

Cathay Century Insurance Co., Ltd.
Unaudited Financial Statements
Together with
Review report of independent auditors
As of September 30, 2009 and 2010

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

Name of the company: Cathay Century Insurance Co., Ltd.
Address: 11F, No.296, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC
Telephone: 886-2-2755-1299

Index to financial statements

	<u>Page</u>
Review report of independent auditors	2
Unaudited balance sheets as of September 30, 2009 and 2010	3-4
Unaudited statements of income for the nine-month periods ended September 30, 2009 and 2010	5
Unaudited statements of changes in stockholders' equity for nine-month periods ended September 30, 2009 and 2010	6
Unaudited statements of cash flows for the nine-month periods ended September 30, 2009 and 2010	7-8
Notes to Unaudited Financial Statements	9-61

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

Board of Directors
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) as of September 30, 2009 and 2010, and the related statements of income, changes in stockholders’ equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our reviewed.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month periods ended September 30, 2009 and 2010 in order for them to be in conformity with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance and generally accepted accounting principles in the Republic of China.

ERNST & YOUNG
Taipei, Taiwan
Republic of China
October 20, 2010

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets

As of September 30, 2009 and 2010

(Expressed in thousands of dollars)

Assets	Notes	September 30, 2009		September 30, 2010	
		NTS	US\$	NTS	US\$
Current assets					
Cash and cash equivalents	2,4	\$5,322,948	\$166,186	\$5,796,209	\$185,836
Financial assets at fair value through profit or loss - current	2,5	709,773	22,160	411,682	13,199
Available-for-sale financial assets - current	2,6	3,133,701	97,836	3,178,739	101,915
Held-to-maturity financial assets - current	2,7	-	-	257,867	8,268
Derivative financial assets for hedging - current	2,8	29,432	919	32,812	1,052
Notes receivable		243,804	7,612	238,779	7,656
Premiums receivable	2,9	1,777,907	55,508	1,505,931	48,282
Prepaid reinsurance premiums		1,218,503	38,043	1,007,936	32,316
Claims recoverable from reinsurers		1,460,554	45,600	1,221,566	39,165
Due from reinsurers and ceding companies		59,428	1,855	119,639	3,836
Accounts receivable - reinsurance		28,803	899	65,634	2,104
Other accounts receivable		51,257	1,600	201,172	6,450
Other financial assets - current		23,206	725	10,222	328
Prepayments		6,479	202	5,976	192
Deferred income tax assets - current	2,22	7,720	241	40,993	1,314
Subtotal		14,073,515	439,386	14,095,157	451,913
Loans					
Secured loans	2,10	1,318,406	41,162	916,758	29,393
Subtotal		1,318,406	41,162	916,758	29,393
Funds and investments					
Held-to-maturity financial assets - noncurrent	2,11	3,015,829	94,156	2,631,828	84,380
Financial assets carried at cost - noncurrent	2,12	25,500	796	25,500	818
Investments in debt securities with no active market - noncurrent	2,13	300,000	9,366	500,000	16,031
Long-term investments under equity method	2,14	1,150,699	35,926	788,238	25,272
Other financial assets - noncurrent	2,15	-	-	516,945	16,574
Subtotal		4,492,028	140,244	4,462,511	143,075
Fixed assets					
Communication and transportation equipments	2,16	1,880	59	954	31
Other equipments		266,755	8,328	289,770	9,290
Subtotal		268,635	8,387	290,724	9,321
Less: Accumulated depreciation		(168,993)	(5,276)	(201,375)	(6,457)
Prepayments for equipments		3,841	120	7,785	250
Subtotal		103,483	3,231	97,134	3,114
Intangible assets					
Computer software cost	2,17	10,258	320	21,799	699
Deferred pension cost		5,802	181	5,222	167
Subtotal		16,060	501	27,021	866
Other assets					
Guarantee deposits paid		495,123	15,458	527,678	16,918
Overdue receivables	2	320,008	9,991	431,193	13,825
Other assets - others		71,649	2,237	83,024	2,662
Subtotal		886,780	27,686	1,041,895	33,405
Total assets		\$20,890,272	\$652,210	\$20,640,476	\$661,766

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2009 and 2010 were NT\$32.03 and NT\$31.19 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Unaudited balance sheets - (Continued)
As of September 30, 2009 and 2010
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	September 30, 2009		September 30, 2010	
		NTS	US\$	NTS	US\$
Current liabilities					
Commissions payable		\$2,403	\$75	\$4,986	\$160
Claims outstanding		23,495	734	111,519	3,576
Due to reinsurers and ceding companies		269,066	8,400	408,115	13,085
Accounts payable-reinsurance		793,277	24,767	594,083	19,047
Other payables		613,616	19,157	488,252	15,654
Subtotal		1,701,857	53,133	1,606,955	51,522
Long-term liabilities					
Accrued pension liabilities		17,761	555	17,552	563
Subtotal		17,761	555	17,552	563
Operating and liability reserve					
	2,18				
Unearned premiums reserve		6,590,491	205,760	6,564,362	210,464
Special reserve		5,053,546	157,775	5,174,927	165,916
Claims reserve		3,214,795	100,369	3,295,367	105,655
Premiums deficiency reserve		18,110	565	7,158	229
Subtotal		14,876,942	464,469	15,041,814	482,264
Other liabilities					
Guarantee deposits received		3,097	97	350	11
Other liabilities - others		293,308	9,157	293,318	9,404
Subtotal		296,405	9,254	293,668	9,415
Total liabilities					
		16,892,965	527,411	16,959,989	543,764
Stockholders' equity					
Capital stock					
Common stock	2,19	2,317,006	72,339	2,317,006	74,287
Capital surplus		1,776	55	1,929	62
Retained earnings					
	2,20				
Legal reserve		617,164	19,268	774,213	24,822
Special reserve		295,628	9,230	-	-
Unappropriated retained earnings		652,071	20,359	432,318	13,861
Equity adjustment					
Unrealized gains or losses on financial instruments		58,408	1,823	117,606	3,771
Cumulative conversion adjustments		61,637	1,924	44,207	1,417
Net loss not yet recognized as net pension cost		(6,383)	(199)	(6,792)	(218)
Total stockholders' equity					
		3,997,307	124,799	3,680,487	118,002
Total liabilities and stockholders' equity					
		\$20,890,272	\$652,210	\$20,640,476	\$661,766

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2009 and 2010 were NT\$32.03 and NT\$31.19 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2009 and 2010

