issuance period covers from December 25, 2008, the issue date, to December 25, 2015, seven years in total.

B. Dividend yield is 3.5% per year based on the actual issue price of NT$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

(2) In accordance with the resolution of the Board of Directors' meeting on October 29, 2009, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of NT$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on December 14, 2009.

Primary terms and conditions of the privately offered Class B preferred stocks are listed as follows:

A. Issuance period covers from December 16, 2009, the issue date, to December 16, 2016, seven years in total.

B. Dividend yield is 2.9% per year based on the actual issue price of NT$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the SFAS No. 36 "Financial Instruments: Disclosure and Presentation", the above mentioned preferred stocks issued shall be categorized as a financial liability. Thus, the preferred stocks were reported as "preferred stock liabilities – noncurrent" under long-term liabilities.

22. Common stock

On June 3, 2008, the Company's Board of Directors resolved to issue 200,000 thousand shares of common stock at par value of NT$10 which was then approved by Ministry of Economic affairs on July 9, 2008, and the Insurance Bureau on July 21, 2008, respectively. The record date was set on June 27, 2008. As of March 31, 2009 and 2010, the total authorized thousand shares were 5,268,616 and at par value of NT$10 each.

23. Retained earnings

(1) Legal reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. Prior to 2008, this legal reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act. Legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued shares capital, up to 50% of the reserve may be capitalized if resolved by the Company's Board of Directors.

(2) Special reserve

Pursuant to the regulations established by the R.O.C. MOF, the after-tax amount of released provision from the special claim reserves for contingency according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" are appropriated as special reserve when approved by stockholders' meeting in the following year.

(3) Undistributed retained earnings

A. According to the Company's articles of incorporation, 20% of the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders' interests can be distributed to employees as employees' bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.

B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

C. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the special reserve since 2007.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

D. The employee bonus and remuneration of directors for the three months ended March 31, 2009 and 2010, amounting to NT$5,000 (US$148) thousands and NT$5,000 (US$158) thousands, respectively, was accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.

E. The Company's distribution of 2009 retained earnings has been approved by the board of directors. It has yet to be approved by the stockholders' meeting. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

24. Personnel expense、depreciation and amortizations

Item	For the three months ended March 31, 2009 (NT$)			For the three months ended March 31, 2009 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$6,213,579	$419,069	$6,632,648	$183,454	$12,373	$195,827
Labor & health insurance expenses	303,672	49,747	353,419	8,966	1,469	10,435
Pension expenses	192,291	31,501	223,792	5,677	930	6,607
Other expenses	258,721	55,862	314,583	7,639	1,649	9,288
Depreciation	-	575,027	575,027	-	16,977	16,977
Amortizations	-	51,553	51,553	-	1,522	1,522

Item	For the three months ended March 31, 2010 (NT$)			For the three months ended March 31, 2010 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$6,099,727	$499,148	$6,598,875	$192,239	$15,731	$207,970
Labor & health insurance expenses	319,680	51,916	371,596	10,075	1,636	11,711
Pension expenses	238,494	38,731	277,225	7,516	1,221	8,737
Other expenses	308,783	64,866	373,649	9,732	2,044	11,776
Depreciation	-	599,184	599,184	-	18,884	18,884
Amortizations	-	50,709	50,709	-	1,598	1,598

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

25. Estimated income taxes

The applicable statutory income tax rate of the Company is 25%. Pursuant to the amended "Income tax Act" issued on May 27, 2009, the applicable statutory income tax rate will be changed to 20% with effective date on January 1, 2010.

(1) Deferred income tax liabilities and assets are as follows:

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Total deferred tax assets	$14,838,345	$438,096	$7,719,782	$243,296
Total deferred tax liabilities	$(9,031,181)	$(266,642)	$(2,083,030)	$(65,649)
Temporary differences:				
Pension expense	$1,404,738	$41,474	$1,402,660	$44,206
Unrealized foreign exchange (gains) losses	(36,124,724)	(1,066,570)	12,674,200	399,439
Losses (gains) from valuation on financial assets and liabilities	19,099,360	563,902	(10,415,151)	(328,243)
Impairment loss	732,021	21,613	1,302,936	41,063
Unrealized bad debt losses	229,865	6,787	455,551	14,357
Other	19,851	586	26,138	824
Total	$(14,638,889)	$(432,208)	$5,446,334	$171,646
Loss carryforwards	$11,593,584	$342,297	$6,878,975	$216,797
Tax effect under consolidated income tax system	$(2,162,102)	$(63,835)	$(2,331,490)	$(73,479)
Investment tax credits	$35,405	$1,045	$-	$-

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Deferred tax assets - current	$4,815,112	$142,164	$2,539,983	$80,050
Deferred tax liabilities - current	(9,031,181)	(266,642)	(2,083,030)	(65,649)
Net offset balance of deferred tax assets (liabilities) - current	$(4,216,069)	$(124,478)	$456,953	$14,401

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Deferred tax assets - noncurrent	$10,023,233	$295,932	$5,179,799	$163,246
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	$10,023,233	$295,932	$5,179,799	$163,246

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Income tax (benefit) expense included the following:

	For the three months ended March 31			
	2009		2010	
	NT$	US$	NT$	US$
Tax expenses before adjusting temporary and other differences	$-	$-	$626,575	$19,747
Add (less): Deferred income tax expense from bad debt losses	-	-	1,398	44
Deferred income tax expense (benefit) from unrealized foreign exchange loss (gain)	5,765,262	170,217	(1,093,093)	(34,450)
Deferred income tax expense (benefit) from unrealized financial instruments valuation loss (gain)	1,539,109	45,442	(813,511)	(25,638)
Deferred income tax (benefit) expense from unrealized pension expense	(3,141)	(93)	7,136	225
Deferred income tax expense from impairment loss	59,459	1,756	-	-
Deferred income tax benefit from loss carryforwards	(6,882,848)	(203,214)	-	-
Others	11	-	12	-
Add: Separation tax	6,228	184	3,041	96
Withholding tax for overseas investments	7,621	225	8,733	275
Less: Income tax credit	(6,524)	(192)	-	-
Total income tax expense (benefit)	$485,177	$14,325	$(1,259,709)	$(39,701)

(3) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal year 2005. Due to disagreements on some tax assessments, the Company has filed or will file applications for re-examination for fiscal years of 2002 through 2005 to the Tax Authorities.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(4) Information related to imputation

	March 31,			
	2009		2010	
	NT$	US$	NT$	US$
Balance of imputation credit account	$1,094,333	$32,310	$2,554,211	$80,498

	March 31,	
	2009	2010
Imputation credit account ratio – estimate	-	33.33%
Imputation credit account ratio – actual	-(Note)	-

Note：The imputation credit account ratio was inapplicable due to the Company's cumulative deficits of 2008.

(5) Information related to undistributed earnings

	March 31,			
	2009		2010	
Year	NT$	US$	NT$	US$
After 1998	$(1,973,545)	$(58,268)	$2,662,301	$83,905

Net (loss) income for the three months ended March 31, 2009 and 2010 were excluded from the undistributed earnings after year 1998.

(6) Tax credits obtained in accordance with "Statute for Upgrading Industries" are as follows:

		Amount of deductible income tax		Remaining balance		
Regulation	Deductible items	NT$	US$	NT$	US$	Expiry Year
Statute for Upgrading Industries	Education and training	$16,403	$517	$-	$-	2011
Statute for Upgrading Industries	Education and training	12,478	393	-	-	2012
Statute for Upgrading Industries	Education and training	8,755	276	-	-	2013
Statute for Upgrading Industries	Investment in newly emerging, important and strategic industries	4,969	157	-	-	2011
Total		$42,605	$1,343	$-	$-	

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

26. Earnings per share

	For the three months ended March 31, 2009			
	Before tax		After tax	
	NT$	US$	NT$	US$
Net loss (a)	$4,088,203	$120,703	$3,603,026	$106,378
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,268,616	5,268,616	5,268,616	5,268,616
Earnings per share (a) / (c) (dollars)				
Net income	$0.78	$0.02	$0.68	$0.02

	For the three months ended March 31, 2010			
	Before tax		After tax	
	NT$	US$	NT$	US$
Net loss (a)	$(5,279,600)	$(166,392)	$(4,019,891)	$(126,691)
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,268,616	5,268,616	5,268,616	5,268,616
Earnings per share (a) / (c) (dollars)				
Net loss	$(1.00)	$(0.03)	$(0.76)	$(0.02)

27. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.

Name	Relationship
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd (merged with Cathay Pacific Venture on August 10, 2009)
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Property Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Insurance Company Limited. (Shanghai)	An equity-method investee
Cathay Securities Investment Trust Co., Ltd.	An equity-method investee
Cathay General Hospital	Related party disclosed according to SFAS No. 6
Cathay Real Estate Development Co., Ltd.	Related party disclosed according to SFAS No. 6
Lin Yuan Property Management Co., Ltd.	Related party disclosed according to SFAS No. 6
Seaward Leasing Co., Ltd.	Related party disclosed according to SFAS No. 6
San Ching Engineering Co., Ltd.	Related party disclosed according to SFAS No. 6
Other related parties	The directors, supervisors, mangers, and their spouses, as well as their second immediate families

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Significant transactions with related parties

A. Property transactions

Property transactions between the Company and related parties are in the nature of undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys, the result of public bidding and the contracts of both parties.

(A) Significant transactions with related parties for the three months ended March 31, 2009 and 2010 are listed below:

	For the three months ended March 31, 2009		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	International Building etc	$28,657	$846

	For the three months ended March 31, 2010		
Name	Item	NT$	US$
San Ching Engineering Co., Ltd.	Cathay Land Mark etc	$787	$25
Lin Yuan Property Management Co., Ltd.	International Building etc	14,030	442
Total		$14,817	$467

The total amounts of contracted projects for real estate as of March 31, 2009 and 2010, between the Company and San Ching Engineering Co., Ltd. were NT$76,224 (US$2,250) thousands and NT$97,281 (US$3,066) thousands, respectively.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(B) Real-estate rental income (from related parties):

	Rental income			
	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$6,120	$181	$7,053	$222
Cathay Real Estate Development Co., Ltd.	5,528	163	5,016	158
Cathay United Bank	82,269	2,429	88,944	2,803
Cathay Century Insurance Co., Ltd.	22,277	658	23,664	746
Cathay General Hospital	43,756	1,292	44,063	1,389
Symphox Information Co., Ltd.	4,335	128	4,681	147
Cathay Securities Investment Trust Co., Ltd.	5,555	164	5,775	182
Cathay Securities Co., Ltd.	5,292	156	5,454	172
Total	$175,132	$5,171	$184,650	$5,819

	Guarantee deposits received			
	March 31, 2009		March 31, 2010	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$4,886	$144	$4,886	$154
Cathay United Bank	68,143	2,012	71,606	2,257
Cathay Century Insurance Co., Ltd.	20,633	609	21,596	680
Cathay General Hospital	11,097	328	11,570	365
Cathay Securities Investment Trust Co., Ltd.	4,948	146	5,017	158
Cathay Securities Co., Ltd.	4,710	139	4,710	148
Cathay Financial Holding Co., Ltd.	5,964	176	5,964	188
Symphox Information Co., Ltd.	3,824	113	3,836	121
Total	$124,205	$3,667	$129,185	$4,071

Lease periods are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(C) Real-estate rental expense (to related parties):

	Rental expense			
	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$7,592	$224	$7,508	$237

	Guarantee deposits paid			
	March 31, 2009		March 31, 2010	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$8,779	$259	$8,675	$273
Cathay United Bank	-	-	8,753	276
Total	$8,779	$259	$17,428	$549

According to contracts, leasing periods are generally 3 years, and rentals are usually paid on a monthly basis.

