Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Financial Statements

As of December 31, 2009 and 2010

With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the "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 consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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Index to consolidated financial statements

<u>English Translation of Independent Auditors' Report Originally Issued in Chinese</u>

Independent Auditors' Review Report

Board of Directors
Cathay Century Insurance Co., Ltd.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its Subsidiaries as of December 31, 2008 and 2009, and the results of its operations and their cash flows for the years then ended 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 accounting principles generally accepted in the Republic of China.

ERNST & YOUNG
Taipei, Taiwan
The republic of China
March 7,2011

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Consolidated balance sheets

As of December 31, 2009 and 2010

(Expressed in thousands of dollars)

		December 31,2009		December 31,2010	
Assets	Notes	NT$	US$	NT$	US$
Current assets					
Cash and cash equivalents	2,4	$6,988,954	$218,747	$7,671,652	$263,269
Financial assets at fair value through profit or loss - current	2,5	710,157	22,227	283,278	9,721
Available-for-sale financial assets - current	2,6	3,372,772	105,564	4,087,527	140,272
Held-to-maturity financial assets - current	2,7	-	-	161,477	5,541
Derivative financial assets for hedging - current	2,8	27,213	852	30,391	1,043
Notes receivable		255,978	8,012	219,830	7,544
Premiums receivable	2,11	2,033,938	63,660	1,913,696	65,672
Prepaid reinsurance premiums		1,330,286	41,636	1,224,444	42,019
Claims recoverable from reinsurers		1,188,089	37,186	1,848,396	63,432
Due from reinsurers and ceding companies		75,258	2,355	83,502	2,866
Accounts receivable - reinsurance		45,046	1,410	59,793	2,052
Other accounts receivable		92,234	2,887	72,970	2,504
Other financial assets-current		23,428	733	15,000	515
Prepayments		7,669	240	5,050	173
Deferred income tax assets - current		28,219	883	52,300	1,795
Other current assets		-	-	7,979	274
Subtotal		16,179,241	506,392	17,737,285	608,692
Loans					
Secured loans	2,12	1,144,564	35,824	705,214	24,201
Subtotal		1,144,564	35,824	705,214	24,201
Funds and investments					
Held-to-maturity financial assets - noncurrent	2,13	3,005,706	94,075	2,397,614	82,279
Financial assets carried at cost - noncurrent	2,14	25,500	798	61,500	2,111
Investments in debt securities with no active market - noncurrent	2,15	300,000	9,390	500,000	17,159
Long-term investments under equity method	2,16	5,702	178	5,720	195
Subtotal		3,336,908	104,441	2,964,834	101,744
Property and equipment	2,17				
Communication and transportation equipments		1,880	59	954	33
Other equipments		323,347	10,120	400,366	13,739
Leasehold improvements		24,932	780	31,114	1,068
Subtotal		350,159	10,959	432,434	14,840
Less: Accumulated depreciation		(204,958)	(6,415)	(259,320)	(8,899)
Prepayments for equipments		19,736	618	20,485	703
Subtotal		164,937	5,162	193,599	$6,644
Intangible assets					
Computer software cost	2,18	8,955	280	35,236	1,209
Deferred pension cost		5,222	164	4,642	160
Subtotal		14,177	444	39,878	$1,369
Other assets					
Guarantee deposits paid	2	891,468	27,902	973,166	33,396
Overdue receivables		153,699	4,811	164,609	5,649
Other assets - others		31,603	989	54,181	1,859
Subtotal		1,076,770	33,702	1,191,956	40,904
Total assets		$21,916,597	$685,965	$22,832,766	$783,554

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT$31.95 and NT$29.14 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.

Consolidated balance sheets - (Continued)

As of December 31, 2009 and 2010

(Expressed in thousands of dollars)

		December 31,2009		December 31,2010	
Liabilities & stockholders' equity	Notes	NT$	US$	NT$	US$
Current liabilities					
Commissions payable		$9,959	$312	$13,756	$472
Claims outstanding		22,817	714	31,595	1,084
Due to reinsurers and ceding companies		378,883	11,858	302,350	10,376
Accounts payable - reinsurance		592,731	18,552	642,750	22,057
Other payables		858,532	26,871	762,631	26,171
Subtotal		1,862,922	58,307	1,753,082	$60,160
Long-term liabilities					
Accrued pension liabilities		17,590	551	57,548	1,975
Subtotal		17,590	551	57,548	1,975
Operating and liability reserve	2,20				
Unearned premiums reserve		6,875,457	215,194	6,967,010	239,088
Special reserve		5,066,881	158,588	5,163,248	177,188
Claims reserve		2,753,274	86,174	4,503,630	154,551
Premiums deficiency reserve		17,594	551	11,045	379
Subtotal		14,713,206	460,507	16,644,933	571,206
Other liabilities					
Guarantee deposits received		2,553	80	350	12
Other liabilities - others		166,643	5,216	205,991	7,069
Subtotal		169,196	5,296	206,341	7,081
Total liabilities		16,762,914	524,661	18,661,904	$640,422
Stockholders' equity					
Capital stock					
Common stock	21	2,317,006	72,520	2,317,006	79,513
Capital surplus		1,929	60	1,929	66
Retained earnings	22				
Legal reserve		617,164	19,317	774,213	26,568
Special reserve		295,628	9,253	-	-
Unappropriated retained earnings		872,406	27,305	301,148	10,335
Equity adjustment					
Unrealized gains or losses on financial instruments		145,551	4,556	187,787	6,444
Cumulative translation adjustments		57,143	1,788	(63,039)	(2,163)
Net loss not recognized as net pension cost		(6,792)	(213)	(47,368)	(1,625)
Minority interest		853,648	26,718	699,186	23,994
Total stockholders' equity		5,153,683	161,304	4,170,862	143,132
Total liabilities and stockholders' equity		$21,916,597	$685,965	$22,832,766	$783,554

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT$31.95 and NT$29.14 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.

Consolidated statements of income

For the years ended December 31, 2009 and 2010

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

Items	Notes	January 1-December 31,2009 NT$	January 1-December 31,2009 US$	January 1-December 31,2010 NT$	January 1-December 31,2010 US$
Operating revenues	2				
Premiums income		$11,932,781	$373,483	$12,958,526	$444,699
Reinsurance commission earned		342,188	10,710	361,463	12,404
Claims recovered from reinsurers		1,958,539	61,300	2,112,105	72,481
Recovered unearned premiums reserve		5,353,152	167,548	5,542,912	190,217
Recovered special claim reserve		443,891	13,893	628,156	21,556
Recovered claims reserve		407,864	12,766	689,353	23,657
Recovery from premiums deficiency reserve		21,360	669	17,594	604
Handling fee earned		29,111	911	29,123	999
Interest revenues		397,040	12,427	332,187	11,400
Gains from valuation on financial assets		206,315	6,457	141,534	4,857
Gains on investments recognized under the equity method		-	-	15	-
Gains on disposal of investments		-	-	301,417	10,344
Subtotal		21,092,241	660,164	23,114,385	793,218
Operating costs	2				
Reinsurance premiums ceded		(3,450,307)	(107,991)	(3,622,438)	(124,312)
Commissions expenses		(118,780)	(3,717)	(137,401)	(4,715)
Insurance claims payment		(6,093,117)	(190,708)	(7,728,362)	(265,215)
Provision for unearned premiums reserve		(5,545,833)	(173,578)	(5,744,321)	(197,128)
Provision for special claim reserve		(796,212)	(24,921)	(724,523)	(24,863)
Contribution to the stabilization funds		(23,144)	(724)	(27,002)	(927)
Provision for claims reserve		(687,365)	(21,514)	(901,079)	(30,923)
Provision for premiums deficiency reserve		(17,594)	(551)	(12,251)	(420)
Handling fee paid		(326,931)	(10,233)	(385,418)	(13,226)
Interest expenses		(319)	(10)	-	-
Losses on investments recognized under the equity method		(35,433)	(1,109)	-	-
Exchange losses		(70,402)	(2,203)	(311,180)	(10,679)
Losses on disposal of investments		(80,476)	(2,519)	-	-
Other operating costs		(7,283)	(228)	(9,407)	(323)
Subtotal		(17,253,196)	(540,006)	(19,603,382)	(672,731)
Operating gross profit		3,839,045	120,158	3,511,003	120,487
Operating expenses	2				
Marketing expenses		(2,259,384)	(70,716)	(2,593,923)	(89,016)
Management and general affairs expenses		(583,754)	(18,272)	(716,217)	(24,578)
Operating income		995,907	31,170	200,863	6,893
Non-operating revenues					
Gains on disposal of property and equipment		-	-	353	12
Other non-operating revenues		16,992	532	30,187	1,036
Subtotal		16,992	532	30,540	1,048
Non-operating expenses					
Losses on disposal of property and equipment		(20)	(1)	(79)	(3)
Miscellaneous expenses		(58)	(1)	(99)	(3)
Subtotal		(78)	(2)	(178)	(6)
Consolidated income before income taxes		1,012,821	31,700	231,225	7,935
Income taxes expense	2,24	(268,808)	(8,413)	(40,356)	(1,385)
Consolidated net income		744,013	23,287	190,869	6,550
Include:					
Parent company		785,247	24,577	301,148	10,335
Minority interest		(41,234)	(1,290)	(110,279)	(3,785)
Consolidated net income		$744,013	$23,287	$190,869	$6,550
Earnings per share (In dollars)					
Consolidated net income		$3.21	$0.10	$0.82	$0.03