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

Items	Notes	January 1-September 30,2009		January 1-September 30,2010	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$8,650,343	\$270,070	\$9,120,036	\$292,403
Reinsurance commission earned		239,976	7,492	230,187	7,380
Claims recovered from reinsurers		1,443,267	45,060	1,012,277	32,455
Recovered unearned premiums reserve	2,18	5,346,592	166,925	5,524,065	177,110
Recovered special claim reserve	2,18	229,949	7,179	422,665	13,551
Recovered claims reserve	2,18	310,555	9,696	665,532	21,338
Recovery from premiums deficiency reserve	2,18	21,360	667	17,594	564
Handling fee earned		22,192	693	21,346	684
Interest revenues		256,221	7,999	225,964	7,245
Gains from valuation on financial assets		269,666	8,419	-	-
Gains on disposal of investments		-	-	218,070	6,992
Subtotal		<u>16,790,121</u>	<u>524,200</u>	<u>17,457,736</u>	<u>559,722</u>
Operating costs	2				
Reinsurance premiums ceded		(2,511,779)	(78,420)	(2,513,589)	(80,591)
Commissions expenses		(79,665)	(2,487)	(71,489)	(2,292)
Insurance claims payment		(4,680,203)	(146,119)	(4,941,535)	(158,433)
Provision for unearned premiums reserve	2,18	(5,371,988)	(167,717)	(5,556,425)	(178,148)
Provision for special claim reserve	2,18	(568,935)	(17,763)	(530,711)	(17,015)
Contribution to the stabilization funds		(16,617)	(519)	(17,605)	(564)
Provision for claims reserve	2,18	(325,724)	(10,169)	(685,547)	(21,980)
Provision for premiums deficiency reserve	2,18	(18,110)	(565)	(7,158)	(229)
Handling fee paid		(233,154)	(7,279)	(273,987)	(8,784)
Interest expenses		(319)	(10)	-	-
Losses from valuation on financial assets		-	-	(24,043)	(771)
Losses on investments recognized under the equity method	2,14	(67,182)	(2,098)	(72,212)	(2,315)
Exchanges losses		(45,297)	(1,414)	(75,901)	(2,434)
Losses on disposal of investments		(161,395)	(5,039)	-	-
Other operating costs		(5,438)	(170)	(6,990)	(224)
Subtotal		<u>(14,085,806)</u>	<u>(439,769)</u>	<u>(14,777,192)</u>	<u>(473,780)</u>
Operating gross profit		<u>2,704,315</u>	<u>84,431</u>	<u>2,680,544</u>	<u>85,942</u>
Operating expenses	2				
Marketing expenses		(1,622,860)	(50,667)	(1,840,436)	(59,007)
Management and general affairs expenses		(321,434)	(10,036)	(342,579)	(10,983)
Operating income		<u>760,021</u>	<u>23,728</u>	<u>497,529</u>	<u>15,952</u>
Non-operating revenues					
Gains on disposal of fixed assets		-	-	349	11
Other non-operating revenues		59	2	4,737	152
Subtotal		<u>59</u>	<u>2</u>	<u>5,086</u>	<u>163</u>
Non-operating expenses					
Losses on disposal of fixed assets		(19)	(1)	(73)	(2)
Miscellaneous expenses		(49)	(1)	(60)	(2)
Subtotal		<u>(68)</u>	<u>(2)</u>	<u>(133)</u>	<u>(4)</u>
Income from continuing operations before income taxes		760,012	23,728	502,482	16,111
Income taxes	2,22	(195,100)	(6,091)	(70,164)	(2,250)
Income from continuing operations after income taxes		564,912	17,637	432,318	13,861
Net income		<u>\$564,912</u>	<u>\$17,637</u>	<u>\$432,318</u>	<u>\$13,861</u>
Earning per share (In dollars)	2,24				
Income before income taxes		<u>\$3.28</u>	<u>\$0.10</u>	<u>\$2.17</u>	<u>\$0.07</u>
Net income		<u>\$2.44</u>	<u>\$0.08</u>	<u>\$1.87</u>	<u>\$0.06</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2009 and 2010 were NT\$32.03 and NT\$31.19 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2009 and 2010

(Expressed in thousands of dollars)

Summary	Capital stock		Capital surplus		Retained earnings						Equity adjustment				Total			
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		Total	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2009	\$2,317,006	\$72,339	\$1,929	\$60	\$521,467	\$16,281	\$-	\$-	\$478,484	\$14,939	\$(295,628)	\$(9,230)	\$79,564	\$2,484	\$(6,383)	\$(199)	\$3,096,439	\$96,674
Appropriations and distributions for 2008																		
Legal reserve	-	-	-	-	95,697	2,987	-	-	(95,697)	(2,987)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	295,628	9,230	(295,628)	(9,230)	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	354,036	11,053	-	-	-	-	354,036	11,053
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(17,927)	(560)	-	-	(17,927)	(560)
Adjustment for merger of investees	-	-	(153)	(5)	-	-	-	-	-	-	-	-	-	-	-	-	(153)	(5)
Net Income for the nine months ended September 30, 2009	-	-	-	-	-	-	-	-	564,912	17,637	-	-	-	-	-	-	564,912	17,637
Balance on September 30, 2009	\$2,317,006	\$72,339	\$1,776	\$55	\$617,164	\$19,268	\$295,628	\$9,230	\$652,071	\$20,359	\$58,408	\$1,823	\$61,637	\$1,924	\$(6,383)	\$(199)	\$3,997,307	\$124,799
Balance on January 1, 2010	\$2,317,006	\$74,287	\$1,929	\$62	\$617,164	\$19,787	\$295,628	\$9,478	\$872,406	\$27,971	\$145,551	\$4,667	\$57,143	\$1,832	\$(6,792)	\$(218)	\$4,300,035	\$137,866
Appropriations and distributions for 2009 (Note)																		
Legal reserve	-	-	-	-	157,049	5,035	-	-	(157,049)	(5,035)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(295,628)	(9,478)	295,628	9,478	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(926,802)	(29,715)	-	-	-	-	-	-	(926,802)	(29,715)
Bonus paid to stockholder	-	-	-	-	-	-	-	-	(84,183)	(2,699)	-	-	-	-	-	-	(84,183)	(2,699)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(27,945)	(896)	-	-	-	-	(27,945)	(896)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(12,936)	(415)	-	-	(12,936)	(415)
Net Income for the nine months ended September 30, 2010	-	-	-	-	-	-	-	-	432,318	13,861	-	-	-	-	-	-	432,318	13,861
Balance on September 30, 2010	\$2,317,006	\$74,287	\$1,929	\$62	\$774,213	\$24,822	\$-	\$-	\$432,318	\$13,861	\$117,606	\$3,771	\$44,207	\$1,417	\$(6,792)	\$(218)	\$3,680,487	\$118,002

Note : The employee bonus of NT \$1,684 thousands was recorded as operating cost and expense in 2009.

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2009 and 2010 were NT\$32.03 and NT\$31.19 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows

For the nine months ended September 30, 2009 and 2010

(Expressed in thousands of dollars)

Items	Notes	January 1-September 30,2009		January 1-September 30,2010	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$564,912	\$17,637	\$432,318	\$13,861
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		4,545	142	5,527	177
Depreciation		22,205	693	25,116	805
Provision for reserve for operations		6,284,757	196,214	6,779,841	217,372
Recovered unearned premiums reserve		(5,346,592)	(166,925)	(5,524,065)	(177,110)
Recovered special claim reserve		(229,949)	(7,179)	(422,665)	(13,551)
Recovered claims reserve		(310,555)	(9,696)	(665,532)	(21,338)
Recovery from premiums deficiency reserve		(21,360)	(667)	(17,594)	(564)
Gains on disposal of fixed assets		-	-	(349)	(11)
Losses on disposal of fixed assets		19	1	73	2
Fixed assets transferred to expense		-	-	300	10
(Gains) losses from valuation on financial assets		(269,666)	(8,419)	24,043	771
Unrealized gain on investments recognized under the equity method less than cash dividends received		73,182	2,285	72,212	2,315
Effects of exchange rate changes		45,297	1,414	75,901	2,434
(Increase) decrease in financial assets at fair value through profit or loss - current		(288,249)	(8,999)	274,432	8,799
(Increase) decrease in notes receivable		(916)	(29)	17,199	551
Decrease in premiums receivable		143,544	4,481	495,481	15,886
Decrease in prepaid reinsurance premiums		190,881	5,959	284,547	9,123
Increase in claims recoverable from reinsurers		(319,636)	(9,979)	(143,871)	(4,613)
Decrease (increase) in due from reinsurers and ceding companies		147,615	4,609	(47,211)	(1,514)
Increase in reinsurance accounts receivable		(2,249)	(70)	(20,588)	(660)
Decrease (increase) in other accounts receivable		34,237	1,069	(131,997)	(4,232)
Increase in prepayments		(1,550)	(48)	(338)	(11)
Decrease (increase) in deferred income tax assets - current		36,149	1,129	(12,774)	(410)
Increase in overdue receivables		(86,167)	(2,690)	(277,495)	(8,897)
Decrease (increase) in other assets - others		9,535	298	(35,662)	(1,143)
(Decrease) increase in commissions payable		(3,804)	(119)	2,567	82
Increase in claims outstanding		8,286	259	88,703	2,844
(Decrease) increase in due to reinsurers and ceding companies		(189,146)	(5,905)	37,226	1,194
(Decrease) increase in accounts payable-reinsurance		(45,338)	(1,415)	14,881	477
Decrease in other payables		(82,918)	(2,589)	(359,285)	(11,519)
Decrease in accrued pension liabilities		(106)	(3)	(38)	(1)
Increase in other liabilities - others		164,171	5,125	131,924	4,230
Increase in claims reserve		427,522	13,347	383,618	12,299
Net cash provided by operating activities		958,656	29,930	1,486,445	47,658

