

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Financial Statements

As of June 30, 2009 and 2010

With Independent Auditors' Report

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese
Independent Auditors' Report

To: Board of Directors
Cathay Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six-month periods ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of June 30, 2009 and 2010, and the results of its operations and its cash flows for the six-month periods ended in conformity with Requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles in the Republic of China.

Ernst & Young
Taipei, Taiwan
The Republic of China
August 19, 2010

Notice to Readers

The accompanying consolidated 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Audited consolidated balance sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)

	Notes	June 30, 2009		June 30, 2010	
		NT \$	US \$	NT \$	US \$
Assets					
Cash and cash equivalents	2, 4	\$422,500,097	\$12,892,893	\$718,216,746	\$22,256,484
Due from the Central Bank and call loans to banks		79,601,210	2,429,088	123,237,685	3,818,955
Financial assets at fair value through profit or loss	2, 5	144,247,906	4,401,828	78,191,352	2,423,035
Securities purchased under agreements to resell		43,795,281	1,336,444	37,493,843	1,161,879
Receivables -net		98,953,097	3,019,625	115,496,860	3,579,079
Loans -net	2, 6	1,312,779,502	40,060,406	1,337,623,192	41,450,982
Available-for-sale financial assets -net	2, 7	514,692,799	15,706,219	603,246,927	18,693,738
Held-to-maturity financial assets -net	2, 8	690,701,135	21,077,239	666,873,212	20,665,423
Investments under equity method	2, 9	2,466,603	75,270	2,423,701	75,107
Other financial assets -net	2, 10	47,957,723	1,463,464	62,291,660	1,930,327
Investments in debt securities with no active market	2, 11	173,427,453	5,292,263	225,939,775	7,001,543
Separate account products assets		236,475,658	7,216,224	252,565,355	7,826,630
Investments in real estate	2, 12	114,663,887	3,499,051	124,514,347	3,858,517
Property and equipment -net		40,609,600	1,239,231	38,597,515	1,196,081
Goodwill and intangible assets -net	2, 14	7,742,773	236,276	8,562,619	265,343
Other assets -net		50,642,416	1,545,390	48,432,258	1,500,845
Total assets		\$3,981,257,140	\$121,490,911	\$4,443,707,047	\$137,703,968
Liabilities & stockholders' equity					
Liabilities					
Due to the Central Bank and call loans from banks		\$45,447,368	\$1,386,859	\$55,582,385	\$1,722,417
Bankers acceptances and funds borrowed		1,640,900	50,073	1,613,900	50,012
Commercial paper payable	2, 15	130,000	3,967	-	-
Financial liabilities at fair value through profit or loss	2, 16	44,193,316	1,348,590	25,622,080	793,991
Securities sold under agreements to repurchase	5, 7	9,477,439	289,211	23,211,128	719,279
Payables		30,409,054	927,954	61,057,510	1,892,083
Deposits	17	1,179,756,856	36,001,125	1,263,183,552	39,144,207
Bonds payable	2, 18	35,194,806	1,073,995	57,021,192	1,767,003
Other borrowings	19	-	-	10,000	310
Other financial liabilities	2,21	543,760	16,593	581,289	18,013
Separate account products liabilities		236,475,658	7,216,224	252,565,355	7,826,630
Reserve for operations and liabilities	2,20	2,189,058,571	66,800,689	2,500,176,046	77,476,791
Other liabilities		21,044,887	642,200	7,527,636	233,270
Total liabilities		3,793,372,615	115,757,480	4,248,152,073	131,644,006
Stockholders' Equity attributable to equity holders of the parent					
Stock					
Common stock	22	97,375,372	2,971,479	96,708,774	2,996,863
Stock dividend to be distributed	22	-	-	4,835,439	149,843
Capital surplus	23	81,703,998	2,493,256	78,508,148	2,432,852
Retained earnings					
Legal reserve	24	12,540,295	382,676	13,645,400	422,851
Special reserve		7,107,732	216,898	-	-
Unappropriated retained earnings		5,464,930	166,766	6,141,481	190,316
Other stockholders' equity					
Land revaluation increment		2,106	64	1,461	45
Cumulative conversion adjustments		198,129	6,046	17,236	534
Unrealized gains or losses on financial instruments		(15,465,555)	(471,942)	(7,182,955)	(222,589)
Treasury stock	25	(4,140,047)	(126,337)	-	-
Net loss not yet recognized as net pension cost		(270,687)	(8,260)	(6,791)	(210)
Total stockholder's equity attributable to equity holders of the parent		184,516,273	5,630,646	192,668,193	5,970,505
Minority interest		3,368,252	102,785	2,886,781	89,457
Total stockholders' equity		187,884,525	5,733,431	195,554,974	6,059,962
Total liabilities and stockholders' equity		\$3,981,257,140	\$121,490,911	\$4,443,707,047	\$137,703,968

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NTS32.77 and NTS32.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Audited consolidated statements of income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)

	Notes	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010			
		NT \$	US \$	NT \$	US \$		
Interest income	2	\$51,744,718	\$1,579,027	\$49,352,390	\$1,529,358		
Less: Interest expenses	2	(6,701,262)	(204,494)	(4,504,444)	(139,586)		
Net interest income		45,043,456	1,374,533	44,847,946	1,389,772		
Net income other than interest							
Net commission and handling fee		5,803,695	177,104	7,922,598	245,510		
Net premiums from insurance business		91,962,572	2,806,304	139,598,206	4,325,944		
Gains (losses) on financial assets and liabilities at fair value through profit or loss		5,749,545	175,451	(11,082,538)	(343,432)		
Realized (losses) gains on available-for-sale financial assets		(4,038,807)	(123,247)	6,387,929	197,952		
Realized gains (losses) on held-to-maturity financial assets		1,509,461	46,062	(83,560)	(2,589)		
Gains on investments under equity method		160,956	4,912	172,828	5,356		
Gains on investments in real estate		2,714,498	82,835	2,837,610	87,933		
(Losses) gains on foreign exchange		(456,890)	(13,942)	4,440,841	137,615		
Impairment losses		(35,588)	(1,086)	-	-		
Net other non-interest (losses) gains		(1,958,491)	(59,765)	2,341,377	72,556		
Total income		146,454,407	4,469,161	197,383,237	6,116,617		
Bad debt expenses		(288,346)	(8,799)	(11,543)	(358)		
Provision for premiums reserve		(112,313,993)	(3,427,342)	(170,811,060)	(5,293,184)		
Operating expenses							
Personnel expenses		(19,695,086)	(601,010)	(20,531,462)	(636,240)		
Depreciation and amortizations expenses		(1,938,486)	(59,154)	(1,993,977)	(61,790)		
Other general and administration expenses		(4,520,786)	(137,955)	(4,920,554)	(152,481)		
Income (loss) from continuing operations before income taxes		7,697,710	234,901	(885,359)	(27,436)		
Income taxes expense	2, 26	(2,313,429)	(70,596)	(196,475)	(6,088)		
Income (loss) from continuing operations after income taxes		5,384,281	164,305	(1,081,834)	(33,524)		
Consolidated net income (loss)		\$5,384,281	\$164,305	\$(1,081,834)	\$(33,524)		
Include:							
Parent company		\$5,464,930	\$166,766	\$(974,110)	\$(30,186)		
Minority interest		(80,649)	(2,461)	(107,724)	(3,338)		
Consolidated net income (loss)		\$5,384,281	\$164,305	\$(1,081,834)	\$(33,524)		
Earnings per share (expressed in dollars) :							
Primary earnings per share:							
		Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Income (loss) from continuing operations		\$0.76	\$0.53	\$0.02	\$0.02	\$(0.09)	\$(0.11)
Consolidated net income (loss)		\$0.76	\$0.53	\$0.02	\$0.02	\$(0.09)	\$(0.11)

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Audited consolidated statements of changes in stockholders' equity
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars)

Summary	Stock				Retained earnings								Other stockholders' equity								Total										
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock				Net loss not yet recognized as net pension cost		Minority interest						
	NT \$	US \$	NT \$	US \$	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	\$97,375,372	\$2,971,479	\$-	\$-	\$81,971,213	\$2,501,411	\$12,320,672	\$375,974	\$-	\$-	\$7,060,140	\$215,445	\$2,106	\$64	\$344,257	\$10,505	\$(52,309,533)	\$(1,396,263)	\$(4,140,047)	\$(126,337)	\$(270,687)	\$(8,260)	\$3,145,462	\$95,986	\$145,498,955	\$4,440,004					
Minority interest																									303,439	9,260	303,439	9,260			
Appropriations and distribution for 2008																															
Legal reserve							219,623	6,702			(219,623)	(6,702)																			
Special reserve					(267,215)	(8,155)			7,107,732	216,898	(6,840,517)	(208,743)																			
Cumulative conversion adjustments														(146,128)	(4,459)												(146,128)	(4,459)			
Unrealized gains or losses of financial instruments																	36,843,978	1,124,321									36,843,978	1,124,321			
Consolidated net income for the six months ended June 30, 2009											5,464,930	166,766												(80,649)	(2,461)	5,384,281	164,305				
Balance on June 30, 2009	\$97,375,372	\$2,971,479	\$-	\$-	\$81,703,998	\$2,493,256	\$12,540,295	\$382,676	\$7,107,732	\$216,898	\$5,464,930	\$166,766	\$2,106	\$64	\$198,129	\$6,046	\$(15,465,555)	\$(471,942)	\$(4,140,047)	\$(126,337)	\$(270,687)	\$(8,260)	\$3,368,252	\$102,785	\$187,884,525	\$5,733,431					
Balance on January 1, 2010	\$96,708,774	\$2,996,863	\$-	\$-	\$78,240,933	\$2,424,572	\$12,540,295	\$388,605	\$7,107,732	\$220,258	\$11,051,057	\$342,456	\$1,461	\$45	\$4,444	\$138	\$6,547,332	\$202,892	\$-	\$-	\$(6,791)	\$(210)	\$3,227,931	\$100,029	\$215,423,168	\$6,675,648					
Minority interest																															
Appropriations and distribution for 2009																															
Legal reserve							1,105,105	34,246			(1,105,105)	(34,246)																			
Special reserve					267,215	8,280			(7,107,732)	(220,258)	6,840,517	211,978																			
Cash dividends											(4,835,439)	(149,843)																(4,835,439)	(149,843)		
Stock dividend to be distributed			4,835,439	149,843							(4,835,439)	(149,843)																			
Cumulative conversion adjustments														12,792	396													12,792	396		
Unrealized gains or losses of financial instruments																	(13,730,287)	(425,481)										(13,730,287)	(425,481)		
Consolidated net loss for the six months ended June 30, 2010											(974,110)	(30,186)												(107,724)	(3,338)	(1,081,834)	(33,524)				
Balance on June 30, 2010	\$96,708,774	\$2,996,863	\$4,835,439	\$149,843	\$78,508,148	\$2,432,852	\$13,645,400	\$422,851	\$-	\$-	\$6,141,481	\$190,316	\$1,461	\$45	\$17,236	\$534	\$(7,182,955)	\$(222,589)	\$-	\$-	\$(6,791)	\$(210)	\$2,886,781	\$89,457	\$195,554,974	\$6,059,962					

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Audited consolidated statements of cash flows
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars)

	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income (loss)	\$5,384,281	\$164,305	\$(1,081,834)	\$(33,524)
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	1,938,486	59,154	1,993,977	61,790
Investment income recognized by equity method less than cash dividends received	130,913	3,995	160,314	4,968
Bad debt expenses	288,346	8,799	11,543	358
Provision for premiums reserve from insurance business	112,313,993	3,427,342	170,811,060	5,293,184
Gain on disposal of property and equipment	(41,189)	(1,257)	(1,027,539)	(31,842)
Impairment loss	35,588	1,086	-	-
Other adjustments	58,823	1,795	(1,359,232)	(42,121)
Decrease (increase) on operating assets and liabilities				
Increase in receivables	(8,749,108)	(266,985)	(16,235,288)	(503,108)
(Increase) decrease in deferred income tax assets	(1,028,756)	(31,393)	372,286	11,537
(Increase) decrease in financial assets at fair value through profit or loss	(17,493,054)	(533,813)	65,033,420	2,015,290
Increase in other financial assets	(1,094,701)	(33,406)	(4,436,223)	(137,472)
(Increase) decrease in other assets	(4,640,893)	(141,620)	280,220	8,684
(Decrease) increase in payables	(5,825,011)	(177,754)	17,593,047	545,183
Decrease in financial liabilities at fair value through profit or loss	(28,836,816)	(879,976)	(555,756)	(17,222)
Increase (decrease) in deferred income tax liabilities	2,902,255	88,564	(1,277,295)	(39,581)
Decrease in other financial liabilities	(8,015,650)	(244,603)	(81,762)	(2,534)
Increase (decrease) in other liabilities	11,202,819	341,862	(152,461)	(4,725)
Net cash provided by operating activities	58,530,326	1,786,095	230,048,477	7,128,865
Cash flows from investing activities				
Decrease in restricted assets	83,000	2,533	-	-
Decrease (increase) in loans	50,157,206	1,530,583	(8,060,144)	(249,772)
Increase in due from the Central Bank and call loans to banks	(31,963,142)	(975,378)	(44,507,476)	(1,379,222)
Decrease (increase) in available-for-sale financial assets	9,717,434	296,534	(64,004,366)	(1,983,401)
(Increase) decrease in held-to-maturity financial assets	(37,471,466)	(1,143,469)	5,353,970	165,912
Decrease in investments under equity method	70,918	2,164	17,853	553
Increase investments in real estate	(6,072,903)	(185,319)	(7,827,765)	(242,571)
(Acquisition) disposal of property and equipment	(940,659)	(28,705)	1,551,219	48,070
(Increase) decrease in securities purchased under agreements to resell	(32,047,034)	(977,938)	5,907,972	183,079
Increase in other financial assets	(47,149,583)	(1,438,803)	(42,884,749)	(1,328,936)
Decrease (increase) in other assets	920,013	28,075	(140,935)	(4,367)
Net cash used in investing activities	(94,696,216)	(2,889,723)	(154,594,421)	(4,790,655)
Cash flows from financing activities				
(Decrease) increase in due to the Central Bank and call loans from banks	(16,828,431)	(513,532)	10,386,725	321,869
Increase (decrease) in deposits	89,356,582	2,726,780	(25,366,087)	(786,058)
(Decrease) increase in securities sold under agreements to repurchase	(11,142,666)	(340,026)	14,437,105	447,385
Decrease in banker's acceptances and funds borrowed	(604,431)	(18,445)	(362,259)	(11,226)
(Decrease) increase in bonds payable	(3,671,172)	(112,028)	583,984	18,097
Increase (decrease) in other financial liabilities	26,288	802	(1,464,849)	(45,393)
Increase in other liabilities	255,861	7,808	32,954	1,021
Cash dividends	(7,921)	(242)	-	-
Increase in minority stockholders	391,425	11,945	-	-
Net cash provided by (used in) financing activities	57,775,535	1,763,062	(1,752,427)	(54,305)
Effects of exchange rate changes	(96,350)	(2,940)	92,541	2,868
Increase in cash and cash equivalents	21,513,295	656,494	73,794,170	2,286,773
Cash and cash equivalents at the beginning of period	400,986,802	12,236,399	644,422,576	19,969,711
Cash and cash equivalents at the end of period	\$422,500,097	\$12,892,893	\$718,216,746	\$22,256,484
Supplemental disclosure of cash flows information				
Interest paid during the period (excluding capitalized interest)	\$7,022,984	\$214,311	\$3,663,802	\$113,536
Income tax paid	\$943,618	\$28,795	\$912,293	\$28,271
Investing and financing activities with no cash flow effects				
Reclassification of property and equipment to other assets	\$-	\$-	\$107,377	\$3,327

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
(Expressed in thousands of dollars except
for share and per share data and unless otherwise stated)
June 30, 2009 and 2010

1. Organization and business scope

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on October 27, 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. Cathay United Bank absorption merged with Lucky Bank on January 1, 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007 to improve competitiveness. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of June 30, 2009 and 2010, the total numbers of the employees of the Company and Subsidiaries were 42,941 and 43,358, respectively.

As of and for the six months ended June 30, 2009 and 2010, the consolidated financial statements include the following entities:

English Translation of Financial Statements Originally Issued in Chinese

(Expressed in thousand of dollars except for share and per share date and unless otherwise stated)

Investor	Investee	Business	2009.6.30 Ownership interest	2010.6.30 Ownership interest	Notes
The Company	Cathay Life	Life insurance	100.00%	100.00%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Act (the "Company Act").
The Company	Cathay United Bank	Commercial banking operations	100.00%	100.00%	UWCCB was enfranchised by the ROC government on January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank absorption merged with Lucky Bank on January 1, 2007.
The Company	Cathay Century	Property and casualty insurance	100.00%	100.00%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on August 2, 2002.

English Translation of Financial Statements Originally Issued in Chinese

(Expressed in thousand of dollars except for share and per share date and unless otherwise stated)

Investor	Investee	Business	2009.6.30 Ownership interest	2010.6.30 Ownership interest	Notes
The Company	Cathay Securities	Securities	100.00%	100.00%	Cathay Securities was incorporated on May 12, 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were transferred to Cathay Securities using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100.00%	100.00%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Act. Cathay Pacific Venture is the surviving company for the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on August 10, 2009.

English Translation of Financial Statements Originally Issued in Chinese

(Expressed in thousand of dollars except for share and per share date and unless otherwise stated)

Investor	Investee	Business	2009.6.30 Ownership interest	2010.6.30 Ownership interest	Notes
The Company、 Cathay Life、 Cathay United Bank、Cathay Century	Cathay Venture Capital Co., Ltd. ("Cathay Venture")	Venture capital investment	67.00%	-	Cathay Venture was incorporated on September 13, 2000, under the Company Act. Cathay Venture merged with the surviving company Cathay Pacific Venture on August 10, 2009.
The Company	Cathay II Venture Capital Co., Ltd. ("Cathay II Venture")	Venture capital investment	100.00%	-	Cathay II Venture was incorporated on April 12, 2004, under the Company Act. Cathay II Venture merged with the surviving company Cathay Pacific Venture on August 10, 2009.
Cathay Life	Cathay Life Insurance Company (China) ("Cathay Life (China)")	Life insurance	50.00%	50.00%	Cathay Life (China) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (China).
Cathay Life、 Cathay Pacific Venture	Symphox Information Co., Ltd. ("Symphox Information")	Type II telecom service, data processing service, information supply service	100.00%	100.00%	Symphox Information was incorporated on December 12, 1999, under the Company Act. Cathay Life and Cathay Pacific Venture own 60.12% and 39.88% interest in Symphox Information, respectively.

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Investor	Investee	Business	2009.6.30 Ownership interest	2010.6.30 Ownership interest	Notes
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) was incorporated on November 21, 2007.
Cathay Life 、 Cathay Century	Cathay Insurance Company Limited. (China) (“Cathay Century (China)”)	Property and casualty insurance	100.00%	100.00%	Cathay Century (China) was incorporated on August 26, 2008. Cathay Life and Cathay Century each owns 50% interest of Cathay Century (China).
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00%	50.00%	Indovina Bank was incorporated in Vietnam on October 29, 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99%	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.

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As of and for the six months ended June 30, 2009 and 2010, the consolidated financial statements excluded the following subsidiaries due to the respective total assets and operating revenues were considered immaterial to the Company.

Investor	Investee	Business	2009.6.30 Ownership interest	2010.6.30 Ownership interest	Notes
The Company	Cathay Capital Management Inc., (“Cathay Capital Management”)	Management consultant	100.00%	-	Cathay Capital Management was incorporated on June 12, 2000. The board of directors resolved the merger with Cathay Pacific Venture. Cathay Capital Management merged with the surviving company Cathay Pacific Venture on August 10, 2009.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100.00%	100.00%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.
Cathay life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment research analysis	100.00%	100.00%	Cathay Securities Investment Consulting was incorporated on November 25, 2002.
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100.00%	100.00%	Cathay Life Insurance Agent was incorporated on March 23, 2000.

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Investor	Investee	Business	2009.6.30 Ownership interest	2010.6.30 Ownership interest	Notes
Cathay United Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100.00%	100.00%	Cathay Property Insurance Agent was incorporated on March 23, 2000. On January 15, 2010, Cathay Property Insurance Agent was decided its dissolution by the board of directors and finished the process of liquidation on July 2, 2010.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100.00%	100.00%	Seaward Card was incorporated on April 9, 1999.

2. Summary of significant accounting policies

The financial statements were prepared in accordance with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles. A summary of significant accounting policies is as follows:

(1) Principles of consolidation

- A. In accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, the preparation of consolidated financial statements should comply with the Statements of Financial Accounting Standards of Republic of China (“ROC SFAS”) No. 7, except for subsidiaries in the industries of banking, insurance and securities which are required to be consolidated.
- B. All significant inter-company transactions were eliminated in the consolidated financial statements.

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(2) Cash and 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 present insignificant risk of changes in values from fluctuations of interest rates. Cash and cash equivalents include cash on hand, unrestricted bank deposits, checks for clearance, due from commercial banks and all other highly liquid investments with maturities of less than six months.

(3) Financial assets and financial liabilities

In accordance with the ROC SFAS No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Financial Holding Company”, financial assets are categorized as “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”, “derivative financial assets for hedging” or “financial assets carried at cost”. Upon initial recognition, financial assets are measured at fair value, plus in some cases, transaction costs that are directly attributable to the acquisition or issue of the financial assets. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging”, or “financial liabilities carried at cost”.

The Company and its subsidiaries purchase and sell their financial assets in a “regular way”. “Regular way” purchases or sales are transactions that require the delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading or financial assets or liabilities designated as at fair value through profit or loss. Such assets or liabilities are 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:

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- 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 when the Company has both the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses from changes in fair values are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less any impairment loss or amount unrecoverable. The calculation of effective interest rate includes all fees and points paid or received between parties, transaction costs and all other premiums and discounts.

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 values are recognized when investments in debt securities with no active market are derecognized, impaired, or amortized.

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D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the six preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity until the assets are derecognized, except for impairment losses and foreign exchange gains or losses upon translation of the assets. When the financial asset is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be 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. Derivative financial assets or liabilities for hedging

Derivative financial assets or liabilities for hedging are derivative financial assets or liabilities that have been designated as hedging instruments and meet the criteria for hedge accounting. These assets or liabilities are measured at fair value.

F. Financial assets carried at cost

Financial assets measured at cost are investments not measured at fair value because fair value cannot be reliably measured. They are either holdings in non-listed companies or emerging stocks, which have no significant influence or derivative assets that are linked to and must be settled by delivery of the above-mentioned equity instruments. If there is objective evidence that an impairment loss has been incurred on the investment, an impairment loss will be recognized. Such impairment loss shall not be reversed.

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G. Financial liabilities

The financial liabilities of the Company and its subsidiaries are subsequently measured at amortized cost after initial recognition, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging”, which are both measured at fair value

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

(4) Derecognition of financial assets and liabilities

A. Derecognition of financial assets

A financial asset (or a portion of the asset) is derecognized when the control over the asset (or a portion of the asset) is surrendered. Transferring or surrendering control over a financial asset (or a portion of the asset) in exchange of consideration received is deemed a sale.

If a transfer of financial asset does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Derecognition of financial liabilities

A financial liability (or a portion) is derecognized when the obligation under the liability agreement is discharged or cancelled or expires.

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

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(5) Accounting for impairment of financial assets

The Company and Subsidiaries assesses at each balance sheet date whether a financial asset or a 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 measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced 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 relates to an event occurs after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the reversal date.

B. Financial assets carried 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 an unquoted equity instrument has been incurred, then the amount of the loss is determined 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 cannot be reversed.

C. Available-for-sale financial assets

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

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(6) Derivative financial instruments

The Company and Subsidiaries enter into derivative financial instrument transactions such as forward foreign exchange, interest rate swap, cross-currency swap, option and futures to hedge its risks associated with interest rates and foreign currency fluctuations. These derivative financial instruments are initially recognized at fair value on the date of which 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 on derivatives that do not qualify for hedge accounting are taken directly to profit or loss for the period.

For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is both 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 a highly probable forecast transaction, and could affect profit or loss.
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

At the inception of a hedge relationship, the Company and Subsidiaries formally designate and document hedge relationship to which the Company and Subsidiaries wish 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 entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value 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.

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

A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains and losses attributable to the risk being hedged and the underlying derivative is remeasured at fair value. Gains or losses from both are recognized in profit or loss.

For fair value hedge relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

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

The Company and Subsidiaries discontinues fair value hedge accounting if 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.

Hedging instruments are subsequently measured at fair value and the gains (losses) resulting from the exchange rate changes are recognized in current period profit or loss in accordance with the ROC SFAS No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements".

B. Cash flow hedges

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

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Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are 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, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, 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 hedges are recognized directly 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 value of any such gains or losses recognized directly in equity is transferred to profit or loss.

(7) Allowance for bad debts

Allowance for bad debts on bills, bill purchased, acceptances, guarantees loans, delinquent accounts, receivables of credit card and other receivables are determined based on the aging analysis of outstanding balances of such accounts and past experience.

(8) Investments-equity method

Investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company 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 was amortized. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in conformity with the acquisition cost allocation as provided in ROC SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method.", resulting goodwill is no longer amortized.

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If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets of the investee that the Company has invested will be changed. Such difference shall be used to adjust both the capital surplus and the investment in the investee company accounted for under the equity method. If the adjustment stated above is to debit the capital surplus account and the book balance of capital surplus from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

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

(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 immediately.

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

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 ROC (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is for commercial 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. When revaluing property and equipment, land and other properties shall be revalued separately. Property appreciation shall be recorded under “land revaluation adjustments” of shareholders’ equity.

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

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Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that continue to be in use after reaching its originally estimated useful life are depreciated based on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

The Company and Subsidiaries adopted the ROC SFAS No. 37 “Accounting for Intangible Assets” on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair value. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

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

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets with finite useful lives. The Company and Subsidiaries reevaluates the amortization periods and amortization methods for the intangible assets with finite useful lives at each balance sheet date and any resulting changes are treated as changes in accounting estimates.

The intangible assets of the Company and Subsidiaries are computer soft ware and are amortized over the estimated useful lives of three to five years using the straight-line method.

(12) Accounting for Assets Impairment

Pursuant to ROC SFAS No. 35, “Accounting for Asset Impairment” the Company and Subsidiaries assess indicators of impairment for all its assets within the scope of ROC SFAS No. 35 on each balance sheet date. If impairment indications exist, the Company and Subsidiaries shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

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For previously recognized impairment losses, the Company and Subsidiaries shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company and Subsidiaries have to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company and Subsidiaries shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets 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. Any impairment loss is recognized by reducing the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- A. First, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs.
- B. If the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

(13) Real Estate Investment Trust (REIT) and financial assets securitization

Cathay Life has adopted “Accounting Treatment under Real Estate Securitization” issued by the Accounting Research and Development Foundation.