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT$31.95 and NT$29.14 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.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2009 and 2010

(Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings						Equity adjustment									
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative translation adjustments		Net loss not recognized as net pension cost		Minority interest		Total	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2009	$2,317,006	$72,520	$1,929	$60	$521,467	$16,322	$-	$-	$478,484	$14,976	($295,628)	($9,252)	$79,564	$2,490	$(6,383)	($200)	$917,304	$28,711	$4,013,743	$125,627
Changes in minority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriations and distributions for 2008																		-		
Legal reserve	-	-	-	-	95,697	2,995	-	-	(95,697)	(2,995)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	295,628	9,253	($295,628)	(9,253)	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	441,179	13,808	-	-	-	-	-	-	441,179	13,808
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(22,421)	(702)	-	-	(22,422)	(702)	(44,843)	(1,404)
Net loss not recognized as net pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(409)	(13)	-	-	(409)	(13)
Net Income for the year ended December 31, 2009	-	-	-	-	-	-	-	-	785,247	24,577	-	-	-	-	-	-	(41,234)	(1,291)	744,013	23,286
Balance on December 31, 2009	$2,317,006	$72,520	$1,929	$60	$617,164	$19,317	$295,628	$9,253	$872,406	$27,305	$145,551	$4,556	$57,143	$1,788	$(6,792)	$(213)	$853,648	$26,718	$5,153,683	$161,304
Balance on January 1, 2010	$2,317,006	$79,513	$1,929	$66	$617,164	$21,179	$295,628	$10,145	$872,406	$29,938	$145,551	$4,995	$57,143	$1,961	$(6,792)	$(233)	$853,648	$29,295	$5,153,683	$176,859
Appropriations and distributions for 2009																				
Legal reserve	-	-	-	-	157,049	5,389	-	-	(157,049)	(5,389)	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(295,628)	(10,145)	295,628	10,145	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(926,802)	(31,805)	-	-	-	-	-	-	-	-	(926,802)	(31,805)
Bonus paid to stockholder	-	-	-	-	-	-	-	-	(84,183)	(2,889)	-	-	-	-	-	-	-	-	(84,183)	(2,889)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	42,236	1,449	-	-	-	-	- 823	(28)	41,413	1,421
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(120,182)	(4,124)	-	-	(43,360)	(1,488)	(163,542)	(5,612)
Net loss not recognized as net pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(40,576)	(1,392)	-	-	(40,576)	(1,392)
Net Income for the year ended December 31, 2010	-	-	-	-	-	-	-	-	301,148	10,335	-	-	-	-	-	-	(110,279)	(3,785)	190,869	6,550
Balance on December 31, 2010	$2,317,006	$79,513	$1,929	$66	$774,213	$26,568	$-	$-	$301,148	$10,335	$187,787	$6,444	$(63,039)	($2,163)	$(47,368)	$(1,625)	$699,186	$23,994	$4,170,862	$143,132

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT$31.95 and NT$29.14 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.

Consolidated tatements of cash flows

For the years ended December 31, 2009 and 2010

(Expressed in thousands of dollars)

	January 1-December 31,2009		January 1-December 31,2010	
Items	NT$	US$	NT$	US$
Cash flows from operating activities				
Consolidated income for the periods	$744,013	$23,287	$190,869	$6,550
Adjustments to reconcile consolidated income to net cash provided by (used in) operating activities:				
Amortization	6,126	192	9,862	338
Depreciation	52,402	1,640	58,955	2,023
Provsion bad debt	3,451	108	-	-
收回呆帳利益	-	-	(1,497)	(51)
Provision for reserve for operations	7,047,005	220,564	7,382,174	253,335
Recovered unearned premiums reserve	(5,353,152)	(167,548)	(5,542,912)	(190,217)
Recovered special claim reserve	(443,892)	(13,893)	(628,156)	(21,556)
Recovered claims reserve	(407,864)	(12,766)	(689,353)	(23,657)
Recovered from premiums deficiency reserve	(21,360)	(669)	(17,594)	(604)
Gains on disposal of property and equipment	-	-	(353)	(12)
Losses on disposal of property and equipment	20	1	79	3
Gains on reclassification of property and equipment	-	-	300	10
Gains on valuation on financial assets	(206,315)	(6,457)	(141,534)	(4,857)
Losses on on long-term equity investments less than cash dividends received	41,433	1,297	(15)	-
Effects of exchange rate changes	70,402	2,203	311,180	10,679
Decrease (increase) in financial assets at fair value through profit or loss - curren	(351,985)	(11,017)	568,412	19,506
Decrease (increase) in notes receivable	(13,089)	(410)	36,148	1,241
Decrease (increase) in premiums receivable	(98,955)	(3,097)	121,739	4,178
Decrease in prepaid reinsurance premiums	93,022	2,911	105,842	3,632
Increase in claims recoverable from reinsurers	(45,388)	(1,421)	(660,306)	(22,660)
(Increase) decrease in due from reinsurers and ceding companies	134,671	4,215	(8,244)	(283)
Increase in reinsurance accounts receivable	(18,492)	(579)	(14,747)	(506)
Decrease in other accounts receivable	11,592	363	19,264	661
Decrease (increase) in prepayments	(224)	(7)	2,619	90
(Increase) decrease in deferred income tax assets-current	15,651	490	(24,081)	(826)
Increase in other current assets	-	-	(7,979)	(274)
(Increase) decrease in overdue receivables	80,142	2,508	(10,910)	(374)
Increase in other assets-others	(4,921)	(154)	(22,578)	(775)
Increase in commissions payable	1,785	56	3,797	130
Increase in claims outstanding	7,608	238	8,779	301
Decrease in due to reinsurers and ceding companies	(79,382)	(2,485)	(76,533)	(2,626)
Increase (decrease) in reinsurance accounts payable	(256,498)	(8,028)	50,018	1,716
(Decrease) increase in other payables	158,051	4,947	(95,901)	(3,291)
Decrease in accrued pension liabilities	(106)	(3)	(38)	(1)
Increase in other liabilities-others	37,227	1,165	39,348	1,350
Increase (decrease) in claims reserve	(197,432)	(6,179)	1,444,625	49,575
Net cash provided by operating activities	1,005,546	31,472	2,411,279	82,748

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT$31.95 and NT$29.14 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.