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2009 and 2010 were NT\$32.03 and NT\$31.19 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows-(Continued)

For the nine months ended September 30, 2009 and 2010

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2009		January 1-June 30,2010	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Decrease in available-for-sale financial assets - current		181,014	5,651	160,822	5,156
Decrease in held-to-maturity financial assets - current		555,797	17,352	116,012	3,719
Decrease in investments in debt securities with no active market - current		100,131	3,126	-	-
(Increase) decrease in other financial assets-current		(13,156)	(411)	13,206	423
Decrease in secured loans		181,208	5,657	227,806	7,304
Increase in investments in debt securities with no active market - noncurrent		(300,000)	(9,366)	(200,000)	(6,412)
Investment company share shall return		78,750	2,459	-	-
Increase in other financial assets - noncurrent		-	-	(528,330)	(16,939)
Disposal of fixed assets		79	3	397	13
Acquisition of fixed assets		(10,196)	(318)	(14,761)	(473)
Acquisition of intangible assets		(690)	(22)	(9,943)	(319)
Decrease (increase) in guarantee deposits paid		65,820	2,055	(23,277)	(746)
Net cash provided by (used in) investing activities		838,757	26,186	(258,068)	(8,274)
Cash flows from financing activities					
Increase (decrease) in guarantee deposits received		3,097	97	(2,204)	(70)
Bonus paid to stockholder		-	-	(926,802)	(29,715)
Cash dividends		-	-	(84,183)	(2,699)
Net cash provided by (used in) financing activities		3,097	97	(1,013,189)	(32,484)
Effects of exchange rate changes		(45,297)	(1,414)	(75,901)	(2,434)
Increase (decrease) in cash and cash equivalents		1,755,213	54,799	139,287	4,466
Cash and cash equivalents at the beginning of periods		3,567,735	111,387	5,656,922	181,370
Cash and cash equivalents at the end of periods		\$5,322,948	\$166,186	\$5,796,209	\$185,836
Supplemental disclosure of cash flows information					
Income tax paid		\$206,217	\$6,438	\$228,219	\$7,317

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2009 and 2010 were NT\$32.03 and NT\$31.19 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

1. Organization and business scope

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). The Company mainly engaged in the business of property and casualty insurance. On April 22, 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On August 2, 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

As of September 30, 2009 and 2010, the total numbers of employees were 1,155 and 1,280, respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies follows:

(1) Distinguish assets and liabilities, current and non-current

Current assets are assets which can be liquidated or disposed within one year. Assets that do not belong to current assets are classified as non-current assets. Current liabilities are debts which must be paid-off within one year. Debts do not belong to current liabilities are classified as non-current liabilities.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

(3) Financial assets and financial liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No.34 “Accounting for Financial Instruments” and “Criteria Governing the Preparation of Financial Reports by Property and Casualty Insurance”. Financial assets are categorized as the “financial assets at fair value through profit or loss”, “held-to-maturity financial assets”, “investments in debt securities with no active market”, or “available-for-sale financial assets”, “financial assets carried at cost”, “derivative financial assets for hedging”, and accordingly, recognized at fair value initially. Financial liabilities are categorized as the “financial liabilities at fair value through profit or loss” or “financial liabilities measured at cost”.

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

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as held for trading or designated as assets to be measured at fair value. Gains or losses from changes in fair values of such assets are reflected in the income statement.

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

- a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- b. Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

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 when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums/ discounts have been taken into the consideration of the effective interest rate calculation.

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

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

E. Financial assets carried at cost

Financial assets measured at initial cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss will be recognized. The impairment loss can not be reversed.

F. Derivative financial assets for hedging

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

The fair value of a listed stock or a depositary receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

The Company uses amortized cost for subsequent valuation of financial liabilities, except for "financial liabilities at fair value through profit or loss" and "derivative financial liabilities for hedging" which are measured at fair value.

(4) Allowance for bad debts

Allowance for bad debts on notes receivable, premiums receivable, overdue accounts and secured loans are determined based on the aging analysis of outstanding balances of such accounts and the past experience of the Company.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(5) Long - term investments under equity method

Long-term 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 inconformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method." Goodwill is no longer amortized.

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 for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method.

If the adjustment stated above is to debit the additional paid-in capital account and the amount of additional paid-in capital 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 its subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

The Company prepares semi-annual and annual consolidated financial statements which included parent company, parent controlled or significant subsidiaries.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(6) Property and equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed when occurred. Upon the sale or disposal of property and equipment, the related cost and accumulated depreciation and accumulated depletion are eliminated. Gain or loss resulting from such sale or disposal is recorded as non-operating gain or loss. Depreciation on depreciable assets is calculated on the straight-line method over the estimated service lives prescribed by the “Estimated Useful Life of property and equipment Table” published by the ROC Executive Yuan (the “Executive Yuan Depreciation Table”). Property and equipment that are still in use after their useful lives are depreciated based on their residual values and the newly estimated remaining useful lives.

(7) Intangible assets

The Company 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 values. 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 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. The Company reevaluates the residual values, amortization periods and amortization methods of the intangible assets with finite useful lives at each balance sheet date and the changes are treated as changes in accounting estimates.

The “intangible assets” of the Company are computer software and are amortized over the estimated useful lives of 3 years using the straight-line method.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

(8) Accounting for asset impairment

Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company 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.

For previously recognized losses, the Company 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 has 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 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 time each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce 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; and
- (b) if the goodwill has been written off, reduce the carrying amounts of other assets of the CGU proportionately.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods. Impairment loss (reversal) is classified as non-operating losses (income).

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(9) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

B. Financial assets measured at cost

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

C. Available-for-sale financial assets

If an available-for-sale financial 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. 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.

(10) Operating and liabilities reserves

Operating and liabilities reserves are recorded in accordance with the Insurance Law, including unearned premiums reserve, claims reserve, special reserve, and premiums deficiency reserve. The actuary provides the figures of such reserves in the financial statements.

(11) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized in which the control over the asset (or a portion) is surrendered. Transfer a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the assets.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Financial liabilities

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

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 derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

(12) Premiums income

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred.

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 and are made based on past experience.