Once the sales process is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under “total amount accrual method”.

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If the originator and its related parties do not participate in the initial offering but subsequently acquire the REIT beneficiary securities of less than 20% of its outstanding shares from the TSE at fair market value within six months after the issue date, the transfer and purchase transaction are deemed two independent transactions due to the subsequent purchase transaction has no significant influence over the transfer transaction. However, if the originator and its related parties subsequently acquire the REIT beneficiary securities of over 20% of its outstanding shares within six months after the issue date, the subsequently acquired portion is not deemed a sale and therefore gain or loss on disposal of real estate for the originator related to the subsequently acquired portion shall be deferred.

Under the Regulations for Financial Assets Securitization, Subsidiaries, with the assistance of a trustee securitized its financial assets for the purposes of offering asset-backed securities in the form of related beneficiary certificates through a special purpose trust. Due to Subsidiaries having surrendered the rights and control on these securitized financial assets, such financial assets are no longer recognized on the Subsidiaries' accounts. The gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates for credit enhancement, which are classified as held-to-maturity financial assets and investments in debt securities with no active market due to lack of market quotes.

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

(14) Reserves for operations and liabilities

The subsidiaries in banking, insurance and securities industries are required by the government to provide operating and loss reserves.

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(15) Treasury stock

The stock that the Company repurchases is recorded in the “treasury stock account”. The book value of the treasury stock is determined based on the reason of purchase and stock type (common or preferred stock) using the weighted average method. At the time of writing off treasury stock, the Company should debit common stock and capital surplus on stock issuance proportionally. As long as the book value of the retired treasury stock is higher than the sum of its par value and capital surplus on stock issuance, the excess should be debited to other capital surplus or retained earnings when capital surplus-treasury stock is insufficient. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus on stock issuance, the difference is credited to capital surplus-treasury stock.

According to the Ministry of Finance-Securities and Future Commission (91) article 108164:

- A. In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose such treasury shares within this period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly.
- B. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities Exchange Act.

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According to the Securities and Futures Commission (91) article 111467, shares previously bought back by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon conversion of the institutions into wholly-owned subsidiaries of a financial holding company and the conversion of such shares into treasury shares of the financial holding company, must be treated by such subsidiaries as their own treasury shares and a deduction of shareholders' equity and must be treated as treasury shares of the financial holding company. If the financial institutions hold shares of other financial institutions whose shares are also converted into the shares of the same financial holding company, the principle of equity investment shall apply. The Company follows ROC SFAS NO.30 "Accounting for Treasury Stocks" and treats shares held by its subsidiaries as treasury stock in its financial statements.

(16) Recognition of interest income and service fees

Interest income is recognized on an accrual basis except for loans classified as delinquent accounts. The accrual of income from delinquent accounts is discontinued; subsequent interest payments are credited to income when received. Service fees are recognized on an accrual basis.

(17) Insurance premium income and expenses

Direct premiums are recorded as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end based on past experience.

(18) Pension plan

The Labor Pension Act of ROC ("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 the pension mechanism under the Labor Standards Act. For employees choosing the pension scheme under the Act, the Company shall make monthly contributions to individual pension accounts on a basis no less than 6% of the employees' monthly wages.

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In compliance with SFC regulations, the Company and Subsidiaries follow the ROC SFAS No. 18, "Accounting for Pensions". When providing defined benefit plans, 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 over the employee's employment period.

(19) Foreign currency transactions

A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate at each balance sheet date and 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 measured at fair value is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. Conversely, when a gain or loss on a non-monetary item measured at fair value 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 in terms of historical cost shall be translated using the exchange rate at the date of the transaction.

B. Translation of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are translated into NT dollars on the following basis: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders' equity items are translated based on the historical rates except for the opening balance of retained earnings, which is the translated amount from prior period carried forward. Income statement items are translated using a weighted-average exchange rate of the fiscal year. Differences arising from above translation are recorded under cumulative translation adjustments under shareholders' equity.

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(20) Income taxes

The Company adopted ROC 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, tax losses and investment tax credits. An allowance is provided based on an assessment of the reliability of deferred tax assets. Adjustment of prior years’ income tax payable is included in the current period income tax expense.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its qualifying Subsidiaries have selected the consolidated income tax return for tax filings and pay a 10% surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the consolidated tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and Subsidiaries.

The Company adopted ROC SFAS No. 12, “Accounting for Income Tax Credits,” for income tax deductions. The income tax deductions resulting from the expenditure on the purchase of equipment, research and development, education, training and investment in equity are accounted for under the current period recognition method.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date when the shareholders resolve that the earnings shall be retained.

Effective from January 1, 2006, the Company and Subsidiaries have considered the impact of the “Alternative Minimum Tax Act” to estimate their income tax liabilities.

(21) Capital expenditure

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.

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(22) Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses and not distribution of earnings.

(23) Translation to U.S. dollars

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of June 30, 2009 and 2010 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.77 and NT\$32.27 provided by Federal Reserve Bank of New York of June 30, 2009 and 2010 are used for the translation.

3. Change in accounting and its effects

None.

4. Cash and cash equivalents

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Petty cash and cash on hand	\$10,185,694	\$310,824	\$10,364,677	\$321,186
Cash in banks	13,494,124	411,783	30,681,482	950,774
Time deposits	357,628,654	10,913,294	634,520,430	19,662,858
Cash equivalents	30,368,027	926,702	28,406,744	880,283
Checks for clearance	3,148,330	96,074	3,843,308	119,099
Due from commercial banks	7,675,268	234,216	10,400,105	322,284
Total	<u>\$422,500,097</u>	<u>\$12,892,893</u>	<u>\$718,216,746</u>	<u>\$22,256,484</u>

As of June 30, 2009 and 2010, the amounts of time deposits with maturities beyond one year were NT\$2,377,980 (US\$72,566) thousands and NT\$5,506,618 (US\$170,642) thousands, respectively.

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5. Financial assets at fair value through profit or loss

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Common stock	\$4,427,122	\$135,097	\$5,410,624	\$167,667
Beneficiary certificates	51,234,632	1,563,461	15,512,172	480,699
Exchange traded funds	25,596	781	386,419	11,974
Real estate investment trust	616,750	18,821	583,751	18,090
Commercial papers	3,764,563	114,878	4,498,909	139,415
Corporate bonds	16,614,702	507,009	3,331,283	103,232
Government bonds	1,087,097	33,174	2,124,926	65,848
Treasury bills	32,684,360	997,387	14,972,730	463,983
CDs Issued by CBC	2,727	83	-	-
Overseas financial instruments	12,908,892	393,924	16,221,528	502,681
Derivative financial instruments	159,409	4,864	145,557	4,511
Margin for futures trading-own funds	30,109	919	50,411	1,562
Structured time deposits	1,000,000	30,516	1,000,000	30,989
Valuation adjustment	19,691,947	600,914	13,953,042	432,384
Total	<u>\$144,247,906</u>	<u>\$4,401,828</u>	<u>\$78,191,352</u>	<u>\$2,423,035</u>

(1) As of June 30, 2009 and 2010, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$3,405,400 (US\$103,918) thousands and NT\$3,195,600 (US\$99,027) thousands, respectively. Such repurchase agreements amounting to NT\$3,791,562 (US\$115,702) thousands and NT\$3,505,053 (US\$108,616) thousands, respectively, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements entered prior to June 30, 2009 and 2010 are settled at NT\$3,792,820 (US\$115,741) thousands and NT\$3,505,515 (US\$108,631) thousands prior to September 30, 2009 and 2010, respectively.

(2) Please refer to Note 29 for related information on the above financial assets at fair value through profit or loss as of June 30, 2009 and 2010 being pledged as collaterals.

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6. Loans-net

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Inward-outward documentary bills	\$135,980	\$4,150	\$171,656	\$5,319
Loans	1,314,984,572	40,127,695	1,340,829,325	41,550,336
Overdrafts	541,147	16,513	480,668	14,895
Delinquent accounts	7,097,691	216,591	3,456,170	107,102
Subtotal	1,322,759,390	40,364,949	1,344,937,819	41,677,652
Less: Allowance for bad debts	(9,979,888)	(304,543)	(7,314,627)	(226,670)
Total	<u>\$1,312,779,502</u>	<u>\$40,060,406</u>	<u>\$1,337,623,192</u>	<u>\$41,450,982</u>

7. Available-for-sale financial assets-net

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Common stock	\$109,113,143	\$3,329,666	\$138,458,193	\$4,290,616
Beneficiary certificates	295,521	9,018	1,169,553	36,243
Collateralized loans obligation and collateralized bonds obligation	2,535,588	77,375	1,884,441	58,396
Exchange traded funds	3,688,539	112,558	6,922,295	214,512
Government bonds	125,732,009	3,836,802	54,996,201	1,704,252
Corporate bonds	57,540,501	1,755,890	55,708,127	1,726,313
Financial debentures	136,082,566	4,152,657	151,672,339	4,700,103
Overseas financial instruments	89,762,410	2,739,164	193,913,008	6,009,080
Real estate investment trust beneficiary	9,374,235	286,061	9,282,651	287,656
Accumulated impairments	(507,518)	(15,487)	(735,000)	(22,777)
Valuation adjustment	(18,924,195)	(577,485)	(10,024,881)	(310,656)
Total	<u>\$514,692,799</u>	<u>\$15,706,219</u>	<u>\$603,246,927</u>	<u>\$18,693,738</u>

(1) As of June 30, 2009 and 2010, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$4,833,300 (US\$147,492) thousands and NT\$18,850,547 (US\$584,151) thousands. Such repurchase agreements amounting to NT\$5,366,412 (US\$163,760) thousands and NT\$19,412,340 (US\$601,560) thousands were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to June 30, 2009 and 2010 are settled at NT\$5,366,858 (US\$163,774) thousands and NT\$19,415,008 (US\$601,643) thousands prior to August 31, 2009 and July 31, 2010, respectively.

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- (2) Please refer to Note 29 for related information on the above available-for-sale financial assets as of June 30, 2009 and 2010 being pledged as collaterals.
- (3) The impairment provision is recognized as the collateralized obligation and collateralized bonds held by Cathay Life are assessed to be over-valued. As of June 30, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$- (US\$-) and NT\$735,000 (US\$22,777) thousands, respectively.
- (4) The issuers of certain overseas financial instrument were taken over by the government or defaulted in payment. In view of the aforesaid incidents, management of Cathay United Bank has provided an impairment loss of NT\$507,518 (US\$15,487) thousands against the book of the available for sales financial assets for the six months ended June 30, 2009. These overseas financial instruments have been disposed on 2009.

8. Held-to-maturity financial assets-net

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Government bonds	\$97,245,772	\$2,967,524	\$96,094,532	\$2,977,829
Corporate bonds	4,381,869	133,716	8,944,863	277,188
Financial debentures	10,274,641	313,538	9,698,253	300,534
Overseas financial instruments	567,540,588	17,318,907	541,936,562	16,793,820
Collateralized loans obligation and collateralized bonds obligation	10,090,785	307,928	9,934,744	307,863
Short-term notes	1,331,560	40,633	264,258	8,189
Subtotal	690,865,215	21,082,246	666,873,212	20,665,423
Less: Accumulated impairment	(164,080)	(5,007)	-	-
Total	<u>\$690,701,135</u>	<u>\$21,077,239</u>	<u>\$666,873,212</u>	<u>\$20,665,423</u>

- (1) A CDO impairment provision is recognized as the overseas bonds held by Cathay Life are assessed to be over-valued. As of June 30, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$164,080 (US\$5,007) thousands and NT\$- (US\$-), respectively. These overseas bonds have been disposed on 2009.
- (2) Please refer to Note 29 for related information on the above held-to-maturity financial assets as of June 30, 2009 and 2010 being pledged as collaterals.

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9. Investments under equity method

Investee	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Consulting	\$122,464	\$3,737	\$132,945	\$4,120
Cathay Capital Management	38,858	1,186	-	-
Seaward Card	38,015	1,160	40,422	1,253
Cathay Property Insurance Agent	7,416	226	7,598	235
Cathay Life Insurance Agent	36,853	1,125	35,962	1,114
Cathay Insurance (Bermuda)	96,318	2,939	113,318	3,512
WK Technology Fund VI Co., Ltd	337,885	10,311	351,340	10,887
Vista Technology Venture Capital Corp.	44,805	1,367	40,178	1,245
Omnitek Venture Capital Corp.	77,715	2,372	60,914	1,888
Wa Tech Venture Capital Co., Ltd.	83,771	2,556	81,401	2,522
Taiwan Real-estate Management Corp.	49,513	1,511	61,304	1,900
Taiwan Finance Corp.	1,416,081	43,213	1,434,254	44,445
IBT Venture Capital Corp.	217,405	6,634	103,931	3,221
Cathay Securities Investment Trust Co., Ltd.	315,184	9,618	357,616	11,082
Subtotal	2,882,283	87,955	2,821,183	87,424
Less: Unrealized gain from intercompany transactions	(415,680)	(12,685)	(397,482)	(12,317)
Total	<u>\$2,466,603</u>	<u>\$75,270</u>	<u>\$2,423,701</u>	<u>\$75,107</u>

10. Other financial assets-net

Item	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Derivative financial assets for hedging	\$2,833,936	\$86,480	\$3,989,629	\$123,633
Financial assets carried at cost	26,554,604	810,333	17,466,610	541,265
Structured time deposits	19,300,000	588,953	42,332,587	1,311,825
Customer's margin accounts	1,085,925	33,138	321,547	9,964
Other miscellaneous financial assets	50,488	1,540	110,739	3,431
Accumulated impairment	(1,867,230)	(56,980)	(1,929,452)	(59,791)
Total	<u>\$47,957,723</u>	<u>\$1,463,464</u>	<u>\$62,291,660</u>	<u>\$1,930,327</u>

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- (1) An impairment provision is recognized as the stocks held by Cathay Life are assessed to be over-valued. As of June 30, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$1,302,285 (US\$39,740) thousands and NT\$1,301,507 (US\$40,332) thousands, respectively, due to objective evidence of impairment of its investees.
- (2) Due to the recurring losses incurred, Cathay United Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT\$564,945 (US\$17,240) thousands and NT\$627,945 (US\$19,459) thousands as of June 30, 2009 and 2010, respectively.

11. Investments in debt securities with no active market

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Preferred stocks	\$899,730	\$27,456	\$1,691,730	\$52,424
Corporate bonds	14,895,586	454,550	15,595,586	483,285
Beneficiary certificates	400,000	12,206	-	-
Overseas financial instruments	160,334,310	4,892,716	211,355,616	6,549,601
Subtotal	176,529,626	5,386,928	228,642,932	7,085,310
Less: accumulated impairment	(3,102,173)	(94,665)	(2,703,157)	(83,767)
Net balance	<u>\$173,427,453</u>	<u>\$5,292,263</u>	<u>\$225,939,775</u>	<u>\$7,001,543</u>

- (1) A CDO impairment provision is recognized as the overseas bonds held by Cathay Life are assessed to be over-valued. As of June 30, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$426,634 (US\$13,019) thousands and NT\$419,614 (US\$13,003) thousands, respectively.
- (2) The amounts of the accumulated impairment loss were NT\$2,530,319 (US\$77,214) thousands and NT\$2,141,653 (US\$66,367) thousands, Cathay United Bank have been recognized as of June 30, 2009 and 2010, respectively, due to the credit deterioration of certain securitization and financial debentures.

The amounts of the accumulated impairment loss were NT\$145,220 (US\$4,432) thousands and NT\$141,890 (US\$4,397) thousands, Cathay United Bank have been recognized as of June 30, 2009 and 2010, respectively, due to the default on certain conversable bonds.

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(3) Please refer to Note 29 for related information on the above investments in debt securities with no active market as of June 30, 2009 and 2010 being pledged as collaterals.

12. Investments in real estate

June 30, 2009										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$130,058,488	\$3,968,828	\$4,712	\$144	\$(17,858,102)	\$(544,953)	\$(195,594)	\$(5,969)	\$112,009,504	\$3,418,050
Construction	2,503,700	76,402	-	-	-	-	-	-	2,503,700	76,402
Lease	153,970	4,699	-	-	(3,287)	(100)	-	-	150,683	4,599
Total	<u>\$132,716,158</u>	<u>\$4,049,929</u>	<u>\$4,712</u>	<u>\$144</u>	<u>\$(17,861,389)</u>	<u>\$(545,053)</u>	<u>\$(195,594)</u>	<u>\$(5,969)</u>	<u>\$114,663,887</u>	<u>\$3,499,051</u>

June 30, 2010										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$139,251,937	\$4,315,214	\$4,329	\$134	\$(19,658,738)	\$(609,196)	\$(140,701)	\$(4,360)	\$119,456,827	\$3,701,792
Construction	2,849,625	88,306	-	-	-	-	-	-	2,849,625	88,306
Lease	263,880	8,177	-	-	(6,171)	(191)	-	-	257,709	7,986
Prepayments										
for building										
and land	1,950,186	60,433	-	-	-	-	-	-	1,950,186	60,433
Total	<u>\$144,315,628</u>	<u>\$4,472,130</u>	<u>\$4,329</u>	<u>\$134</u>	<u>\$(19,664,909)</u>	<u>\$(609,387)</u>	<u>\$(140,701)</u>	<u>\$(4,360)</u>	<u>\$124,514,347</u>	<u>\$3,858,517</u>

(1) The real estate investments are held mainly to generate rental revenue.

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

(3) No investments in real estate were pledged as collaterals as of June 30, 2009 and 2010.

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13. Financial assets securitization

During 2007, Cathay United Bank securitized a collateralized loans obligation (CLO) with a carrying value of NT\$5,446,335 (US\$168,774) thousands with Land Bank Co., Ltd. as the Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014.

The trust was terminated after the amount paid to the holders of senior beneficiary certificates on April 28, 2010. After received the tax refund of 2009, the trust distributed the residual assets and closedown on May 14, 2010.

The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands of dollars)	Interest rate
Senior tranche 1 st	NT\$3,335,000(US\$103,347)	2.175%
Senior tranche 2 nd	NT\$315,000(US\$9,761)	2.325%
Senior tranche 3 rd	NT\$340,000(US\$10,536)	2.545%
Senior tranche 4 th	NT\$480,000(US\$14,874)	2.945%
Subordinated tranche 5 th	NT\$200,000(US\$6,198)	3.00%
Subordinated tranche 6 th	NT\$200,000(US\$6,198)	3.20%
Subordinated tranche 7 th	NT\$576,335(US\$17,860)	-

Cathay United Bank holds the subordinated beneficiary certificates amounting to NT\$976,335 (US\$30,255) thousands and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor trustee has the right of recourse to Cathay United Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests:

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and June 30, 2009 and 2010, respectively, were as follows:

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	Corporate Loans Securitization	
	May 28, 2007	June 30, 2009
Expected weighted-average life (in years)	2.210	0.481
Prepayment rate (annual rate)	3.00%	3.00%
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.20%	2.49%

(2) Sensitivity analysis:

As of June 30, 2009 and 2010, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	June 30, 2009	
	(NT\$)	(US\$)
Carrying amount of retained interests	\$973,720	\$29,714
Expected weighted-average life (in years)	0.481	0.481
Expected prepayment rate (annual rate)	3.00%	3.00%
Impact on fair value with 10% adverse change	(2,481)	(76)
Impact on fair value with 20% adverse change	(3,098)	(95)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(2,925)	(89)
Impact on fair value with 20% adverse change	(3,346)	(102)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on fair value with 10% adverse change	(2,586)	(79)
Impact on fair value with 20% adverse change	(5,166)	(158)

(3) Expected static pool credit losses:

As the securitized collateralized loans obligation does not have actual credit losses as of the balance sheet date, the expected static pool credit losses are, therefore, equal to the expected credit losses.

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(4) Cash flows:

The cash flows received from and paid to securitization trusts were as follows:

	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Servicing fees received	\$120	\$4	\$104	\$3
Other cash received on retained interests	12,314	376	7,789	241
Repayment of cash reserve	2,474	75	15,613	484

14. Goodwill and intangible assets-net

Item	January 1, 2009		Increase		Decrease		June 30, 2009	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,673,084	\$203,634	\$-	\$-	\$-	\$-	\$6,673,084	\$203,634
Computer software	2,567,375	78,345	133,742	4,081	(110,366)	(3,368)	2,590,751	79,058
Land use right	19,630	599	202	6	-	-	19,832	605
Subtotal	9,260,089	282,578	133,944	4,087	(110,366)	(3,368)	9,283,667	283,297
Amortization and impairment								
Amortized	(1,469,517)	(44,843)	(180,058)	(5,495)	108,681	3,317	(1,540,894)	(47,021)
Book value	\$7,790,572	\$237,735	\$46,114	\$(1,408)	\$(1,685)	\$(51)	\$7,742,773	\$236,276
Item	January 1, 2010		Increase		Decrease		June 30, 2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,673,084	\$206,789	\$-	\$-	\$-	\$-	\$6,673,084	\$206,789
Computer software	2,964,574	91,868	540,182	16,739	(93,486)	(2,897)	3,411,270	105,710
Land use right	390,430	12,099	3,023	94	-	-	393,453	12,193
Subtotal	10,028,088	310,756	543,205	16,833	(93,486)	(2,897)	10,477,807	324,692
Amortization and impairment								
Amortized	(1,800,207)	(55,786)	(208,467)	(6,460)	93,486	2,897	(1,915,188)	(59,349)
Book value	\$8,227,881	\$254,970	\$334,738	\$10,373	\$-	\$-	\$8,562,619	\$265,343

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The intangible assets of computer software are amortized using the straight-line method over the estimated useful lives of three to five years.

15. Commercial paper payable

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Commercial paper payable	\$130,000	\$3,967	\$-	\$-
Less: Discount on commercial paper payable	-	-	-	-
Total	<u>\$130,000</u>	<u>\$3,967</u>	<u>\$-</u>	<u>\$-</u>

As of June 30, 2009 and 2010, the average interest rate for the commercial paper payable was 0.681% and 0.298%~0.558%, respectively.

16. Financial liabilities at fair value through profit or loss

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Derivative financial instruments	\$220,547	\$6,730	\$1,146,823	\$35,538
Financial debentures	27,000,000	823,924	7,000,000	216,920
Subordinated financial debentures	5,000,000	152,579	5,000,000	154,943
Security lending payable hedging	25,104	766	108,067	3,349
Security lending payable non-hedging	-	-	173,661	5,381
Valuation adjustment	11,947,665	364,591	12,193,529	377,860
Total	<u>\$44,193,316</u>	<u>\$1,348,590</u>	<u>\$25,622,080</u>	<u>\$793,991</u>

(1) On September 19, 2008 and October 27, 2008, Cathay United Bank issued seven-year subordinated financial debentures totaling NT\$2,200,000 (US\$68,175) thousands and NT\$2,800,000 (US\$86,768) thousands, with fixed interest rates. These subordinated financial debentures are repaid at maturity, and the interest is paid quarterly.

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Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

- (2) On June 20, 2003, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$5,000,000 (US\$154,943) thousands. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$3,200,000 (US\$99,163) thousands, NT\$2,700,000 (US\$83,669) thousands and NT\$1,800,000 (US\$55,779) thousands, respectively. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$61,977) thousands. These dominant financial debentures have matured before June 30, 2010.
- (3) On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$30,989) thousands, NT\$3,500,000 (US\$108,460) thousands, NT\$2,000,000 (US\$61,977) thousands, and NT\$1,000,000 (US\$30,989) thousands, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repaid at maturity, and the interest is paid quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$77,471) thousands, NT\$1,500,000 (US\$46,483) thousands, NT\$1,500,000 (US\$46,483) thousands, NT\$2,500,000 (US\$77,471) thousands, NT\$1,500,000 (US\$46,483) thousands, NT\$2,500,000 (US\$77,471) thousands, NT\$1,000,000 (US\$30,989) thousands and NT\$1,000,000 (US\$30,989) thousands, NT\$2,000,000 (US\$61,977) thousands, NT\$1,500,000 (US\$46,483) thousands, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity and the interest is paid quarterly. These five-year dominant financial debentures totaling NT\$20,000,000 (US\$619,771) thousands have matured as of June 30, 2010.
- (4) These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank.

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17. Deposits

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Check deposits	\$11,504,074	\$351,055	\$11,951,631	\$370,364
Demand deposits	166,040,477	5,066,844	213,762,053	6,624,173
Demand savings deposits	387,750,596	11,832,487	492,779,761	15,270,522
Time deposits	613,998,404	18,736,601	544,112,369	16,861,245
Remittances	463,305	14,138	577,738	17,903
Total	<u>\$1,179,756,856</u>	<u>\$36,001,125</u>	<u>\$1,263,183,552</u>	<u>\$39,144,207</u>

18. Bonds payable

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Subordinated bond payable-net	\$20,000,000	\$610,314	\$40,000,000	\$1,239,541
Subordinated financial debentures	14,393,957	439,242	15,717,172	487,052
Discount in financial debentures	(53,645)	(1,637)	(45,706)	(1,416)
Valuation adjustment	854,494	26,076	1,349,726	41,826
Total	<u>\$35,194,806</u>	<u>\$1,073,995</u>	<u>\$57,021,192</u>	<u>\$1,767,003</u>

(1) Cathay United Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its remaining subordinated financial debentures. Cathay United Bank has bought back the bonds amounting to US\$172,620 thousands on May 12, 2009 and recognized gain in the amount of NT\$430,023 (US\$13,326) thousands which was included in other noninterest income.

(2) On September 16, 2009, the Company issued a seven-year subordinated bond totaling NT\$20,000,000 (US\$619,771) thousands with a stated interest rate of 2.65%. The subordinated bonds and repayable at maturity and the interest is payable annually.

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- (3) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 (US\$46,483) thousands with a stated interest rate of 2.60% in July, 2009, and the interest is payable quarterly.
- (4) Cathay United Bank issued an eight-year subordinated financial debentures totaling NT\$3,650,000 (US\$113,108) thousands with a stated interest rate of 2.42% in June, 2009, and the interest is payable quarterly.
- (5) On December 8, 2008, the Company issued a seven-year subordinated bond totaling NT\$20,000,000 (US\$619,771) thousands with a stated interest rate of 3.10%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (6) Each subordinated financial debenture and subordinated bond has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, more senior to common stock.

19. Other borrowings

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Short-term borrowings	\$-	\$-	\$10,000	\$310

As of June 30, 2010, the average interest rate for the other borrowings was 0.52%~1.00% annually.