B. Cash in banks

		For the three months ended March 31, 2009		
		Interest income		Ending balance
Name	Item	NT$	Rate	NT$
Cathay United Bank	Time deposit	$16,919	0.10%-2.42%	$7,343,524
	Cash in bank	472	0.02%-1.00%	3,388,964
Total		$17,391		$10,732,488

		For the three months ended March 31, 2009		
		Interest income		Ending balance
Name	Item	US$	Rate	US$
Cathay United Bank	Time deposit	$499	0.10%-2.42%	$216,815
	Cash in bank	14	0.02%-1.00%	100,058
Total		$513		$316,873

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

		For the three months ended March 31, 2010		
Name	Item	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$7,485	0.10%-1.16%	$9,934,520
	Cash in bank	717	0.02%-0.80%	8,047,631
Total		$8,202		$17,982,151

		For the three months ended March 31, 2010		
Name	Item	Interest income US$	Rate	Ending balance US$
Cathay United Bank	Time deposit	$236	0.10%-1.16%	$313,096
	Cash in bank	22	0.02%-0.80%	253,628
Total		$258		$566,724

C. Other financial assets

	For the three months ended March 31, 2009		
Name	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	$4,621	3.17%-3.73%	$-

	For the three months ended March 31, 2009		
Name	Interest income US$	Rate	Ending balance US$
Cathay United Bank	$136	3.17%-3.73%	$-

D. Secured loans

	For the three months ended March 31, 2009			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$4,286,249	$32,976	2.50%-3.91%	$4,225,483
Other related parties	333,381	1,755	1.16%-5.37%	308,022
Total		$34,731		$4,533,505

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	For the three months ended March 31, 2009			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$126,550	$973	2.50%-3.91%	$124,756
Other related parties	9,843	52	1.16%-5.37%	9,094
Total		$1,025		$133,850

	For the three months ended March 31, 2010			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$4,286,249	$19,803	1.85%-3.91%	$3,958,818
Other related parties	308,027	1,321	1.16%-3.65%	297,041
Total		$21,124		$4,255,859

	For the three months ended March 31, 2010			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$135,085	$624	1.85%-3.91%	$124,766
Other related parties	9,708	42	1.16%-3.65%	9,361
Total		$666		$134,127

E. Financial assets at fair value through profit or loss (Beneficiary certificates)

		March 31,			
		2009		2010	
Name		NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd managed funds	Market value	$4,306,555	$127,150	$2,651,930	$83,578
	Cost	$4,485,342	$132,428	$2,611,899	$82,316

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

F. Other accounts receivable

	March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$164,958	$4,870	$110,460	$3,481
Cathay Insurance (Bermuda) Co., Ltd.	14,539	429	12,938	408
Cathay General Hospital	31,825	940	-	-
Cathay Financial Holding Co., Ltd. (Note)	4,132,320	122,005	5,306,663	167,244

Note：Receivables are refundable tax under the consolidated income tax system.

G. Prepayments

	March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$45,260	$1,336	$52,409	$1,652

H. Other overdue receivable

	March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Ltd. (Shanghai)	$265,211	$7,830	$204,097	$6,432

The overdue receivable is consisted of other receivables for out-of-pocket IT system expenses.

I. Guarantee deposits paid

	March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$453,680	$13,395	$209,652	$6,607

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

J. Repurchase bonds

Name	For the three months ended March 31, 2009		
	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	$93	0.10%-0.37%	$80,001

Name	For the three months ended March 31, 2009		
	Interest income US$	Rate	Ending balance US$
Cathay United Bank	$3	0.10%-0.37%	$2,362

K. Other payable

	March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$28,878	$853	$18,627	$587
Lin Yuan Property Management Co., Ltd.	39,146	1,156	34,711	1,094
San Ching Engineering Co., Ltd.	6,330	187	-	-
Cathay Financial Holding Co., Ltd. (Note)	139,493	4,118	1,118,847	35,261
Cathay Century Insurance Co., Ltd.	-	-	5,964	188

Note: The payables consist of interest expense accrued from preferred stock and tax payable under integrated corporate income tax system.

L. Premiums income

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay United Bank	$147,098	$4,343	$154,791	$4,879
Cathay General Hospital	5,235	155	5,464	172
Other related parties	153,675	4,537	37,386	1,178
Total	$306,008	$9,035	$197,641	$6,229

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

M. Insurance expense

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$81,569	$2,408	$75,734	$2,387

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT$2,454 (US$72) thousands and NT$2,974 (US$94) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the three months ended March 31, 2009 and 2010, respectively.

N. Indemnity income

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$-	$-	$6,609	$208

O. Reinsurance income

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$21,442	$633	$25,593	$807

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the three months ended March 31, 2009 and 2010, the Company assumed 60% and 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd, respectively.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

P. Reinsurance service expenses

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$3,444	$102	$-	$-

Q. Reinsurance claims payment

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$15,483	$457	$18,869	$595

R. Miscellaneous income

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$304,852	$9,001	$243,490	$7,674
Cathay United Bank	25,531	754	22,474	708
Cathay Securities Investment Trust Co., Ltd.	14,209	419	31,111	981
Total	$344,592	$10,174	$297,075	$9,363

Miscellaneous income is mainly generated from the Company's integrated marketing activities.