(13) Contribution to the stabilization funds

The Company makes a monthly contribution based on 2% of the gross premiums to the stabilization funds and deposits it in "Property Insurance Stabilization Fund Committees". It is reported as "Contribution to the Stabilization funds" in the income statement.

(14) Pension plan

The Company has established a pension plan for all employees. Pension plan benefits are primarily based on participants' compensation and the length of service.

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 of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company adopted the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligations and the fair value of the plan assets.

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”.

(15) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries’ financial statements

Financial statements of foreign subsidiaries under the equity method are converted into NT dollars based on follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate on the balance sheet date. Stockholders’ equity items are converted based on the historical rates except for the opening balance of retained earnings, which is posted directly from the year end balance of previous year. Income statement items are converted by the weighted-average exchange rate of the fiscal year. Differences arising from above conversion are reported as “cumulative conversion adjustments” under stockholders’ equity.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(16) Income Taxes

The Company adopted SFAS No. 22, “ Accounting for Income Taxes”, which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year’s income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

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

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

The Company adopted SFAS No. 12, “Accounting for Income Tax Credits” for income tax credits. The income tax credits resulting from the expenditures on the purchases of equipments, R & D, education trainings, and investments in equity shall be recognized at the current period.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of the Board of Directors.

Effective from January 1, 2006, the Company has adopted “Income Basic Tax Act” and “Enforcement Rules of the Income Basic Tax Act” to estimate income basic tax.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

(17) Capital expenditure expenses

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

(18) Derivative financial instruments

The Company takes derivative financial instrument transactions such as forward currency contracts and futures to hedge its risks associated with foreign currency and stock fluctuations. These derivative financial instruments are initially recognized at fair value on the date on 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 net profit or loss for the period.

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

- A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- C. Hedge of a net investment in a foreign operation.

Hedges of the foreign currency risk and stock fluctuation of a firm commitment are belonging to fair value hedges. The Company adopted SFAS No. 34, Accounting for Financial Instruments categorized as financial assets at fair value through profit or loss are recognized in earnings.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

At the inception of a hedge relationship, the Company formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the 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.

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

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 or losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

For fair value hedge relating to item 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.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

The Company 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. 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.

Hedging instruments are subsequently measured at fair value or the gains (losses) resulting from the exchange rate changes are recognized in current period earnings by to the Statements of Financial Accounting Standards No.14 “Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements”.

Cash flow hedges

Cash flow hedges are 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 forecasted 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.

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

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 hedge 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.

(19) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2009 and 2010 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.03 and NT\$31.19 provided by Federal Reserve Bank of New York of September 30, 2009 and 2010 are used for the conversion.

(20) Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are rewarded as expenses instead of distribution of earnings.

3. Changes in accounting and their effects

None.

4. Cash and cash equivalents

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$11,783	\$368	\$8,685	\$279
Cash in banks	755,306	23,581	1,784,161	57,203
Time deposits	2,382,000	74,368	2,643,600	84,758
Cash equivalents	2,173,859	67,869	1,359,763	43,596
Total	<u>\$5,322,948</u>	<u>\$166,186</u>	<u>\$5,796,209</u>	<u>\$185,836</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

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

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Common stock	\$295,961	\$9,240	\$319,360	\$10,239
Beneficiary certificates	200,000	6,244	-	-
Corporate bonds	68,600	2,142	33,600	1,077
Subtotal	564,561	17,626	352,960	11,316
Add: Valuation adjustment	145,212	4,534	58,722	1,883
Total	<u>\$709,773</u>	<u>\$22,160</u>	<u>\$411,682</u>	<u>\$13,199</u>

6. Available-for-sale financial assets-current

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Common stock	\$477,638	\$14,912	\$891,924	\$28,596
Beneficiary certificates	736,032	22,980	613,220	19,661
Corporate bonds	799,866	24,972	799,903	25,646
Financial debentures	1,100,584	34,361	800,317	25,659
Subtotal	3,114,120	97,225	3,105,364	99,562
Add: Valuation adjustment	19,581	611	73,375	2,353
Total	<u>\$3,133,701</u>	<u>\$97,836</u>	<u>\$3,178,739</u>	<u>\$101,915</u>

7. Held-to-maturity financial assets-current

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$-	\$-	\$257,867	\$8,268

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

8. Derivative financial assets for hedging - current

	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	29,432	919	32,812	1,052
Total	<u>\$29,432</u>	<u>\$919</u>	<u>\$32,812</u>	<u>\$1,052</u>

9. Premiums receivable

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,795,866	\$56,068	\$1,521,143	\$48,770
Less: Allowance for bad debts	(17,959)	(560)	(15,212)	(488)
Net	<u>\$1,777,907</u>	<u>\$55,508</u>	<u>\$1,505,931</u>	<u>\$48,282</u>

10. Loans

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Secured loans	\$1,365,192	\$42,622	\$948,124	\$30,398
Less: Allowance for bad debts	(46,786)	(1,460)	(31,366)	(1,005)
Net	<u>\$1,318,406</u>	<u>\$41,162</u>	<u>\$916,758</u>	<u>\$29,393</u>

Secured loans are secured by real estate.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

11. Held-to-maturity financial assets – noncurrent

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$3,015,829	\$94,156	\$2,889,695	\$92,648
Less: Overseas bonds by payable within one year	-	-	(257,867)	(8,268)
Total	\$3,015,829	\$94,156	\$2,631,828	\$84,380

12. Financial assets carried at cost – noncurrent

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	\$25,500	\$796	\$25,500	\$818

13. Investments in debt securities with no active market – noncurrent

	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Company bonds	\$300,000	\$9,366	\$500,000	\$16,031

14. Long-term investments under equity method

Investee	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Pacific Venture Capital Co., Ltd.	\$277,163	\$8,653	\$-	\$-
Vista Technology Venture Capital Corp.	6,399	200	5,728	184
Cathay Insurance Company Limited. (China)	867,137	27,073	782,510	25,088
Total	\$1,150,699	\$35,926	\$788,238	\$25,272

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

A. Changes in long-term investments under the equity method are summarized as follows:

	For the nine-month periods ended September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$1,285,997	\$40,150	\$859,351	\$27,552
Add (less):				
Investment loss recognized under the equity method	(67,182)	(2,098)	(72,212)	(2,315)
Cumulative conversion adjustments	(17,927)	(560)	(1,550)	(50)
Unrealized gains or losses on financial instruments recognized under the equity investment	34,714	1,084	2,649	85
Investment company share shall return	(78,750)	(2,458)	-	-
Cash dividends	(6,000)	(187)	-	-
Adjustment for merger of investees	(153)	(5)	-	-
Balance on September 30	<u>\$1,150,699</u>	<u>\$35,926</u>	<u>\$788,238</u>	<u>\$25,272</u>

B. The investment losses recognized under equity method for the nine-month periods ended September 30, 2009 and 2010 are listed below:

Investee	For the nine-month periods ended September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$(38,905)	\$(1,215)	\$-	\$-
Cathay Pacific Venture Capital Co., Ltd.	3,963	124	-	-
Vista Technology Venture Capital Corp.	-	-	24	1
Cathay Insurance Company Limited. (China)	(32,240)	(1,007)	(72,236)	(2,316)
Total	<u>\$(67,182)</u>	<u>\$(2,098)</u>	<u>\$(72,212)</u>	<u>\$(2,315)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

- C. Equity method was applied for the whose common stocks was jointly held by the Company Vista Technology Venture Capital Corp. For the nine-month periods ended September 30, 2009 and 2010 and its related parties in an amount over 20%.
- D. The long-term investments under equity method For the nine-month periods ended September 30, 2009 and 2010 were recognized under the equity method based on the respective unaudits financial statements.
- E. As of August 10, 2009, the acquisition date, Cathay Venture Capital Corp., a subsidiary of the Company, merged with Cathay Pacific Venture Capital Co., Ltd. with a stock exchange ratio of 1.06359 to 1 in accordance with resolution of the Board of Directors' meeting of Cathay Financial Holding Co., Ltd.. Cathay Pacific Venture Capital Co., Ltd. is the surviving company.