20. Reserve for operations and liabilities

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Reserve for insurance business	\$2,188,706,400	\$66,789,942	\$2,499,820,128	\$77,465,762
Reserves for losses on guarantees	24,892	760	24,892	771
Reserves for losses on stock brokerage transactions	46,670	1,424	62,096	1,924
Reserves for losses on trading securities	280,609	8,563	268,930	8,334
Total	<u>\$2,189,058,571</u>	<u>\$66,800,689</u>	<u>\$2,500,176,046</u>	<u>\$77,476,791</u>

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Reserves for operations included the following reserves:

Unearned premium reserve, Special reserve, and Claims reserve are provided based on the “Regulations on Calculation of Various Insurance Reserves”.

(1) Unearned premium reserve

Cathay Century Insurance unearned premium reserves should be provided based on assumed risks of different insurance products. The calculation of the reserve requires the involvement of actuaries as well as disclosures on the insurance product calculation statement which cannot be changed unless approved by authorities. The unearned premium reserve should be reversed and then accrued at the next year end.

The unearned premium on motor vehicles compulsory insurance is provided based on the assumed premium in accordance with the article of Ministry of Finance.

(2) Special reserve

A. Catastrophe reserve :

- a. Addition: Catastrophe reserve should be accrued based on respective reserve rates of various insurance product categories.
- b. Reduction: The amount of assumed claims of catastrophe in excess of NT\$30 million should be deducted from the catastrophe reserve. In addition, the deducted amount is required to be reported to authorities.
- c. Recovery: The catastrophe reserve over 15 years the unearned premium reserve should be reversed and then accrued is required to be reported to authorities.

B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.

- a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve. Provision contingency reserve was thirty and fifteen percentage before and after January 1, 2008, respectively.

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- b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.
 - c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance and health insurance due within a year contingency reserve exceed 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.
- C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
- D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- E. The residential earthquake insurance product is in compliance of “Regulations for Method of insurance and Contingency allocation on Residential Earthquake”.
- (3) Claims reserve:

Effective from December 24, 2002, the accruals of claim reserves are in accordance with “Insurance Industry Provision of Reserve for Indemnity” issued by the Ministry of Finance. The accruals include retained IBNR and outstanding claims. Effective from January 1, 2006, the accruals on reserves have changed from the fixed rates to a method subject to authorities’ approval based on the past experience and expenses. Cathay Century Insurance has reported to the authorities for the accrual method which has been approved by Insurance Bureau of FSC (Article 09500204880). The method is as follows:

- A. Reserve for outstanding claims is estimated based on historical information and circumstances surrounding each claim for each type of insurance.

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- B. Reserve for IBNR is determined by the past experience and loss on each insurance product category.
- C. The unearned premium reserve should be reversed and then accrued at the next year end.
- D. The reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”. The reserve on retained outstanding claims is based on related information. The reserve on IBNR is based on 1% of the retained net earned premium.
- E. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.

(4) Premiums deficiency reserve:

Effective from January 1, 2008, unexpired insurance contract and to end off assumed risk should be reserved premiums deficiency reserve.

21. Other financial liabilities

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Derivative financial liabilities for hedging	\$202,616	\$6,183	\$373,723	\$11,581
Borrowed funds	250,906	7,656	207,566	6,432
Other miscellaneous financial liabilities	90,238	2,754	-	-
Total	<u>\$543,760</u>	<u>\$16,593</u>	<u>\$581,289</u>	<u>\$18,013</u>

22. Common stock

- (1) As of June 30, 2009 and 2010, the authorized share capital amounted NT\$120,000,000 (US\$3,718,624) thousands, and the issued share capital amounted NT\$97,375,372 (US\$2,971,479) thousands and NT\$96,708,774 (US\$2,996,863) thousands, respectively.

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- (2) The recapitalization of undistributed earnings of NT\$4,835,439 (US\$149,843) thousands by issuing 483,544 thousand shares with par value of NT\$10 (US\$0.31) was resolved by the Company's shareholders' meeting on June 18, 2010 and approved by the Financial Supervisory commission on July 14, 2010. The recapitalization record date was August 10, 2010.
- (3) The cancellation of treasury stock of NT\$666,598 (US\$20,341) thousand by reducing 66,660 thousand shares with par value of NT\$10 (US\$0.31) was approved by the board of directors on August 21, 2009. The recapitalization record date was October 13, 2009.
- (4) On December 31, 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

23. Capital surplus

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$81,703,998 (US\$2,493,256) and NT\$78,508,148 (US\$2,432,852) thousands as of June 30, 2009 and 2010, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to NT\$- (US\$-) and NT\$267,215 (US\$8,280) thousands were included in the capital surplus as of June 30, 2009 and 2010, respectively.
- (2) The capital surplus of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends or to be capitalized.
- (3) In addition, pursuant to the Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. Furthermore, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

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24. Retained earnings

(1) Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This 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 share capital, up to 50% of such excess can be capitalized if agreed by its shareholders.

(2) Special reserve

In accordance with SFB regulations, in addition to the legal reserve retained, the Company should provide a special reserve of equal amount for any current year shareholders' equity contra account (such as unrealized losses of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost, etc.) from the current year's earnings after tax or prior years' un-appropriated earnings. However, the special reserve of equal amounts for prior years' accumulated shareholders' equity contra accounts should only be provided from prior years' un-appropriated earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed.

(3) Undistributed earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and then 0.01%~0.05% of the remaining amount for employees' bonus. Finally, the remainder after deducting for the aforementioned items must be appropriated in accordance with the resolutions passed at the shareholders' meeting.

B. On June 18, 2010, the shareholders' meeting resolved the distribution of earnings of NT\$1.0 (US\$0.03) per share for the year ended December 31, 2009. The cash and stock dividends with record dates are NT\$0.5 (US\$0.02) and NT\$0.5 (US\$0.02) on July 12 and August 10, 2010, respectively.

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C. On June 19, 2009, the shareholders' meeting resolved the distribution of earnings for the year ended December 31, 2008. After the appropriations of legal reserve and special reserve, there is not remainder to be appropriated as cash dividends and bonuses.

D. The Company is required to pay 10% surtax in the forthcoming tax year for undistributed earnings.

E. In accordance with SFC regulations, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The costs of these shares are exempted from distributing as special reserve.

F. 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 loss of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost expect for the special reserve since 2007.

G. Dividends policy

The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations. Excess cash from retained earnings after taking into account operating needs may be distributed in cash; moreover cash dividends must be a minimum of 10% of the total dividends declared.

H. The accrual of employee bonus and remuneration of directors for the half year of 2010 was NT\$14,161 (US\$439) thousands based on the average of actual distribution in the past three years or the net income after tax for the six months ended June 30, 2010 and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2011 fiscal year.

I. The accrual of employee bonus and remuneration of directors for the half year of 2009 was NT\$14,596 (US\$445) thousands based on the average of actual distribution in the past three years or the net income after tax for the six months ended June 30, 2009 and recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2010 fiscal year.

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J The Company distributes \$6,368 (US\$197) thousands of employee bonus and directors compensation of 2009. The difference of \$751 (US\$23) thousands exists between the accrual and actual amount resolved by the financial statements be recorded in the first half year of 2010.

K. Due to the date of CPA expressing an opinion, the Company's distribution of 2009 retained earnings has been approved by the board of directors and the shareholders' meeting. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

25. Treasury stock

The following is a summary of the movement of treasury stock as of June 30, 2009 and 2010:

Reason for acquisition	June 30, 2009									
	In thousands of shares				Book value		Book value per share		Market value per share	
	January 1, 2009	Increase	Decrease	June 30, 2009	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares acquired through share exchange from merger transaction	66,660	-	-	66,660	\$4,140,047	\$126,337	\$62.11	\$1.90	\$48.55	\$1.48

There is no treasury stock for the six months ended June 30, 2010.

26. Operating Expense

For the six months ended June 30, 2009 and 2010, personnel expense, depreciation and amortizations are summarized below:

	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Personnel expenses				
Salary and wages	\$16,944,692	\$517,079	\$17,545,032	\$543,695
Labor & health insurance expenses	1,172,923	35,793	1,321,283	40,945
Pension expenses	691,684	21,107	635,781	19,702
Other expenses	885,787	27,031	1,029,366	31,898
Depreciation	1,757,036	53,617	1,784,850	55,310
Amortization	181,450	5,537	209,127	6,480

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27. Estimated income taxes

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Adjusted income tax calculates on accounting income	\$667,478	\$20,369	\$751,296	\$23,281
Plus (Less): Tax of interest income on a separate basis	97,518	2,976	9,099	282
Extra 10% income tax on undistributed retained earning	8,716	266	225,168	6,977
Withholding tax for overseas investments	(29,548)	(902)	12,247	379
Tax effects under consolidated income tax	17,657	539	(54,067)	(1,675)
Deferred income tax (benefits) expense	6,645,763	202,800	(1,956,247)	(60,621)
Adjustment of income tax	288,653	8,808	(59,617)	(1,847)
Income tax credit	(5,952)	(182)	(510)	(16)
Operating loss carry-forward	(7,178,333)	(219,052)	-	-
Effects of tax rate change on deferred tax assets / liabilities	1,684,306	51,398	1,228,480	38,069
Other	117,171	3,576	40,626	1,259
Total income tax expenses	<u>\$2,313,429</u>	<u>\$70,596</u>	<u>\$196,475</u>	<u>\$6,088</u>

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

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Total deferred tax assets	<u>\$13,527,006</u>	<u>\$412,786</u>	<u>\$8,547,527</u>	<u>\$264,875</u>
Total deferred tax liabilities	<u>\$4,360,954</u>	<u>\$133,078</u>	<u>\$1,396,192</u>	<u>\$43,266</u>
Allowance for deferred assets	<u>\$715,120</u>	<u>\$21,822</u>	<u>\$59,106</u>	<u>\$1,832</u>

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	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Temporary differences:				
Pension expense	\$1,450,585	\$44,266	\$1,404,087	\$43,511
Unrealized exchange (gains) losses	(5,800,937)	(177,020)	3,163,176	98,022
Gains from valuation on financial assets and liabilities	(6,564,049)	(200,307)	(1,702,557)	(52,760)
Allowance for bad debts	1,884,912	57,520	587,633	18,210
Operating loss carry-forward	50,826,886	1,551,019	36,814,283	1,140,821
Other difference	1,125,784	34,354	768,100	23,802
Total	<u>\$42,923,181</u>	<u>\$1,309,832</u>	<u>\$41,034,722</u>	<u>\$1,271,606</u>
Tax effect under consolidated income tax system	<u>\$94,874</u>	<u>\$2,895</u>	<u>\$(185,569)</u>	<u>\$(5,751)</u>
Deferred income tax assets of foreign branches	<u>\$102,434</u>	<u>\$3,126</u>	<u>\$241,259</u>	<u>\$7,476</u>
Investment tax credit	<u>\$38,253</u>	<u>\$1,167</u>	<u>\$119,743</u>	<u>\$3,711</u>

	June 30,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Deferred tax assets	\$13,527,006	\$412,786	\$8,547,527	\$264,875
Allowance for deferred tax assets	(715,120)	(21,822)	(59,106)	(1,832)
Net deferred tax assets	12,811,886	390,964	8,488,421	263,043
Deferred tax liabilities	(4,360,954)	(133,078)	(1,396,192)	(43,266)
Net offset balance of deferred tax assets	<u>\$8,450,932</u>	<u>\$257,886</u>	<u>\$7,092,229</u>	<u>\$219,777</u>

In accordance with the Financial Holding Company Act, the Company elected to file consolidated income tax return along with 10% surtax on undistributed retained earning tax for all subsidiaries being held over 12 months within a taxable year by the Company.

The applicable income tax rate of the Company was 25%. In accordance with the amendment to the Income Tax law announced on May 27, 2009, the applicable Income Tax rate for the Company was reduced from 25% to 20% starting from 2010. Furthermore, in accordance with the recent amendment to the Income Tax law announced on June 15, 2010, the applicable Income Tax rate for the Company has been further reduced to 17% starting from 2010.

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(3) Income tax returns:

		June 30, 2010
		Notes
	Income tax returns examined by tax authorities	
The Company	through 2005	The Company filed applications for re-examination of 2002, 2003, 2004 and 2005 tax returns.
Cathay Life	through 2005	Cathay Life filed applications for re-examination of 2002, 2003, 2004 and 2005 tax returns.
Cathay United Bank	through 2005	-
Cathay Century	through 2005	Cathay Century filed applications for re-examination of 2004 and 2005 tax return.
Cathay Securities	through 2005	-
Cathay Pacific Venture	through 2005	-
Symphox Information	through 2008	-
Cathay Futures	through 2008	-
Cathay Venture	through 2008	-
Cathay II Venture	through 2005	-

(4) Information related to imputation credit account:

A. Balance of imputation credit account

	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
The Company	\$614,548	\$18,754	\$534,522	\$16,564
Cathay Life	1,139,060	34,759	1,565,729	48,520
Cathay United Bank	156,791	4,785	60,518	1,875
Cathay Century	10,201	311	39	1
Cathay Securities	8,000	244	2	-
Cathay Pacific Venture	1,004	31	15,556	482
Cathay Venture	20,243	618	-	-
Cathay II Venture	13,527	413	-	-
Cathay Futures	12,229	373	12,110	375
Symphox Information	9,575	292	5,665	176

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B. Imputation ratio

	For the six months ended June 30,	
	2009	2010
	Actual	Actual
The Company-cash dividends	8.70%	7.51%
The Company- stock dividends	-	7.51%
Cathay Life	-	33.33%
Cathay United Bank	5.06%	0.08%
Cathay Century	2.55%	2.48%
Cathay Securities	-	10.11%
Cathay Pacific Venture	-	-
Cathay Venture	17.87%	-
Cathay II Venture	5.45%	-
Cathay Futures	33.33%	33.33%
Symphox Information	33.33%	33.33%

(5) Information relating of undistributed retained earnings:

Year	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Prior to 1997	\$-	\$-	\$267,215	\$8,280
After 1998	-	-	7,115,591	220,502
Total	\$-	\$-	\$7,382,806	\$228,782

A. Net income for the six months ended June 30, 2009 and 2010 were excluded from the undistributed earnings after 1998.

B. The undistributed retained earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

28. Earnings per share

	For the six months ended June 30, 2009								
	Amount (Numerator)				Shares	EPS (in dollars)			
	Before income taxes		After income taxes		(in thousands of shares)	Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(denominator)	(NT\$)	(US\$)	(NT\$)
Primary earnings per share:									
Consolidated losses	\$7,697,710	\$234,901	\$5,384,281	\$164,305	10,154,421	\$0.76	\$0.02	\$0.53	\$0.02

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For the six months ended June 30, 2010

	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes	After income taxes		
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Primary earnings per share:									
Consolidated income	\$885,359	\$27,436	\$1,081,834	\$33,524	10,154,421	\$(0.09)	\$-	\$(0.11)	\$-

29. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Pacific Venture	"
Cathay II Venture	Subsidiary of the Company (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Capital Management	"
Cathay Venture	"
Cathay Life (China)	Subsidiary of Cathay Life
Cathay Life (Vietnam)	"
Symphox Information	"
Cathay Insurance (Bermuda)	"
Cathay Securities Investment Consulting	"
Cathay Century (China)	Subsidiary of Cathay Century
Indovina Bank	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent	"
Seaward Card	"
Cathay Property Insurance Agent	"
Cathay Futures	Subsidiary of Cathay Securities
Cathay Securities Investment Trust Co., Ltd.	Investee accounted for under the equity method
Taiwan Real-estate Management Corp.	"

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Name	Relationship
Cathay Bond Fund etc.	The fund is managed by Cathay Securities Trust Co., Ltd.
Vietinbank	Joint venture partner of Indovina Bank
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Cathay General Hospital	"
Seaward Leasing Ltd.	"
Cathay Real Estate Development Co., Ltd.	"
Cathay Century Realty Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Other related parties	Includes chairmen managers, their spouses and relatives of subsidiaries

(2) Significant transactions with related parties:

A. Cash and cash equivalent

Due from commercial banks

Name	For the six months ended June 30,							
	2009				2010			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$4,816	\$147	\$25	\$1	\$1,478	\$46	\$101	\$3

B. Financial assets at fair value through profit or loss

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$4,709,050	\$143,700	\$2,547,977	\$78,958

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C. Receivables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	\$25,330	\$773	\$-	\$-
Cathay Capital Management	5,770	176	-	-
Total	\$31,100	\$949	\$-	\$-

D. Loans

Name	For the six months ended June 30, 2009			
	Ending Balance	Ending Balance	Interest Revenue	Interest Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$1,760,000	\$53,708	\$10,503	\$321
Taiwan Real-estate Management Corp.	104,000	3,174	1,048	32
Cathay General Hospital	4,396,170	134,152	59,020	1,801
Other related parties	516,377	15,757	4,131	126
Total	\$6,776,547	\$206,791	\$74,702	\$2,280

Name	For the six months ended June 30, 2010			
	Ending Balance	Ending Balance	Interest Revenue	Interest Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$1,260,000	\$39,046	\$2,582	\$80
Taiwan Real-estate Management Corp.	102,000	3,161	845	26
Cathay General Hospital	4,103,491	127,161	42,534	1,318
Other related parties	525,567	16,286	4,317	134
Total	\$5,991,058	\$185,654	\$50,278	\$1,558

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E. Available-for-sale financial assets

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$224,910	\$6,863	\$535,685	\$16,600

F. Deposit

Name	For the six months ended June 30, 2009			
	Ending Balance	Ending Balance	Interest Expense	Interest Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$327,343	\$9,989	\$2,889	\$88
Cathay Real Estate Development Co., Ltd.	156,097	4,763	33	1
Cathay Bond Fund etc.	11,156,072	340,436	50,073	1,528
Other related parties	4,821,558	147,133	26,534	810
Total	\$16,461,070	\$502,321	\$79,529	\$2,427

Name	For the six months ended June 30, 2010			
	Ending Balance	Ending Balance	Interest Expense	Interest Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$492,804	\$15,271	\$1,069	\$33
Cathay Real Estate Development Co., Ltd.	48,758	1,511	23	1
Cathay Bond Fund etc.	6,970,553	216,007	15,171	470
Other related parties	2,248,818	69,688	7,219	224
Total	\$9,760,933	\$302,477	\$23,482	\$728

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G. Property transactions

a. Transactions between Cathay Life 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 and the contracts of both parties.

Name	Item	For the six months ended June 30, 2009	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building etc.	\$57,264	\$1,748
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	13,344	407
Total		<u>\$70,608</u>	<u>\$2,155</u>

Name	Item	For the six months ended June 30, 2010	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building etc.	\$21,114	\$655
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	11,561	358
Total		<u>\$32,675</u>	<u>\$1,013</u>

b. Real estate rental income from Cathay Life:

Name	Rental income			
	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$11,036	\$337	\$10,032	\$311
Cathay General Hospital	87,568	2,672	88,329	2,737
Cathay Securities Investment Trust Co., Ltd.	11,131	340	11,588	359
San Ching Engineering Co., Ltd.	4,908	150	4,653	144
Cathay Securities Investment Consulting	4,593	140	4,764	148
Total	<u>\$119,236</u>	<u>\$3,639</u>	<u>\$119,366</u>	<u>\$3,699</u>

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Name	Guarantee deposits in			
	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$4,886	\$149	\$4,886	\$151
Cathay General Hospital	11,097	339	11,776	365
Cathay Securities Investment Trust Co., Ltd.	4,948	151	5,017	156
Total	\$20,931	\$639	\$21,679	\$672

Lease terms are usually between 2 to 5 years and rental incomes are collected monthly.

c. Real estate rental expense from Cathay Life and Cathay United Bank:

Name	Rental expenses			
	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$20,875	\$637	\$19,542	\$606
Seaward Leasing Ltd.	7,680	234	6,723	208
Total	\$28,555	\$871	\$26,265	\$814

Name	Guarantee deposits paid			
	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$8,779	\$268	\$8,675	\$269
Seaward Leasing Ltd.	11,590	354	-	-
Total	\$20,369	\$622	\$8,675	\$269

According to the contracts, lease terms generally were 3 years and rents were paid monthly.

H. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$88,001	\$2,685	\$25,000	\$775
Other related parties	557,931	17,026	508,250	15,750
Total	\$645,932	\$19,711	\$533,250	\$16,525

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Name	For the six months ended June 30,			
	Interest expenses			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$57	\$2	\$60	\$2
Other related parties	517	16	389	12
Total	<u>\$574</u>	<u>\$18</u>	<u>\$449</u>	<u>\$14</u>

I. Payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Seaward Card	\$15,366	\$469	\$15,749	\$488
Vietinbank	164,090	5,007	145,251	4,501
Lin Yuan Property Management Co., Ltd.	9,351	285	10,733	333
Cathay Capital Management	3,750	115	-	-
San Ching Engineering Co., Ltd.	15,215	464	-	-
Total	<u>\$207,772</u>	<u>\$6,340</u>	<u>\$171,733</u>	<u>\$5,322</u>

J. Net commission and handling fees

a. Handling fees income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$8,968</u>	<u>\$274</u>	<u>\$14,115</u>	<u>\$437</u>

b. Commissions expense

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life Insurance Agent	<u>\$15,434</u>	<u>\$471</u>	<u>\$16,828</u>	<u>\$521</u>

c. Reinsurance handling fee paid

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	<u>\$4,695</u>	<u>\$143</u>	<u>\$6,936</u>	<u>\$215</u>

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K. Net premiums from insurance business

a. Insurance income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay General Hospital	\$13,173	\$402	\$16,619	\$515
Other related parties	182,019	5,554	38,060	1,179
Total	<u>\$195,192</u>	<u>\$5,956</u>	<u>\$54,679</u>	<u>\$1,694</u>

b. Reinsurance income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	<u>\$43,966</u>	<u>\$1,342</u>	<u>\$53,043</u>	<u>\$1,644</u>

Since April 1, 2000, Cathay Insurance (Bermuda) has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the six months ended June 30, 2009 and 2010, Cathay Life assumes 60% and 90% of the reinsurance business from Cathay Insurance (Bermuda), respectively.

c. Reinsurance claims payment

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	<u>\$54,332</u>	<u>\$1,658</u>	<u>\$38,393</u>	<u>\$1,190</u>

L. Net other non-interest income

Miscellaneous income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$33,360	\$1,018	\$65,430	\$2,028
Cathay General Hospital	-	-	3,017	93
Total	<u>\$33,360</u>	<u>\$1,018</u>	<u>\$68,447</u>	<u>\$2,121</u>

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M. Operating expense

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Consulting	\$11,340	\$346	\$11,340	\$351
Seaward Card	170,701	5,209	160,395	4,970
Cathay Pacific Management	29,695	906	-	-
Lin Yuan Property Management Co., Ltd.	303,529	9,262	293,375	9,091
Cathay Real Estate Development Co., Ltd.	5,823	178	3,610	112
Seaward Leasing Ltd.	5,853	179	6,533	203
Total	<u>\$526,941</u>	<u>\$16,080</u>	<u>\$475,253</u>	<u>\$14,727</u>

N. Others Disclosures

- a. Cathay United Bank entered into a contract with San Ching Engineering Co., Ltd. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$ 1,411,880 (US\$43,752) thousands, in 2006. The project was completed in 2009. Cathay United Bank paid the amount of NT\$158,055 (US\$4,823) thousands during the six months ended June 30, 2009. As of June 30, 2009, the accumulated paid amount was NT\$1,339,952 (US\$40,890) thousands.
- b. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$16,004 (US\$488) thousands and NT\$9,809 (US\$304) thousands during the six months ended June 30, 2009 and 2010, respectively.
- c. Cathay Century Realty Co., Ltd. acted as a broker for Cathay United Bank to dispose of real estate, the service fees of NT\$1,792 (US\$55) thousands and NT\$20,717(US\$642) were included in disposal gains of foreclosed properties, premises and equipment during the six months ended June 30, 2009 and 2010, respectively.

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(3)The Company's significant transactions with related parties

A. Cash in bank

		For the six months ended June 30, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$4,161	0.00%~0.10%	\$3

		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$127	0.00%~0.10%	\$-

		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$3,558	0.00%~0.10%	\$4

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$110	0.00%~0.10%	\$-

B. Receivables

		June 30,			
Name	Item	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	Receivables due to consolidated income tax, interest	\$1,083,425	\$33,061	\$1,828,667	\$56,668
Cathay Life	Interest	270,383	8,251	404,151	12,524
Cathay Century	Receivables due to consolidated income tax	149,024	4,548	77,703	2,408
Cathay Capital Management	Receivables due to consolidated income tax	5,770	176	-	-
Cathay Securities	Receivables due to consolidated income tax	253,802	7,745	23,172	718
Total		\$1,762,404	\$53,781	\$2,333,693	\$72,318

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C. Guarantee deposits paid

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$5,964	\$182	\$5,964	\$185

D. Payables

Name	Item	June 30,			
		2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	Payables due to consolidated income tax	\$4,097,190	\$125,029	\$5,168,226	\$160,155
Cathay United Bank	Payables due to consolidated income tax	3,024,214	92,286	3,398,277	105,308
Cathay Securities	Payables due to consolidated income tax	14,199	433	14,199	440
Total		\$7,135,603	\$217,748	\$8,580,702	\$265,903

E. Interest income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$260,342	\$7,945	\$401,151	\$12,431

F. Operating expenses

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$13,125	\$401	\$13,909	\$431

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(4) Subsidiaries' significant transactions with related parties are follows:

A. Cathay Life

a. Cash in banks

		For the six months ended June 30, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$16,342,086	0.10%~2.42%	\$29,605
Bank	Cash in bank	4,682,365	0.02%~1.00%	1,415
Total		<u>\$21,024,451</u>		<u>\$31,020</u>

		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$498,690	0.10%~2.42%	\$904
Bank	Cash in bank	142,886	0.02%~1.00%	43
Total		<u>\$641,576</u>		<u>\$947</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$37,376,520	0.10%~1.16%	\$26,103
Bank	Cash in bank	5,190,746	0.02%~1.05%	1,344
Total		<u>\$42,567,266</u>		<u>\$27,447</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$1,158,244	0.10%~1.16%	\$809
Bank	Cash in bank	160,853	0.02%~1.05%	42
Total		<u>\$1,319,097</u>		<u>\$851</u>

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b. Other receivables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$4,097,190	\$125,029	\$5,168,226	\$160,156
Cathay Century	177,421	5,414	126,545	3,921
Total	<u>\$4,274,611</u>	<u>\$130,443</u>	<u>\$5,294,771</u>	<u>\$164,077</u>

c. Secured loans

Name	For the six months ended June 30, 2009			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,286,249	\$4,160,170	1.85%~3.91%	\$55,836
Other related parties	324,267	283,140	1.01%~5.37%	2,667
Total	<u>\$4,610,516</u>	<u>\$4,443,310</u>		<u>\$58,503</u>

Name	For the six months ended June 30, 2009			
	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$130,798	\$126,951	1.85%~3.91%	\$1,704
Other related parties	9,895	8,640	1.01%~5.37%	81
Total	<u>\$140,693</u>	<u>\$135,591</u>		<u>\$1,785</u>

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For the six months ended June 30, 2010

Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,286,249	\$3,891,491	1.85%~2.10%	\$39,760
Other related parties	327,719	316,397	1.16%~3.65%	2,682
Total	<u>\$4,613,968</u>	<u>\$4,207,888</u>		<u>\$42,442</u>

For the six months ended June 30, 2010

Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$132,825	\$120,592	1.85%~2.10%	\$1,232
Other related parties	10,155	9,804	1.16%~3.65%	83
Total	<u>\$142,980</u>	<u>\$130,396</u>		<u>\$1,315</u>

d. Financial assets at fair value through profit or loss-beneficiary certificates

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$4,003,827</u>	<u>\$122,180</u>	<u>\$2,298,226</u>	<u>\$71,219</u>

e. Other overdue receivable

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life (China)	<u>\$265,211</u>	<u>\$8,093</u>	<u>\$204,097</u>	<u>\$6,325</u>

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

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f. Guarantee deposits paid

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Futures	\$453,945	\$13,852	\$215,056	\$6,664

As of June 30, 2009 and 2010, the imputed interest income of guarantee deposits paid from Cathay Futures were NT\$234 (US\$7) thousands and NT\$99 (US\$3) thousands, respectively.

g. Other payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$270,383	\$8,251	\$404,151	\$12,524

h. Rental income

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$165,439	\$5,048	\$179,899	\$5,575

i. Insurance income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$292,583	\$8,928	\$292,467	\$9,063
Other related parties	182,019	5,555	38,060	1,179
Total	\$474,602	\$14,483	\$330,527	\$10,242

j. Miscellaneous income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Century	\$531,934	\$16,232	\$498,815	\$15,458

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k. Operating expense

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$557,618	\$17,016	\$513,543	\$15,914
Symphox Information	119,131	3,635	111,350	3,451
Lin Yuan Property Management Co., Ltd.	303,529	9,263	293,375	9,091
Total	<u>\$980,278</u>	<u>\$29,914</u>	<u>\$918,268</u>	<u>\$28,456</u>

l. Non-operating expenses

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	<u>\$260,342</u>	<u>\$7,945</u>	<u>\$404,151</u>	<u>\$12,524</u>

Non-operating expenses are interest expenses accrued from Cathay Life's preferred stock liability.

m. Other Disclosures

(A) As of June 30, 2009 and 2010, the notional amounts of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	June 30,	
	2009	2010
Forward foreign exchange contracts	USD630,000	USD738,409
CS contracts	USD5,065,858	USD3,077,691

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$800,000 (US\$24,413) thousands and NT\$570,000 (US\$17,663) thousands during the six months ended June 30, 2009 and 2010, respectively.