Consolidated statements of cash flows-(Continued)

For the years ended December 31, 2009 and 2010

(Expressed in thousands of dollars)

	January 1-December 31,2009		January 1-December 31,2010	
Items	NT$	US$	NT$	US$
Cash flows from investing activities				
(Increase) decrease in available-for-sale financial assets - current	20,976	656	(670,436)	(23,008)
Decrease in held-to-maturity financial assets - current	565,920	17,713	-	-
Decrease in investments in debt securities with no active market - current	100,131	3,134	-	-
Decrease in other financial assets-current	13,156	412	13,428	461
Decrease in held-to-maturity financial assets - noncurrent	-	-	446,615	15,326
Decrease in investments in debt securities with no active market - noncurrent	(300,000)	(9,390)	(200,000)	(6,863)
Increase in financial assets carried at cost - noncurrent	-	-	(36,000)	(1,235)
Decrease in secured loans	355,050	11,113	439,350	15,077
Decrease in long-term investments in stocks under equity method	359,315	11,246	-	-
Disposal of property and equipment	79	2	401	14
Acquisition of property and equipment	(39,151)	(1,225)	(100,658)	(3,454)
Acquisition of intangible assets	(969)	(30)	(24,791)	(851)
(Increase) decrease in guarantee deposits paid	84,706	2,651	(92,784)	(3,184)
Net cash provided by (used in) investing activities	1,159,213	36,282	(224,875)	(7,717)
Cash flows from financing activities				
Increase (decrease) in guarantee deposits paid	2,553	80	(2,203)	(76)
Cash dividends	-	-	(926,802)	(31,805)
Bonus paid to employees	-	-	(84,183)	(2,889)
Net cash (used in) provided by financing activities	2,553	80	(1,013,188)	(34,770)
Effects of exchange rate changes	(120,342)	(3,766)	(490,518)	(16,833)
Increase in cash and cash equivalents	2,046,970	64,068	682,698	23,428
Cash and cash equivalents at the beginning of periods	4,941,984	154,679	6,988,954	239,841
Cash and cash equivalents at the end of periods	$6,988,954	$218,747	$7,671,652	$263,269
Supplemental disclosure of cash flows information				
Income tax paid	$215,438	$6,743	$231,931	$7,959

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT$31.95 and NT$29.14 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. and Subsidiaries

Notes to audited consolidated financial statements

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

As of December 31, 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 December 31, 2009 and 2010, the total numbers of employees were 1,280 and 1,542, respectively.

2. Summary of significant accounting policies

We prepared the consolidated 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) Principles of consolidation

A. The Company adopted SFAS No. 7 "Consolidated Financial Statements". As of December 31, 2009 and 2010, the consolidated financial statements include the followings:

Investor	Investee	Business	Ownership interest		Notes
			2009.12.31	2010.12.31	
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on August 26, 2008. The Company and Cathay Life Insurance Co., Ltd. ownership interests are 50% of the common stock, respectively. As of December 31, 2009 and 2010, the total numbers of employees was 97 and 208.

Investor	Investee	Business	Ownership interest		Notes
			2009.12.31	2010.12.31	
The Company	Cathay Insurance (Vietnam) Ltd. (“Cathay Insurance (Vietnam)”)	Property Insurance	-	100.00%	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on November 2, 2010. The Company ownership interest is 100% of the common stock respectively. As of December 31, 2010, the total numbers of employees was 37.

B. All material inter-company transactions were eliminated in the consolidated financial statements.

(2) 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.

(3) 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.

(4) 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.

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.

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.

(5) Allowance for bad debts

A. The Company

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.

B. Cathay Insurance (China)

The allowance for bad debts of Cathay Insurance (China) was calculated by management using aging analysis, past experience and based on the year end balances of receivables such as premiums receivable, interest receivable and accounts receivable.

(6) 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.

(7) Property and equipment

A. The Company

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 Fixed Assets 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.

B. Cathay Insurance (China)

Property and equipment of Cathy Insurance (China) are assets with useful life over a year and value per unit exceeds $2,000 RMB such as houses, buildings, machines, equipments and vehicles. These assets are recorded at cost and depreciated using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of those fixed assets are 100% of their costs estimated based on their nature and conditions of usage.

(8) Intangible assets

The Company and Subsidiaries adopted the ROC SFAS No. 37 “Accounting for Intangible Assets” on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair 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 and Subsidiaries are deemed finite.

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets. The Company and Subsidiaries revaluates 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 they are amortized over the estimated useful lives of 3 years using the straight-line method.

The “intangible assets” of “the Subsidiaries” are computer software and they are amortized over the estimated useful lives of 1-2 years using the straight-line method.

(9) 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).

(10) 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.

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.

(11) Guaranteed depository insurance payment

According to the Insurance Act of the People's Republic of China, the guaranteed deposit is 20% of the registration capital. The guaranteed deposit of Cathay Insurance (China) is deposited in the designated bank account.

(12) Operating and liability reserves

A. The Company

Operating and liability 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.

B. Cathay Insurance (China)

In accordance with the Insurance Act of the People's Republic of China, the operating reserves (including unearned premium reserves and claim reserves) are required and are calculated based on the actuarial report.

(13) 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.

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

(14) Premiums income

The Company

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.

(15) Contribution to the stabilization funds

A. The Company

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.

B. Cathay Insurance (China)

According to the Insurance Act of the People’s Republic of China, the insurance company which operated over one year in the previous year should deposit one-forth of the previous year’s contribution to the stabilization funds as current quarter’s prepayment to the account. The fund will be deposited each season until the amount of the fund is up to 6% of the amount of total assets.

(16) 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.

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.

(17) 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.

(18) 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 shareholders' meeting.

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.

(19) 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.

(20) 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 belong 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.

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.

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.

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.

(21) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2009 and 2010 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$31.95 and NT$29.14 provided by Federal Reserve Bank of New York of December 31, 2009 and 2010 are used for the conversion.

(22) 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.

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

3. Changes in accounting and their effects

None.

4. Cash and cash equivalents

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Petty cash and Cash on hand	$6,397	$200	$6,454	$222
Cash in banks	1,796,081	56,216	2,072,840	71,134
Time deposits	3,166,477	99,107	4,226,560	145,043
Cash equivalents	2,019,999	63,224	1,365,798	46,870
Total	$6,988,954	$218,747	$7,671,652	$263,269

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

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Common stock	$394,327	$12,342	$-	$-
Beneficiary certificates	200,000	6,260	102,470	3,516
Corporate bonds	33,600	1,052	-	-
Derivative financial instruments	369	11	-	-
Subtotal	628,296	19,665	102,470	3,516
Add: Valuation adjustment	81,861	2,562	180,808	6,205
Total	$710,157	$22,227	$283,278	$9,721

6. Available-for-sale financial assets-current

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Common stock	$955,225	$29,898	$1,276,891	$43,819
Beneficiary certificates	710,569	22,240	783,922	26,902
Government bonds	-	-	10,965	376
Corporate bonds	799,875	25,035	1,064,594	36,534
Financial debentures	800,517	25,055	800,250	27,462
Subtotal	3,266,186	102,228	3,936,622	135,093
Add: Valuation adjustment	106,586	3,336	150,905	5,179
Total	$3,372,772	$105,564	$4,087,527	$140,272

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

7. **Held-to-maturity financial assets-current**

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Overseas bonds	$-	$-	$161,477	$5,541

8. **Derivative financial assets for hedging - current**

	December 31, 2009		December 31, 2010	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	27,213	852	30,391	1,043
Total	$27,213	$852	$30,391	$1,043

9. **Premiums receivable**

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Premiums receivable	$2,057,501	$64,398	$1,934,524	$66,387
Less: Allowance for bad debts	(23,563)	(738)	(20,828)	(715)
Net	$2,033,938	$63,660	$1,913,696	$65,672

10. **Loans**

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Secured loans	$1,218,879	$38,150	$735,964	$25,256
Less: Allowance for bad debts	(74,315)	(2,326)	(30,750)	(1,055)
Net	$1,144,564	$35,824	$705,214	$24,201

Secured loans are secured by real estate.