15. Other financial assets-noncurrent

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Other financial assets-noncurrent	\$-	\$-	\$516,945	\$16,574

16. Fixed assets

Item	September 30, 2009					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$1,880	\$59	\$1,727	\$54	\$153	\$5
Other equipments	266,755	8,328	167,266	5,222	99,489	3,106
Subtotal	268,635	8,387	168,993	5,276	99,642	3,111
Prepayments for equipments	3,841	120	-	-	3,841	120
Total	\$272,476	\$8,507	\$168,993	\$5,276	\$103,483	\$3,231

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Item	September 30, 2010					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$954	\$31	\$954	\$31	\$-	\$-
Other equipments	289,770	9,290	200,421	6,426	89,349	2,864
Subtotal	290,724	9,321	201,375	6,457	89,349	2,864
Prepayments for equipments	7,785	250	-	-	7,785	250
Total	<u>\$298,509</u>	<u>\$9,571</u>	<u>\$201,375</u>	<u>\$6,457</u>	<u>\$97,134</u>	<u>3,114</u>

No equipments of the Company were pledged as of September 30, 2009 and 2010.

17. Intangible assets - Computer software cost

Item	January 1, 2009		Increase		Decrease		September 30, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$59,786	\$1,867	\$1,936	\$60	\$-	\$-	\$61,722	\$1,927
Amortization and impairment								
Amortization	(46,919)	(1,465)	(4,545)	(142)	-	-	(51,464)	(1,607)
Book value	<u>\$12,867</u>	<u>\$402</u>					<u>\$10,258</u>	<u>\$320</u>

Item	January 1, 2010		Increase		Decrease		September 30, 2010	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$62,000	\$1,988	\$18,371	\$589	\$-	\$-	\$80,371	\$2,577
Amortization and impairment								
Amortization	(53,045)	(1,701)	(5,527)	(177)	-	-	(58,572)	(1,878)
Book value	<u>\$8,955</u>	<u>\$287</u>					<u>\$21,799</u>	<u>\$699</u>

The intangible assets of the Company are computer software and are calculated using the straight-line method over the estimated useful lives within 3 years.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

18. Operating and liability reserve

	January 1, 2009		Provision		Recovered		September 30, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$6,755,977	\$210,926	\$6,590,491	\$205,760	\$6,755,977	\$210,926	\$6,590,491	\$205,760
Special reserve	4,714,560	147,191	568,935	17,763	229,949	7,179	5,053,546	157,775
Claims reserve	2,581,224	80,588	3,118,836	97,372	2,485,265	77,591	3,214,795	100,369
Premiums deficiency reserve	21,360	667	18,110	565	21,360	667	18,110	565
Total	<u>\$14,073,121</u>	<u>\$439,372</u>	<u>\$10,296,372</u>	<u>\$321,460</u>	<u>\$9,492,551</u>	<u>\$296,363</u>	<u>\$14,876,942</u>	<u>\$464,469</u>

	January 1, 2010		Provision		Recovered		September 30, 2010	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$6,816,548	\$218,549	\$6,564,362	\$210,464	\$6,816,548	\$218,549	\$6,564,362	\$210,464
Special reserve	5,066,881	162,452	530,711	17,015	422,665	13,551	5,174,927	165,916
Claims reserve	2,607,187	83,591	3,295,367	105,655	2,607,187	83,591	3,295,367	105,655
Premiums deficiency reserve	17,594	564	7,158	229	17,594	564	7,158	229
Total	<u>\$14,508,210</u>	<u>\$465,156</u>	<u>\$10,397,598</u>	<u>\$333,363</u>	<u>\$9,863,994</u>	<u>\$316,255</u>	<u>\$15,041,814</u>	<u>\$482,264</u>

The net unearned premium reserve for the three months of 2010 was the insurance and reinsurance business assumed of NT\$6,564,362 (US\$210,464) offsetting by reinsurance business ceded of NT\$1,007,936 (US\$32,316). The net unearned premium reserve for the three months of 2009 was the insurance and reinsurance business assumed of NT\$6,590,491 (US\$205,760) offsetting by reinsurance business ceded of NT\$1,218,503 (US\$38,043).

The claims reserves above represent outstanding claims of NT\$2,609,820 (US\$83,675) and IBNR (Incurred But Not Reported) of NT\$685,547 (US\$21,980) of September 30, 2010. Balances of outstanding claims and IBNR as of September 30, 2009 were NT\$2,793,112 (US\$87,203) and NT\$325,724 (US\$10,169), respectively.

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”.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(1) Unearned premium reserve

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 can not 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: The amount of 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

- 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. The Company has reported to the authorities for the accrual method and its has been approved by Insurance Bureau of FSC (Article 09500204880). The method is as follows:

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

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

19. Common stock

As of September 30, 2009 and 2010, the authorized and issued thousand shares were 231,701 with par value of NT\$10 each.

20. Retained earnings

(1) Legal reserve

Pursuant to the ROC Insurance Act, 20% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for 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 it approves by the Board of Directors.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

- (2) Undistributed retained earnings
- A. Pursuant to the ROC Insurance Act, 20% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. The remainder adding the beginning undistributed retained earnings for the period must be appropriated in accordance with the resolution by the stockholders' meeting, and 2% of the aforementioned amount should be distributed as the employee bonus.
- B. According to the related regulations, if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of the Company's paid-in capital, the "excessive" amounts shall be distributed as cash dividends or stock dividends in the following year of the assessment. Otherwise, either an additional 10% income tax will be levied on shareholders of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excessive undistributed retained earnings.
- (3) According to the revised Income Tax Act in 1998, the Company has to pay an extra 10% income tax in the forthcoming tax year for undistributed earnings.
- (4) 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, since 2007.
- (5) The employee bonus for the nine months of 2009 and 2010 amounting to NT\$- (US\$-) was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2010 and 2011.
- (6) The earning distribution of 2009 has been resolved by the board of directors but still awaiting for the approval of stockholders' meeting. Please refer to the Market Observation Post System for detail information.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

- (7) The difference between the accrual and actual amount of employee bonus and directors compensation is NT\$415 (US\$13) recorded in the Income Statement of the nine-month periods ended September 30, 2010.

21. Personnel, depreciation, depletion and amortization expenses

Item	For the nine-month periods ended September 30, 2009 (NT\$)			For the nine-month periods ended September 30, 2010 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$799,829	\$799,829	\$-	\$898,294	\$898,294
Labor & health insurance expenses	-	44,316	44,316	-	52,239	52,239
Pension expenses	-	41,720	41,720	-	44,953	44,953
Other expenses	-	25,501	25,501	-	26,884	26,884
Depreciation	-	22,205	22,205	-	25,116	25,116
Depletion	-	-	-	-	-	-
Amortization	-	4,545	4,545	-	5,527	5,527

Item	For the nine-month periods ended September 30, 2009 (US\$)			For the nine-month periods ended September 30, 2010 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$24,971	\$24,971	\$-	\$28,801	\$28,801
Labor & health insurance expenses	-	1,384	1,384	-	1,675	1,675
Pension expenses	-	1,303	1,303	-	1,441	1,441
Other expenses	-	796	796	-	862	862
Depreciation	-	693	693	-	805	805
Depletion	-	-	-	-	-	-
Amortization	-	142	142	-	177	177

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2009 and 2010

22. Estimated income taxes

The Income Tax rate for the Company was originally at 25%. However, in accordance with the amendment to the Income Tax Law announced on May 27, 2009, the applicable income tax rate for the Company was changed to 20% starting from January 1, 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 January 1, 2010.