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B. Cathay United Bank

a. Loans and deposits

Account/Name	For the six months ended June 30,							
	2009				2010			
	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward								
Leasing Ltd.	\$1,760,000	\$53,708	\$10,503	\$321	\$1,260,000	\$39,045	\$2,582	\$80
Taiwan								
Real-estate								
Management								
Corp.	104,000	3,173	1,048	32	102,000	3,161	845	26
Cathay General								
Hospital	236,000	7,202	3,184	97	212,000	6,570	2,774	86
Other related								
parties	212,163	6,474	1,284	39	192,384	5,962	1,485	46
Total	\$2,312,163	\$70,557	\$16,019	\$489	\$1,766,384	\$54,738	\$7,686	\$238

Account/Name	For the six months ended June 30,							
	2009				2010			
	Ending Balance		Interest expense		Ending Balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$21,024,451	\$641,576	\$31,020	\$947	\$42,567,266	\$1,319,097	\$27,447	\$851
Cathay Futures	1,380,416	42,124	6,103	186	1,384,603	42,907	5,695	177
Cathay								
Securities	123,454	3,767	586	18	96,195	2,981	143	4
Cathay Century	1,271,613	38,804	8,167	249	1,662,174	51,508	4,546	141
Cathay								
Securities								
Investment								
Trust Co.,								
Ltd.	327,343	9,989	2,889	88	492,804	15,271	1,069	33
Cathay Real								
Estate								
Development								
Co., Ltd.	156,097	4,764	33	1	48,758	1,511	23	-
Cathay Global								
Money								
Market Fund								
etc.	11,156,072	340,436	50,073	1,528	6,970,553	216,007	15,171	470
Other related								
parties	4,821,558	147,133	26,534	810	2,248,818	69,688	7,219	224
Total	\$40,261,004	\$1,228,593	\$125,405	\$3,827	\$55,471,171	\$1,718,970	\$61,313	\$1,900

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Account/Name	For the six months ended June 30, 2009						
	Maximum amount		Ending balance		Rate	Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans from banks							
Indovina Bank	\$1,476,810	\$45,066	\$820,450	\$25,037	0.25%~3.04%	\$2,119	\$65

Account/Name	For the six months ended June 30, 2010						
	Maximum amount		Ending balance		Rate	Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans from banks							
Indovina Bank	\$1,097,452	\$34,008	\$161,390	\$5,001	0.19%~0.50%	\$126	\$4

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

b. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Other related parties	\$557,931	\$17,026	\$508,250	\$15,750

Name	For the six months ended June 30,			
	Interest expense			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Other related parties	\$517	\$16	\$389	\$12

c. Rental expense

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$165,690	\$5,056	\$180,153	\$5,583

d. Handling fees income

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$557,618	\$17,016	\$513,543	\$15,914

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e. Insurance expense paid

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$292,583	\$8,928	\$292,467	\$9,063

f. General expense

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Symphox Information	\$220,723	\$6,735	\$239,280	\$7,415
Seaward Card	137,304	4,190	134,873	4,180
Total	\$358,027	\$10,925	\$374,153	\$11,595

g. Receivables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$1,940,789	\$59,225	\$2,095,328	\$64,931

h. Other Receivable-cash dividends

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Indovina Bank	\$164,090	\$5,007	\$145,251	\$4,501

i. Financial assets at fair value through profit or loss (Mutual fund)

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$404,259	\$12,336	\$-	\$-

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j. Available-for-sale financial assets (Mutual fund)

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$192,525	\$5,966

k. Payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$-	\$-	\$525,717	\$16,291

l. Other Disclosures

(a) Cathay United Bank entered into a contract with San Ching Engineering Co., Ltd. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$43,752) thousands, in 2006. The project was completed in 2009. Cathay United Bank paid the amount of NT\$158,055 (US\$4,823) thousands during the six months ended June 30, 2009. As of June 30, 2009, the accumulated paid amount was NT\$1,339,952 (US\$40,890) thousands.

(b) Cathay United Bank enters into a contract with Cathay Life to transferring credit facilities. The transferring loan amount was NT\$800,000 (US\$24,413) thousands and NT\$570,000 (US\$17,663) thousands during the six months ended June 30, 2009 and 2010, respectively.

C. Cathay Century

a. Cash in banks

Name	Item	For the six months ended June 30, 2009		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$441,891	0.10%	\$251
	Time deposits	829,722	0.525%~2.72%	7,915
Total		\$1,271,613		\$8,166

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		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$13,485	0.10%	\$8
	Time deposits	25,319	0.525%~2.72%	241
Total		<u>\$38,804</u>		<u>\$249</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$664,946	0.10%	\$246
	Time deposits	997,228	0.13%~1.08%	4,300
Total		<u>\$1,662,174</u>		<u>\$4,546</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$20,606	0.10%	\$8
	Time deposits	30,902	0.13%~1.08%	133
Total		<u>\$51,508</u>		<u>\$141</u>

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

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$200,509</u>	<u>\$6,119</u>	<u>\$201,055</u>	<u>\$6,230</u>

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c. Other payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$149,024	\$4,548	\$77,703	\$2,408
Cathay Life	177,421	5,414	126,545	3,921
Total	<u>\$326,445</u>	<u>\$9,962</u>	<u>\$204,248</u>	<u>\$6,329</u>

d. Operating expense

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	<u>\$580,884</u>	<u>\$17,726</u>	<u>\$547,285</u>	<u>\$16,960</u>

e. Other Disclosures

As of June 30, 2009 and 2010 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	June 30,	
	2009	2010
Forward foreign exchange contracts	USD7,710	USD-
CS contracts	USD11,050	USD28,050
IRS	NTD600,000 (USD18,309)	NTD600,000 (USD18,593)

D. Cathay Securities

a. Cash in bank

Name	Item	For the six months ended June 30, 2009		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$71,973	0.05%~2.62%	\$549
	Cash in banks	51,481	0.02%~0.90%	37
	Total	<u>\$123,454</u>		<u>\$586</u>

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		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$2,196	0.05%~2.62%	\$17
	Cash in banks	1,571	0.02%~0.90%	1
	Total	<u>\$3,767</u>		<u>\$18</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$35,506	0.02%~0.10%	\$34
	Cash in banks	60,689	0.02%~1.05%	109
	Total	<u>\$96,195</u>		<u>\$143</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$1,100	0.02%~0.10%	\$1
	Cash in banks	1,881	0.02%~1.05%	3
	Total	<u>\$2,981</u>		<u>\$4</u>

As of June 30, 2009, NT\$12,000 (US\$366) thousands in time deposits reflected premiums received for structured notes and issuance of warrants and were recognized under guarantee deposits paid.

b. Other payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Cathay Financial Holding (Note)	<u>\$253,802</u>	<u>\$7,745</u>	<u>\$28,385</u>	<u>\$880</u>

Note: As of June 30, 2010, NT\$5,213 (US\$162) in other payables of information system, the remaining due to the adoption of the Integrated Income Tax System.

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c. Clearing and settlement fees, dealing handling fee expense and margin for futures trading – own funds

Name	For the six months ended June 30, 2009							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures	\$-	\$-	\$-	\$-	\$-	\$-	\$195,873	\$5,977

Name	For the six months ended June 30, 2010							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures	\$-	\$-	\$-	\$-	\$-	\$-	\$348,683	\$10,805

E. Cathay Pacific Venture

Available-for-sale financial assets

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$200,352	\$6,114	\$262,431	\$8,132

F. Indovina Bank

a. Call Loans to banks

Name	For the six months ended June 30, 2009			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
	Cathay United Bank	\$820,450	\$25,037	\$2,119

Name	For the six months ended June 30, 2010			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)

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Cathay United Bank	\$161,390	\$5,001	\$126	\$4
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b. Dividends Payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Cathay United Bank	\$164,090	\$5,007	\$145,251	\$4,501
Vietinbank	164,090	5,007	145,251	4,501
Total	\$328,180	\$10,014	\$290,502	\$9,002

c. Deposits

Name	For the six months ended June 30, 2009		
	Ending balance (NT\$)	Rate	Interest expense (NT\$)
Cathay Life Vietnam	\$159,820	0.10%~10.80%	\$2,863

Name	For the six months ended June 30, 2009		
	Ending balance (US\$)	Rate	Interest expense (US\$)
Cathay Life Vietnam	\$4,877	0.10%~10.80%	\$87

Name	For the six months ended June 30, 2010		
	Ending balance (NT\$)	Rate	Interest expense (NT\$)
Cathay Life Vietnam	\$110,314	1.00%~10.49%	\$9,125

Name	For the six months ended June 30, 2010		
	Ending balance (US\$)	Rate	Interest expense (US\$)
Cathay Life Vietnam	\$3,418	1.00%~10.49%	\$283

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G. Cathay Futures

a. Cash in bank

		For the six months ended June 30, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$303,600	0.12%~2.04%	\$1,031
	Cash in bank	4,638	0.10%	10
	Total	\$308,238		\$1,041

		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$9,265	0.12%~2.04%	\$32
	Cash in bank	141	0.10%	-
	Total	\$9,406		\$32

		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$311,300	0.14%~1.05%	\$5,650
	Cash in bank	10,245	0.10%	45
	Total	\$321,545		\$5,695

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$9,647	0.14%~1.05%	\$175
	Cash in bank	317	0.10%	1
	Total	\$9,964		\$176

As of June 30, 2009 and 2010, Cathay Futures has time deposit amounting to NT\$60,000 (US\$1,859) thousands in Cathay United Bank as the guaranty bond, in accordance with Article 14 of Rules Governing Futures Commission Merchants and Article 11 of Regulation Governing Futures Advisory Enterprises.

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b. Customer's margin accounts

Name	June 30,					
	2009			2010		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	<u>\$1,072,179</u>	<u>\$32,718</u>	0.02%~2.17%	<u>\$1,063,058</u>	<u>\$32,943</u>	0.02%~1.05%

c. Futures customers' equity

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$453,945	\$13,853	\$215,056	\$6,664
Cathay Securities	195,874	5,977	348,683	10,805
Total	<u>\$649,819</u>	<u>\$19,830</u>	<u>\$563,739</u>	<u>\$17,469</u>

H. Symphox Information

a. Cash in bank

		For the six months ended June 30, 2009		
Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United	Time deposit	\$160,076	0.405%~2.68%	\$2,413
Bank	Cash in bank	<u>19,852</u>	0.10%	<u>14</u>
Total		<u>\$179,928</u>		<u>\$2,427</u>

		For the six months ended June 30, 2009		
Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United	Time deposit	\$4,885	0.405%~2.68%	\$74
Bank	Cash in bank	<u>606</u>	0.10%	<u>-</u>
Total		<u>\$5,491</u>		<u>\$74</u>

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		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposit	\$180,225	0.72%~2.605%	\$635
	Cash in bank	5,111	0.10%	19
Total		<u>\$185,336</u>		<u>\$654</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposit	\$5,585	0.72%~2.605%	\$20
	Cash in bank	158	0.10%	-
Total		<u>\$5,743</u>		<u>\$20</u>

b. Financial assets at fair value through profit or loss

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$100,455</u>	<u>\$3,065</u>	<u>\$48,696</u>	<u>\$1,509</u>

c. Sales revenue

Name	For the six months ended June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	<u>\$138,135</u>	<u>\$4,215</u>	<u>\$163,465</u>	<u>\$5,066</u>

I. Cathay Life (China)

Other payables

Name	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	<u>\$265,211</u>	<u>\$8,093</u>	<u>\$204,097</u>	<u>\$6,325</u>

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J. Cathay Life (Vietnam)

a. Cash in bank

		For the six months ended June 30, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	Time deposits	\$151,414	2.00%~10.80%	\$2,713
	Cash in bank	8,406	0.10%~2.40%	150
Total		<u>\$159,820</u>		<u>\$2,863</u>

		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	Time deposits	\$4,620	2.00%~10.80%	\$83
	Cash in bank	257	0.10%~2.40%	4
Total		<u>\$4,877</u>		<u>\$87</u>

		For the six months ended June 30, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	<u>\$86,783</u>	1.00%~15.00%	<u>\$11,100</u>

		For the six months ended June 30, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	<u>\$2,648</u>	1.00%~15.00%	<u>\$339</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	Time deposits	<u>\$110,314</u>	1.00%~10.49%	<u>\$9,125</u>

		For the six months ended June 30, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	Time deposits	<u>\$3,418</u>	1.00%~10.49%	<u>\$283</u>

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share date and unless otherwise stated)**

29. Pledged assets

As of June 30, 2009 and 2010, the Company and Subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loan, other financial or leasing	\$1,258,910	\$38,416	\$1,174,252	\$36,388
Guarantee deposits paid	Government bonds	9,355,327	285,484	9,567,906	296,495
Financial assets at fair value through profit or loss	Business reserves and guarantees	661,703	20,192	616,709	19,111
Available-for-sale financial assets	Business reserves and guarantees	2,698,958	82,361	3,603,687	111,673
Held-to-maturity financial assets	Business reserves and guarantees	90,893	2,774	416,943	12,921
Investments in debt securities with no active market	Business reserves and guarantees	15,535,000	474,062	20,500,000	635,265
		<u>\$29,600,791</u>	<u>\$903,289</u>	<u>\$35,879,497</u>	<u>\$1,111,853</u>

30. Commitment and contingent liabilities

(1) Cathay United Bank

- A. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. The Taipei District Court and the High Court adjudged that Cathay United Bank win the lawsuit. However, the Supreme Court reversed the High Court's decision and remanded the case for new trial. The suit was in the process of settlement in the High Court.

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B. Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$28 million) and NT\$3.09 billion (US\$96 million), respectively. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

C. As of June 30, 2010, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$327,771 (US\$10,157) thousands with prepayments of NT\$245,528 (US\$7,609) thousands.

(2) Cathay Century

Cathay Century and Itanara Import Export Company („Itanara’) have a dispute on cargo insurance benefits. The Itanara filed a lawsuit against Cathay Century and claimed for US\$773 thousands with related notarization expenses. The Taiwan Taipei District Court ruled in favor of Itanara in the lawsuit except the notarization expenses. Cathay Century appealed to the higher court and the lawsuit is still in progress.

(3) Cathay Securities

As of June 30, 2010, Cathay Securities requested banks to issue letters of guarantees for warrants issuance of NT\$440,000 (US\$13,635) thousands.

(4) As of June 30, 2009 and 2010, Cathay United Bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

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Item	June 30,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Trust and security held for safekeeping	\$181,107,324	\$5,526,620	\$172,934,113	\$5,358,975
Travelers checks for sale	246,234	7,514	381,698	11,828
Bills for collection	38,890,924	1,186,784	38,065,633	1,179,598
Book-entry for government bonds and depository for short-term marketable securities under management	582,315,600	17,769,777	523,431,258	16,220,367
Guarantees on duties and contracts	20,809,286	635,010	17,095,193	529,755
Unused commercial letters of credit	1,854,037	56,577	5,099,754	158,034
Irrevocable loan commitments	8,873,779	270,790	47,750,286	1,479,711
Credit card lines commitments	260,757,898	7,957,214	260,654,339	8,077,296
Stamp tax, securities and memorial currency consignments	1,727	53	1,006	31
Entrusted financial management business	-	-	2,801,982	86,829

(5) According to the effective operating leases agreement (the longest lease term being 5 years), rentals for the next five years are as follows:

Periods	NT\$	US\$
July 1, 2010~June 30, 2011	\$1,135,224	\$35,179
July 1, 2011~June 30, 2015	1,670,925	51,779
Total	<u>\$2,806,149</u>	<u>\$86,958</u>

30. Significant disaster losses: None.

31. Subsequent events: None.

32. Other significant matters

(1) Pension related information

A. Net periodic pension cost:

According to the ROC SFAS No. 23 “Interim Financial Reporting and Disclosures”, the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18 “Accounting for Pensions”.

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(2) Financial instruments related information

A. The Company

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$2,747,501	\$2,747,501	\$83,842	\$83,842
Receivables	5,185,892	5,185,892	158,251	158,251
Held-to-maturity financial assets	15,000,000	15,000,000	457,736	457,736
Investments under equity method	186,705,398	186,705,398	5,697,449	5,697,449
Other financial assets	31,720	31,720	968	968
<u>Liabilities</u>				
Payables	7,503,673	7,503,673	228,980	228,980
Bonds payables	20,000,000	20,000,000	610,315	610,315

Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$20,515,450	\$20,515,450	\$635,744	\$635,744
Receivables	6,747,456	6,747,456	209,094	209,094
Held-to-maturity financial assets	25,000,000	25,000,000	774,713	774,713
Investments under equity method	192,881,665	192,881,665	5,977,120	5,977,120
Other financial assets	31,720	31,720	983	983
<u>Liabilities</u>				
Payables	14,465,121	14,465,121	448,253	448,253
Bonds payables	40,000,000	40,000,000	1,239,541	1,239,541

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

- (a) The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables, payables and other financial assets.
- (b) The fair value of bonds payables is in accordance with the term of issuance.
- (c) 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.
- (d) If no quoted market prices exist for the Company's investments accounted for equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.

c. The fair value of the Company's financial assets or liabilities determined by quoted market price or pricing models is summarized as following:

Financial instruments	June 30, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,503	\$137	\$2,742,998	\$83,705
Receivables	-	-	5,185,892	158,251
Held-to-maturity financial assets	-	-	15,000,000	457,736
Investments under equity method	-	-	186,705,398	5,697,449
Other financial assets	-	-	31,720	968
<u>Liabilities</u>				
Payables	-	-	7,503,673	228,980
Bonds payable	-	-	20,000,000	610,315

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Financial instruments	June 30, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,818,901	\$149,331	\$15,696,549	\$486,413
Receivables	-	-	6,747,456	209,094
Held-to-maturity financial assets	-	-	25,000,000	774,713
Investments under equity method	-	-	192,881,665	5,977,120
Other financial assets	-	-	31,720	983
<u>Liabilities</u>				
Payables	-	-	14,465,121	448,253
Bonds payable	-	-	40,000,000	1,239,541

d. Information on financial risks

(a) Risk of interest rate

The Company's exposure to interest rate risk is minimal.

(b) Credit risk

The Company's exposure to credit risk is minimal.

e. Financial risk management objectives and policies

The Company's financial assets primarily consist of cash and cash equivalents, short-term notes, domestic common stocks and Cathay Life's preferred stocks.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, 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.

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Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk and exchange rate risk. The Company conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress test methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of the Company's financial assets.

Credit Risk

Credit risk is the risk of loss arising from the potential default of the counter-party. An internal credit risk evaluation model for investments in financial instruments is 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 counterparties by evaluating the credit concentration of the investments or counterparties.

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.

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot 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 and short-term notes (includes repurchase agreement). 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.

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B. Cathay Life

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$247,822,244	\$247,822,244	\$ 7,562,473	\$ 7,562,473
Notes and accounts receivable	50,492,300	50,492,300	1,540,809	1,540,809
Financial assets at fair value through profit or loss - current	71,146,713	71,146,713	2,171,093	2,171,093
Available-for-sale financial assets - current	135,565,155	135,565,155	4,136,868	4,136,868
Held-to-maturity financial assets - current	30,176,218	28,029,011	920,849	855,325
Investments in debt securities with no active market - current	4,534,726	4,413,892	138,380	134,693
Other financial assets - current	8,000,000	8,000,000	244,126	244,126
Available-for-sale financial assets - noncurrent	230,872,988	230,872,988	7,045,255	7,045,255
Held-to-maturity financial assets - noncurrent	654,456,134	640,193,916	19,971,197	19,535,975
Financial assets carried at cost - noncurrent	19,202,400	-	585,975	-
Investments in debt securities with no active market - noncurrent	139,768,341	127,397,676	4,265,131	3,887,631
Investments under the equity method	5,968,307	5,968,307	182,127	182,127
Other financial assets – noncurrent	11,300,000	11,300,000	344,828	344,828
Guarantee deposits paid	11,864,922	11,864,922	362,067	362,067
<u>Liabilities</u>				
Notes and accounts payable	10,400,942	10,400,942	317,393	317,393
Preferred stock liability –noncurrent	15,000,000	15,413,340	457,736	470,349
Guarantee deposits received	1,613,269	1,613,269	49,230	49,230
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	12,782,343	12,782,343	390,062	390,062
IRS, CDS	205,509	205,509	6,271	6,271
Derivative financial assets for hedging - current				
IRS, CDS	1,924,839	1,924,839	58,738	58,738

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Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss –				
current				
Forward, CS, CCS	\$4,619,687	\$4,619,687	\$140,973	\$140,973
IRS, CDS	234,077	234,077	7,143	7,143
Derivative financial liabilities for hedging - current				
IRS, CDS	202,616	202,616	6,183	6,183
June 30, 2010				
Item	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
	<u>Non-derivative financial instruments</u>			
<u>Assets</u>				
Cash and cash equivalents	\$436,746,054	\$436,746,054	\$13,534,120	\$13,534,120
Notes and accounts receivable	64,290,410	64,290,410	1,992,266	1,992,266
Financial assets at fair value through profit or loss - current	39,152,476	39,152,476	1,213,278	1,213,278
Available-for-sale financial assets - current	216,432,320	216,432,320	6,706,920	6,706,920
Held-to-maturity financial assets - current	24,641,648	24,706,670	763,609	765,623
Investments in debt securities with no active market -				
current	8,915,139	8,919,544	276,267	276,404
Other financial assets - current	7,000,000	7,000,000	216,920	216,920
Available-for-sale financial assets - noncurrent	302,389,868	302,389,868	9,370,619	9,370,619
Held-to-maturity financial assets - noncurrent	634,785,250	652,467,056	19,671,064	20,218,998
Financial assets carried at cost - noncurrent	10,252,684	-	317,716	-
Investments in debt securities with no active market -				
noncurrent	195,918,784	197,525,738	6,071,236	6,121,033
Investments under the equity method	4,753,828	4,753,828	147,314	147,314
Other financial assets – noncurrent	34,800,000	34,800,000	1,078,401	1,078,401
Guarantee deposits paid	11,133,800	11,133,800	345,020	345,020

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Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Notes and accounts payable	\$39,104,459	\$39,104,459	\$1,211,790	\$1,211,790
Preferred stock liability –noncurrent	25,000,000	26,412,430	774,713	818,482
Guarantee deposits received	1,664,558	1,664,558	51,582	51,582
 <u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option				
Forward, CS and CCS	8,600,864	8,600,864	266,528	266,528
IRS and CDS	13,718	13,718	425	425
Derivative financial assets for hedging - current				
IRS and CDS	2,499,095	2,499,095	77,443	77,443
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS and CCS	5,967,117	5,967,117	184,912	184,912
IRS and CDS	907,734	907,734	28,129	28,129
Derivative financial liabilities for hedging - current				
IRS and CDS	373,723	373,723	11,581	11,581

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

- (a) The fair value of Cathay Life’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.
- (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life predicts the future cash inflow or outflow will be of similar amount to the carrying value.