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

11. Held-to-maturity financial assets – noncurrent

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Overseas bonds	$3,005,706	$94,075	$2,559,091	$87,820
Less: Overseas bonds by payable within one year	-	-	(161,477)	(5,541)
Total	$3,005,706	$94,075	$2,397,614	$82,279

12. Financial assets carried at cost – noncurrent

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
KGEX. Com Co., Ltd.	$25,500	$798	$25,500	$875
Primax Electronics Ltd.	-	-	36,000	1,236
Total	$25,500	$798	$61,500	$2,111

13. Investment in debt securities with no active market-noncurrent

	December 31, 2009		December 31, 2010	
Item	NT$	US$	NT$	US$
Corporate bonds	$300,000	$9,390	$500,000	$17,159

14. Long-term investments under equity method

	December 31, 2009		December 31, 2010	
Investee	NT$	US$	NT$	US$
Vista Technology Venture Capital Corp.	$5,702	$178	$5,720	$195

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

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

	For the years ended December 31,			
	2009		2010	
	NT$	US$	NT$	US$
Balance on January 1	$368,692	$11,540	$5,702	$195
Add (less):				
Investment (loss) income recognized under the equity method	(35,433)	(1,109)	15	-
Unrealized gains on financial instruments recognized under the equity investment	37,758	1,182	3	-
Investment company share shall return	(78,750)	(2,465)	-	-
Cash dividends	(6,000)	(188)	-	-
Decrease in investments	(271,315)	(8,492)	-	-
Losses on disposal of investment	(9,250)	(290)	-	-
Balance on December 31	$5,702	$178	$5,720	$195

B. The investment income (losses) recognized under equity method for the years ended December 31, 2009 and 2010 are listed below:

	For the years ended December 31,			
	2009		2010	
Investee	NT$	US$	NT$	US$
Cathay Venture Capital Corp.	$(38,905)	$(1,217)	$-	$-
Cathay Pacific Venture Co., Ltd.	4,170	130	-	-
Vista Technology Venture Capital Corp.	(698)	(22)	15	-
Total	$(35,433)	$(1,109)	$15	$-

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

C. Equity method was applied for the whose common stocks was jointly held by the Company Vista Technology Venture Capital Corp. For the years ended December 31, 2009 and 2010 and its related parties in an amount over 20%.

D. 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.

E. The Company sold the stock of Cathay Pacific Venture Capital Co., Ltd. to Cathay Financial Holdings Co., Ltd. in October, 2009. The loss of NT$9,250 (US$289) arising from a transaction with disposal of Cathay Pacific Venture Capital Co., Ltd.

15. Fixed assets

	December 31, 2009					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Communication and transportation equipments	$1,880	$59	$1,800	$56	$80	$3
Other equipments	323,347	10,120	191,476	5,993	131,871	4,127
Leasehold improvements	24,932	780	11,682	366	13,250	414
Subtotal	350,159	10,959	204,958	6,415	145,201	4,544
Prepayments for equipments	19,736	618	-	-	19,736	618
Total	$369,895	$11,577	$204,958	$6,415	$164,937	$5,162

	December 31, 2010					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Communication and transportation equipments	$954	$33	$954	$33	$-	$-
Other equipments	400,366	13,739	236,759	8,125	163,607	5,615
Leasehold improvements	31,114	1,068	21,607	741	9,507	326
Subtotal	432,434	14,840	259,320	8,899	173,114	5,941
Prepayments for equipments	20,485	703	-	-	20,485	703
Total	$452,919	$15,543	$259,320	$8,899	$193,599	$6,644

No equipments of the Company were pledged as of December 31, 2009 and 2010.

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

16. Intangible assets - Computer software cost

Item	January 1,2009 NT$	January 1,2009 US$	Increase NT$	Increase US$	Decrease NT$	Decrease US$	December 31, 2009 NT$	December 31, 2009 US$
Acquired cost:								
Computer software cost	$59,786	$1,871	$2,214	$69	$-	$-	$62,000	$1,940
Amortization and impairment								
Amortization	(46,919)	(1,468)	(6,126)	(192)	-	-	(53,045)	(1,660)
Book value	$12,867	$403					$8,955	$280

Item	January 1,2010 NT$	January 1,2010 US$	Increase NT$	Increase US$	Decrease NT$	Decrease US$	December 31, 2010 NT$	December 31, 2010 US$
Acquired cost:								
Computer software cost	$62,000	$2,128	$34,948	$1,199	$-	$-	$96,948	$3,327
Amortization and impairment								
Amortization	(53,045)	(1,821)	(8,667)	(297)	-	-	(61,712)	(2,118)
Book value	$8,955	$307					$35,236	$1,209

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.

The intangible assets of “the Subsidiaries” are computer software and are calculated using the straight-line method over the estimated useful lives within 1-2 years.

17. Operating and liability reserve

	January 1, 2009 NT$	January 1, 2009 US$	Provision NT$	Provision US$	Recovered NT$	Recovered US$	December 31, 2009 NT$	December 31, 2009 US$
Unearned premiums reserve	$6,776,430	$212,095	$6,875,457	$215,194	$6,776,430	$212,095	$6,875,457	$215,194
Special reserve	4,714,560	147,560	796,212	24,921	443,891	13,893	5,066,881	158,588
Claims reserve	2,583,871	80,872	2,753,274	86,174	2,583,871	80,872	2,753,274	86,174
Premiums deficiency reserve	21,360	669	17,594	551	21,360	669	17,594	551
Total	$14,096,221	$441,196	$10,442,537	$326,840	$9,825,552	$307,529	$14,713,206	$460,507

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

	January 1, 2010		Provision		Recovered		December 31, 2010	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Unearned premiums reserve	$6,875,457	$235,946	$6,967,010	$239,088	$6,875,457	$235,946	$6,967,010	$239,088
Special reserve	5,066,881	173,880	724,523	24,864	628,156	21,556	5,163,248	177,188
Claims reserve	2,753,274	94,484	4,503,630	154,551	2,753,274	94,484	4,503,630	154,551
Premiums deficiency reserve	17,594	604	11,045	379	17,594	604	11,045	379
Total	$14,713,206	$504,914	$12,206,208	$418,882	$10,274,481	$352,590	$16,644,933	$571,206

The net unearned premium reserve for the first half year of 2009 was the insurance and reinsurance business assumed of NT$6,875,457 (US$215,194) offsetting by reinsurance business ceded of NT$1,330,286 (US$41,636). The net unearned premium reserve for the year of 2010 was the insurance and reinsurance business assumed of NT$6,967,010 (US$239,088) offsetting by reinsurance business ceded of NT$1,224,444 (US$42,019).

The claims reserves above represent outstanding claims of NT$2,066,572 (US$64,681) and IBNR (Incurred But Not Reported) of NT$686,702 (US$21,493) of December 31, 2009. The claims reserves above represent outstanding claims of NT$3,602,551 (US$123,629) and IBNR (Incurred But Not Reported) of NT$901,079 (US$30,922) of December 31, 2010.