(1) Income tax expenses include the following:

Item	For the nine-month periods ended September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Income tax calculates on accounting	\$760,012	\$23,728	\$502,482	\$16,111
Adjustments:				
Interest income of tax on a separate basis	(27,156)	(848)	(100)	(3)
(Gains) losses from valuation on financial assets	(295,137)	(9,214)	129,409	4,149
Gains derived from investment	(23,238)	(726)	(55,567)	(1,782)
Losses (gains) derived from securities/futures transactions	54,210	1,693	(108,516)	(3,479)
Investment losses recognized by the equity method	67,182	2,097	72,212	2,315
Unrealized losses on foreign exchanges	43,839	1,369	66,085	2,119
Realized gains (losses) on foreign exchanges	9,045	282	(61,002)	(1,956)
Others	2,160	68	5,649	181
Taxable Income	590,917	18,449	550,652	17,655
Multiply by : tax rate	25%	25%	17%	17%
Subtotal	147,729	4,612	93,611	3,001
Tax effects under integrated income tax systems	(8,716)	(272)	-	-
Subtotal	139,013	4,340	93,611	3,001
Taxed separately	1,876	58	20	1
Extra 10% income tax on undistributed retained earning	8,716	272	-	-
Adjustments of prior year's income tax	(801)	(25)	(10,692)	(343)
Deferred income tax expenses (benefits)	36,149	1,129	(18,487)	(592)
Other	10,147	317	5,712	183
Total income tax expenses	\$195,100	\$6,091	\$70,164	\$2,250

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

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

	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$44,388	\$1,386	\$41,739	\$1,338
Total deferred income tax liabilities	\$36,668	\$1,145	\$746	\$24
B. Temporary differences:				
Bad debts exceeding legal limitation	\$127,003	\$3,965	\$133,188	\$4,270
Unrealized losses on foreign exchanges	43,840	1,369	66,085	2,119
Unrealized gains from valuation on financial assets	(183,340)	(5,724)	(4,388)	(141)
Others	5,577	174	5,538	178
Total	\$(6,920)	\$(216)	\$200,423	\$6,426
C. Investment tax credit	\$9,104	\$284	\$6,921	\$222
D. Deferred income tax assets-current	\$44,388	\$1,386	\$41,739	\$1,338
Deferred income tax liabilities-current	(36,668)	(1,145)	(746)	(24)
Net balance deferred income tax assets -current	\$7,720	\$241	\$40,993	\$1,314

(3) The Company's income tax returns have been examined by the tax authority through year 2005; however, the Company appealed income tax return of year 2004 and 2005 is pending at the supreme court.

(4) Please refer to the following columns regarding law of investment tax credits, the credits items and amount of investment tax credits, the remaining balance and the expiry year:

Law of Investment tax credit	The credits items	The amount of investment tax credit		The remaining balance		Expiry year
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Personnel training	\$3,296	\$106	\$3,296	\$106	2011
		3,625	116	3,625	116	2012
Total		\$6,921	\$222	\$6,921	\$222	

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(5) Information related to imputation:

	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$15,269	\$477	\$11,661	\$374
Imputation creditable ratio	September 30, 2009 (real) 2.55%		September 30, 2010 (real) 2.48%	

(6) Information relating of undistributed earnings:

Year	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	87,159	2,721	-	-
Total	\$87,159	\$2,721	\$-	\$-

Net income after tax for the nine-month periods ended September 30, 2009 and 2010 are not included in the undistributed earnings after 1998 expressed above.

23. Earnings per share

	For the nine-month periods ended September 30, 2009		For the nine-month periods ended September 30, 2010	
	NT\$	US\$	NT\$	US\$
	Net income (A)	\$564,912	\$17,637	\$432,318
Outstanding number of shares (in thousands shares)(B)	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares (in thousands shares) (C)	231,701	231,701	231,701	231,701
Earnings per shares (in dollars)(A)/(C)	\$2.44	\$0.08	\$1.87	\$0.06

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

24. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holdings Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Vista Technology venture capital Corp.	An equity method investee
Cathay Insurance Company Limited. (China)	Subsidiary of the Company
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance Co., Ltd. (China)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity of Cathay Life Insurance Co., Ltd.
Cathay Bank Property Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Bank Life Insurance Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co, Ltd.
Indovina Bank Limited.	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Seaward Leasing Ltd.	Related Party disclosed according to Accounting Standard No. 6

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Name	Relationship
Cathay General Hospital	Related Party disclosed according to Accounting Standard No. 6
Fan Shi-Kai	Manager of the Company
Que Ming-Huang	Manager of the Company
Chang Zhao-Yang	Manager of the Company
Chen Cin-Rong	Manager of the Company
Ming Yi-Ching	Manager of the Company

(2) Significant transactions with related parties

A. Premiums income

Name	For the nine-month periods ended September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$93,080	\$2,906	\$90,940	\$2,916
Cathay United Bank	57,572	1,797	57,945	1,858
Cathay General Hospital	4,310	135	3,448	110
Seaward Leasing Ltd.	5,379	168	6,244	200
Total	<u>\$160,341</u>	<u>\$5,006</u>	<u>\$158,577</u>	<u>\$5,084</u>

B. Premiums receivable

Name	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$9,499	\$297	\$9,128	\$293
Cathay United Bank	4,883	152	9,778	313
Total	<u>\$14,382</u>	<u>\$449</u>	<u>\$18,906</u>	<u>\$606</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

C. Insurance claims payment

Name	For the nine-month periods ended September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$-	\$-	\$3,302	\$106
Cathay Life Insurance Co., Ltd.	7,233	226	6,708	215
Total	<u>\$7,233</u>	<u>\$226</u>	<u>\$10,010</u>	<u>\$321</u>

D. Cash in banks

Name	Type	For the nine-month periods ended September 30,		
		2009		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	<u>\$644,559</u>	0.10%	<u>\$345</u>
	Time deposits	<u>\$952,228</u>	0.525%~2.72%	<u>\$11,970</u>

Name	Type	For the nine-month periods ended September 30,		
		2009		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	<u>\$20,124</u>	0.10%	<u>\$11</u>
	Time deposits	<u>\$29,729</u>	0.525%~2.72%	<u>\$374</u>

Name	Type	For the nine-month periods ended September 30,		
		2010		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	<u>\$666,832</u>	0.10%	<u>\$374</u>
	Time deposits	<u>\$979,822</u>	0.10%~1.12%	<u>\$6,017</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Name	Type	For the nine-month periods ended September 30, 2010		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$21,380	0.10%	\$12
	Time deposits	\$31,415	0.10%~1.12%	\$193

E. Loans

Name	For the nine-month periods ended September 30, 2009			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$3,210	\$2,895	1.66%	\$42
Chang Zhao-Yang	\$3,172	\$3,162	1.66%	\$39
Fan Shi-Kai	\$8,795	\$8,759	1.66%	\$109
Ming Yi-Ching	\$5,721	\$5,697	1.66%	\$71