S. Commissions expenses

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Agent Co., Ltd.	$5,554	$164	$11,577	$365

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

T. Operating expenses

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$54,749	$1,617	$56,813	$1,790
Lin Yuan Property Management Co., Ltd.	153,169	4,522	149,331	4,706
Cathay Securities Investment Consulting Co., Ltd.	5,670	167	5,670	179
Seaward Card Co., Ltd.	17,298	511	13,286	419
Cathay Capital Management Inc.	10,000	295	-	-
Seaward Leasing Co., Ltd.	-	-	3,399	107
Cathay United Bank	312,302	9,221	242,562	7,645
Cathay Pacific Venture Capital Co., Ltd.	-	-	5,506	173
Total	$553,188	$16,333	$476,567	$15,019

U. Non-operating expenses and losses

	For the three months ended March 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$129,452	$3,822	$200,959	$6,333

Non-operating expenses and losses are interest expenses accrued from preferred stock liability.

V. Other

As of March 31, 2009 and 2010, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

	March 31,	
Item	2009	2010
Forward foreign exchange contracts	USD 718,858	USD 2,976,000
CS contracts	USD 1,470,000	USD 500,000

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

28. Pledged assets

As of March 31, 2009 and 2010, the Company provided cash and time deposits to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the "Guaranteed Depository Insurance".

	March 31,			
	2009		2010	
Item	NT$	US$	NT$	US$
Guarantee deposits paid				
- Government bonds	$8,840,677	$261,018	$9,813,168	$309,271
Guarantee deposits paid - Time deposits	121,650	3,591	99,850	3,147
Guarantee deposits paid - others	60,244	1,779	9,852	310
Total	$9,022,571	$266,388	$9,922,870	$312,728

Pledged assets are summarized based on the net carrying amounts.

29. Other important commitment and contingent liabilities

None.

30. Serious disaster damages

None.

31. Significant subsequent events

None.

32. Others matters

(1) Pension related information

According to the R.O.C. SFAS No.23 "Interim Financial Reporting and Disclosure", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS No.18 "Accounting for pensions".

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Separate account insurance products related information

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	March 31, 2009		Item	March 31, 2009	
	NT$	US$		NT$	US$
Financial assets at fair value through profit or loss	$194,635,764	$5,746,553	Other payable	$1,908,834	$56,358
Other receivable	957,724	28,277	Reserve for separate Account	193,684,589	5,718,470
			Adjustments	65	2
Total	$195,593,488	$5,774,830	Total	$195,593,488	$5,774,830

Assets			Liabilities		
Item	March 31, 2010		Item	March 31, 2010	
	NT$	US$		NT$	US$
Cash in bank	$37,549	$1,184	Other payable	$1,727,937	$54,458
Financial assets at fair value through profit or loss	268,920,407	8,475,273	Reserve for separate account	269,738,827	8,501,066
Other receivable	2,508,808	79,067			
Total	$271,466,764	$8,555,524	Total	$271,466,764	$8,555,524

B. Separate account insurance products - revenues and expenses

Expenses			Revenues		
Item	January 1-March 31, 2009		Item	January 1-March 31, 2009	
	NT$	US$		NT$	US$
Insurance claims payment	$226,772	$6,695	Premiums income	$5,638,026	$166,461
Cash surrender value	4,802,221	141,784	Recovered separate account reserve	7,142,121	210,869
Dividends	913	27	Interest income	1,287	38
Provision for separate account reserve	9,576,696	282,749	Gains on foreign exchange	5,707,183	168,502
Losses from valuation on financial assets	1,060,434	31,309	Miscellaneous income	1,504	44
Losses on disposal of investments	1,831,261	54,067			
Administrative expenses	991,759	29,281			
Adjustments	65	2			
Total	$18,490,121	$545,914	Total	$18,490,121	$545,914

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

Expenses			Revenues		
Item	January 1-March 31, 2010		Item	January 1-March 31, 2010	
	NT$	US$		NT$	US$
Insurance claims payment	$883,628	$27,848	Premiums income	$6,097,092	$192,155
Cash surrender value	8,953,810	282,188	Recovered separate		
Dividends	175	6	account reserve	13,733,142	432,813
Provision for separate			Interest income	946	30
account reserve	11,557,572	364,247	Gain from valuation on		
Losses on foreign exchange	1,318,674	41,559	financial assets	3,904,830	123,064
Administrative expenses	1,098,065	34,607	Gains on disposal of		
Adjustment	1	-	investment	74,650	2,353
			Miscellaneous income	1,265	40
Total	$23,811,925	$750,455	Total	$23,811,925	$750,455

C. The commission earned for the sales of separate account insurance products from counterparties for the three months ended March 31, 2009 and 2010 were NT$ 106,217(US$3,136) thousands and NT$201,153 (US$6,340) thousands, respectively.

(3) Discretionary account management

	March 31, 2009			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$3,272,484	$96,619	$3,272,484	$96,619
Repurchase bonds	5,085,544	150,149	5,085,544	150,149
Cash in banks	348,937	10,302	348,937	10,302
Total	$8,706,965	$257,070	$8,706,965	$257,070

	March 31, 2010			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$4,224,677	$133,144	$4,224,677	$133,144
Repurchase bonds	4,045,628	127,502	4,045,628	127,502
Cash in banks	2,757,654	86,910	2,757,654	86,910
Total	$11,027,959	$347,556	$11,027,959	$347,556

As of March 31, 2009 and 2010, the Company entered into discretionary account management contracts in the amounts of NT$9,300,000 (US$274,579) thousands and NT$8,300,000 (US$261,582) thousands, respectively.