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- (c) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Cathay Life'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 Cathay Life. Cathay Life 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.
- (d) The fair value of Cathay Life'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.
- (e) If no quoted market prices exist for Cathay Life's 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.
- c. As of June 30, 2009 and 2010, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	June 30, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$179,325,101	\$5,472,234	\$68,497,143	\$2,090,239
Notes and accounts receivable	-	-	50,492,300	1,540,809
Financial assets at fair value through profit or loss				
- current	70,575,613	2,153,665	571,100	17,428
Available-for-sale financial assets - current	135,159,298	4,124,483	405,857	12,385
Held-to-maturity financial assets - current	2,824,968	86,206	25,204,043	769,119
Investments in debt securities with no active market - current	-	-	4,413,892	134,693
Other financial assets-current	-	-	8,000,000	244,126
Available-for-sale financial assets - noncurrent	229,495,919	7,003,232	1,377,069	42,023
Held-to-maturity financial assets - noncurrent	95,403,027	2,911,291	544,790,889	16,624,684
Investment in debt securities with no active market - noncurrent	4,642,752	141,677	122,754,924	3,745,954
Long-term investments under the equity method	-	-	5,968,307	182,127
Other financial assets - noncurrent	-	-	11,300,000	344,828

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Item	June 30, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Investment in debt securities with no active market – noncurrent	\$-	\$-	\$197,525,738	\$6,121,033
Investments under the equity method	-	-	4,753,828	147,314
Other financial assets - noncurrent	-	-	34,800,000	1,078,401
<u>Liabilities</u>				
Notes and accounts payable	-	-	39,104,459	1,211,790
Preferred stock liability - noncurrent	-	-	26,412,430	818,482
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS and CCS	-	-	8,600,864	266,528
IRS and CDS	-	-	13,718	425
Derivative financial assets for hedging – current				
IRS and CDS	-	-	2,499,095	77,443
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	-	-	5,967,117	184,912
IRS and CDS	-	-	907,734	28,129
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	373,723	11,581

d. Information on financial risk

(a) Interest rate risk

The following table summarizes the maturities of Cathay Life's financial instruments at June 30, 2009 and 2010:

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① June 30, 2009

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$2,357,733	\$71,948	\$424,327	\$12,949	\$1,612,720	\$49,213	\$1,127,958	\$34,420
through profit or loss								
Available-for-sale financial assets	342,750	10,459	4,797,986	146,414	6,718,424	205,018	15,595,465	475,906
Held-to-maturity financial assets	210,681,697	6,429,103	20,040,138	611,539	7,537,126	230,001	21,572,815	658,310
Investments in debt securities with								
no active market	4,534,726	138,380	5,869,291	179,106	6,043,204	184,413	6,898,360	210,509
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$1,088,439	\$33,215	\$2,197,109	\$67,046	\$8,808,286	\$268,791
through profit or loss						
Available-for-sale financial assets	12,948,998	395,148	77,774,468	2,373,344	118,178,091	3,606,289
Held-to-maturity financial assets	29,272,590	893,274	338,266,814	10,322,454	627,371,180	19,144,681
Investments in debt securities with						
no active market	3,240,304	98,880	98,539,922	3,007,016	125,125,807	3,818,304
Preferred stock liability	-	-	15,000,000	457,736	15,000,000	457,736

Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$269,064	\$ 8,211	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	115,015,896	3,509,792	-	-	-	-	-	-
Held-to-maturity financial assets	57,261,171	1,747,366	-	-	-	-	-	-
Investments in debt securities with								
no active market	19,177,261	585,208	-	-	-	-	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$-	\$-	\$-	\$-	\$269,064	\$ 8,211
through profit or loss						
Available-for-sale financial assets	-	-	-	-	115,015,896	3,509,792
Held-to-maturity financial assets	-	-	-	-	57,261,171	1,747,366
Investments in debt securities with						
no active market	-	-	-	-	19,177,261	585,208

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$18,688	\$570	\$38,214	\$1,166	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	-	-	22,645	691	14,232	434	88,479	2,700
Financial liabilities at fair value								
through profit or loss	1,005	31	112,605	3,436	-	-	-	-
Derivative financial liabilities for								
hedging	13,938	425	22,795	696	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$307	\$10	\$-	\$-	\$57,209	\$1,746
Derivative financial assets for						
hedging	617,381	18,840	1,102,323	33,638	1,845,060	56,303
Financial liabilities at fair value						
through profit or loss	4,907	150	-	-	118,517	3,617
Derivative financial liabilities for						
hedging	-	-	-	-	36,733	1,121

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② June 30, 2010

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value								
through profit or loss	\$14,867	\$461	\$2,546,488	\$78,912	\$1,688,490	\$52,324	\$63,639	\$1,972
Available-for-sale financial assets	11,988,104	371,494	15,376,243	476,487	24,778,142	767,838	10,950,380	339,336
Held-to-maturity financial assets	191,724,598	5,941,264	15,145,605	469,340	24,815,787	769,005	30,375,302	941,286
Investments in debt securities with								
no active market	8,765,650	271,634	17,940,721	555,957	8,893,773	275,605	3,647,370	113,027
Preferred stock liability	-	-	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NTS	US\$	NTS	US\$	NTS	US\$		
Financial assets at fair value	\$232,920	\$7,218	\$7	\$-	\$4,546,411	\$140,887		
through profit or loss								
Available-for-sale financial assets	21,616,779	669,872	105,808,670	3,278,856	190,518,318	5,903,883		
Held-to-maturity financial assets	18,634,840	577,467	320,223,275	9,923,250	600,919,407	18,621,612		
Investments in debt securities with								
no active market	18,558,955	575,115	128,548,870	3,983,541	186,355,339	5,774,879		
Preferred stock liability	-	-	25,000,000	774,713	25,000,000	774,713		

Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value								
through profit or loss	\$79,862	\$2,475	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	132,538,425	4,107,172	-	-	-	-	-	-
Held-to-maturity financial assets	58,507,490	1,813,061	-	-	-	-	-	-
Investments in debt securities with								
no active market	18,478,584	572,624	-	-	-	-	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$-	\$-	\$-	\$-	\$79,862	\$2,475
Available-for-sale financial assets	-	-	-	-	132,538,425	4,107,172
Held-to-maturity financial assets	-	-	-	-	58,507,490	1,813,061
Investments in debt securities with no active market	-	-	-	-	18,478,584	572,624

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$13,718	\$425	\$-	\$-	\$-	\$-	\$-	\$-
Derivative financial assets for hedging	11,680	362	16,299	505	166,716	5,166	728,562	22,577
Financial liabilities at fair value through profit or loss	74,525	2,309	-	-	-	-	30,979	960
Derivative financial liabilities for hedging	10,646	330	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$-	\$-	\$-	\$-	\$13,718	\$425
Derivative financial assets for hedging	989,707	30,670	87,500	2,711	2,000,464	61,991
Financial liabilities at fair value through profit or loss	147,431	4,569	-	-	252,935	7,838
Derivative financial liabilities for hedging	-	-	-	-	10,646	330

(b) Credit risk

Cathay Life doesn't exposure to credit risk is minimal.

e. Hedge Accounting Disclosures

Cash flow hedges - IRS

The following table summarizes the terms of the Cathay life's interest rate swap for bonds used as hedging instruments at June 30, 2009 and 2010:

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(a) June 30, 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,103	4.000%-6ml	Half year	2010.4.7
300,000	9,155	4.0002%-6ml	Half year	2010.4.7
500,000	15,258	4.0006%-6ml	Half year	2010.4.7
500,000	15,258	4.0007%-6ml	Half year	2010.4.7
200,000	6,103	4.0003%-6ml	Half year	2010.4.7
300,000	9,155	4.3%-12ml	Yearly	2010.6.20
900,000	27,464	90DCP	Each quarter	2010.8.18
600,000	18,309	90DCP	Each quarter	2010.8.19
200,000	6,103	6.3%-6ml	Yearly	2010.11.27
300,000	9,155	5.37%-6ml	Yearly	2011.3.15
500,000	15,258	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	61,031	90DCP	Each quarter	2011.9.9
1,000,000	30,516	90DCP	Each quarter	2012.6.26
2,000,000	61,031	90DCP	Yearly	2013.3.26
2,700,000	82,392	90DCP+25bps	Each quarter	2013.8.24
3,000,000	91,547	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	61,031	90DCP	Yearly	2013.11.3
1,000,000	30,516	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,258	90DCP+23bps	Yearly	2013.12.14
1,500,000	45,774	90DCP+23bps	Yearly	2013.12.16
1,000,000	30,516	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,464	90DCP	Yearly	2014.3.12
1,000,000	30,516	90DCP	Yearly	2014.6.12
2,000,000	61,031	90DCP	Yearly	2014.6.29
5,000,000	152,579	90DCP	Yearly	2014.8.23
1,000,000	30,516	90DCP	Yearly	2014.9.20
3,200,000	97,650	90DCP	Yearly	2014.9.27
2,000,000	61,031	90DCP	Each quarter	2014.9.28
1,500,000	45,774	90DCP	Yearly	2014.9.29
2,500,000	76,289	90DCP	Yearly	2014.12.20
2,000,000	61,031	90DCP	Yearly	2014.12.24

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(b) June 30, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$900,000	\$27,890	90DCP	Each quarter	2010.8.18
600,000	18,593	90DCP	Each quarter	2010.8.19
200,000	6,198	6.3%-6ml	Yearly	2010.11.27
300,000	9,297	5.37%-6ml	Yearly	2011.3.15
500,000	15,494	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	61,977	90DCP	Each quarter	2011.9.9
1,000,000	30,989	90DCP	Each quarter	2012.6.26
2,000,000	61,977	90DCP	Each quarter	20.12.9.9
2,000,000	61,977	90DCP	Each quarter	2012.10.11
700,000	21,692	90DCP	Each quarter	2012.11.24
2,000,000	61,977	90DCP	Yearly	2013.3.26
2,425,000	75,147	90DCP	Each quarter	2013.4.24
3,600,000	111,559	90DCP	Each quarter	2013.6.8
2,700,000	83,669	90DCP+25bps	Each quarter	2013.8.24
3,000,000	92,966	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	61,977	90DCP	Yearly	2013.11.3
1,000,000	30,989	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,494	90DCP+23bps	Yearly	2013.12.14
1,500,000	46,483	90DCP+23bps	Yearly	2013.12.16
1,000,000	30,989	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,890	90DCP	Yearly	2014.3.12
1,000,000	30,989	90DCP	Yearly	2014.6.12
2,000,000	61,977	90DCP	Yearly	2014.6.29
5,000,000	154,943	90DCP	Yearly	2014.8.23
1,000,000	30,989	90DCP	Yearly	2014.9.20
3,200,000	99,163	90DCP	Yearly	2014.9.27
2,000,000	61,977	90DCP	Each quarter	2014.9.28
1,500,000	46,483	90DCP	Yearly	2014.9.29
2,500,000	77,471	90DCP	Yearly	2014.12.20
2,000,000	61,977	90DCP	Yearly	2014.12.24
2,543,500	78,819	90DCP	Each quarter	2016.10.23
900,000	27,890	90DCP	Each quarter	2016.10.24

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

Cathay Life's interest rate swap agreements are considered to be highly effective cash flow hedges. As of June 30, 2009 and 2010, unrealized gains on these financial instruments recognized in equity are NT\$1,961,118 (US\$59,845) thousands and NT\$2,014,342 (US\$62,422) thousands, respectively.

Fair value hedges

The following table summarizes the terms of Cathay Life's credit default swap for bonds used as hedging instruments at June 30, 2009 and 2010:

① June 30, 2009

<u>Par value</u>		
US\$	<u>Hedge item</u>	<u>Maturity date</u>
\$45,000	CDO	2012.09.20
7,000	Structured notes	2014.03.20
3,000	Structured notes	2014.03.20

② June 30, 2010

<u>Par value</u>		
US\$	<u>Hedge item</u>	<u>Maturity date</u>
\$2,000	CDO	2012.06.20

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

Cathay Life's credit default swap agreements are considered to be highly effective fair value hedges. As of June 30, 2009, unrealized losses on these financial instruments recognized in profit and loss were NT\$80,050 (US\$2,443) thousands recorded as gains from valuation on financial assets by NT\$4,298 (US\$131) thousands and losses from valuation on financial liabilities by NT\$84,348 (US\$2,574) thousands, respectively.

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As of June 30, 2010, unrealized gains on these financial instruments recognized in profit and loss was NT\$171,246 (US\$5,307) thousands recorded as gains from valuation on financial assets by NT\$171,246 (US\$5,307) thousands.

The following table summarizes the terms of Cathay Life's interest rate swap for bonds used as hedging instruments at June 30, 2009 and 2010:

Ⓐ June 30, 2009

None

Ⓑ June 30, 2010

Par value	Hedge item	Maturity date
US\$		
\$30,000	Debenture with no active market	2019.09.30
20,000	Debenture with no active market	2019.10.07
20,000	Debenture with no active market	2019.12.01
30,000	Debenture with no active market	2020.05.04
30,000	Debenture with no active market	2040.05.17
30,000	Debenture with no active market	2040.05.18

Cathay Life's interest rate swap agreements are considered to be highly effective fair value hedges. As of June 30, 2010, unrealized losses on these financial instruments recorded as losses from valuation on financial assets by \$143,750 (US\$4,455) thousands and losses from valuation on financial liabilities by \$363,077 (US\$11,251) thousands, respectively.

f. Financial risk management objectives and policies

Cathay Life'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.

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Cathay Life also enters into derivative transactions such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swap 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. Cathay Life 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 Company, Cathay Life 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 Cathay Life's risks. The risk management policies are summarized as follow:

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. Cathay Life 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 Cathay Life'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 Cathay Life's exposure to the credit risk, following evaluations and controls are performed.

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

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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. Cathay Life 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, Cathay Life has adopted and implemented the internal control regulations and procedures. Cathay Life has also commenced the development of information systems to accommodate and support the aforementioned policies.

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. Cathay Life 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, Cathay Life also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

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Country Risk

Country 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. Cathay Life 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.

C. Cathay United Bank

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$49,892,094	\$49,892,094	\$1,522,493	\$1,522,493
Available-for-sale financial assets	139,051,922	139,051,922	4,243,269	4,243,269
Held-to-maturity financial assets and debt securities with no active market	252,989,221	253,018,717	7,720,147	7,721,047
Other financial assets-financial assets carried at cost	4,095,465	(Note)	124,976	(Note)
Others	913,062,322	913,062,322	27,862,750	27,862,750
Liabilities				
Financial liabilities at fair value through profit or loss	32,627,728	32,627,728	995,659	995,659
Financial debentures payable	15,194,806	15,194,806	463,680	463,680
Others	1,265,556,334	1,265,556,334	38,619,357	38,619,357
<u>Derivative financial instruments</u>				
Assets				
Forward	1,097,447	1,097,447	33,489	33,489
Non-delivery forward	54,707	54,707	1,670	1,670
Currency swap	2,529,532	2,529,532	77,191	77,191
Interest rate swap	5,137,155	5,137,155	156,764	156,764
Cross currency swap	319,673	319,673	9,755	9,755
Options	97,189	97,189	2,966	2,966

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Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
Liabilities				
Forward	\$2,823,270	\$2,823,270	\$86,154	\$86,154
Non-delivery forward	49,357	49,357	1,506	1,506
Currency swap	637,434	637,434	19,451	19,451
Interest rate swap	3,375,107	3,375,107	102,994	102,994
Cross currency swap	207,789	207,789	6,341	6,341
Options	97,190	97,190	2,966	2,966
Credit derivative instruments	563,178	563,178	17,186	17,186
Credit default swaps	32,203	32,203	983	983

Note: Fair value cannot be reliably estimated.

Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$21,660,023	\$21,660,023	\$671,212	\$671,212
Available-for-sale financial assets	73,971,461	73,971,461	2,292,267	2,292,267
Held-to-maturity financial assets and debt securities				
with no active market	346,278,349	346,326,609	10,730,658	10,732,154
Other financial assets-financial assets carried at cost	4,015,165	(Note)	124,424	(Note)
Others	1,021,092,000	1,021,092,000	31,642,144	31,642,144
Liabilities				
Financial liabilities at fair value through profit or loss				
loss	12,477,463	12,477,463	386,658	386,658
Financial debentures payable	17,021,193	17,021,193	527,462	527,462
Others	1,388,232,797	1,388,232,797	43,019,299	43,019,299

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Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
Assets				
Forward	\$2,973,269	\$2,973,269	\$92,137	\$92,137
Non-delivery forward	43,398	43,398	1,345	1,345
Currency swap	369,851	369,851	11,461	11,461
Interest rate swap	4,930,828	4,930,828	152,799	152,799
Cross currency swap	291,025	291,025	9,018	9,018
Options	155,557	155,557	4,821	4,821
Future	1,402	1,402	44	44
Liabilities				
Forward	1,540,102	1,540,102	47,725	47,725
Non-delivery forward	39,127	39,127	1,212	1,212
Currency swap	2,070,590	2,070,590	64,165	64,165
Interest rate swap	2,986,175	2,986,175	92,537	92,537
Cross currency swap	239,572	239,572	7,424	7,424
Options	155,558	155,558	4,821	4,821
Credit derivative instruments	19,939	19,939	618	618
Credit default swaps	6,191	6,191	192	192
Future	5,121	5,121	159	159

Note: Fair value cannot be reliably estimated.

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

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

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

(c) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face values are equivalent to their fair values.

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

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

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

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

Item	June 30, 2009			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$49,694,484	\$1,516,463	\$197,610	\$6,030
Available-for-sale financial assets	122,092,350	3,725,735	16,959,572	517,534
Held-to-maturity financial assets and debt securities				
with no active market	225,392,050	6,878,000	27,626,667	843,047
Others	(Notes)	(Notes)	(Notes)	(Notes)

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Item	June 30, 2009			
	Value determined by quoted market		Value determined by pricing	
	price		models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Liabilities				
Financial liabilities at fair value through profit or loss	\$-	\$-	\$32,627,728	\$995,659
Financial debentures payable	-	-	15,194,806	463,680
Others	(Notes)	(Notes)	(Notes)	(Notes)
<u>Derivative financial instruments</u>				
Assets				
Forward	-	-	1,097,447	33,489
Non-delivery forward	-	-	54,707	1,670
Currency swap	-	-	2,529,532	77,191
Interest rate swap	-	-	5,137,155	156,764
Cross currency swap	-	-	319,673	9,755
Options	-	-	97,189	2,966
Liabilities				
Forward	-	-	2,823,270	86,154
Non-delivery forward	-	-	49,357	1,506
Currency swap	-	-	637,434	19,451
Interest rate swap	-	-	3,375,107	102,994
Cross currency swap	-	-	207,789	6,341
Options	-	-	97,190	2,966
Credit derivative instruments	-	-	563,178	17,186
Credit default swaps	-	-	32,303	986

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Item	June 30, 2010			
	Value determined by quoted market		Value determined by pricing	
	price		models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$1,982,407	\$61,432	\$19,677,616	\$609,780
Available-for-sale financial assets	48,628,879	1,506,938	25,342,582	785,329
Held-to-maturity financial assets and debt securities				
with no active market	1,339,346	41,504	344,987,263	10,690,650
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	12,477,463	386,658
Financial debentures payable	-	-	17,021,193	527,462
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
Assets				
Forward	-	-	2,973,269	92,137
Non-delivery forward	-	-	43,398	1,345
Currency swap	-	-	369,851	11,461
Interest rate swap	-	-	4,930,828	152,799
Cross currency swap	-	-	291,025	9,018
Options	-	-	155,557	4,821
Future	1,402	44	-	-
Liabilities				
Forward	-	-	1,540,102	47,725
Non-delivery forward	-	-	39,127	1,212
Currency swap	-	-	2,070,590	64,165
Interest rate swap	-	-	2,986,175	92,537
Cross currency swap	-	-	239,572	7,424
Options	-	-	155,558	4,821
Credit derivative instruments	-	-	19,939	618
Credit default swaps	-	-	6,191	192
Future	5,121	159	-	-

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

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- d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gain NT\$1,118,475 (US\$34,131) thousands and loss NT\$391,950 (US\$12,146) thousands for the six-month periods ended June 30, 2009 and 2010, respectively.
- e. The interest income arising from other than financial assets or liabilities at fair value through profit or loss For the six month periods ended June 30, 2009 and 2010 were NT\$12,639,182 (US\$385,694) thousands and NT\$10,539,247 (US\$326,596) thousands, and expenses were NT\$5,474,751 (US\$167,066) thousands and NT\$3,400,069 (US\$105,363) thousands, respectively.
- f. Cathay United Bank recognized an unrealized gains or losses of NT\$1,501,109 (US\$45,808) thousands and NT\$520,895 (US\$16,142) thousands in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$419,908 (US\$12,814) thousands and NT\$1,300,963 (US\$40,315) thousands in income statements, for the six month periods ended June 30, 2009 and 2010, respectively.
- g. Information on financial risk

(a) Market risk

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

Ⓐ Interest rate risk

If interest rates are rising, the fair values of Cathay United Bank's fixed-rate bond investments such as government bonds and corporate bonds may decline.

Ⓑ Foreign exchange risk

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

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© Equity securities price risk

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

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

January 1 ~ June 30, 2009						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$311,392	\$9,502	\$538,874	\$16,444	\$128,834	\$3,931
Foreign exchange	377,404	11,517	580,316	17,709	226,674	6,917
Equity Securities price	110,304	3,366	165,930	5,063	66,379	2,026

January 1 ~ June 30, 2010						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$523,756	\$16,230	\$685,573	\$21,245	\$417,580	\$12,940
Foreign exchange	138,903	4,304	376,720	11,674	110,355	3,420
Equity Securities price	139,419	4,320	175,459	5,437	93,439	2,896

Cathay United Bank enters into a variety of derivatives transactions for both trading and no trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank provides trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customer demands for customized derivatives and also takes proprietary positions for its own accounts.

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

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		June 30, 2010	
		NT\$	US\$
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	\$601,127	\$18,628
	HKD+1%	17,078	529
	JPY+1%	9,360	290
	NTD+1%	(626,903)	(19,427)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(21,613)	(670)
	Yield curves (HKD) parallel shift+1bp	(75)	(2)
	Yield curves (JPY) parallel shift+1bp	(20)	(1)
	Yield curves (NTD) parallel shift+1bp	(9,365)	(290)
Equity securities price factor sensitivity (Equity Delta)		35,008	1,085

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

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 1% (100 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank’s interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio of caused by the underlying stocks prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

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Stress Test			
Market/ Product	Scenarios	Effects (In thousands of dollars)	
		(NT\$)	(US\$)
Stock Market	Major Stock Exchanges +15%	\$525,122	\$16,273
	Major Stock Exchanges -15%	(525,122)	(16,273)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(3,025,268)	(93,749)
	Major Interest Rate - 100bp	2,913,474	90,284
Foreign Exchange Market	Major Currencies +3%	1,958,270	60,684
	Major Currencies -3%	(1,844,192)	(57,149)
Composite	Major Stock Exchanges -15%	(1,592,120)	(49,337)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(b) Credit risk

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

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

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

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① Information on concentrations of credit risk:

Financial assets	June 30, 2009			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$49,892,094	\$1,522,493	\$49,892,094	\$1,522,493
Available-for-sale financial assets	139,051,922	4,243,269	139,051,922	4,243,269
Held-to-maturity financial assets and debt securities with no active market	252,989,221	7,720,147	252,989,221	7,720,147
Other financial assets-financial assets carried at cost	4,095,465	124,976	4,095,465	124,976
Others	913,062,322	27,862,750	913,062,322	27,862,750
Guarantees on duties and contracts	-	-	20,809,286	635,010
Unused commercial letters of credit	-	-	1,854,037	56,577
Irrevocable loan commitments	-	-	8,873,779	270,790
Credit card line commitments	-	-	260,757,898	7,957,214
<u>Derivative financial instruments</u>				
Forward	1,097,447	33,489	1,097,447	33,489
Non-delivery forward	54,707	1,670	54,707	1,670
Currency swap	2,529,532	77,191	2,529,532	77,191
Interest rate swap	5,137,155	156,764	5,137,155	156,764
Cross currency swap	319,673	9,755	319,673	9,755
Options	97,189	2,966	97,189	2,966

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Financial assets	June 30, 2010			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$21,660,023	\$671,212	\$21,660,023	\$671,212
Available-for-sale financial assets	73,971,461	2,292,267	73,971,461	2,292,267
Held-to-maturity financial assets and debt securities with no active market	346,278,349	10,730,658	346,278,349	10,730,658
Other financial assets-financial assets carried at cost	4,015,165	124,424	4,015,165	124,424
Others	1,021,092,000	31,642,144	1,021,092,000	31,642,144
Guarantees on duties and contracts	-	-	17,095,193	529,755
Unused commercial letters of credit	-	-	5,099,754	158,034
Irrevocable loan commitments	-	-	47,750,286	1,479,711
Credit card line commitments	-	-	260,654,339	8,077,296
<u>Derivative financial instruments</u>				
Forward	2,973,269	92,137	2,973,269	92,137
Non-delivery forward	43,398	1,345	43,398	1,345
Currency swap	369,851	11,461	369,851	11,461
Interest rate swap	4,930,828	152,799	4,930,828	152,799
Cross currency swap	291,025	9,018	291,025	9,018
Options	155,557	4,821	155,557	4,821
Future	1,402	44	1,402	44

- ⑥ Cathay United Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, Cathay United Bank is likely to be exposed to regional or industry concentration risk. Cathay United Bank's information of concentration of credit risk is as follows:

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Loans, customers' liabilities under acceptances, and guarantees account	June 30,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Industry type				
Manufacturing	\$127,442,573	\$3,889,001	\$141,223,328	\$4,376,304
Financial institutions and insurance	32,372,986	987,885	37,842,482	1,172,683
Leasing and real estate	17,272,069	527,069	17,877,589	554,000
Individuals	409,867,159	12,507,390	437,816,763	13,567,300
Others	215,210,213	6,567,294	216,812,851	6,718,712
Total	802,165,000	24,478,639	851,573,013	26,388,999
Valuation allowance	(7,283,947)	(222,275)	(5,848,495)	(181,236)
Maximum credit risk exposed	\$794,881,053	\$24,256,364	\$845,724,518	\$26,207,763

Loans, customers' liabilities under acceptances, and guarantees account	June 30,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Geographic Region				
Domestic	\$717,017,552	\$21,880,303	\$764,832,761	\$23,701,046
South East Asia	22,581,770	689,099	26,632,135	825,291
North East Asia	202,863	6,191	1,164,019	36,071
America	18,133,075	553,344	13,767,593	426,637
Others	44,229,740	1,349,702	45,176,505	1,399,954
Total	802,165,000	24,478,639	851,573,013	26,388,999
Valuation allowance	(7,283,947)	(222,275)	(5,848,495)	(181,236)
Maximum credit risk exposed	\$794,881,053	\$24,256,364	\$845,724,518	\$26,207,763

(c) Liquidity risk

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

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

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

The liquidity risk rate was 35.8%. Capital and working capital of Cathay United Bank have sufficed to deliver contracts. Cathay United Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

(d) Cash flow risk and fair value risk from interest rate fluctuation

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

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

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

Financial instruments	Effective interest rate (%)	
	June 30, 2009	June 30, 2010
Available-for-sale financial assets		
Bonds	0.2861~6.6626	0.3~6.6629
Overseas financial instruments	0~7.75	0~6.3574
Held-to-maturity financial assets		
Bonds	1.9842~6.9559	2.2292~6.9559
Overseas financial instruments	1.2369~1.4241	0~7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.57~1.16	0.57~0.724
Overseas financial instruments	0~8.45	0~11.555
Financial debentures payable	2.1~5.593	2.42~5.593

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i. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets (liabilities) fair value			
		June 30, 2009		June 30, 2010	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Financial debentures payable	Interest rate swap	\$877,793	\$26,787	\$1,458,334	\$45,192

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

D. Cathay Century

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,823,977	\$4,823,977	\$147,207	\$147,207
Financial assets at fair value through profit or loss - current	467,360	467,360	14,262	14,262
Available-for-sale financial assets - current	3,069,382	3,069,382	93,664	93,664
Receivables	2,135,485	2,135,485	65,167	65,167
Prepaid reinsurance premiums ceded	1,361,650	1,361,650	41,552	41,552
Claims recoverable from reinsurers	1,205,105	1,205,105	36,774	36,774
Due from reinsurers and ceding companies	81,472	81,472	2,486	2,486
Account receivable - reinsurance	27,276	27,276	832	832
Secured loans	1,326,393	1,326,393	40,476	40,476
Held-to-maturity financial assets - noncurrent	3,105,410	3,105,410	94,764	94,764
Financial assets carried at cost-noncurrent	25,500	25,500	778	778
Investments in debt securities with no active market-noncurrent	300,000	300,000	9,155	9,155
Investments under equity method	1,181,241	1,181,241	36,046	36,046
Guarantee deposits paid	502,548	502,548	15,336	15,336

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Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Claims outstanding	\$25,690	\$25,690	\$784	\$784
Due to reinsurers and ceding companies	306,844	306,844	9,364	9,364
Account payable - reinsurance	740,387	740,387	22,593	22,593
Operating and liabilities reserve	14,425,020	14,425,020	440,189	440,189
 <u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Forward and SWAP	38,323	38,323	1,169	1,169
Derivative financial assets for hedging				
IRS	31,304	31,304	955	955
Item	June 30, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$4,931,719	\$4,931,719	\$152,827	\$152,827
Financial assets at fair value through profit or loss - current	584,474	584,474	18,112	18,112
Available-for-sale financial assets - current	3,508,132	3,508,132	108,712	108,712
Held-to-maturity financial assets-current	281,797	281,797	8,732	8,732
Receivables	2,191,092	2,191,092	67,899	67,899
Prepaid reinsurance premiums ceded	1,199,752	1,199,752	37,179	37,179
Claims recoverable from reinsurers	1,202,698	1,202,698	37,270	37,270
Due from reinsurers and ceding companies	54,639	54,639	1,693	1,693
Account receivable - reinsurance	55,891	55,891	1,732	1,732
Secured loans	856,365	856,365	26,537	26,537
Held-to-maturity financial assets - noncurrent	2,715,612	2,715,612	84,153	84,153
Financial assets carried at cost-noncurrent	25,500	25,500	790	790

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Item	June 30, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Investments in debt securities with no active market-noncurrent	\$500,000	\$500,000	\$15,494	\$15,494
Investments under equity method	810,312	810,312	25,111	25,111
Other financial assets-noncurrent	532,587	532,587	16,504	16,504
Guarantee deposits paid	571,579	571,579	17,713	17,713
<u>Liabilities</u>				
Claims outstanding	68,136	68,136	2,111	2,111
Due to reinsurers and ceding companies	451,850	451,850	14,002	14,002
Account payable - reinsurance	730,592	730,592	22,640	22,640
Operating and liabilities reserve	15,101,031	15,101,031	467,959	467,959
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Derivative financial assets for hedging				
IRS	32,200	32,200	998	998
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss-current				
Forward and SWAP	40,950	40,950	1,269	1,269

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

- (a) The fair value of Cathay Century's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables and payables, prepaid reinsurance premiums ceded, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.