Name	For the nine-month periods ended September 30, 2009			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$100	\$90	1.66%	\$1
Chang Zhao-Yang	\$99	\$99	1.66%	\$1
Fan Shi-Kai	\$275	\$273	1.66%	\$3
Ming Yi-Ching	\$179	\$178	1.66%	\$2

Name	For the nine-month periods ended September 30, 2010			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Chang Zhao-Yang	\$3,130	\$3,034	1.82%	\$41
Fan Shi-Kai	\$8,653	\$8,135	1.82%	\$111
Ming Yi-Ching	\$5,625	\$5,406	1.82%	\$74
Chen Cin-Rong	\$3,672	\$3,658	1.82%	\$28

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Name	For the nine-month periods ended September 30, 2010			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Chang Zhao-Yang	\$100	\$97	1.82%	\$1
Fan Shi-Kai	\$277	\$261	1.82%	\$4
Ming Yi- Ching	\$180	\$173	1.82%	\$2
Chen Cin-Rong	\$118	\$117	1.82%	\$1

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

Name	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$200,750	\$6,268	\$-	\$-

G. Available-for-sale financial assets-current

Name	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$50,022	\$1,562	\$22,365	\$717

H. Guarantee deposits paid

Name	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$20,810	\$650	\$21,701	\$696
Cathay Futures Corp.	23,363	729	27,650	886
Total	\$44,173	\$1,379	\$49,351	\$1,582

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

I. Other asset – other

Name	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance Company Limited. (China)	\$54,628	\$1,706	\$16,618	\$533

J. Other payable

Name	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$141,000	\$4,402	\$86,573	\$2,776
Cathay Life Insurance Co., Ltd.	194,763	6,081	145,847	4,676
Symphox Information Co., Ltd.	-	-	6,470	207
Total	\$335,763	\$10,483	\$238,890	\$7,659

K. Operating costs

Name	Summary	For the nine-month periods ended September 30,			
		2009		2010	
		NT\$	US\$	NT\$	US\$
Cathay United Bank	Handing fee paid	\$10,996	\$343	\$9,220	\$296

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

L. Operating expenses

Name	Summary	For the nine-month periods ended September 30,			
		2009		2010	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$67,199	\$2,098	\$67,484	\$2,164
	Marketing expenses	755,051	23,573	763,866	24,491
	Party premium expenses	6,716	210	8,078	259
	Administrative expenses	4,489	140	4,394	141
Cathay United Bank	Marketing expenses	40,619	1,268	43,845	1,406
	Rental expenses	-	-	3,367	108
Seaward Leasing Ltd.	Rental expenses	3,922	123	-	-
Total		<u>\$877,996</u>	<u>\$27,412</u>	<u>\$891,054</u>	<u>\$28,569</u>

M. Other expenses

Name	For the nine-month periods ended September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$9,984</u>	<u>\$312</u>	<u>\$16,165</u>	<u>\$518</u>

N. Other

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

Item	September 30,	
	2009	2010
Forward foreign exchange contracts	US\$6,410	US\$-
CS contracts	US\$11,050	US\$28,050
IRS	NT\$600,000	NT\$600,000
	(US\$18,732)	(US\$19,237)

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$100,000 (US\$3,206) thousands for the nine-month periods ended September 30, 2010.

25. Pledged assets

Item	September 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
-Government bonds	\$365,502	\$11,411	\$358,752	\$11,502
Other financial assets-current	23,206	725	10,222	328
Guarantee deposits paid				
-Time deposits	5,222	163	10,000	320
Total	<u>\$393,930</u>	<u>\$12,299</u>	<u>\$378,974</u>	<u>\$12,150</u>

According to Article 141 of the ROC Insurance Law, the Company should deposit government bonds at an amount equal to 15% of its paid-in capital in the Central Bank of China as capital guarantee deposit. The above assets were stated at book value.

26. Commitment and contingent liabilities

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

B. As of September 30, 2010, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount (NT\$)	Amount (US\$)
October 1, 2010 ~ September 30, 2011	\$96,267	\$3,086
October 1, 2011 ~ September 30, 2012	99,081	3,177
October 1, 2012 ~ September 30, 2013	101,979	3,270
October 1, 2013 ~ September 30, 2014	104,964	3,365
October 1, 2014 ~ September 30, 2015	108,039	3,464
Total	<u>\$510,330</u>	<u>\$16,362</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

27. Significant disaster losses: None.

28. Subsequent events: None.

29. Others

(1) Pension related information

A. Pension funded status:

According to the ROC SFAS No.23 “Interim Financial Reporting and Disclosures”, the interim financial statements are required to follow the principles outlined in the ROC SFAS No.18 “Accounting for Pensions”.

(2) Risk management policies and hedge strategies

The Company’s primary financial instruments other than derivatives consists cash and cash equivalents, current and non current investments. The main purpose of holding these financial instruments is to manage cash flow. The Company 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.

The Company 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 the Company’s investment activities. The company 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.

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.. 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

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

The Company 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 the Company did not seek to hedge this exposure.

Credit risk

The company 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, the Company will freeze the related contracts until the credit of the third party recovers. Thus the Company has minimal bad debts.

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 sheets. The Company already established the information systems to accommodate the aforementioned policies.

Liquidity risk

The company's exposure to liquidity risk is minimal.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(3) Financial instruments related information:

Assets	September 30, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$5,322,948	\$5,322,948	\$166,186	\$166,186
Financial assets at fair value through profit or loss – current	593,341	593,341	18,525	18,525
Available-for-sale financial assets – current	3,133,701	3,133,701	97,836	97,836
Receivables	2,072,968	2,072,968	64,720	64,720
Prepaid reinsurance premiums	1,218,503	1,218,503	38,043	38,043
Claims recoverable from reinsurers	1,460,554	1,460,554	45,600	45,600
Due from reinsurers and ceding companies	59,428	59,428	1,855	1,855
Account receivable – reinsurance	28,803	28,803	899	899
Other financial assets - current	23,206	23,206	725	725
Secured loans	1,318,406	1,318,406	41,162	41,162
Held-to-maturity financial assets – noncurrent	3,015,829	3,015,829	94,156	94,156
Financial assets carried at cost-noncurrent	25,500	-	796	-
Investments in debt securities with no active market-noncurrent	300,000	300,000	9,366	9,366
Long-term investments under equity method	1,150,699	1,150,699	35,926	35,926
Guarantee deposits paid	495,123	495,123	15,458	15,458
Derivative financial instruments:				
Financial assets at fair value through profit or loss-current				
Forward and SWAP	116,432	116,432	3,635	3,635
Derivative financial assets for hedging-current				
IRS	29,432	29,432	919	919

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Liabilities	September 30, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non – derivative financial instrument:				
Claims outstanding	\$23,495	\$23,495	\$734	\$734
Due to reinsurers and ceding companies	269,066	269,066	8,400	8,400
Account payable – reinsurance	793,277	793,277	24,767	24,767
Operating and liabilities reserve	14,876,942	14,876,942	464,469	464,469
September 30, 2010				
Assets	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	Non-derivative financial instruments:			
Cash and Cash equivalents	\$5,796,209	\$5,796,209	\$185,836	\$185,836
Financial assets at fair value through profit or loss – current	368,835	368,835	11,825	11,825
Available-for-sale financial assets – current	3,178,739	3,178,739	101,915	101,915
Held-to-maturity financial assets – current	257,867	257,867	8,268	8,268
Receivables	1,945,882	1,945,882	62,388	62,388
Prepaid reinsurance premiums	1,007,936	1,007,936	32,316	32,316
Claims recoverable from reinsurers	1,221,566	1,221,566	39,165	39,165
Due from reinsurers and ceding companies	119,639	119,639	3,836	3,836
Account receivable – reinsurance	65,634	65,634	2,104	2,104
Other financial assets - current	10,222	10,222	328	328
Secured loans	916,758	916,758	29,393	29,393
Held-to-maturity financial assets – noncurrent	2,631,828	2,631,828	84,380	84,380
Financial assets carried at cost-noncurrent	25,500	-	818	-
Investments in debt securities with no active market-noncurrent	500,000	500,000	16,031	16,031
Long-term investments under equity method	788,238	788,238	25,272	25,272
Other financial assets - noncurrent	516,945	516,945	16,574	16,574
Guarantee deposits paid	527,678	527,678	16,918	16,918