(4) Revenues and expenses arising from business transactions, promotion activities and information sharing between parent company or other subsidiaries are allocated to the Company and its affiliates based on the attribution of the transactions.

(5) Financial risk management objectives and policies

The Company's financial assets primarily consist of domestic or foreign common stocks, preferred stocks, government bonds, corporate bonds, repurchase bonds, structured notes, mortgage-backed securities, mutual funds, project investments, short-term notes, cash and cash equivalents.

The Company also enters into derivative transactions such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps to protect against the price risk of stock value, interest rate risk, foreign currency risk and credit risk from investment activities. The Company does not enter into derivative transactions for increasing investment income; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

The primary risks involved in financial instruments are market risk, credit risk, operational risk, liquidity risk and sovereign risk. In addition to compliance with the risk management policies and guidance from the parent company Cathay Financial Holding Co., Ltd., the Company has also established risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection, and the concentration management systems to monitor and manage the Company's risks. The risk management policies are summarized as follows:

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, price risk and foreign currency risk, etc. The Company conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with scenario analysis, stress testing, back testing, position limit, VaR limit and loss limit are used to effectively manage the market risk of the Company's financial instruments.

Credit Risk

Credit risk is the risk of loss arising from the potential default of the counter-party. In order to minimize the Company's exposure to the credit risk, following evaluations and controls are performed:

The Company has taken the credit concentration index of each conglomerate into consideration when establishing Lending Policy to prevent from over-exposure. Strict credit evaluations are carried out by the Company before committing to business lending, mortgage lending, policy loan, and securities investments. All business loans are secured by land, property, plant and equipment or financial guarantees.

Assessments on the mortgage repayment ability and personal credits are conducted before the mortgages are granted. The total mortgage amounts granted are based on a different percentage of the carrying value which varies according to regions where the secured buildings locate.

For policy loans, the credit risk level is assessed at low as the policy loan amounts are limited to their net realizable value of the insurance policy and hence are deemed as fully secured investments.

An internal credit risk evaluation model for investments in financial instruments has been created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counter-parties by evaluating the credit concentration of the investments or counter-parties.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Company has adopted and implemented the internal control regulations and procedures. The Company has also commenced the development of information systems to accommodate and support the aforementioned policies.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company has primarily sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

Sovereign Risk

Sovereign risk is the risk of market price fluctuation or default of the issuers due to the political or economical issues in the country where investments are located. The Company categorizes and manages the investment risk based on each country or region, as well as regularly monitors the concentration of foreign countries to minimize its country risk.

(6) Financial instruments related information

A. Fair value

	March 31, 2009			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$209,878,086	$209,878,086	$6,196,578	$6,196,578
Notes and accounts receivable	51,515,060	51,515,060	1,520,964	1,520,964
Financial assets at fair value through profit or loss - current	130,514,004	130,514,004	3,853,380	3,853,380
Available-for-sale financial assets - current	121,988,785	121,988,785	3,601,677	3,601,677
Held-to-maturity financial assets - current	35,943,812	32,514,239	1,061,229	959,972
Investments in debt securities with no active market - current	11,629,131	11,643,904	343,346	343,782
Other financial assets - current	8,000,000	8,000,000	236,197	236,197
Available-for-sale financial assets - noncurrent	245,487,218	245,487,218	7,247,925	7,247,925

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	March 31, 2009			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Held-to-maturity financial assets - noncurrent	$592,097,799	$590,205,448	$17,481,482	$17,425,611
Financial assets carried at cost - noncurrent	19,072,499	-	563,109	-
Investments in debt securities with no active market - noncurrent	108,286,322	87,594,942	3,197,116	2,586,210
Long-term investments under the equity method	6,716,768	6,716,768	198,310	198,310
Other financial assets – noncurrent	4,250,000	4,250,000	125,480	125,480
Guarantee deposits paid	11,632,382	11,632,382	343,442	343,442
Liabilities - non-derivative				
Notes and accounts payable	8,854,902	8,854,902	261,438	261,438
Preferred stock liability – noncurrent	15,000,000	15,381,210	442,870	454,125
Guarantee deposits received	1,565,780	1,565,780	46,229	46,229
Assets – derivative				
Financial assets at fair value through profit or loss - current				
Forward, CS, and CCS	4,680,859	4,680,859	138,201	138,201
IRS and CDS	454,900	454,900	13,431	13,431
Derivative financial assets for hedging - current				
IRS and CDS	2,102,486	2,102,486	62,075	62,075
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Forward , CS, and CCS	21,909,072	21,909,072	646,858	646,858
IRS and CDS	130,879	130,879	3,864	3,864
Derivative financial liabilities for hedging - current				
IRS and CDS	98,083	98,083	2,896	2,896

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd.
Note to unaudited financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2009 and 2010