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- (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- (c) Quoted market prices, if available, are utilized as estimating of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price. Cathay Century 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.
- (d) The fair value of Cathay Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, their fair value was based on relevant financial or any other information.
- (e) If no quoted market prices exist for Cathay Century's investments accounted for equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- c. The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	June 30, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$2,616,810	\$79,854	\$2,207,167	\$67,353
Financial assets at fair value through profit or loss-current	467,360	14,262	-	-
Available-for-sale financial assets-current	3,069,382	93,664	-	-
Held-to-maturity financial assets-noncurrent	-	-	3,105,410	94,764
Financial assets carried at cost-noncurrent	-	-	25,500	778
Investment in debt securities with no active market-noncurrent	-	-	300,000	9,155
Investments under equity method	-	-	1,181,241	36,046

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Item	June 30, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and loss-current				
Forward and SWAP	\$-	\$-	\$38,323	\$1,169
Derivative financial assets for hedging-current				
IRS	-	-	31,304	955
Item	June 30, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,140,989	\$128,323	\$790,30	\$24,504
Financial assets at fair value through profit or loss-current	584,474	18,112	-	-
Available-for-sale financial assets-current	3,508,132	108,712	-	-
Held-to-maturity financial assets-current	-	-	281,797	8,732
Held-to-maturity financial assets-noncurrent	-	-	2,715,612	84,153
Financial assets carried at cost-noncurrent	-	-	25,500	790
Investment in debt securities with no active market-noncurrent	-	-	500,000	15,494
Investments under equity method	-	-	810,312	25,111
Other financial asset-noncurrent	-	-	532,587	16,504
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Derivative financial assets for hedging-current				
IRS	-	-	32,200	998
<u>Liabilities-derivative</u>				
Financial liabilities at fair value through profit and loss-current				
Forward and SWAP	-	-	40,950	1,269

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d. Information on financial risk

(a) Interest rate risk

The following table summarizes the maturities of Cathay Century's financial instruments at June 30, 2009 and 2010:

Fixed interest rate

① June 30, 2009

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$301,257	\$9,193	\$-	\$-	\$201,857	\$6,160	\$204,923	\$6,253
Held-to-maturity financial assets	-	-	164,411	5,017	378,514	11,551	1,054,543	32,180
Investments in debt securities with no active market	-	-	-	-	300,000	9,155	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$410,461	\$12,526	\$199,974	\$6,102	\$1,318,472	\$40,234
Held-to-maturity financial assets	263,957	8,055	1,243,985	37,961	3,105,410	94,764
Investments in debt securities with no active market	-	-	-	-	300,000	9,155

② June 30, 2010

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$-	\$-	\$201,621	\$6,248	\$203,731	\$6,313	\$415,087	\$12,863
Held-to-maturity financial assets	281,797	8,732	-	-	1,192,883	36,966	435,364	13,491
Investments in debt securities with no active market	-	-	300,000	9,296	200,000	6,198	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$-	\$-	\$199,974	\$6,197	\$1,020,413	\$31,621
Held-to-maturity financial assets	-	-	1,087,365	33,696	2,997,409	92,885
Investments in debt securities with no active market	-	-	-	-	500,000	15,494

Floating interest rate:

① June 30, 2009

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$-	\$-	\$-	\$-	\$-	\$-	\$200,000	\$6,103

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$200,000	\$6,103	\$200,000	\$6,103	\$600,000	\$18,309

② June 30, 2010

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$-	\$-	\$-	\$-	\$200,000	\$6,198	\$-	\$-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$400,000	\$12,395	\$-	\$-	\$600,000	\$18,593

(b) Credit risk

Cathay Century's exposure to credit risk is minimal.

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e. Hedging activities

Fair value hedges

Cathay Century's overseas bonds investments are exposed to potentially significant changes in fair value caused by fluctuations in foreign exchange rates. Therefore Cathay Century has purchased foreign currency contract for hedging purposes.

The following table summarizes the terms of Cathay Century's forward and swap for overseas bonds hedging at June 30, 2009 and 2010:

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		June 30, 2009		June 30, 2010	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas bonds	Forward and SWAP	\$38,323	\$1,169	\$(40,950)	\$(1,269)

f. Cash flow hedges-IRS

The following table summarizes the terms of Cathay Century's interest rate swap for bonds hedging at June 30, 2010:

Cash flow hedges-IRS

June 30, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,198	2.65%	Each quarter	2014.09.30
200,000	6,198	2.40%	Each quarter	2012.09.28
200,000	6,198	2.785%	Each quarter	2015.04.30

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

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Cathay Century's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gain on financial instruments were recognized in equity by of NT\$31,304 (US\$955) thousands as of June 30, 2009. Unrealized gain on financial instruments were recognized in equity by NT\$32,200 (US\$998) thousands as of June 30, 2010.

g. Financial risk management objectives policies and hedge strategies

Cathay Century's primary financial instruments other than derivatives consist of cash and cash equivalents, current and noncurrent investments. The main purpose of holding these financial instruments is to manage cash flow. Cathay Century has other financial assets and liabilities such as notes receivable, due to and from reinsurers and ceding companies, reinsurance account, receivable and payable and secured loans, etc.

Cathay Century also conducts derivative transactions, primarily including futures, option contracts and forward currency contracts. The purpose is to manage the stock price fluctuation and currency exchange risks arising from Cathay Century's investment activities. Cathay Century does not conduct derivative transactions based on trading purpose.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. The risk management policies approved by the board of directors are as follows:

(a) Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock value risk and exchange rate risk, etc. Cathay Century conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress test methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of the Company's financial assets.

As a result of significant overseas designated purpose pecuniary trust funds, Cathay Century's balance sheet can be affected significantly by the fluctuation of the US\$/NT\$ exchange rates. Cathay Century utilizes forward currency contracts to hedge this exposure.

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Cathay Century also has transactional currency exposures. Such exposure arises from reinsurance transactions. These transactions with foreign reinsurance company usually receive on time and the fluctuation of exchange rate is not significant. Thus Cathay Century did not seek to hedge this exposure.

(b) Credit risk

Cathay Century only conducts business with recognized and creditworthy third parties. Customers are subject to credit verification procedures, and the collection of premium receivable and notes receivable are subsequently assessed. In addition, once the credit of the third party is impaired, Cathay Century will freeze the related contracts until the credit of the third party recovers. Thus Cathay Century has minimal bad debts.

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.

The counterparties to Cathay Century's other financial assets (including cash and cash equivalents, all other current and noncurrent investments) are all creditworthy and well-known financial institutions in the world. As a result, counterparty credit risk is relatively low.

(c) 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, Cathay Century has adopted and implemented the internal control regulations and sheets. Cathay Century is also commenced to develop the information systems to accommodate the aforementioned policies.

(d) Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

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E. Cathay Securities

a. Information of fair value

Item	June 30, 2009			
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$108,570	\$108,570	\$3,313	\$3,313
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	39,531	39,531	1,206	1,206
Operating securities – net	1,839,037	1,839,037	56,120	56,120
Receivable amount for margin loans	958,297	958,297	29,243	29,243
Securities refinancing margin deposits	4,449	4,449	136	136
Receivables from refinance guaranty	25,026	25,026	764	764
Security lending deposits	22,588	22,588	689	689
Receivables-net	147,396	147,396	4,498	4,498
Available-for-sale financial assets – current	276,668	276,668	8,443	8,443
Investments under equity method	729,683	729,683	22,267	22,267
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,022	7,022
Settlement and clearance funds	54,338	54,338	1,658	1,658
Guarantee deposits paid	19,277	19,277	588	588
<u>Liabilities</u>				
Commercial paper payable	130,000	130,000	3,967	3,967
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	24,692	24,692	753	753
Securities financing guarantee deposits-in	99,789	99,789	3,045	3,045
Deposit payable for securities financing	110,288	110,288	3,366	3,366
Payables	308,532	308,532	9,415	9,415
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options – futures	8,491	8,491	259	259
Margin for futures trading – own funds	225,994	225,994	6,896	6,896

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Item	June 30, 2009			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss –				
current				
Liabilities for issuance of call (put) warrants	\$1,241,390	\$1,241,390	\$37,882	\$37,882
Repurchase of issued call (put) warrants	(1,150,863)	(1,150,863)	(35,120)	(35,120)
Put options-futures	10,447	10,447	319	319
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	(503)	(503)	(15)	(15)
Other financial liabilities – current	90,238	90,238	2,754	2,754
Item	June 30, 2010			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$167,748	\$167,748	\$5,198	\$5,198
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	58,433	58,433	1,811	1,811
Operating securities – net	1,205,899	1,205,899	37,370	37,370
Receivable amount for margin loans	1,453,749	1,453,749	45,050	45,050
Securities refinancing margin deposits	51	51	2	2
Receivables from refinance guaranty	56,589	56,589	1,754	1,754
Security lending deposits	51,127	51,127	1,584	1,584
Receivables - net	114,635	114,635	3,552	3,552
Available-for-sale financial assets – current	422,708	422,708	13,099	13,099
Investments under equity method	733,223	733,223	22,722	22,722
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,130	7,130
Settlement and clearance funds	78,738	78,738	2,440	2,440
Guarantee deposits paid	7,762	7,762	241	241

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Item	June 30, 2010			
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Short-term loans	\$10,000	\$10,000	\$310	\$310
Bonds sold under repurchase agreements	265,177	265,177	8,217	8,217
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	106,228	106,228	3,292	3,292
Security lending payable-non-hedging	158,560	158,560	4,914	4,914
Securities financing guarantee deposits-in	37,386	37,386	1,159	1,159
Deposit payable for securities financing	41,308	41,308	1,280	1,280
Payables	74,777	74,777	2,317	2,317
 <u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options – futures	2,948	2,948	91	91
Margin for futures trading – own funds	399,094	399,094	12,367	12,367
Derivative financial instrument assets				
-GreTai (over-the-counter)	2,492	2,492	77	77
 <u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,430,545	1,430,545	44,330	44,330
Repurchase of issued call (put) warrants	(1,321,820)	(1,321,820)	(40,961)	(40,961)
Put options-futures	14,399	14,399	446	446

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b. Methods and assumptions for estimating the fair value of the financial instruments are as follows:

- (a) Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, securities refinancing margin deposits, receivable from refinance guaranty, security lending deposits, receivables, operating deposits, settlement and clearance funds, guarantee deposits paid, short-term loans, commercial paper payable, bonds sold under repurchase agreement, securities financing guarantee deposits-in, deposit payable for securities financing and payables.
- (b) Available-for-sale financial assets – current/noncurrent is estimated based on market prices, if available. If available-for-sale financial assets – current/noncurrent of Cathay Securities is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.
- (c) If no quoted market prices exist for Cathay Securities 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.
- (d) If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, Cathay Securities assesses fair value by using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value information of financial assets and liabilities as of June 30, 2009 and 2010:

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Item	June 30, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$39,531	\$1,206	\$-	\$-
Operating securities – net	1,839,037	56,120	-	-
Call options-futures	8,491	259	-	-
Margin for futures trading – own funds	225,994	6,896	-	-
Available-for-sale financial assets-current	276,668	8,443	-	-
Available-for-sale financial assets-noncurrent	18	1	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,241,390	37,882	-	-
Repurchase of issued call (put) warrants	(1,150,863)	(35,120)	-	-
Security leading payable-hedging	24,692	753	-	-
Put options-futures	10,447	319	-	-
Derivative financial instrument liabilities-GreTai (over-the-counter)	-	-	(503)	(15)
Other financial liabilities-current	-	-	90,238	2,754

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Item	June 30, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value				
through profit or loss – current				
Open-end funds and currency				
market instruments	\$58,433	\$1,811	\$-	\$-
Operating securities – net	1,205,899	37,370	-	-
Call options – future	2,948	91	-	-
Margin for futures trading – own				
funds	399,094	12,367	-	-
Derivative financial instrument				
assets-GreTai (over-the-counter)	-	-	2,492	77
Available-for-sale financial				
assets – current	422,708	13,099	-	-
Available-for-sale financial				
assets – noncurrent	18	1	-	-
<u>Liabilities</u>				
Financial liabilities at fair value				
through profit or loss – current				
Liabilities for issuance of call				
(put) warrants	1,430,545	44,330	-	-
Repurchase of issued call (put)				
warrants	(1,321,820)	(40,961)	-	-
Security lending payable-hedging	106,228	3,292	-	-
Security lending				
payable-non-hedging	158,560	4,914	-	-
Put options – futures	14,399	446	-	-

The above derivative financial instrument assets-GreTai (over-the-counter), derivative financial instrument liabilities-GreTai (over-the-counter) and other financial liabilities – current are valued using “Binomial Tree”, “Monte Carlo Simulations” and “Interest Method”.

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c. Financial risk management objectives and policies

(a) Market risk

Cathay Securities invests in equity securities that have active public market prices. When adverse market conditions exist, Cathay Securities is exposed to market risk as prices fluctuate. Although Cathay Securities controls and quantifies its market risk by establishing stop-loss limits and measuring Value-at-Risk, evaluating its risk utilizing historical prices and controls its overall investment portfolio, it is still exposed to market risk.

(b) Credit risk

In accordance with Cathay Securities' policy, credit evaluations are required for all credit transactions. Credit limits are established based on customers' credit ratings. Margin ratios are also evaluated continuously to control default risk.

The counterparties to Cathay Securities' other financial assets (including cash and cash equivalents and all other current and noncurrent investments) are all creditworthy and well-known financial institutions in the ROC. As a result, counterparty credit risk is relatively low.

(c) Liquidity risk

Cathay Securities believes its working capital is sufficient for its operations and that the risk of contract defaults resulting from a lack of capital is low.

The financial assets held by Cathay Securities all have active markets and can be sold at prices approximating fair values. As the result, Cathay Securities believes there is no significant cash flow risk.

(d) Cash flow risk from interest rate fluctuations

Cathay Securities currently has no exposure to floating interest rates related to financial assets or liabilities and thus Cathay Securities believes there is no significant cash flow risk from interest rate fluctuations.

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Cathay Securities also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 2 years, and as a result, the risk is relatively lower. In addition, Cathay Securities will take appropriate actions with respect to these certificates based on interest rate fluctuations.

d. Financial derivatives

(a) Issuance of call (put) warrants

Ⓐ Nominal principal or contract amount and credit risk

	June 30, 2009		June 30, 2010	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Issuance of call (put) warrants	NT\$1,347,750 (US\$41,128)	NT\$- (US\$-)	NT\$2,422,880 (US\$75,081)	NT\$- (US\$-)

Ⓑ Market risk

Market risk for call (put) warrants issued arises from changes in prices of the underlying securities. Although market risk can be avoided by adjusting Cathay Securities warrant and hedging positions, market risk still exist.

Ⓒ Risk from liquidity, cash flow risk and future cash requirements

When issuing call (put) warrants, the underlying securities and futures of the warrants held are all actively traded and it is expected that Cathay Securities can be sold in the open market at fair prices. As a result, there should not be significant liquidity risk. Risk from cash requirements results from the need to adjust hedge positions in response to changes in the prices of the underlying securities. Assuming favourable market liquidity, risk from cash requirements is relatively low.

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The call (put) warrants issued by Cathay Securities typically have contract periods of six to eight months starting from the date when the warrants are listed (OTC). Except for cash required for the related hedging transactions, there are no other cash requirements.

④Types, purposes, and strategies for financial derivatives

Cathay Securities' hedging positions are not held for trading purposes but instead, are held to minimize the risk of investors exercising warrants. Cathay Securities hedging strategy is focused on avoiding market price risks. The value of the underlying securities for hedging are highly correlated to the fair value of the issued call (put) warrants. Cathay Securities' hedging positions are evaluated and adjusted periodically.

⑤Financial statement presentation of derivative financial instruments

As of June 30, 2009 and 2010, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

Balance sheet

	June 30, 2009		June 30, 2010	
	Financial liabilities at fair value through profit or loss-current		Financial liabilities at fair value through profit or loss-current	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Liabilities for issuance of call (put) warrants	\$1,241,390	\$37,882	\$1,430,545	\$44,330
Repurchase of issued call (put) warrants	(1,150,863)	(35,120)	(1,321,820)	(40,961)
Total	\$90,527	\$2,762	\$108,725	\$3,369

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Statement of income

	For the six months ended		For the six months ended		Comments
	June 30, 2009		June 30, 2010		
	Profits or losses from issuing call (put) warrants				
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Liabilities for issuance of call (put) warrants	\$(2,081,465)	\$(63,517)	\$872,918	\$27,050	Fair value method
Repurchase of issued call (put) warrants					
- Loss on disposal	(2,096,364)	(63,972)	(1,345,894)	(41,707)	
- Gain (loss) from valuation	609,917	18,612	(618,382)	(19,163)	Fair value method
Gain from expiration of warrants issued	3,543,450	108,131	1,398,468	43,336	
Trading securities-hedging					
- Gain (loss) on disposal	\$65,341	\$1,994	\$(157,981)	\$(4,896)	
- Gain (loss) from valuation	5,147	157	(79,541)	(2,465)	Fair value method
Security lending payable-hedging					
- Loss on disposal	-	-	(4,128)	(128)	
- Gain from valuation	-	-	9,782	303	Fair value method
Futures transaction-hedging					
- Loss on disposal	-	-	(5,240)	(162)	
- Loss from valuation	-	-	(1,433)	(44)	Fair value method
Total	\$46,026	\$1,405	\$68,569	\$2,124	

(b) Structured notes transactions

Ⓐ Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2009		June 30, 2010	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Principal guaranteed notes	NT\$90,900 (US\$2,774)	NT\$- (US\$-)	NT\$- (US\$-)	NT\$- (US\$-)

Cathay Securities' credit risk arises from a breach of contract by counterparty. Cathay Securities believes it is not exposed to credit risk because contract amounts are collected in advance of structured notes being issued.

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ⓑ Market risk

In structured notes transactions, Cathay Securities receives proceeds from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range and as a result there is no significant market risk.

ⓒ Risk from liquidity, cash flow and future cash requirements

In structured notes transactions, Cathay Securities receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. In order to provide investors with the ability for early redemption, Cathay Securities considers liquidity risk when investing in fixed income securities. As a result, Cathay Securities does not expect any significant cash requirements at expiration of the contract.

ⓓ Types, purposes, and strategies for financial derivatives

The structured notes transactions of Cathay Securities can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. Proceeds received by investors consist of returns from the fixed income products and value of the options at expiration.

(c) Financial statement presentation of derivative financial instruments

As of June 30, 2009 and 2010, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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Balance sheet

	June 30, 2009		June 30, 2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Derivative financial instrument liabilities –				
GreTai (over-the-counter) (note)				
Structured notes transactions	\$ (503)	\$ (15)	\$ -	\$ -
Other financial liabilities – current				
Principal of structured notes	90,238	2,754	-	-

Note: Recorded as “Financial liabilities at fair value through profit or loss – current” in the balance sheet.

Statement of income

	For the six months ended June 30, 2009		For the six months ended June 30, 2010		Comments
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Loss from structured notes	\$(8,790)	\$(268)	\$-	\$-	Fair value method
Trading securities - hedging					
- Gain on disposal	7,443	227	-	-	
- Gain from valuation	(551)	(17)	-	-	Fair value method
Total	\$(1,898)	\$(58)	\$-	\$-	

e. Futures and options transactions

As of June 30, 2009 and 2010, Cathay Securities’ unexercised futures and options were as follows:

June 30, 2009

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Futures	STW	Sell	53	\$(39,933)	\$(1,219)	\$40,124	\$1,224
Futures	FITX	Sell	21	(26,911)	(821)	26,813	818
Futures	FIT5	Buy	16	7,080	216	7,136	218
Options	TXO-Put	Buy	25	24	1	8	-
Options	TXO-Call	Buy	410	1,951	60	481	15
Options	TXO-Put	Sell	696	(3,132)	(96)	702	21

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Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Options	TXO-Call	Sell	307	\$(1,304)	\$(40)	\$1,727	\$53
Options	GTO-Put	Sell	3,000	(15)	-	15	-
Options	Equity options-Call	Buy	4,216	134	4	7,579	231
Options	Equity options-Call	Sell	4,216	(114)	(3)	7,579	231
Options	Equity options-Put	Buy	1,986	40	1	230	7
Options	Equity options-Put	Sell	1,986	(40)	(1)	230	7
Options	TFO-Put	Sell	1	(1)	-	1	-
Options	XIO-Put	Buy	495	2	-	193	6
Options	XIO-Put	Sell	495	(2)	-	193	6

June 30, 2010

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	STW	Buy	11	\$8,923	\$277	\$8,928	\$277
Futures	MTX	Buy	1	375	12	350	11
Futures	TX	Sell	56	(81,450)	(2,524)	80,069	2,481
Futures	TF	Sell	15	(12,078)	(374)	11,826	366
Futures	Single stock Futures	Buy	44	4,407	137	4,444	138
Futures	TX	Buy	79	113,524	3,518	110,218	3,415
Options	TXO- Put	Buy	341	2,527	78	1,719	53
Options	TXO- Call	Buy	797	3,346	104	1,229	38
Options	TXO- Put	Sell	984	(13,155)	(408)	12,324	382
Options	TXO- Call	Sell	853	(6,774)	(210)	2,075	64

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(a) Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2009	
	Nominal principal/ contract amount	Credit risk
STW futures	NT\$39,933 (US\$1,219)	NT\$- (US\$-)
FITX	NT\$26,911 (US\$821)	NT\$- (US\$-)
FIT5	NT\$7,080 (US\$216)	NT\$- (US\$-)
TXO	NT\$6,411 (US\$196)	NT\$- (US\$-)
GTO	NT\$15 (US\$-)	NT\$- (US\$-)
Equity options	NT\$328 (US\$10)	NT\$- (US\$-)
TFO	NT\$1 (US\$-)	NT\$- (US\$-)
XIO	NT\$4 (US\$-)	NT\$- (US\$-)

Financial instruments	June 30, 2010	
	Nominal principal/ contract amount	Credit risk
STW futures	NT\$8,923 (US\$277)	NT\$- (US\$-)
MTX	NT\$375 (US\$12)	NT\$- (US\$-)
TF futures	NT\$12,078 (US\$374)	NT\$- (US\$-)
TX futures	NT\$194,974 (US\$6,042)	NT\$- (US\$-)
Single stock futures	NT\$4,407 (US\$137)	NT\$- (US\$-)
TXO	NT\$25,802 (US\$800)	NT\$- (US\$-)

Cathay Securities believes it has no significant credit risk exposure since it has entered into futures trading transactions with futures agencies, and the risk of default is low.

(b) Market risk

Cathay Securities' market risk from futures and options transactions arises from the purchase and sell of futures and options and the volatility of assets. Since the fair values of futures and options are available and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range. However, market risk still exists.

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(c) Risk from liquidity, cash flow, and future cash requirements

Cathay Securities' unexercised futures and options could all be liquidated at reasonable prices in the market. As a result, Cathay Securities believes liquidity risk is low.

Cathay Securities' trading in futures transactions requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, Cathay Securities has sufficient working capital to meet its requirements, and hence Cathay Securities believes funding risk and cash flow risk are low. With respect to Cathay Securities' trading in options, prior to any transaction Cathay Securities pays or receives option premium. If Cathay Securities sells call options and the counterparty exercises its option, Cathay Securities has sufficient working capital to cover the exercise and hence Cathay Securities believes funding risk and cash flow risk are low.

(d) Types, purposes, and strategies for financial derivatives

Cathay Securities purpose in trading futures and options is to increase the scope of its investment activities and improve its capital efficiency.