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" by Article 0910751651, 0920751929 and 09602505761 of Ministry of Finance：

(1) Unearned premium reserve

A. The Company

Effective from December 24, 2002, 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 provide based on the assumed premium in accordance with the article of Ministry of Finance.

B. Cathay Insurance (China)

In accordance with the Insurance Act of the People's Republic of China, (unearned premium reserves) is required and are calculated based on the actuarial report.

(2) Special reserve

A. Catastrophe reserve：

a. Addition: Catastrophe reserve should be accrued based on respective reserve rates of various insurance product categories.

b. Reduction: The amount of assumed claims of catastrophe in excess of NT$30 million should be deducted from the catastrophe reserve. In addition, the deducted amount is required to be reported to authorities.

c. Recovery: The catastrophe reserve over 15 years the unearned premium reserve should be reversed and then accrued is required to be reported to authorities.

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

a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve.

Provision contingency reserve was thirty and fifteen percentage before and after January, 2008, respectively.

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 exceeds 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:

A. The Company

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:

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".

B. Cathay Insurance (China)

In accordance with the Insurance Act of the People's Republic of China, claim reserves is required and are calculated based on the actuarial report.

(4) Premiums deficiency reserve :

A. The Company

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

B. Cathay Insurance (China)

In accordance with the Insurance Act of the People's Republic of China, premiums deficiency reserve is required and are calculated based on the actuarial report.

18. Common stock

As of December 31, 2009 and 2010, the authorized and issued thousand shares were 231,701 with par value of NT$10 each.

19. 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.

(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 remained 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 regulations issued by SFC, the Company should assume that dividends for year 2009 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

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

	For the year ended December 31, 2009	
	NT$	US$
A Distribution		
Bonus paid to employees – Cash	$-	$-
Bonus paid to employees – Stock	-	-
Remuneration paid to directors and supervisors	-	-
B. Earnings per share after income taxes (expressed in dollars)	3.39	0.11
Pro forma earnings per share (expressed in dollars)	3.39	0.11

$$\text{Pro forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

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

(5) 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.

(6) 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.

(7) The accrual of employee bonus of NT$2,099 (US$67) and NT$0 (US$0) for the years of 2009 and 2010, respectively, 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.

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

(8) The Company distributes $1,684 (US$58) of employee bonus and directors compensation of 2009. The difference of NT$415 (US$14) exists between the accrual and actual amount resolved by the financial statements be recorded in 2010.

20. Personnel, depreciation, depletion and amortization expenses

Item	For the years ended December 31, 2009 (NT$)			For the years ended December 31, 2010 (NT$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$1,153,718	$1,153,718	$-	$1,312,441	$1,312,441
Labor & health insurance expenses	-	59,718	59,718	-	77,263	77,263
Pension expenses	-	55,468	55,468	-	59,880	59,880
Other expenses	-	38,301	38,301	-	43,603	43,603
Depreciation	-	52,402	52,402	-	58,955	58,955
Depletion	-	-	-	-	-	-
Amortization	-	6,126	6,126	-	9,862	9,862

Item	For the years ended December 31, 2009 (NT$)			For the years ended December 31, 2010 (NT$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$36,110	$36,110	$-	$45,039	$45,039
Labor & health insurance expenses	-	1,869	1,869	-	2,651	2,651
Pension expenses	-	1,736	1,736	-	2,055	2,055
Other expenses	-	1,199	1,199	-	1,496	1,496
Depreciation	-	1,640	1,640	-	2,023	2,023
Depletion	-	-	-	-	-	-
Amortization	-	192	192	-	338	338

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

21. 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 Jan 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 Jan, 1, 2010.

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2009		2010	
Item	NT$	US$	NT$	US$
Income tax calculates on accounting	$1,012,821	$31,700	$231,225	$7,935
Adjustments:				
Interest income of tax on a separate basis	(31,040)	(972)	(100)	(4)
Gains from valuation on financial assets (liabilities)	(231,786)	(7,254)	(36,168)	(1,241)
Gains derived from investment	(24,385)	(763)	(55,567)	(1,907)
Losses (gains) derived from securities/futures transactions	48,612	1,521	(136,518)	(4,685)
Investment losses recognized by the equity method	35,433	1,109	(15)	-
Unrealized losses on foreign exchanges	61,002	1,909	273,159	9,374
Realized gains (losses) on foreign exchanges	9,045	283	(61,002)	(2,093)
Others	86,496	2,707	226,808	7,783
Taxable Income	966,198	30,240	441,822	15,162
Multiply by : tax rate	25%	25%	17%	17%
Subtotal	241,550	7,560	75,110	2,578
Tax effects under integrated income tax systems	(8,716)	(273)	-	-
Subtotal	232,834	7,287	75,110	2,578
Taxed separately	2,262	70	20	1
Extra 10% income tax on undistributed retained earning	8,716	273	-	-
Adjustments of prior year's income tax	(801)	(25)	(10,692)	(367)
Deferred income tax expenses	5,650	490	(29,794)	(1,023)
Others	10,147	318	5,712	196
Total income tax expenses	$268,808	$8,413	$40,356	$1,385

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

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

	December 31,			
	2009		2010	
	NT$	US$	NT$	US$
A. Total deferred income tax assets	$87,130	$2,727	$160,958	$5,524
B. Total deferred income tax liabilities	$21,073	$660	$24,199	$830
C. Allowance for tax assets	$37,838	$1,184	$84,459	$2,898
D. Temporary differences:				
Bad debts exceeding legal limitation	$128,558	$4,024	$130,584	$4,481
Unrealized losses on foreign exchanges	61,002	1,909	273,159	9,374
Unrealized gains from valuation on financial assets	(105,366)	(3,298)	(142,349)	(4,885)
Others	5,577	175	5,539	190
Total	$89,771	$2,810	$266,933	$9,160

	December 31,			
	2009		2010	
	NT$	US$	NT$	US$
E. Operating loss carry-forward	$151.351	$4,737	$337,838	$11,594

	December 31,			
	2009		2010	
	NT$	US$	NT$	US$
F. Investment tax credit	$10,264	$321	$6,921	$238

	December 31,			
	2009		2010	
	NT$	US$	NT$	US$
G. Deferred income tax assets-current	$49,292	$1,543	$76,499	$2,625
Deferred income tax liabilities-current	(21,073)	(660)	(24,199)	(830)
Net balance deferred income tax assets -current	$28,219	$883	$52,300	$1,795

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

	December 31,			
	2009		2010	
	NT$	US$	NT$	US$
H. Deferred income tax assets-noncurrent	$37,838	$1,184	$84,459	$2,898
Allowance for tax assets-noncurrent	(37,838)	(1,184)	(84,459)	(2,898)
Net balance deferred income tax assets -noncurrent	$-	$-	$-	$-

(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:

		The amount of investment tax credit		The remaining balance		
Law of Investment tax credit	The credits items	NT$	US$	NT$	US$	Expiry year
Statute for Upgrading Industries	Personnel training	$3,296	$113	$3,296	$113	2011
		3,625	125	3,625	125	2012
Total		$6,921	$238	$6,921	$238	

(5) Information related to imputation:

	December 31,			
	2009		2010	
	NT$	US$	NT$	US$
Balance of imputation credit account	$21,401	$670	$14,157	$486

	December 31, 2009 (real)	December 31, 2010 (estimated)
Imputation creditable ratio	2.48%	4.71%

(6) Information relating of undistributed earnings:

	December 31,			
	2009		2010	
Year	NT$	US$	NT$	US$
Prior to 1997	$-	$-	$-	$-
After 1998	872,406	27,305	301,148	10,335
Total	$872,406	$27,305	$301,148	$10,335

Net income after tax for the years ended December 31, 2009 and 2010 are not included in the undistributed earnings after 1998 expressed above.