	March 31, 2010			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$438,016,344	$438,016,344	$13,804,486	$13,804,486
Notes and accounts receivable	48,015,073	48,015,073	1,513,239	1,513,239
Financial assets at fair value through profit or loss - current	55,504,889	55,504,889	1,749,288	1,749,288
Available-for-sale financial assets - current	169,809,629	169,809,629	5,351,706	5,351,706
Held-to-maturity financial assets - current	22,739,877	22,638,109	716,668	713,461
Investments in debt securities with no active market - current	6,713,163	6,624,823	211,572	208,787
Other financial assets - current	2,500,000	2,500,000	78,790	78,790
Available-for-sale financial assets - noncurrent	270,738,277	270,738,277	8,532,565	8,532,565
Held-to-maturity financial assets - noncurrent	643,768,905	640,200,830	20,288,966	20,176,515
Financial assets carried at cost - noncurrent	10,244,346	-	322,860	-
Investments in debt securities with no active market - noncurrent	163,497,496	162,438,786	5,152,773	5,119,407
Long-term investments under the equity method	4,977,152	4,977,152	156,860	156,860
Other financial assets – noncurrent	42,300,000	42,300,000	1,333,123	1,333,123
Guarantee deposits paid	11,914,,842	11,914,842	375,507	375,507
Liabilities - non-derivative				
Notes and accounts payable	25,763,234	25,763,234	811,951	811,951
Preferred stock liability –noncurrent	25,000,000	26,155,262	787,898	824,307
Guarantee deposits received	1,642,245	1,642,245	51,757	51,757
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Option	33,920	33,920	1,069	1,069
Forward, CS and CCS	11,914,924	11,914,924	375,510	375,510
IRS and CDS	23,746	23,746	748	748
Derivative financial assets for hedging - current				
IRS and CDS	2,135,980	2,135,980	67,317	67,317

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	March 31, 2010			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities - derivative				
Financial liabilities at fair value through profit or loss – current				
Forward, CS and CCS	$1,224,190	$1,224,190	$38,582	$38,582
IRS and CDS	448,066	448,066	14,121	14,121
Derivative financial liabilities for hedging - current				
IRS and CDS	19,568	19,568	617	617

The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

① The fair value of the Company’s cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.

② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as the Company predicts the future cash inflow or outflow will be of similar amount to the carrying value.

③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company’s financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to the Company. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor’s credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

④ The fair value of the Company’s financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

⑤ If no quoted market prices exist for the Company's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.

⑥ As of March 31, 2009 and 2010, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	March 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$187,738,991	$5,542,929	$22,139,095	$653,649
Notes and accounts receivable	-	-	51,515,060	1,520,964
Financial assets at fair value through profit or loss - current	127,040,936	3,750,839	3,473,068	102,541
Available-for-sale financial assets - current	121,888,492	3,598,716	100,293	2,961
Held-to-maturity financial assets - current	1,027,698	30,343	31,486,541	929,629
Investments in debt securities with no active market - current	-	-	11,643,904	343,782
Other financial assets-current	-	-	8,000,000	236,197
Available-for-sale financial assets - noncurrent	244,159,693	7,208,730	1,327,525	39,195
Held-to-maturity financial assets - noncurrent	94,392,121	2,786,895	495,813,327	14,638,716
Investment in debt securities with no active market – noncurrent	631,980	18,659	86,962,962	2,567,551
Long-term investments under the equity method	-	-	6,716,768	198,310
Other financial assets - noncurrent	-	-	4,250,000	125,480
Liabilities-non-derivative				
Notes and accounts payable	-	-	8,854,902	261,438
Preferred stock liability – noncurrent	-	-	15,381,210	454,125

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	March 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Forward, CS and CCS	$-	$-	$4,680,859	$138,201
IRS and CDS	-	-	454,900	13,431
Derivative financial assets for hedging – current				
IRS and CDS	-	-	2,102,486	62,075
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	-	-	21,909,072	646,858
IRS and CDS	-	-	130,879	3,864
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	98,083	2,896

	March 31, 2010			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$359,754,807	$11,338,002	$78,261,537	$2,466,484
Notes and accounts receivable	-	-	48,015,073	1,513,239
Financial assets at fair value through profit or loss - current	54,904,741	1,730,373	600,148	18,915
Available-for-sale financial assets - current	159,757,003	5,034,888	10,052,626	316,818
Held-to-maturity financial assets - current	6,541,867	206,173	16,096,242	507,288
Investments in debt securities with no active market - current	-	-	6,624,823	208,787
Other financial assets - current	-	-	2,500,000	78,790
Available-for-sale financial assets - noncurrent	267,396,898	8,427,258	3,341,379	105,307

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	March 31, 2010			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets - non-derivative				
Held-to-maturity financial assets - noncurrent	$41,420,102	$1,305,392	$598,780,728	$18,871,123
Investment in debt securities with no active market – noncurrent	4,913,227	154,845	157,525,559	4,964,562
Long-term investments under the equity method	-	-	4,977,152	156,860
Other financial assets - noncurrent	-	-	42,300,000	1,333,123
Liabilities-non-derivative				
Notes and accounts payable	-	-	25,763,234	811,951
Preferred stock liability - noncurrent	-	-	26,155,262	824,307
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Option	33,920	1,069	-	-
Forward, CS and CCS	-	-	11,914,924	375,510
IRS and CDS	-	-	23,746	748
Derivative financial assets for hedging – current				
IRS and CDS	-	-	2,135,980	67,317
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	-	-	1,224,190	38,582
IRS and CDS	-	-	448,066	14,121
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	19,568	617

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

B. Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at March 31, 2009 and 2010:

① March 31, 2009

Non-derivative financial instruments of fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$2,524,000	$74,520	$658,633	$19,446	$431,020	$12,726	$2,736,163	$80,784
Available-for-sale financial assets	760,097	22,442	3,024,863	89,308	6,183,375	182,562	15,194,530	448,613
Held-to-maturity financial assets	208,432,776	6,153,905	18,092,153	534,164	12,463,522	367,981	12,506,179	369,241
Investments in debt securities with no active market	8,358,515	246,782	5,165,314	152,504	2,946,917	87,007	3,184,983	94,036
Preferred stock liability	-	-	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$3,340,360	$98,623	$7,547,186	$222,828	$17,237,362	$508,927
Available-for-sale financial assets	21,368,279	630,891	83,413,543	2,462,756	129,944,687	3,836,572
Held-to-maturity financial assets	12,223,953	360,908	310,910,607	9,179,528	574,629,190	16,965,727
Investments in debt securities with no active market	4,249,499	125,465	73,780,517	2,178,344	97,685,745	2,884,138
Preferred stock liability	-	-	15,000,000	442,870	15,000,000	442,870

Non-derivative financial instruments of float interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$3,166,227	$93,482	$-	$-	$-	$-	$-	$-
Available-for-sale financial assets	115,642,824	3,414,314	-	-	-	-	-	-
Held-to-maturity financial assets	53,412,421	1,576,983	-	-	-	-	-	-
Investments in debt securities with no active market	22,229,708	656,324	-	-	-	-	-	-

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$3,166,227	$93,482
Available-for-sale financial assets	-	-	-	-	115,642,824	3,414,314
Held-to-maturity financial assets	-	-	-	-	53,412,421	1,576,983
Investments in debt securities with no active market	-	-	-	-	22,229,708	656,324

Derivative financial instruments

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$32,385	$956	$41,662	$1,230	$-	$-	$-	$-
Derivative financial assets for hedging	1,522	45	25,426	751	3,399	100	95,316	2,814
Financial liabilities at fair value through profit or loss	1,309	39	105,812	3,124	-	-	-	-
Derivative financial liabilities for hedging	-	-	41,887	1,237	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$74,047	$2,186
Derivative financial assets for hedging	620,936	18,333	1,277,095	37,706	2,023,694	59,749
Financial liabilities at fair value through profit or loss	-	-	-	-	107,121	3,163
Derivative financial liabilities for hedging	-	-	-	-	41,887	1,237

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

② March 31, 2010

Non-derivative financial instruments of fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$312,817	$9,859	$1,908,974	$60,163	$2,039,835	$64,287	$723,995	$22,817
Available-for-sale financial assets	7,728,869	243,582	15,971,379	503,353	23,250,426	732,758	13,535,954	426,598
Held-to-maturity financial assets	200,039,275	6,304,421	14,307,917	450,927	21,066,065	663,916	27,108,279	854,342
Investments in debt securities with no active market	6,472,987	204,002	12,577,730	396,399	9,031,457	284,635	6,464,485	203,734
Preferred stock liability	-	-	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$249,699	$7,870	$4,378	$138	$5,239,698	$165,134
Available-for-sale financial assets	21,130,471	665,946	79,388,071	2,501,988	161,005,170	5,074,225
Held-to-maturity financial assets	19,889,459	626,835	329,507,841	10,384,741	611,918,836	19,285,182
Investments in debt securities with no active market	16,079,190	506,750	102,655,053	3,235,268	153,280,902	4,830,788
Preferred stock liability	-	-	25,000,000	787,898	25,000,000	787,898

Non-derivative financial instruments of float interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$232,130	$7,316	$-	$-	$-	$-	$-	$-
Available-for-sale financial assets	125,884,414	3,967,363	-	-	-	-	-	-
Held-to-maturity financial assets	54,589,946	1,720,452	-	-	-	-	-	-
Investments in debt securities with no active market	16,929,757	533,557	-	-	-	-	-	-

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$232,130	$7,316
Available-for-sale financial assets	-	-	-	-	125,884,414	3,967,363
Held-to-maturity financial assets	-	-	-	-	54,589,946	1,720,452
Investments in debt securities with no active market	-	-	-	-	16,929,757	533,557

Derivative financial instruments

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$20,273	$639	$-	$-	$-	$-	$-	$-
Derivative financial assets for hedging	8,206	259	17,783	560	94,740	2,986	490,090	15,446
Financial liabilities at fair value through profit or loss	75,050	2,365	-	-	-	-	-	-
Derivative financial liabilities for hedging	17,533	553	-	-	-	-	2,035	64

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$3,474	$109	$-	$-	$23,747	$748
Derivative financial assets for hedging	953,918	30,063	15,570	491	1,580,307	49,805
Financial liabilities at fair value through profit or loss	17,795	561	-	-	92,845	2,926
Derivative financial liabilities for hedging	-	-	-	-	19,568	617

C. Credit risk

The Company doesn’t expose to concentrations of credit risk.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

D. Hedged accounting disclosures

Cash flow hedges – IRS

The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at March 31, 2009 and 2010:

① March 31, 2009

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$900,000	$26,572	90DCP+100bps	Each quarter	2009.5.20
200,000	5,905	4.000%-6ml	Half year	2010.4.7
300,000	8,857	4.0002%-6ml	Half year	2010.4.7
500,000	14,762	4.0006%-6ml	Half year	2010.4.7
500,000	14,762	4.0007%-6ml	Half year	2010.4.7
200,000	5,905	4.0003%-6ml	Half year	2010.4.7
300,000	8,857	4.3%-12ml	Yearly	2010.6.20
900,000	26,572	90DCP	Each quarter	2010.8.18
600,000	17,715	90DCP	Each quarter	2010.8.19
200,000	5,905	6.3%-6ml	Yearly	2010.11.27
300,000	8,857	5.37%-6ml	Yearly	2011.3.15
500,000	14,762	If 6ml < 1.1%,6ml If 1.1% ≦ 6ml ≦ 2.0%,3.8% If 6ml > 2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	59,049	90DCP	Yearly	2013.3.26
2,700,000	79,717	90DCP+25bps	Each quarter	2013.8.24
3,000,000	88,574	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	59,049	90DCP	Yearly	2013.11.3
1,000,000	29,525	90DCP+26.5bps	Yearly	2013.12.14
500,000	14,762	90DCP+23bps	Yearly	2013.12.14
1,500,000	44,287	90DCP+23bps	Yearly	2013.12.16
1,000,000	29,525	90DCP+26.5bps	Yearly	2013.12.16
900,000	26,572	90DCP	Yearly	2014.3.12
1,000,000	29,525	90DCP	Yearly	2014.6.12
2,000,000	59,049	90DCP	Yearly	2014.6.29
5,000,000	147,623	90DCP	Yearly	2014.8.23
1,000,000	29,525	90DCP	Yearly	2014.9.20
3,200,000	94,479	90DCP	Yearly	2014.9.27
2,000,000	59,049	90DCP	Each quarter	2014.9.28
1,500,000	44,287	90DCP	Yearly	2014.9.29
2,500,000	73,812	90DCP	Yearly	2014.12.20
2,000,000	59,049	90DCP	Yearly	2014.12.24

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

②March 31, 2010

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$200,000	$6,303	4.000%-6ml	Half year	2010.4.7
300,000	9,455	4.0002%-6ml	Half year	2010.4.7
200,000	6,303	4.0003%-6ml	Half year	2010.4.7
500,000	15,758	4.0006%-6ml	Half year	2010.4.7
500,000	15,758	4.0007%-6ml	Half year	2010.4.7
300,000	9,455	4.3%-12ml	Yearly	2010.6.20
1,500,000	47,274	90DCP	Each quarter	2010.10.13
200,000	6,303	6.3%-6ml	Yearly	2010.11.27
300,000	9,455	5.37%-6ml	Yearly	2011.3.15
500,000	15,758	If 6ml<1.1%,6ml If 1.1%≦6ml≦2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	63,032	90DCP	Each quarter	2012.10.11
2,000,000	63,032	90DCP	Yearly	2013.3.26
2,425,000	76,426	90DCP	Each quarter	2013.4.24
700,000	22,061	90DCP	Each quarter	2013.8.24
2,700,000	85,093	90DCP+25bps	Each quarter	2013.8.24
2,000,000	63,032	90DCP	Yearly	2013.11.3
3,000,000	94,548	90DCP+26.5bps	Yearly	2013.11.3
2,700,000	85,093	90DCP	Each quarter	2013.12.8
2,000,000	63,032	90DCP+26.5bps	Yearly	2013.12.14
2,000,000	63,032	90DCP+23bps	Yearly	2013.12.14
4,000,000	126,064	90DCP	Each quarter	2014.3.9
900,000	28,364	90DCP	Yearly	2014.3.12
1,000,000	31,516	90DCP	Each quarter	2014.3.26
1,000,000	31,516	90DCP	Yearly	2014.6.12
2,000,000	63,032	90DCP	Yearly	2014.6.29
5,000,000	157,580	90DCP	Yearly	2014.8.23
1,000,000	31,516	90DCP	Yearly	2014.9.20
4,700,000	148,125	90DCP	Yearly	2014.9.27
2,000,000	63,032	90DCP	Each quarter	2014.9.28
2,500,000	78,790	90DCP	Yearly	2014.12.20
2,000,000	63,032	90DCP	Yearly	2014.12.24
2,543,500	80,161	90DCP	Each quarter	2016.10.23
900,000	28,364	90DCP	Each quarter	2016.10.24

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

The terms of interest rate swap agreements are established based on the terms of the bonds being hedged.

The Company's interest rate swap agreements are considered to be highly effective cash flow hedges. As of March 31, 2009 and 2010, unrealized gains on these financial instruments recognized in equity were NT$2,151,689 (US$63,528) thousands and NT$1,670,121 (US$52,635) thousands, respectively.

Fair value hedges

①The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at March 31, 2009 and 2010:

A.March 31, 2009

Par value		
US$	Hedge item	Maturity date
45,000	CDO	2012.9.20
7,000	Structured notes	2014.3.20

B.March 31, 2010

Par value		
US$	Hedge item	Maturity date
20,000	CDO	2012.6.20

The terms of credit default swap agreements are established based on the terms of the bonds being hedged.

The Company's credit default swap agreements are considered to be highly effective fair value hedges. As of March 31, 2009 and 2010, unrealized gains on these financial instruments recognized in profit were NT$53,087 (US$1,567) thousands and NT$157,801 (US$4,973) recorded as gains from valuation on financial assets, respectively.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

②The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at March 31, 2009 and 2010:

A.March 31, 2009

None

B. March 31, 2010

Par value US$	Hedge item	Maturity date
10,000	Debenture with no active market	2019.9.18
20,000	Debenture with no active market	2019.9.29
30,000	Debenture with no active market	2019.9.30
20,000	Debenture with no active market	2019.10.7
20,000	Debenture with no active market	2019.12.1

The Company's interest rate swap agreements are considered to be highly effective fair value hedges. As of March 31, 2010, unrealized loss on these financial instruments recognized in loss was NT$64,726 (US$2,040) thousands, which was recorded as losses from valuation on financial assets.

33. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$22,850 thousands and US$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of March 31, 2010, the Company's remittances to this company totaled approximately US$48,330 thousands.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US$26,390 thousands to US$28,960 thousands. The Company and Cathay Century Insurance subsidiary, Cathay Insurance Company Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on August 26, 2008. As of March 31, 2010, the Company's remittances to this general insurance company totaled approximately US$28,140 thousands.

34. Segment Information

Not applicable.