(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current (margin for futures trading – own funds) on the balance sheet. For the six months ended June 30, 2009 and 2010, the related gain (loss) of futures and options on the statement of income were as follows:

	For the six months ended June 30, 2009		For the six months ended June 30, 2010	
	NT\$	US\$	NT\$	US\$
Gain from derivative financial instruments – futures				
Non-hedging				
Gain on futures contracts - realized	\$45,342	\$1,383	\$30,228	\$937
Gain on futures contracts - unrealized	21,659	661	2,616	81
Gain from options transactions - realized	9,234	282	5,024	155
Gain from options transactions - unrealized	24,248	740	27,101	840
Subtotal	<u>100,483</u>	<u>3,066</u>	<u>64,969</u>	<u>2,013</u>
Hedging				
Gain on futures contracts - realized	-	-	288	9
Total	<u>\$100,483</u>	<u>\$3,066</u>	<u>\$65,257</u>	<u>\$2,022</u>

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	For the six months ended June 30, 2009		For the six months ended June 30, 2010	
	NT\$	US\$	NT\$	US\$
Loss from derivative financial instruments – futures				
Non-hedging				
Loss on futures contracts - realized	\$60,451	\$1,845	\$17,162	\$532
Loss on futures contracts - unrealized	21,662	661	31,844	987
Loss from options transactions - realized	40,869	1,247	16,244	503
Loss from options transactions - unrealized	23,786	726	508	16
Subtotal	146,768	4,479	65,758	2,038
Hedging				
Loss on futures contracts - realized	-	-	5,528	171
Loss on futures contracts - unrealized	-	-	1,433	45
Subtotal	-	-	6,961	216
Total	\$146,768	\$4,479	\$72,719	\$2,254

F. Cathay Pacific Venture

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$21,601	\$21,601	\$659	\$659
Available-for-sale financial assets-current	200,352	200,352	6,114	6,114
Receivables-net	3,000	3,000	92	92
Other receivables	4,236	4,236	129	129
Investment under equity method	241,229	241,229	7,361	7,361
Available-for-sale financial assets-noncurrent	16,245	16,245	496	496
Investment in debt securities with no active market-noncurrent	34,000	-	1,038	-
Financial assets carried at cost-noncurrent	1,332,614	-	40,666	-
<u>Liabilities</u>				
Accrued expenses	1,604	1,604	49	49
Other payables	11,647	11,647	355	355

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Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,132	\$3,132	\$97	\$97
Financial assets at fair value through profit or loss	10,030	10,030	311	311
Available-for-sale financial assets-current	262,431	262,431	8,132	8,132
Other receivables	7,823	7,823	242	242
Investment under equity method	250,341	250,341	7,758	7,758
Available-for-sale financial assets-noncurrent	93,038	93,038	2,883	2,883
Investment in debt securities with no active market-noncurrent	34,000	-	1,054	-
Financial assets carried at cost-noncurrent	1,229,057	-	38,087	-
<u>Liabilities</u>				
Accrued expenses	342	342	11	11
Other payables	516	516	16	16

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

(a) The fair value of Cathay Pacific Venture short-term financial instruments is assumed to approximate the carrying amount at reporting date due to the short maturity of those instruments. This assumption is applied to cash and cash equivalents, receivables and payables.

(b) Quoted market prices, if available, are used to determine the fair values of available-for-sale financial assets.

(c) If no quoted market prices exist for Cathay Pacific Venture's investment under equity method, then their fair value is taken as approximating their carry amounts when no permanent market value decline exists.

(d) Financial assets carried at cost are unlisted stock. Since these stocks have no quoted market prices in an active market and their fair value cannot be reliably measured, their fair values are not disclosed.

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c. The following table summarizes the basis of determining fair value of financial assets and liabilities as of June 30, 2009 and 2010:

Item	June 30, 2009			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$21,601	\$659	\$-	\$-
Available-for-sale financial assets-current	200,352	6,114	-	-
Receivables-net	-	-	3,000	92
Other receivable	-	-	4,236	129
Investment under equity method	-	-	241,229	7,361
Financial assets carried at cost-noncurrent	-	-	1,332,614	40,666
Available-for-sale financial assets-noncurrent	16,245	496	-	-
Investment in debt securities with no active market-noncurrent	-	-	34,000	1,038
<u>Liabilities</u>				
Accrued expense	-	-	1,604	49
Other payables	-	-	11,647	355
Item	June 30, 2010			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,132	\$97	\$-	\$-
Financial assets at fair value through profit or loss	10,030	311	-	-
Available-for-sale financial assets-current	262,431	8,132	-	-
Other receivable	-	-	7,823	242
Investment under equity method	-	-	250,341	7,758
Available-for-sale financial assets-noncurrent	93,038	2,883	-	-
Financial assets carried at cost-noncurrent	-	-	1,229,057	38,087
Investment in debt securities with no active market	-	-	34,000	1,054
<u>Liabilities</u>				
Accrued expense	-	-	342	11
Other payables	-	-	516	16

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d. Information on financial risk

(a) Market risk

Market risk is the exposure to potential loss arising from adverse movements of market price, such as interest rates or foreign exchange rates. Cathay Pacific Venture assesses the impact of market risk on financial assets and liabilities to be limited.

(b) Credit risk

A credit risk is the risk of loss arising from counterparty or a debtor defaulting on their contractual obligations. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, and the price of contract and other receivable of financial instruments. Cathay Pacific Venture believes the maximum credit exposure amount of financial instruments is equal to their carrying values.

(c) Liquidity risk and cash flow risk

Cathay Pacific Venture has sufficient working capital for its operation therefore there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital. In addition, except for the financial assets carried at cost (unquoted equity securities) which may be exposed to significant liquidity risks due to lack of active market, all other stocks Cathay Pacific held are able to be disposed rapidly at prices close to fair values.

G. Cathay Futures

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$248,289	\$248,289	\$7,577	\$7,577
Customers' margin accounts	1,394,153	1,394,153	42,544	42,544

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Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Futures trading deposits receivable	\$172	\$172	\$5	\$5
Accounts receivable-related parties	318	318	10	10
Other receivable (contain transactions with related parties)	8,313	8,313	254	254
Available-for-sale financial assets-noncurrent	30,500	30,500	931	931
Operating deposits	60,000	60,000	1,831	1,831
Settlement and clearance funds	73,000	73,000	2,228	2,228
Guarantee deposits paid	1,281	1,281	39	39
<u>Liabilities</u>				
Futures customers' equity	1,393,628	1,393,628	45,528	45,528
Payables (contain transactions with related parties)	6,457	6,457	197	197
Accounts collected in advance	122	122	4	4
Custody receipts	331	331	10	10
Other payable (contain transactions with related parties)	3,138	3,138	96	96
Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$261,595	\$261,595	\$8,106	\$8,106
Customers' margin accounts	1,384,605	1,384,605	42,907	42,907
Accounts receivable-related parties	45	45	1	1
Other receivable (contain transactions with related parties)	7,138	7,138	221	221
Available-for-sale financial assets-noncurrent	30,500	30,500	945	945
Operating deposits	60,000	60,000	1,859	1,859
Settlement and clearance funds	73,000	73,000	2,262	2,262
Guarantee deposits paid	1,287	1,287	40	40

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Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Futures customers' equity	\$1,383,721	\$1,383,721	\$42,879	\$42,879
Payables (contain transactions with related parties)	4,861	4,861	151	151
Advance receipts	1,832	1,832	57	57
Custody receipts	354	354	11	11
Other payable (contain transactions with related parties)	2,741	2,741	85	85

b. Methods and assumptions applied in estimating the fair value of financial instruments are as follows:

- (a) The carrying amounts of the financial instruments such as cash and cash equivalents, customers' margin accounts, accounts receivable-related parties, other receivables, operation deposits, settlement and clearance funds, guarantee deposits paid, futures customers' equity, payables, advance receipts, custody receipts and other payables, approximate their fair values due to the short maturities of these instruments.
- (b) The fair value of available-for-sale financial assets-noncurrent is valued at market price or other financial information when available.
- (c) The fair value of financial assets and financial liabilities is determined using pricing models.

c. Information on financial risk

(a) Market risk

The fair values of the shares on listed companies or derivative instruments held by Cathay Futures will fluctuate under the influence of the related stock market factors.

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(b) Credit risk

Appropriate credit evaluation processes and continuous monitor of credit-lines are in place for all customers of the brokerage department. In addition, all transactions conducted by proprietary trading department go through Taiwan Futures Exchange and therefore no significant credit risk is expected.

(c) Liquidity risk and cash flow risk

Cathay Futures has sufficient working capital for its operation and there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital. In addition, except for the financial assets carried at cost which are exposed to significant liquidity risks due to lack of active market, all other stocks Cathay Futures held are able to be disposed rapidly at prices close to fair values.

H. Symphox Information

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$180,435	\$180,435	\$5,506	\$5,506
Financial assets at fair value through profit or loss-current	402,521	402,521	12,283	12,283
Receivables (contain transactions with related parties)	117,174	117,174	3,576	3,576
Guarantee deposits paid	9,592	9,592	293	293
<u>Liabilities</u>				
Payables (contain transactions with related parties)	111,449	111,449	3,401	3,401
Guarantee deposits in	80	80	2	2

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Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$186,139	\$186,139	\$5,768	\$5,768
Financial assets at fair value through profit or loss-current	453,634	453,634	14,057	14,057
Receivables (contain transactions with related parties)	160,846	160,846	4,984	4,984
Guarantee deposits paid	9,144	9,144	283	283
<u>Liabilities</u>				
Payables (contain transactions with related parties)	164,780	164,780	5,106	5,106
Guarantee deposits in	64	64	2	2

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

- (a) The fair value of Symphox Information short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, financial assets at fair value through profit or loss-current, receivables and payables.
 - (b) The fair value of the guarantee deposits paid and guarantee deposits in also approximates the carrying amount.
- c. The fair value of Symphox Information financial assets or liabilities determined by quoted market price or pricing models is summarized as following:

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Item	June 30, 2009			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$402,521	\$12,283	\$-	\$-
Item	June 30, 2010			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$453,634	\$14,057	\$-	\$-

I. Cathay Life (China)

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,636,240	\$3,636,240	\$110,962	\$110,962
Premiums receivables	30,395	30,395	928	928
Financial assets at fair value through profit or loss-current	20,232	20,232	617	617
Available-for-sale financial assets-current	446,613	446,613	13,629	13,629
Available-for-sale financial assets-noncurrent	3,286,268	3,286,268	100,283	100,283
Held-to-maturity financial assets-noncurrent	432,228	432,228	13,190	13,190
Investment in debt securities with no active market-noncurrent	1,367,310	1,367,310	41,724	41,724
Guarantee deposits paid	791,714	791,714	24,160	24,160

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Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities</u>				
Short-term borrowing	\$319,466	\$319,466	\$9,749	\$9,749
Payables	406,638	406,638	12,409	12,409
Guarantee deposits in	7,341	7,341	224	224
Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,030,627	\$4,030,627	\$124,903	\$124,903
Premiums receivables	44,444	44,444	1,377	1,377
Financial assets at fair value through profit or loss-current	20,232	20,232	627	627
Available-for-sale financial assets-current	446,428	446,428	13,834	13,834
Available-for-sale financial assets-noncurrent	3,898,765	3,898,765	120,817	120,817
Investment in debt securities with no active market-noncurrent	1,177,408	1,177,408	36,486	36,486
Guarantee deposits paid	799,057	799,057	24,762	24,762
<u>Liabilities</u>				
Short-term borrowing	28,558	28,558	885	885
Payables	337,366	337,366	10,454	10,454
Guarantee deposits in	8,430	8,430	261	261

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

- (a) The fair value of Cathay Life (China) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, premiums receivables, short-term borrowing and payables.

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- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However, fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Life (China). Cathay Life (China) 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.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.
- c. The fair value of the Cathay life (China) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	June 30,							
	2009				2010			
	Based on the quoted		Based on pricing		Based on the quoted		Based on pricing	
	market price		models		market price		models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents	\$3,636,240	\$110,962	\$-	\$-	\$4,030,627	\$124,903	\$-	\$-
Financial assets at fair value								
through profit or loss-current	20,232	617	-	-	20,232	627	-	-
Available-for-sale financial								
assets-current	446,613	13,629	-	-	446,428	13,834	-	-
Available-for-sale financial								
assets-noncurrent	197,927	6,040	3,088,341	94,243	507,265	15,719	3,391,500	105,098
Held-to-maturity financial								
assets-noncurrent	-	-	432,228	13,190	-	-	-	-
Investment in debt securities								
with no active market-								
noncurrent	-	-	1,367,310	41,724	-	-	1,177,408	36,486

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J. Cathay Life (Vietnam)

a. Information of fair value

Item	June 30, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$315,432	\$315,432	\$9,626	\$9,626
Receivables	11,316	11,316	345	345
Available-for-sale financial assets-noncurrent	1,631,608	1,631,608	49,790	49,790
Guarantee deposits paid	50,383	50,383	1,537	1,537
<u>Liabilities</u>				
Payables	16,318	16,318	498	498

Item	June 30, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$205,986	\$205,986	\$6,383	\$6,383
Receivables	129,309	129,309	4,007	4,007
Available-for-sale financial assets-current	82,676	82,676	2,562	2,562
Available-for-sale financial assets-noncurrent	1,351,708	1,351,708	41,887	41,887
Guarantee deposits paid	48,869	48,869	1,514	1,514
<u>Liabilities</u>				
Payables	25,828	25,828	800	800

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

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- (a) The fair value of Cathay Life (Vietnam) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents and receivables (payables).
- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However, fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Life (Vietnam). Cathay Life (Vietnam) 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.
- (c) The fair value of the guarantee deposits paid approximates their carrying amount.
- c. The fair value of the Cathay Life (Vietnam) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	June 30,							
	2009				2010			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents	\$315,432	\$9,626	\$-	\$-	\$205,986	\$6,383	\$-	\$-
Receivables	11,316	345	-	-	129,309	4,007	-	-
Available-for-sale financial assets-current	-	-	-	-	-	-	82,676	2,562
Available-for-sale financial assets-noncurrent	-	-	1,631,608	49,790	-	-	1,351,708	41,887
<u>Liabilities</u>								
Payables	16,318	498	-	-	25,828	800	-	-

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K. Cathay Century (China)

a. Information of fair value

Item	June 30,2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,396,982	\$1,396,982	\$42,630	\$42,630
Receivables-net	63,757	63,757	1,946	1,946
Prepaid reinsurance premiums ceded	30,222	30,222	922	922
Claims recoverable from reinsurers	9,910	9,910	302	302
Due from reinsurers and ceding companies	2,213	2,213	68	68
Guarantee deposits paid	390,712	390,712	11,923	11,923
<u>Liabilities</u>				
Due to reinsurers and ceding companies	8,872	8,872	271	271
Account payable-reinsurance	9,948	9,948	304	304
Operating and liabilities reserve	52,946	52,946	1,616	1,616
Item	June 30,2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,161,177	\$1,161,177	\$35,983	\$35,983
Receivables-net	61,500	61,500	1,906	1,906
Prepaid reinsurance premiums ceded	35,664	35,664	1,105	1,105
Claims recoverable from reinsurers	197,259	197,259	6,113	6,113
Due from reinsurers and ceding companies	2,379	2,379	74	74
Guarantee deposits paid	391,403	391,403	12,129	12,129
<u>Liabilities</u>				
Due to reinsurers and ceding companies	84	84	3	3
Account payable-reinsurance	8,807	8,807	273	273
Operating and liabilities reserve	364,475	364,475	11,295	11,295

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- b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:
- (a) The fair value of Cathay Century (China) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.
 - (b) Quoted market price, if available, is utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century (China) held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Century (China) 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.
 - (c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.
 - (d) The fair value of the Cathay Century (China) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	June 30,							
	2009				2010			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value								
through profit or loss-current	\$-	\$-	\$-	\$-	\$122,096	\$3,784	\$-	\$-
Available-for-sale financial assets-noncurrent	-	-	-	-	25,041	776	-	-

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(3) Discretionary account management for Cathay Life and Cathay Century

Item	June 30, 2009			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$3,854,555	\$117,625	\$3,854,555	\$117,625
Repurchase bonds	5,384,078	164,299	5,384,078	164,299
Cash in banks	926,816	28,282	926,816	28,282
Net other assets less liabilities	1,161	35	1,161	35
Total	<u>\$10,166,610</u>	<u>\$310,241</u>	<u>\$10,166,610</u>	<u>\$310,241</u>

Item	June 30, 2010			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$4,849,294	\$150,272	\$4,849,294	\$150,272
Repurchase bonds	4,303,351	133,355	4,303,351	133,355
Cash in banks	702,423	21,767	702,423	21,767
Net other assets less liabilities	23,991	743	23,991	743
Beneficiary certificate	13,641	423	13,641	423
Futures and options	12,393	384	12,393	384
Total	<u>\$9,905,093</u>	<u>\$306,944</u>	<u>\$9,905,093</u>	<u>\$306,944</u>

As of June 30, 2009 and 2010, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$9,900,000 (US\$302,106) thousands, and NT\$8,900,000 (US\$275,798) thousands, respectively.

(5) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please refer Note 26 (business with stakeholders) for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other diversified financial institutions, the Company has become a full-functioning financial platform. Through the branches and professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

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C. Cross utilization of information:

With respect to customers' confidentiality, the Company FHC has established related regulations to ensure the safety and confidentiality of customer information.

D. Locations and business utilities:

The Company has established national presence to provide customers with one-stop services not only in insurance but also in banking and securities services. Since July 2002, The Company has built up four flagship stores of wealth management in Taipei, Taichung and Kaohsiung.

E. Allocation on revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrate business activities between the subsidiaries are allocated to each subsidiary based on the related business features.

(6) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the six months ended June 30, 2009 have been reclassified in order to be comparable with those in the consolidated financial statements for the six months ended June 30, 2010.

33. Information regarding investment in Mainland China

(1) On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life 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 China. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004. As of June 30, 2010, Cathay Life's remittances to this company totaled approximately US\$48,330 thousands.

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- (2) On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay life 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 Cathay life to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. As of June 30, 2010, Cathay life's remittances to this general insurance company totaled approximately US\$28,140 thousands.
- (3) On June 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to remit US\$28,960 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life.) Cathay Century has received approved from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. Cathay Century and Cathay Life Insurance subsidiary, Cathay Century (China) has acquired a business license of an enterprise as legal person on August 26, 2008. As of June 30, 2010, Cathay Century's remittances to this company totaled approximately US\$27,820 thousands.

34. Segment information

For the six months ended June 30, 2009

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other divisions (NT\$)	Reconciliation (NT\$)	Total (NT\$)
Net interest income	\$7,347,474	\$37,738,051	\$223,562	\$29,776	\$(32,006)	\$(263,401)	\$45,043,456
Non income other than interest	5,258,364	95,420,629	2,069,682	311,590	5,718,001	(7,367,315)	101,410,951
Total income	12,605,838	133,158,680	2,293,244	341,366	5,685,995	(7,630,716)	146,454,407
Bad debt expenses	(288,346)	-	-	-	-	-	(288,346)
Provision for premiums reserve	-	(112,008,821)	(302,198)	-	-	(2,974)	(112,313,993)
Operating expenses	(6,820,257)	(19,410,704)	(1,339,112)	(250,057)	(422,055)	2,087,827	(26,154,358)
Income from continuing operations before income taxes	5,497,235	1,739,155	651,934	91,309	5,263,940	(5,545,863)	7,697,710
Income taxes (expense) benefit	(1,192,419)	(880,984)	(192,227)	(8,314)	(39,485)	-	(2,313,429)
Consolidated income	4,304,816	858,171	459,707	82,995	5,224,455	(5,545,863)	5,384,281

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(Expressed in thousand of dollars except for share and per share date and unless otherwise stated)

For the six months ended June 30, 2009

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Other divisions (US\$)	Reconciliation (US\$)	Total (US\$)
Net interest income	\$224,213	\$1,151,604	\$6,822	\$909	\$(977)	\$(8,038)	\$1,374,533
Non income other than interest	160,463	2,911,829	63,158	9,508	174,489	(224,819)	3,094,628
Total income	384,676	4,063,433	69,980	10,417	173,512	(232,857)	4,469,161
Bad debt expenses	(8,799)	-	-	-	-	-	(8,799)
Provision for premiums reserve	-	(3,418,029)	(9,222)	-	-	(91)	(3,427,342)
Operating expenses	(208,125)	(592,332)	(40,864)	(7,631)	(12,879)	63,712	(798,119)
Income from continuing operations before income taxes	167,752	53,072	19,894	2,786	160,633	(169,236)	234,901
Income taxes (expense) benefit	(36,387)	(26,884)	(5,866)	(254)	(1,205)	-	(70,596)
Consolidated income	131,365	26,188	14,028	2,532	159,428	(169,236)	164,305

For the six months ended June 30, 2010

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other divisions (NT\$)	Reconciliation (NT\$)	Total (NT\$)
Net interest income	\$7,435,621	\$37,729,360	\$172,486	\$62,282	\$(147,652)	\$(404,151)	\$44,847,946
Non income other than interest	6,903,063	144,534,754	1,717,578	333,979	147,027	(1,101,110)	152,535,291
Total income	14,338,684	182,264,114	1,890,064	396,261	(625)	(1,505,261)	197,383,237
Bad debt expenses	(925)	-	(10,618)	-	-	-	(11,543)
Provision for premiums reserve	-	(170,497,578)	(185,415)	-	-	(128,067)	(170,811,060)
Operating expenses	(7,155,632)	(20,106,094)	(1,535,932)	(284,050)	(435,421)	2,071,136	(27,445,993)
Income from continuing operations before income taxes	7,182,127	(8,339,558)	158,099	112,211	(436,046)	437,808	(885,359)
Income taxes (expense) benefit	(614,715)	886,125	(61,575)	22,989	(429,299)	-	(196,475)
Consolidated income	6,567,412	(7,453,433)	96,524	135,200	(865,345)	437,808	(1,081,834)

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(Expressed in thousand of dollars except for share and per share date and unless otherwise stated)

For the six months ended June 30, 2010

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Other divisions (US\$)	Reconciliation (US\$)	Total (US\$)
Net interest income	\$230,419	\$1,169,178	\$5,345	\$1,930	\$(4,576)	\$(12,524)	\$1,389,772
Non income other than interest	213,916	4,478,920	53,225	10,350	4,556	(34,122)	4,726,845
Total income	444,335	5,648,098	58,570	12,280	(20)	(46,646)	6,116,617
Bad debt expenses	(29)	-	(329)	-	-	-	(358)
Provision for premiums reserve	-	(5,283,470)	(5,746)	-	-	(3,968)	(5,293,184)
Operating expenses	(221,743)	(623,058)	(47,596)	(8,802)	(13,493)	64,181	(850,511)
Income from continuing operations before income taxes	222,563	(258,430)	4,899	3,478	(13,513)	13,567	(27,436)
Income taxes (expense) benefit	(19,049)	27,460	(1,908)	712	(13,303)	-	(6,088)
Consolidated income	203,514	(230,970)	2,991	4,190	(26,816)	13,567	(33,524)

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35. Parent Company financial statements

**Cathay Financial Holding Co., Ltd.
Audited Balance sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

	June 30, 2009		June 30, 2010	
	NT \$	US \$	NT \$	US \$
Assets				
Cash and cash equivalents	\$2,747,501	\$83,842	\$20,515,450	\$635,744
Receivables -net	5,185,892	158,251	6,747,456	209,094
Held-to-maturity financial assets	15,000,000	457,736	25,000,000	774,713
Investments under equity method	186,705,398	5,697,449	192,881,665	5,977,120
Other financial assets -net	31,720	968	31,720	983
Property and equipment -net	4,293	131	3,896	120
Goodwill and intangible assets -net	267	8	154	5
Other assets -net	2,369,657	72,312	1,984,085	61,484
Total assets	\$212,044,728	\$6,470,697	\$247,164,426	\$7,659,263
Liabilities & stockholders' equity				
Payables	7,503,673	228,980	14,465,121	448,253
Bonds payable	20,000,000	610,315	40,000,000	1,239,541
Other payable	24,782	756	31,112	964
Total liabilities	27,528,455	840,051	54,496,233	1,688,758
Stockholders' equity				
Capital stock				
Common stock	97,375,372	2,971,479	96,708,774	2,996,863
Stock dividends to be distributed	-	-	4,835,439	149,843
Capital surplus	81,703,998	2,493,256	78,508,148	2,432,852
Retained earnings				
Legal reserve	12,540,295	382,676	13,645,400	422,851
Special reserve	7,107,732	216,898	-	-
Unappropriated retained earnings	5,464,930	166,766	6,141,481	190,316
Equity adjustments				
Reserve for land revaluation increment	2,106	64	1,461	45
Cumulative conversion adjustments	198,129	6,046	17,236	534
Unrealized gains or losses on financial instruments	(15,465,555)	(471,942)	(7,182,955)	(222,589)
Treasury stock	(4,140,047)	(126,337)	-	-
Net loss not yet recognized as net pension cost	(270,687)	(8,260)	(6,791)	(210)
Total stockholders' equity	184,516,273	5,630,646	192,668,193	5,970,505
Total liabilities and stockholders' equity	\$212,044,728	\$6,470,697	\$247,164,426	\$7,659,263

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Cathay Financial Holding Co., Ltd.

Audited Statements of Income

For the six-month periods ended June 30, 2009 and 2010

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

	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010					
	NT \$	US \$	NT \$	US \$				
Income								
Gain on investment-equity method	\$5,656,560	\$172,614	\$-	\$-				
Gain on foreign exchange	15	1	2	-				
Other operating income	1,447	44	7,262	225				
Total income	5,658,022	172,659	7,264	225				
Expenses and loss								
Interest income	265,487	8,102	419,882	13,011				
Less: interest expenses	(307,465)	(9,383)	(574,903)	(17,815)				
Net interest income	(41,978)	(1,281)	(155,021)	(4,804)				
Loss on investment-equity method	-	-	(248,694)	(7,707)				
Operating expenses	(124,362)	(3,795)	(152,004)	(4,710)				
Income (loss) from continuing operations before income taxes	5,491,682	167,583	(548,455)	(16,996)				
Income taxes expense	(26,752)	(817)	(425,655)	(13,190)				
Net income (loss)	\$5,464,930	\$166,766	\$(974,110)	\$(30,186)				
Earnings per share (expressed in dollars)								
Primary earnings per share:	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Net income	\$0.54	\$0.54	\$0.02	\$0.02	\$(0.05)	\$(0.10)	\$-	\$-

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Cathay Financial Holding Co., Ltd.