22. Earnings per share

	For the years ended December 31, 2009		For the years ended December 31, 2010	
	NT$	US$	NT$	US$
Consolidated net income (A)	$744,013	$23,287	$190,869	$6,550
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)	$3.21	$0.10	$0.82	$0.03

23. 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)

Name	Relationship
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
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
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Cathay General Hospital	Related Party disclosed according to Accounting Standard No. 6
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Fan Shi-Kai	Manager of the Company
Chen Chin-Jung	Manager of the Company
Chang Zhao-Yang	Manager of the Company
Ming Yi-Ching	Manager of the Company

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

(2) Significant transactions with related parties

A. Premiums income

	For the years ended December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$96,937	$3,034	$93,186	$3,198
Cathay United Bank	116,050	3,632	116,774	4,008
Seaward Leasing Ltd.	6,067	190	7,411	254
Cathay General Hospital	4,860	152	4,000	137
Total	$223,914	$7,008	$221,371	$7,597

B. Premiums receivable

	December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$7,536	$236	$-	$-
Cathay United Bank	46,066	1,442	45,275	1,554
Total	$53,602	$1,678	$45,275	$1,554

C. Insurance claims payment

	For the years ended December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay United Bank	$-	$-	$3,694	$127
Cathay Life Insurance Co., Ltd.	7,373	231	6,883	236
Total	$7,373	$231	$10,577	$363

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

D. Cash in banks

		For the years ended December 31, 2009		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$775,554	0.10%	$471
	Time deposits	$851,128	0.13%~1.08%	$13,934

		For the years ended December 31, 2009		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$24,274	0.10%	$15
	Time deposits	$26,639	0.13%~1.08%	$436

		For the years ended December 31, 2010		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$629,445	0.10%	$514
	Time deposits	$970,000	0.10%~1.13%	$7,262

		For the years ended December 31, 2010		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$21,601	0.10%	$18
	Time deposits	$33,288	0.10%~1.13%	$249

E. Loans

	For the years ended December 31, 2009			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Chang Zhao-Yang	$3,141	$3,130	1.66%	$-
Fan Shi-Kai	$8,689	$8,653	1.66%	$-
Ming Yi-Ching	$5,649	$5,625	1.66%	$-

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

	For the years ended December 31, 2009			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Chang Zhao-Yang	$98	$98	1.66%	$-
Fan Shi-Kai	$272	$271	1.66%	$-
Ming Yi- Ching	$177	$176	1.66%	$-

	For the years ended December 31, 2010			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Chang Zhao-Yang	$3,130	$3,003	1.89%	$55
Fan Shi-Kai	$8,653	$8,030	1.89%	$149
Ming Yi-Ching	$5,625	$5,332	1.89%	$99
Chen Chin-Jung	$4,358	$4,339	1.89%	$46

	For the years ended December 31, 2010			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Chang Zhao-Yang	$107	$103	1.89%	$2
Fan Shi-Kai	$297	$276	1.89%	$5
Ming Yi- Ching	$193	$183	1.89%	$3
Chen Chin-Jung	$150	$149	1.89%	$2

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

	December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$200,859	$6,287	$-	$-

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

G. Available-for-sale financial assets-current

	December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$26,281	$823	$42,825	$1,470

H. Guarantee deposits paid

	December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$21,094	$660	$21,921	$752
Cathay Futures Corp.	23,368	732	3,926	135
Total	$44,462	$1,392	$25,847	$887

I. Other payable

	December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$231,855	$7,257	$64,360	$2,208
Cathay Life Insurance Co., Ltd.	230,135	7,203	118,621	4,071
Total	$461,990	$14,460	$182,981	$6,279

J. Operating costs

		For the six-month periods ended December 31,			
		2009		2010	
Name	Summary	NT$	US$	NT$	US$
Cathay United Bank	Handing fee paid	$14,173	$444	$12,631	$433

K. Stock exchange

		December 31,2009				
		Number of shares	Amount		Losses on disposal of investment	
Name	Traded Object	(in thousands shares)	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	Cathay Pacific Venture Capital Co., Ltd.	27,854	$271,315	$8,492	$9,250	$289

The Company doesn't exchange any stock with related parties in the year of 2010.

L. Operating expenses

		For the years ended December 31,			
		2009		2010	
Name	Summary	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Rental expenses	$90,850	$2,843	$88,619	$3,041
	Marketing expenses	1,004,978	31,455	1,058,392	36,321
	Party premium expenses	9,028	282	10,967	377
	Administrative expenses	4,977	156	6,623	227
Cathay United Bank	Marketing expenses	57,514	1,800	59,715	2,049
	Rental expense	-	-	5,006	172
Seaward Leasing Ltd.	Rental expenses	4,718	148	3,301	113
Total		$1,172,065	$36,684	$1,232,623	$42,300

M. Other expenses

	For the years ended December 31,			
	2009		2010	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$11,563	$362	$21,646	$743

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

N. Other

As of December 31, 2009 and 2010 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	December 31, 2009	December 31, 2010
CS contracts	US$18,050	US$41,050
IRS	NT$600,000	NT$600,000
	(US$18,779)	(US$20,590)

O. Key management personnel compensation in total:

Item	For the year ended December 31, 2009		For the year ended December 31, 2010	
	NT$	US$	NT$	US$
Wages, awards、Special、Service execution expense、bonus	$29,177	$913		

The management of the Company includes directors, supervisors, vice general managers and the above. Please refer to the report for annual stockholders' meeting for details of total remunerations paid to above management.

24. Pledged assets

A. The Company

Item	December 31, 2009		December 31, 2010	
	NT$	US$	NT$	US$
Guarantee deposits paid-government bonds	$364,039	$11,394	$458,715	$15,742
Guarantee deposits paid-Time deposits	5,000	157	10,000	343
Other financial assets-current	23,428	733	15,000	515
Total	$392,467	$12,284	$483,715	$16,600

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

B. Cathay Insurance (China)

	December 31,			
	2009		2010	
Item	NT$	US$	NT$	US$
Guarantee deposits paid-Time deposits	$375,344	$11,748	$353,640	$12,136

A. The Company

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.

B. Cathay Insurance (China)

According to Insurance Act of the People's Republic of China, Cathy Insurance (China) should deposit guarantee deposits at an amount equal to 20% of it paid-in capital.

25. 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 Intanara in the lawsuit except the notarization expenses. The Company appealed to the higher court and the lawsuit is still in progress.

B. As of December 31, 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$)	Amount (US$)
January 1, 2011 ~ December 31, 2011	$99,353	$3,410
January 1, 2012 ~ December 31, 2012	102,262	3,509
January 1, 2013 ~ December 31, 2013	105,259	3,612
January 1, 2014 ~ December 31, 2014	108,346	3,718
January 1, 2015 ~ December 31, 2015	111,525	3,827
Total	$526,745	$18,076

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

26. Significant disaster losses: None.

27. Subsequent events: None.

28. Others

(1) Pension related information

A. Pension funded status:

	For the years ended December 31,			
	2009		2010	
	NT$	US$	NT$	US$
(1) Vested benefit obligation	$(65,853)	$(2,061)	$(82,523)	$(2,832)
(2) Non-vested benefit obligation	(213,324)	(6,677)	(262,482)	(9,008)
(3) Accumulated benefit obligation	(279,177)	(8,738)	(345,005)	(11,840)
(4) Additional benefits based on future salaries	(99,750)	(3,122)	(118,535)	(4,067)
(5) Projected benefit obligation	(378,927)	(11,860)	(463,540)	(15,907)
(6) Fair value of plan assets	261,587	8,187	287,457	9,865
(7) Vested benefit	233,876	7,320	260,987	8,956
(8) Funded status=(5)+(6)	(117,340)	(3,673)	(176,083)	(6,042)
(9) Unrecognized transitional net benefit obligation (net assets)	5,222	163	4,642	159
(10) Unrecognized prior service cost	-	-	-	-
(11) Unrecognized pension gain and loss	106,541	3,335	165,903	5,693
(12) Adjustment to minimum liability accrued pension liability	(12,013)	(376)	(52,010)	(1,785)
(13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	$(17,590)	$(551)	$(57,548)	$(1,975)