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Assets	September 30, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial instruments:				
Financial assets at fair value through profit or loss-current				
Forward and SWAP	\$42,847	\$42,847	\$1,374	\$1,374
Derivative financial assets for hedging				
IRS	32,812	32,812	1,052	1,052
Liabilities				
Non - derivative financial instrument:				
Claims outstanding	111,519	111,519	3,576	3,576
Due to reinsurers and ceding companies	408,115	408,115	13,085	13,085
Account payable - reinsurance	594,083	594,083	19,047	19,047
Operating and liabilities reserve	15,041,814	15,041,814	482,264	482,264

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

- ① The fair value of the Company's 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, 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.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for the Company's 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. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

④ The fair value of the Company'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, the fair value was based on relevant financial or any other information.

⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at September 30, 2009 and 2010:

Financial Instruments	September 30,			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	2009	2010	2009	2010
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$3,149,089	\$4,436,446	\$2,173,859	\$1,359,763
Financial assets at fair value through profit or loss - current	593,341	368,835	-	-
Available-for-sale financial assets - current	3,133,701	3,178,739	-	-
Held-to-maturity financial asset - current	-	-	-	257,867
Other financial assets - current	23,206	10,222	-	-
Held-to-maturity financial assets - noncurrent	-	-	3,015,829	2,631,828
Investment in debt securities with no active market - noncurrent	-	-	300,000	500,000
Long-term investments under equity method	-	-	1,150,699	788,238
Other financial assets - noncurrent	-	-	-	516,945
<u>Assets- derivative</u>				
Financial assets at fair value through profit and loss – current				
Forward and SWAP	-	-	116,432	42,847
Derivative financial assets for hedging-current				
IRS	-	-	29,432	32,812

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Financial Instruments	September 30,			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	2009	2010	2009	2010
<u>Assets-non-derivative</u>				
Cash and Cash equivalents	\$98,317	\$142,240	\$67,869	\$43,596
Financial assets at fair value through profit or loss - current	18,525	11,825	-	-
Available-for-sale financial assets - current	97,836	101,915	-	-
Held-to-maturity financial asset - current	-	-	-	8,268
Other financial assets - current	725	328	-	-
Held-to-maturity financial assets - noncurrent	-	-	94,156	84,380
Investment in debt securities with no active market - noncurrent	-	-	9,366	16,031
Long-term investments under the equity method	-	-	35,926	25,272
Other financial assets - noncurrent	-	-	-	16,574
<u>Assets-derivative</u>				
Financial assets at fair value through profit or loss-current				
Forward and SWAP	-	-	3,635	1,374
Derivative financial liabilities for hedging - current				
IRS	-	-	919	1,052

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at September 30, 2009 and 2010:

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Fixed interest rate:

① September 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	\$9,405	\$101,241	\$3,161	\$100,558	\$3,140	\$204,613	\$6,388
Held-to-maturity financial assets	-	-	161,311	5,036	355,042	11,085	875,360	27,329
Investments in debt securities with no active market	-	-	-	-	300,000	9,366	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$410,699	\$12,822	\$199,981	\$6,244	\$1,318,349	\$41,160
Held-to-maturity financial assets	159,195	4,970	1,464,921	45,736	3,015,829	94,156
Investments in debt securities with no active market	-	-	-	-	300,000	9,366

② September 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	\$101,240	\$3,246	\$100,321	\$3,216	\$203,415	\$6,522	\$413,804	\$13,267
Held-to-maturity financial assets	257,867	8,268	154,968	4,968	989,749	31,733	416,198	13,344
Investments in debt securities with no active market	-	-	300,000	9,619	200,000	6,412	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$-	\$-	\$199,981	\$6,412	\$1,018,761	\$32,663
Held-to-maturity financial assets	-	-	1,070,913	34,335	2,889,694	92,648
Investments in debt securities with no active market	-	-	-	-	500,000	16,031

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

Floating interest rate:

① September 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	\$6,244	\$-	\$-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Available- for-sale financial assets	\$200,000	\$6,244	\$200,000	\$6,244	\$600,000	\$18,732		

② September 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	\$6,412	\$-	\$-	\$200,000	\$6,412
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Available-for-sale financial assets	\$200,000	\$6,412	\$-	\$-	\$600,000	\$19,236		

(5) Credit risk

The Company's exposure to credit risk is minimal.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(6) Fair value hedges

		Designated as hedging instruments			
		Fair value			
		September 30, 2009		September 30, 2010	
Hedged item	Financial instruments of designated as hedging instruments	NT\$	US\$	NT\$	US\$
Overseas bonds	Forward and SWAP	\$116,432	\$3,635	\$42,847	\$1,374

(7) Hedged of derivative financial instruments related information

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

Cash flow hedges-IRS

September 30, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,412	2.65%	Each quarter	2014/9/30
200,000	6,412	2.40%	Each quarter	2012/9/28
200,000	6,412	2.785%	Each quarter	2015/4/30

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$29,432 (US\$919) as of September 30, 2009. Unrealized gains on financial instruments were recognized in equity by NT\$32,812 (US\$1,052) as of September 30, 2010.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

(8) Discretionary account management

Item	September 30, 2009			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$328,556	\$10,258	\$328,556	\$10,258
Short - term notes	145,722	4,550	145,722	4,550
Cash in banks	184,248	5,752	184,248	5,752
Net other assets less liabilities	17,755	554	17,755	554
Total	<u>\$676,281</u>	<u>\$21,114</u>	<u>\$676,281</u>	<u>\$21,114</u>

Item	September 30, 2010			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$338,729	\$10,860	\$338,729	\$10,860
Short - term notes	170,914	5,480	170,914	5,480
Cash in banks	183,160	5,872	183,160	5,872
Net other assets less liabilities	13,692	439	13,692	439
Total	<u>\$706,495</u>	<u>\$22,651</u>	<u>\$706,495</u>	<u>\$22,651</u>

As of September 30, 2009 and 2010, the Company had discretionary account management contracts in the amount of NT\$600,000 (US\$18,732) and NT\$600,000 (US\$19,237), respectively.

(9) The allocation of revenue and expenses of the transactions, promotions and information sharing between the Company and its affiliates are based on the attribution of the transactions.

(10) Material Contract: None.

(11) Presentation of Financial Statements:

Certain accounts in financial statements for the nine month ended September 30, 2009 have been reclassified in order to be comparable with those in the financial statements for the nine-month periods ended September 30, 2010.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to unaudited financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of September 30, 2009 and 2010

30. Information for investment in Mainland China

On December 31, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$28,960 as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life Insurance). The Company has received approved from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The Company and Cathay Life Insurance subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise as legal person on August 26, 2008. As of September 30, 2010, the Company's remittances to this company totaled approximately US\$27,820.

31. Segment information: None.