Audited Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2009 and 2010

(Expressed in thousands of dollars)

Summary	Retained earnings												Other stockholders' equity												
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost		Total		
	NT \$	US \$	NT \$	US \$	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	\$97,375,372	\$2,971,479	\$-	\$-	\$81,971,213	\$2,501,411	\$12,320,672	\$375,974	\$-	\$-	\$7,060,140	\$215,445	\$2,106	\$64	\$344,257	\$10,505	\$(52,309,533)	\$(1,596,263)	\$(4,140,047)	\$(126,337)	\$(270,687)	\$(8,260)	\$142,353,493	\$4,344,018	
Appropriations and distribution for 2008																									
Legal reserve							219,623	6,702			(219,623)	(6,702)												-	-
Special reserve					(267,215)	(8,155)			7,107,732	216,898	(6,840,517)	(208,743)												-	-
Cumulative conversion adjustments															(146,128)	(4,459)								(146,128)	(4,459)
Unrealized gains or losses of financial instruments																	36,843,978	1,124,321						36,843,978	1,124,321
Net income for the six-month period ended June 30, 2009											5,464,930	166,766												5,464,930	166,766
Balance on June 30, 2009	\$97,375,372	\$2,971,479	\$-	\$-	\$81,703,998	\$2,493,256	\$12,540,295	\$382,676	\$7,107,732	\$216,898	\$5,464,930	\$166,766	\$2,106	\$64	\$198,129	\$6,046	\$(15,465,555)	\$(471,942)	\$(4,140,047)	\$(126,337)	\$(270,687)	\$(8,260)	\$184,516,273	\$5,630,646	
Balance on January 1, 2010	\$96,708,774	\$2,996,863	\$-	\$-	\$78,240,933	\$2,424,572	\$12,540,295	\$388,605	\$7,107,732	\$220,258	\$11,051,057	\$342,456	\$1,461	\$45	\$4,444	\$138	\$6,547,332	\$202,892	\$-	\$-	\$(6,791)	\$(210)	\$212,195,237	\$6,575,619	
Appropriations and distribution for 2009																									
Legal reserve							1,105,105	34,246			(1,105,105)	(34,246)												-	-
Special reserve					267,215	8,280			(7,107,732)	(220,258)	6,840,517	211,978												-	-
Cash dividends											(4,835,439)	(149,843)												(4,835,439)	(149,843)
Stock dividend to be distributed			4,835,439	149,843							(4,835,439)	(149,843)												-	-
Cumulative conversion adjustments															12,792	396								12,792	396
Unrealized gains or losses of financial instruments																	(13,730,287)	(425,481)						(13,730,287)	(425,481)
Net loss for the six-month period ended June 30, 2010											(974,110)	(30,186)												(974,110)	(30,186)
Balance on June 30, 2010	\$96,708,774	\$2,996,863	\$4,835,439	\$149,843	\$78,508,148	\$2,432,852	\$13,645,400	\$422,851	\$-	\$-	\$6,141,481	\$190,316	\$1,461	\$45	\$17,236	\$534	\$(7,182,955)	\$(222,589)	\$-	\$-	\$(6,791)	\$(210)	\$192,668,193	\$5,970,505	

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Cathay Financial Holding Co., Ltd.

Audited Statements of cash flows

For the six-month periods ended June 30, 2009 and 2010

(Expressed in thousands of dollars)

	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Net income (loss)	\$5,464,930	\$166,766	\$(974,110)	\$(30,186)
Adjustments:				
Amortizations	267	8	31	1
Depreciation	505	15	458	14
Losses on disposal of property and equipment	-	-	10	-
Investment income recognized by equity method (more) less than cash dividends received	(5,604,360)	(171,021)	9,652,033	299,102
Effects of exchange rate changes	(15)	-	(2)	-
Changes in operating assets and liabilities				
Increase in accounts receivable	(1,108,651)	(33,831)	(82,452)	(2,555)
(Increase) decrease in deferred income tax assets	(130,699)	(3,988)	325,972	10,101
Increase in other assets	(1)	-	(96)	(2)
Increase in accounts payable	1,291,291	39,405	484,931	15,027
Increase in income tax payable	204	6	293,189	9,086
Decrease in deferred income tax liabilities	(1)	-	(1)	-
Increase in other liabilities	1,685	51	3,807	118
Net cash (used in) provided by operating activities	(84,845)	(2,589)	9,703,770	300,706
Cash flows from investing activities				
Acquisition of property and equipment	(332)	(10)	(341)	(11)
Acquisition of intangible assets	-	-	(185)	(6)
Increase in refundable deposit	(24)	(1)	(271)	(8)
Net cash used in investing activities	(356)	(11)	(797)	(25)
Cash flows from financing activities				
Cash received from capital reduction in long-term stock investment	533,301	16,274	-	-
Net cash provided by financing activities	533,301	16,274	-	-
Effects of exchange rate changes	15	1	2	-
Increase in cash and cash equivalents	448,115	13,675	9,702,975	300,681
Cash and cash equivalents at the beginning of year	2,299,386	70,167	10,812,475	335,063
Cash and cash equivalents at the end of year	\$2,747,501	\$83,842	\$20,515,450	\$635,744
Supplemental disclosure of cash flows information				
Interest paid during the period	\$899	\$27	\$4,629	\$143
Income tax paid	\$142	\$4	\$5,062	\$157

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36.The major subsidiaries' condensed balance sheets and statements of income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Item	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$566,687,257	\$17,292,867	\$815,269,721	\$25,264,014
Loans	525,623,313	16,039,771	491,125,209	15,219,251
Funds and investments	1,176,081,374	35,888,965	1,307,157,052	40,506,881
Property and equipment	12,833,552	391,625	12,253,382	379,714
Intangible assets	775,080	23,652	500,454	15,508
Other assets	259,567,100	7,920,876	270,261,315	8,375,002
Total assets	\$2,541,567,676	\$77,557,756	\$2,896,567,133	\$89,760,370
Liabilities				
Current liabilities	\$18,868,991	\$575,801	\$46,453,937	\$1,439,540
Long-term liabilities	16,839,298	513,863	26,365,435	817,026
Other liabilities	2,415,700,974	73,716,844	2,730,941,293	84,627,868
Total liabilities	2,451,409,263	74,806,508	2,803,760,665	86,884,434
Stockholders' equity				
Capital stock	52,686,158	1,607,756	53,065,274	1,644,415
Capital surplus	13,009,648	396,999	13,009,649	403,150
Retained earnings	41,777,505	1,274,870	35,476,788	1,099,374
Others	(17,314,898)	(528,377)	(8,745,243)	(271,003)
Total stockholders' equity	90,158,413	2,751,248	92,806,468	2,875,936
Total liabilities and stockholders' equity	\$2,541,567,676	\$77,557,756	\$2,896,567,133	\$89,760,370

**Cathay Life Insurance Co., Ltd.
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earnings per share)**

Item	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$414,942,483	\$12,662,267	\$505,145,651	\$15,653,723
Operating costs	(408,234,578)	(12,457,571)	(508,490,333)	(15,757,370)
Operating gross (loss) profit	6,707,905	204,696	(3,344,682)	(103,647)
Operating expenses	(5,171,376)	(157,808)	(5,310,208)	(164,556)
Non-operating revenues & gains	716,302	21,858	1,119,401	34,689
Non-operating expenses & losses	(263,455)	(8,039)	(407,629)	(12,632)
Income (loss) from continuing operations before income taxes	\$1,989,376	\$60,707	\$(7,943,118)	\$(246,146)
Net income (loss)	\$1,046,286	\$31,928	\$(7,071,873)	\$(219,147)
Earnings per share (in dollars)				
Income (loss) from continuing operations before income taxes	\$0.37	\$0.01	\$(1.50)	\$(0.05)
Net income (loss)	\$0.20	\$0.01	\$(1.33)	\$(0.04)

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$13,256,345	\$404,526	\$14,086,993	\$436,535
Loans	1,326,393	40,476	856,365	26,537
Funds and investments	4,612,151	140,743	4,584,011	142,052
Fixed assets	108,645	3,315	105,421	3,267
Intangible assets	17,289	528	21,643	671
Other assets	875,080	26,704	936,670	29,026
Total assets	\$20,195,903	\$616,292	\$20,591,103	\$638,088
Liabilities				
Current liabilities	\$1,638,116	\$49,988	\$1,779,499	\$55,144
Long-term liabilities	17,761	542	17,552	544
Other liabilities	14,666,897	447,570	15,385,158	476,763
Total liabilities	16,322,774	498,100	17,182,209	532,451
Stockholders' equity				
Capital stock	2,317,006	70,705	2,317,006	71,801
Capital surplus	1,929	59	1,929	60
Retained earnings	1,483,298	45,264	990,467	30,693
Others	70,896	2,164	99,492	3,083
Total stockholders' equity	3,873,129	118,192	3,408,894	105,637
Total liabilities and stockholders' equity	\$20,195,903	\$616,292	\$20,591,103	\$638,088

**Cathay Century Insurance Co., Ltd.
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$12,962,258	\$395,553	\$13,839,521	\$428,866
Operating costs	(11,017,498)	(336,207)	(12,142,999)	(376,294)
Operating gross profit	1,944,760	59,346	1,696,522	52,572
Operating expenses	(1,269,203)	(38,731)	(1,423,409)	(44,109)
Non-operating revenues	54	2	4,790	148
Non-operating expenses	(38)	(1)	(74)	(2)
Income from continuing operations before income taxes	\$675,573	\$20,616	\$277,829	\$8,609
Net income	\$483,347	\$14,750	\$216,254	\$6,701
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$2.92	\$0.09	\$1.20	\$0.04
Net income	\$2.09	\$0.06	\$0.93	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Company(China)
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$4,607,024	\$140,586	\$4,807,820	\$148,987
Loans	12,607	385	16,621	515
Funds and investments	5,085,806	155,197	5,076,173	157,303
Fixed assets	256,088	7,815	204,839	6,348
Intangible assets	154,025	4,700	136,539	4,231
Other assets	1,239,304	37,818	1,271,930	39,415
Total assets	\$11,354,854	\$346,501	\$11,513,922	\$356,799
Liabilities				
Current liabilities	\$733,951	\$22,397	\$375,858	\$11,647
Other liabilities	8,281,381	252,712	9,889,946	306,475
Total liabilities	9,015,332	275,109	10,265,804	318,122
Stockholders' equity				
Capital stock	3,257,376	99,401	3,257,376	100,941
Retained earnings	(1,638,760)	(50,008)	(2,536,627)	(78,606)
Others	720,906	21,999	527,369	16,342
Total stockholders' equity	2,339,522	71,392	1,248,118	38,677
Total liabilities and stockholders' equity	\$11,354,854	\$346,501	\$11,513,922	\$356,799

Cathay Life Insurance Company(China)
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$1,981,891	\$60,479	\$2,845,045	\$88,164
Operating costs	(1,856,588)	(56,655)	(2,660,092)	(82,433)
Operating gross profit	125,303	3,824	184,953	5,731
Operating expenses	(383,277)	(11,696)	(574,183)	(17,793)
Non-operating revenues	6,019	183	5,969	185
Non-operating expenses	-	-	(36)	(1)
Loss from continuing operations before income taxes	\$(251,955)	\$(7,689)	\$(383,297)	\$(11,878)
Net loss	\$(189,790)	\$(5,792)	\$(369,810)	\$(11,460)
Earnings per share (in dollars)				
Loss from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

Note : Cathay Life Insurance (China) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.(Vietnam)
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$339,561	\$10,362	\$436,005	\$13,511
Loans	-	-	130	4
Funds and investments	1,631,608	49,790	1,351,708	41,887
Fixed assets	40,483	1,235	38,881	1,205
Intangible assets	37,776	1,153	27,103	840
Other assets	52,567	1,604	54,881	1,701
Total assets	\$2,101,995	\$64,144	\$1,908,708	\$59,148
Liabilities				
Current liabilities	\$16,318	\$498	\$25,828	\$800
Other liabilities	40,176	1,226	88,004	2,727
Total liabilities	56,494	1,724	113,832	3,527
Stockholders' equity				
Capital stock	1,940,080	59,203	1,940,080	60,120
Retained earnings	54,170	1,653	32,457	1,006
Others	51,251	1,564	(177,661)	(5,505)
Total stockholders' equity	2,045,501	62,420	1,794,876	55,621
Total liabilities and stockholders' equity	\$2,101,995	\$64,144	\$1,908,708	\$59,148

**Cathay Life Insurance Co., Ltd.(Vietnam)
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$160,750	\$4,905	\$161,849	\$5,016
Operating costs	(39,078)	(1,192)	(43,648)	(1,353)
Operating gross profit	121,672	3,713	118,201	3,663
Operating expenses	(121,264)	(3,700)	(131,352)	(4,070)
Non-operating revenues	1,325	40	8	-
Income (loss) from continuing operations before income taxes	\$1,733	\$53	\$(13,143)	\$(407)
Net income (loss)	\$1,674	\$51	\$(11,750)	\$(364)
Earnings per share (in dollars)				
Income (loss) from continuing operations before income taxes	Note	Note	Note	Note
Net income (loss)	Note	Note	Note	Note

Note : Cathay Life Insurance (Vietnam) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Insurance Company Limited (China)
Condensed Balance Sheets
As of June 30, 2009
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$1,503,084	\$45,868	\$1,605,117	\$49,740
Fixed assets	53,392	1,629	41,983	1,301
Intangible assets	-	-	1,201	37
Other assets	392,115	11,966	403,731	12,511
Total assets	<u>\$1,948,591</u>	<u>\$59,463</u>	<u>\$2,052,032</u>	<u>\$63,589</u>
Liabilities				
Current liabilities	\$84,240	\$2,571	\$53,052	\$1,644
Other liabilities	57,477	1,754	389,852	12,081
Total liabilities	<u>141,717</u>	<u>4,325</u>	<u>442,904</u>	<u>13,725</u>
Stockholders' equity				
Capital stock	1,745,942	53,279	1,745,942	54,104
Retained earnings	(114,745)	(3,502)	(293,307)	(9,089)
Others	175,677	5,361	156,493	4,849
Total stockholders' equity	<u>1,806,874</u>	<u>55,138</u>	<u>1,609,128</u>	<u>49,864</u>
Total liabilities and stockholders' equity	<u>\$1,948,591</u>	<u>\$59,463</u>	<u>\$2,052,032</u>	<u>\$63,589</u>

**Cathay Insurance Company Limited (China)
Condensed Statements of Income
For the six-month period ended June 30, 2009
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$108,836	\$3,321	\$310,050	\$9,608
Operating costs	(62,569)	(1,909)	(317,760)	(9,847)
Operating gross profit	46,267	1,412	(7,710)	(239)
Operating expenses	(69,908)	(2,133)	(123,141)	(3,816)
Non-operating revenues	3	-	11,119	345
Loss from continuing operations before income taxes	<u>\$(23,638)</u>	<u>\$(721)</u>	<u>\$(119,732)</u>	<u>\$(3,710)</u>
Net loss	<u>\$(23,638)</u>	<u>\$(721)</u>	<u>\$(119,732)</u>	<u>\$(3,710)</u>
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

Note : Cathay Century Insurance (China) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$15,804,183	\$482,276	\$20,922,610	\$648,361
Due from the Central Bank and call loans to banks	79,849,489	2,436,664	122,800,199	3,805,398
Financial assets at fair value through profit or loss	58,217,801	1,776,558	28,967,019	897,645
Securities purchased under agreements to resell	716,000	21,849	6,198,072	192,069
Receivables-net	42,242,792	1,289,069	42,104,468	1,304,756
Discounts and loans-net	772,953,688	23,587,235	828,035,034	25,659,592
Available-for-sale financial assets -net	139,051,922	4,243,269	73,971,461	2,292,267
Held-to-maturity financial assets-net	2,531,145	77,240	4,448,906	137,865
Investments under equity method-net	3,415,855	104,237	3,847,614	119,232
Other financial assets-net	4,976,121	151,850	5,476,521	169,710
Investments in debt securities with no active market	250,458,076	7,642,907	341,829,443	10,592,793
Property and equipment-net	26,536,090	809,768	25,601,226	793,344
Intangible assets-net	6,871,921	209,702	7,470,460	231,499
Other assets-net	7,103,255	216,761	5,205,837	161,321
Total assets	\$1,410,728,338	\$43,049,385	\$1,516,878,870	\$47,005,852
Liabilities				
Due to the Central Bank and call loans from banks	\$46,079,898	\$1,406,161	\$55,741,456	\$1,727,346
Funds borrowed from the Central and other banks	1,640,900	50,073	1,613,900	50,012
Financial liabilities at fair value through profit or loss	40,381,053	1,232,257	19,539,838	605,511
Securities sold under agreements to repurchase	9,157,974	279,462	22,917,393	710,176
Payables	17,711,002	540,464	14,888,899	461,385
Deposits and remittances	1,189,810,166	36,307,909	1,291,993,790	40,036,994
Financial debentures payable	15,194,806	463,680	17,021,193	527,462
Other financial liabilities	250,906	7,657	207,566	6,432
Other liabilities	2,384,909	72,777	1,969,329	61,027
Total liabilities	1,322,611,614	40,360,440	1,425,893,364	44,186,345
Shareholders' equity				
Capital stock	52,277,026	1,595,271	52,277,026	1,619,988
Capital reserves	15,213,611	464,254	15,213,292	471,438
Retained earnings	18,910,856	577,078	22,022,580	682,447
Others	1,715,231	52,342	1,472,608	45,634
Total shareholders' equity	88,116,724	2,688,945	90,985,506	2,819,507
Total liabilities and shareholders' equity	\$1,410,728,338	\$43,049,385	\$1,516,878,870	\$47,005,852

**Cathay United Bank Co., Ltd.
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Net interest income	\$7,112,375	\$217,039	\$7,090,558	\$219,726
Non-interest income	5,280,445	161,137	7,011,421	217,274
Net operating income	12,392,820	378,176	14,101,979	437,000
Provision for loan losses	(288,346)	(8,799)	-	-
Operating expenses	(6,789,298)	(207,180)	(7,117,928)	(220,575)
Income from continuing operations before income taxes	\$5,315,176	\$162,197	\$6,984,051	\$216,425
Net income	\$4,170,176	\$127,256	\$6,413,051	\$198,731
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$1.02	\$0.03	\$1.34	\$0.04
Net income	\$0.80	\$0.02	\$1.23	\$0.04

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$4,956,621	\$151,255	\$3,458,335	\$107,169
Due from the Central Bank and call loans to banks	639,931	19,528	598,876	18,558
Financial assets at fair value through profit or loss	216,600	6,610	168,099	5,209
Investments in debt securities with no active market	260,375	7,945	331,831	10,283
Receivables-net	113,235	3,455	150,320	4,658
Discounts and loans-net	12,342,603	376,643	17,291,250	535,831
Premises and equipment-net	480,880	14,674	181,110	5,612
Intangible assets-net	32,853	1,003	400,001	12,395
Other assets-net	27,642	844	6,796	211
Total assets	\$19,070,740	\$581,957	\$22,586,618	\$699,926
Liabilities				
Due to the Central Bank and call loans from banks	\$294,988	\$9,002	\$33,524	\$1,039
Payables	901,600	27,513	793,118	24,577
Deposits and remittances	14,177,317	432,631	17,234,670	534,077
Other liabilities	16,493	503	-	-
Total liabilities	15,390,398	469,649	18,061,312	559,693
Shareholders' equity				
Capital stock	3,207,968	97,893	4,017,093	124,484
Retained earnings	414,759	12,657	522,777	16,200
Others	57,615	1,758	(14,564)	(451)
Total shareholders' equity	3,680,342	112,308	4,525,306	140,233
Total liabilities and shareholders' equity	\$19,070,740	\$581,957	\$22,586,618	\$699,926

Indovina Bank Limited
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except per share information)

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Net interest income	\$235,099	\$7,174	\$345,064	\$10,693
Non-interest income	130,394	3,979	38,467	1,192
Net operating revenue	365,493	11,153	383,531	11,885
Provision for loan losses	-	-	(925)	(29)
Operating expenses	(183,434)	(5,597)	(184,530)	(5,718)
Income from continuing operations before income taxes	\$182,059	\$5,556	\$198,076	\$6,138
Net income	\$134,640	\$4,109	\$154,361	\$4,783
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

Note : Indovina Bank is a subsidiary of foreign bank. Thus, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$3,906,959	\$119,224	\$3,969,769	\$123,018
Funds and investments	729,701	22,268	733,241	22,723
Property and equipment	38,537	1,176	34,290	1,062
Intangible assets	7,095	216	6,241	193
Other assets	319,417	9,747	330,295	10,235
Total assets	<u>\$5,001,709</u>	<u>\$152,631</u>	<u>\$5,073,836</u>	<u>\$157,231</u>
Liabilities				
Current liabilities	\$870,046	\$26,550	\$829,701	\$25,711
Long-term liabilities	1,003	31	664	21
Other liabilities	77,777	2,374	65,886	2,042
Total liabilities	<u>948,826</u>	<u>28,955</u>	<u>896,251</u>	<u>27,774</u>
Stockholders' equity				
Capital stock	3,700,000	112,908	3,700,000	114,657
Capital surplus	258,434	7,886	258,434	8,008
Retained earnings	98,133	2,994	211,738	6,562
Others	(3,684)	(112)	7,413	230
Total stockholders' equity	<u>4,052,883</u>	<u>123,676</u>	<u>4,177,585</u>	<u>129,457</u>
Total liabilities and stockholders' equity	<u>\$5,001,709</u>	<u>\$152,631</u>	<u>\$5,073,836</u>	<u>\$157,231</u>

**Cathay Securities Corporation
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Revenue	\$543,074	\$16,572	\$696,209	\$21,574
Expenses	(451,765)	(13,786)	(583,998)	(18,097)
Income from continuing operations before income taxes	<u>\$91,309</u>	<u>\$2,786</u>	<u>\$112,211</u>	<u>\$3,477</u>
Net income	<u>\$82,995</u>	<u>\$2,532</u>	<u>\$135,200</u>	<u>\$4,189</u>
Earnings per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.25</u>	<u>\$0.01</u>	<u>\$0.30</u>	<u>\$0.01</u>
Net income	<u>\$0.22</u>	<u>\$0.01</u>	<u>\$0.37</u>	<u>\$0.01</u>

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Pacific Venture Capital Co., Ltd.
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$230,051	\$7,020	\$289,913	\$8,984
Funds and investments	1,624,089	49,560	1,606,436	49,781
Property and equipment	1,143	35	862	27
Other assets	702	22	23,260	721
Total assets	\$1,855,985	\$56,637	\$1,920,471	\$59,513
Liabilities				
Current liabilities	\$13,286	\$406	\$1,810	\$56
Total liabilities	13,286	406	1,810	56
Stockholders' equity				
Capital stock	1,895,224	57,834	1,895,224	58,730
Retained earnings	(36,432)	(1,112)	28,757	891
Equity adjustment	(16,093)	(491)	(5,320)	(164)
Total stockholders' equity	1,842,699	56,231	1,918,661	59,457
Total liabilities and stockholders' equity	\$1,855,985	\$56,637	\$1,920,471	\$59,513

**Cathay Pacific Venture Capital Co., Ltd.
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$35,055	\$1,070	\$72,169	\$2,236
Operating costs	(286,384)	(8,739)	(18,146)	(562)
Operating gross loss	(251,329)	(7,669)	54,023	1,674
Operating expenses	(4,502)	(137)	(3,008)	(93)
Non-operating revenues	349	10	2,386	74
Non-operating expenses	(20)	(1)	-	-
Loss (income) from continuing operations before income tax:	<u>\$(255,502)</u>	<u>\$(7,797)</u>	<u>\$53,401</u>	<u>\$1,655</u>
Net loss (income)	<u>\$(262,952)</u>	<u>\$(8,024)</u>	<u>\$58,674</u>	<u>\$1,818</u>
Earning per share (in dollars)				
Loss (income) from continuing operations before income tax:	<u>\$(1.12)</u>	<u>\$(0.03)</u>	<u>\$0.28</u>	<u>\$0.01</u>
Net loss (income)	<u>\$(1.16)</u>	<u>\$(0.04)</u>	<u>\$0.31</u>	<u>\$0.01</u>

English Translation of Financial Statements Originally Issued in Chinese

**Symphox Information Co., Ltd.
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$718,123	\$21,914	\$834,065	\$25,846
Fixed assets	88,351	2,696	74,444	2,307
Intangible assets	3,784	115	2,893	90
Other assets	10,896	333	13,846	429
Total assets	\$821,154	\$25,058	\$925,248	\$28,672
Liabilities				
Current liabilities	\$284,690	\$8,688	\$374,988	\$11,620
Other liabilities	80	2	64	2
Total liabilities	284,770	8,690	375,052	11,622
Stockholders' equity				
Capital stock	499,000	15,227	499,000	15,463
Retained earnings	37,384	1,141	51,196	1,587
Total stockholders' equity	536,384	16,368	550,196	17,050
Total liabilities and stockholders' equity	\$821,154	\$25,058	\$925,248	\$28,672

**Symphox Information Co., Ltd.
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$644,816	\$19,677	\$741,620	\$22,981
Operating costs	(552,040)	(16,846)	(629,077)	(19,494)
Operating gross profit	92,776	2,831	112,543	3,487
Operating expenses	(52,623)	(1,606)	(63,894)	(1,980)
Non-operating revenues	5,764	176	2,543	79
Non-operating expenses	(1)	-	(7)	-
Income from continuing operations before income taxes	\$45,916	\$1,401	\$51,185	\$1,586
Net income	\$35,980	\$1,098	\$43,167	\$1,338
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$0.92	\$0.03	\$1.03	\$0.03
Net income	\$0.72	\$0.02	\$0.87	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Corp.
Condensed Balance Sheets
As of June 30, 2009 and 2010
(Expressed in thousands of dollars)**

Items	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$1,652,741	\$50,434	\$1,654,798	\$51,280
Funds and investments	30,500	931	30,500	945
Fixed assets	169,288	5,166	58,183	1,803
Intangible assets	6,306	192	3,771	117
Other assets	285,678	8,718	392,279	12,156
Total assets	\$2,144,513	\$65,441	\$2,139,531	\$66,301
Liabilities				
Current liabilities	\$1,403,712	\$42,835	\$1,393,590	\$43,185
Other liabilities	11,050	337	12,650	392
Total liabilities	1,414,762	43,172	1,406,240	43,577
Stockholders' equity				
Capital stock	650,000	19,835	650,000	20,143
Retained earnings	79,751	2,434	83,291	2,581
Total stockholders' equity	729,751	22,269	733,291	22,724
Total liabilities and stockholders' equity	\$2,144,513	\$65,441	\$2,139,531	\$66,301

**Cathay Futures Corp.
Condensed Statements of Income
For the six-month periods ended June 30, 2009 and 2010
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2009		January 1 ~ June 30, 2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$61,726	\$1,884	\$52,659	\$1,632
Operating costs	(36,160)	(1,104)	(29,785)	(923)
Operating gross profit	25,566	780	22,874	709
Operating expenses	(30,825)	(941)	(27,142)	(841)
Non-operating revenues	12,194	372	13,101	406
Non-operating expenses	(572)	(17)	(1,009)	(31)
Income from continuing operations before income taxes	\$6,363	\$194	\$7,824	\$243
Net income	\$5,216	\$159	\$6,925	\$215
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$0.10	\$-	\$0.12	\$-
Net income	\$0.08	\$-	\$0.11	\$-