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

B. Net periodic pension cost:

	For the years ended December 31,			
	2009		2010	
	NT$	US$	NT$	US$
(1) Service cost	$19,621	$614	$19,159	$657
(2) Interest cost	10,026	314	9,232	317
(3) Projected return on plan assets	(7,347)	(230)	(6,645)	(228)
(4) Amortization of unrealized transit on obligation (asset)	580	18	580	20
(5) Amortization prior service cost	-	-	-	-
(6) Amortization pension gain or loss	3,176	99	3,269	112
(7) Net periodic pension cost	$26,056	$815	$25,595	$878

C. Actuarial assumptions

	For the years ended December 31,	
	2009	2010
(1) Discount rate	2.50%	2.00%
(2) Rate of increase in compensation (internal)	2.00%	2.00%
(3) Rate of increase in compensation (external)	1.08%~8.69%	1.08%~8.69%
(4) Expected return on pension plan assets	2.50%	2.00%

(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.

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 arise 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.

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

Liquidity risk

The company's exposure to liquidity risk is minimal.

(3) Financial instruments related information:

A. The company

(a) The information of the fair value

	December 31, 2009			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$5,656,922	$5,656,922	$177,055	$177,055
Financial assets at fair value through profit or loss - current	671,592	671,592	21,020	21,020
Available-for-sale financial assets - current	3,372,772	3,372,772	105,564	105,564
Receivables	2,326,565	2,326,565	72,819	72,819
Prepaid reinsurance premiums ceded	1,292,483	1,292,483	40,453	40,453
Claims recoverable from reinsurers	1,077,694	1,077,694	33,731	33,731
Due from reinsurers and ceding companies	72,428	72,428	2,267	2,267
Account receivable - reinsurance	45,046	45,046	1,410	1,410
Other financial assets-current	23,428	23,428	733	733
Secured loans	1,144,564	1,144,564	35,823	35,823
Held-to-maturity financial assets - noncurrent	3,005,706	3,005,706	94,075	94,075
Financial assets carried at cost-noncurrent	25,500	25,500	798	798
Investments in debt securities with no active market-noncurrent	300,000	300,000	9,390	9,390
Long-term investments under equity method	859,351	859,351	26,897	26,897
Guarantee deposits paid	507,833	507,833	15,881	15,881

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

As of December 31, 2009 and 2010

	December 31, 2009			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Derivative financial instruments:				
Financial assets at fair value through profit or loss-current				
Option	$107	$107	$3	$3
Forward and SWAP	38,458	38,458	1,204	1,204
Derivative financial assets for hedging				
IRS	27,213	27,213	852	852
Liabilities				
Non-derivative financial instruments:				
Claims outstanding	22,817	22,817	714	714
Due to reinsurers and ceding companies	370,888	370,888	11,608	11,608
Account payable - reinsurance	579,203	579,203	18,129	18,129
Operating and liabilities reserve	14,508,210	14,508,210	454,091	454,091

	December 31, 2010			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$6,463,817	$6,463,817	$221,819	$221,819
Available-for-sale financial assets - current	3,791,947	3,791,947	130,129	130,129
Held-to-maturity financial assets-current	161,477	161,477	5,541	5,541
Receivables	2,165,373	2,165,373	74,309	74,309
Prepaid reinsurance premiums ceded	1,177,068	1,177,068	40,393	40,393
Claims recoverable from reinsurers	1,757,628	1,757,628	60,317	60,317
Due from reinsurers and ceding companies	82,584	82,584	2,834	2,834
Account receivable - reinsurance	34,233	34,233	1,175	1,175
Other financial assets-current	15,000	15,000	515	515
Secured loans	705,214	705,214	24,201	24,201

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

	December 31, 2010			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Held-to-maturity financial assets - noncurrent	$2,397,614	$2,397,614	$82,279	$82,279
Financial assets carried at cost-noncurrent	61,500	61,500	2,111	2,111
Investments in debt securities with no active market-noncurrent	500,000	500,000	17,159	17,159
Long-term investments under equity method	1,143,316	1,143,316	39,235	39,235
Guarantee deposits paid	600,683	600,683	20,613	20,613
Derivative financial instruments:				
Financial assets at fair value through profit or loss-current				
Forward and swap	180,808	180,808	6,205	6,205
Derivative financial assets for hedging	30,391	30,391	1,043	1,043
IRS				
Liabilities				
Non - derivative financial instrument:				
Claims outstanding	23,668	23,668	812	812
Due to reinsurers and ceding companies	280,273	280,273	9,618	9,618
Account payable - reinsurance	642,293	642,293	22,042	22,042
Operating and liabilities reserve	16,361,338	16,361,338	561,473	561,473

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.

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

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.

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 December 31, 2009 and 2010:

	December 31,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2009	2010	2009	2010
Assets-non-derivative				
Cash and cash equivalents	$3,636,923	$5,098,019	$2,019,999	$1,365,798
Financial assets at fair value through profit or loss - current	671,592	-	-	-
Available-for-sale financial assets - current	3,372,772	3,791,947	-	-
Held-to-maturity financial asset - current	-	-	-	161,477
Other financial assets-current	23,428	15,000	-	-
Held-to-maturity financial assets - noncurrent	-	-	3,005,706	2,397,614
Financial assets carried at cost - noncurrent	-	-	25,500	61,500
Investment in debt securities with no active market - noncurrent	-	-	300,000	500,000
Long-term investments under equity method	-	-	859,351	1,143,316

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

	December 31, NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2009	2010	2009	2010
Assets- derivative				
Financial assets at fair value through profit and loss – current				
Option	$-	$-	$107	$-
Forward and SWAP	-	-	38,458	180,808
Derivative financial assets for hedging-current				
IRS	-	-	27,213	30,391

	December 31, US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2009	2010	2009	2010
Assets-non-derivative				
Cash and cash equivalents	$113,831	$174,949	$63,224	$46,870
Financial assets at fair value through profit or loss - current	21,020	-	-	-
Available-for-sale financial assets - current	105,564	130,129	-	-
Held-to-maturity financial asset - current	-	-	-	5,541
Other financial assets-current	733	515	-	-
Held-to-maturity financial assets - noncurrent	-	-	94,075	82,279
Financial assets carried at cost - noncurrent	-	-	798	2,111
Investment in debt securities with no active market - noncurrent	-	-	9,390	17,159
Long-term investments under the equity method	-	-	26,897	39,235
Assets-derivative				
Financial assets at fair value through profit or loss-current				
Option	-	-	3	-
Forward and SWAP	-	-	1,204	6,205
Derivative financial assets for hedging – current				
IRS	-	-	852	1,043

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

(4) Risk of interest rate

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

Fixed interest rate:

① December 31, 2009

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$101,240	$3,169	$100,503	$3,145	$614,295	$19,227
Held-to-maturity financial assets	-	-	159,956	5,006	353,873	11,076	858,622	26,874
Investments in debt securities with no active market	-	-	-	-	300,000	9,390	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$199,999	$6,260	$1,016,037	$31,801
Held-to-maturity financial assets	-	-	1,633,255	51,119	3,005,706	94,075
Investments in debt securities with no active market	-	-	-	-	300,000	9,390

② December 31, 2010

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$101,241	$3,474	$100,264	$3,441	$616,810	$21,167	$-	$-
Held-to-maturity financial assets	161,477	5,541	-	-	424,353	14,563	594,352	20,396
Investments in debt securities with no active market	-	-	300,000	10,295	200,000	6,864	-	-

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

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$217,322	$7,458	$-	$-	$1,035,637	$35,540
Held-to-maturity financial assets	368,596	12,649	1,010,313	34,671	2,559,091	87,820
Investments in debt securities with no active market	-	-	-	-	500,000	17,159

Floating interest rate:

① December 31, 2009

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$-	$-	$200,000	$6,260	$-	$-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,260 `	$200,000	$6,260	$600,000	$18,780

② December 31, 2010

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$200,000	$6,864	$-	$-	$200,000	$6,863

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,863	$-	$-	$600,000	$20,590

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

(5) Credit risk

The Company's exposure to credit risk in minimal.

(6) Fair value hedges

	Designated as hedging instruments				
		Fair value			
		December 31, 2009		December 31, 2010	
Hedged item	Financial instruments of designated as hedging instruments	NT$	US$	NT$	US$
Overseas bonds	Forward and SWAP	$38,458	$1,204	$180,808	$6,205

(7) Hedged of derivative financial instruments related information

A. The following table summarizes the terms of the Company's interest rate swap for bonds hedging at December 31, 2010:

Cash flow hedges-IRS

December 31, 2010

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$200,000	$6,863	2.65%	Each quarter	2014.09.30
200,000	6,863	2.40%	Each quarter	2012.09.28
200,000	6,863	2.785%	Each quarter	2015.04.30

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

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$27,213 (US$852) as of December 31, 2009. Unrealized gains on financial instruments were recognized by NT$30,391 (US$1,043) as of December 31, 2010.

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

B. Cathay Insurance Company Limited (China)

(a)The information of the fair value

	December 31, 2009			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$1,332,032	$1,332,032	$41,692	$41,692
Receivables	55,585	55,585	1,740	1,740
Prepaid reinsurance premiums ceded	37,803	37,803	1,183	1,183
Claims recoverable from reinsurers	110,395	110,395	3,455	3,455
Due from reinsurers and ceding companies	2,830	2,830	88	88
Guarantee deposits paid	384,085	384,085	12,021	12,021
Liabilities				
Non - derivative financial instrument:				
Due to reinsurers and ceding companies	7,995	7,995	250	250
Accounts payable-reinsurance	13,528	13,528	423	423
Operating and liability reserve	204,994	204,994	6,416	6,416

	December 31, 2010			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$781,737	$781,737	$26,827	$26,827
Financial assets fair value through profit or loss-current	102,470	102,470	3,516	3,516
Available-for-sale financial assets-current	295,580	295,580	10,143	10,143
Receivables	40,985	40,985	1,406	1,406
Prepaid reinsurance premiums ceded	47,376	47,376	1,626	1,626
Claims recoverable from reinsurers	90,768	90,768	3,115	3,115
Due from reinsurers and ceding companies	918	918	32	32
Account receivable-reinsurance	25,560	25,560	877	877
Guarantee deposits paid	363,671	363,671	12,480	12,480

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

	December 31, 2010			
	NT$		US$	
Liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Non - derivative financial instrument:				
Claims outstanding	$7,927	$7,927	$272	$272
Due to reinsurers and ceding companies	22,027	22,027	756	756
Accounts payable-reinsurance	457	457	16	16
Operating and liability reserve	283,525	283,525	9,730	9,730

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

① The fair value of the Cathay Insurance Company Limited (China) of short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.

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.

④ The fair value of the Cathay Insurance Company Limited (China) of 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.

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

⑤ The following table summarizes the fair value information of the Cathay Insurance Company Limited (China) of financial assets and liabilities at December 31, 2009 and 2010:

	December 31,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2009	2010	2009	2010
Assets-non-derivative				
Cash and cash equivalents	$1,332,032	$781,737	$-	$-
Financial assets fair value through profit or loss-current	-	102,470	-	-
Available-for-sale financial assets-current	-	295,580	-	-

	December 31,			
	US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2009	2010	2009	2010
Assets-non-derivative				
Cash and cash equivalents	$41,692	$26,827	$-	$-
Financial assets fairvalue through profit or loss-current	-	3,516	-	-
Available-for-sale financial assets-current	-	10,143	-	-

C. Cathay Insurance (Vietnam) Ltd.

(a)The information of the fair value

	December 31, 2010			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$426,098	$426,098	$14,622	$14,622
Receivables	138	138	5	5
Guarantee deposits paid	8,812	8,812	302	302

	December 31, 2010			
	NT$		US$	
Liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Non - derivative financial instrument:				
Operating and liability reserve	$70	$70	$2	$2

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

① The fair value of the Cathay Insurance (Vietnam) Ltd. of short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.

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.

④ The fair value of the Cathay Insurance (Vietnam) Ltd. of 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 Cathay Insurance (Vietnam) Ltd. of financial assets and liabilities at December 31, 2009 and 2010:

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

	December 31,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2009	2010	2009	2010
Assets-non-derivative				
Cash and cash equivalents	$-	$426,098	$-	$-

	December 31,			
	US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2008	2009	2008	2009
Assets-non-derivative				
Cash and cash equivalents	$-	$14,622	$-	$-

(8) Discretionary account management

	December 31, 2009			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$441,168	$13,808	$441,168	$13,808
Short - term notes	120,748	3,779	120,748	3,779
Cash in banks	132,945	4,161	132,945	4,161
Net other assets less liabilities	17,647	552	17,647	552
Total	$712,508	$22,300	$712,508	$22,300

	December 31, 2010			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$-	$-	$-	$-
Short - term notes	-	-	-	-
Cash in banks	-	-	-	-
Net other assets less liabilities	-	-	-	-
Total	$-	$-	$-	$-

As of December 31, 2009 and 2010, the Company had discretionary account management contracts in the amount of NT$600,000 (US$18,779) and NT$0 (US$0), respectively.

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

(9) Eliminated intercompany transactions

A. Eliminated intercompany transactions for the year of 2009

Transactions	Companies and amounts					
	The Company		Cathay Insurance Company Limited (China)		Cathay insurance (Vietnam) Ltd.	
Eliminations of long-term investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$41,234	$1,291	$(41,234)	$(1,291)	$-	$-
Eliminations of stockholders' equity on subsidiaries	(853,649)	(26,718)	1,707,297	53,437	-	-

Note: The intercompany elimination differences for year of 2009 are minority interests: NT$853,649 (US$26,718).

B. Eliminated intercompany transactions for the year of 2010

Transactions	Companies and amounts					
	The Company		Cathay Insurance Company Limited (China)		Cathay insurance (Vietnam) Ltd.	
Eliminations of long-term investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$112,550	$3,862	$(110,279)	$3,784	$(2,271)	$(78)
Eliminations of stockholders' equity on subsidiaries	(1,137,596)	(39,039)	1,398,372	47,988	438,410	15,045

Note: The intercompany elimination differences of 2010 are minority interests: NT$1,137,596 (US$39,039).

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

(10) 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.

(11) Material Contract: None.

(12) Presentation of Financial Statements:

Certain accounts in financial statements for the years ended December 31, 2009 have been reclassified in order to be comparable with those in the financial statements for the years ended December 31, 2010.

(13) Exchange rates used to translated materid financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2009.12.31			2010.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$97,379	32.03	$3,119,049	$99,336	29.13	$2,893,658
Non-Monetary Items						
USD (nominal amount)	83,930	32.03	-	95,320	29.13	-
Long-Term Investments Accounted For Under The Equity Method						
CNY	181,945	4.6918	853,649	158,169	4.4205	699,186
VND	-	-	-	304,451,886	0.00144	438,410

29. 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 December 31, 2010, the Company's remittances to this company totaled approximately US$27,820.

30. Segment information: None.