

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**As of December 31, 2009 and 2010**  
**With Independent Auditors' Report**

**Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC**

**Telephone: 886-2-2708-7698**

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

## Index

	<u>Page</u>
Independent Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Stockholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to consolidated Financial Statements	8-188

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

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of December 31, 2009 and 2010, and the results of its operations and its cash flows for the years ended in conformity with Requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles in the Republic of China.

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
March 9, 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated balance sheets**  
**As of December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

	Notes	December 31, 2009		December 31, 2010	
		NT \$	US \$	NT \$	US \$
<b>Assets</b>					
Cash and cash equivalents	2, 4	\$644,422,576	\$20,169,721	\$643,534,846	\$22,084,243
Due from the Central Bank and call loans to banks		79,124,653	2,476,515	99,059,544	3,399,435
Financial assets at fair value through profit or loss	2, 5	143,643,937	4,495,898	170,120,430	5,838,038
Securities purchased under agreements to resell		43,401,815	1,358,429	48,984,493	1,681,005
Receivables -net		99,153,661	3,103,401	128,356,622	4,404,826
Loans -net	2, 6	1,328,382,255	41,576,909	1,383,494,210	47,477,495
Available-for-sale financial assets -net	2, 7	553,416,933	17,321,344	661,992,457	22,717,655
Held-to-maturity financial assets -net	2, 8	672,357,520	21,044,054	631,827,811	21,682,492
Investments under equity method	2, 9	2,505,287	78,413	2,500,997	85,827
Other financial assets -net	2, 10	67,685,776	2,118,491	52,307,393	1,795,037
Investments in debt securities with no active market	2, 11	177,544,458	5,556,947	371,297,943	12,741,865
Separate account products assets		274,311,184	8,585,639	269,250,514	9,239,894
Investments in real estate	2, 12	117,426,032	3,675,306	126,428,907	4,338,672
Property and equipment -net		39,657,723	1,241,243	37,940,551	1,302,009
Goodwill and intangible assets -net	2, 14	8,227,881	257,524	8,390,821	287,949
Other assets -net		44,274,330	1,385,738	53,449,920	1,834,246
<b>Total assets</b>		<b>\$4,295,536,021</b>	<b>\$134,445,572</b>	<b>\$4,688,937,459</b>	<b>\$160,910,688</b>
<b>Liabilities &amp; stockholders' equity</b>					
<b>Liabilities</b>					
Due to the Central Bank and call loans from banks		\$45,571,009	\$1,426,323	\$45,351,211	\$1,556,321
Bankers acceptances and funds borrowed		1,601,500	50,125	1,456,500	49,983
Commercial paper payable	2, 15	1,170,000	36,620	1,450,000	49,760
Financial liabilities at fair value through profit or loss	2, 16	26,703,247	835,782	23,795,837	816,604
Securities sold under agreements to repurchase	5, 7	8,745,465	273,723	22,139,556	759,765
Payables		38,143,397	1,193,847	81,645,082	2,801,822
Deposits	17	1,288,413,420	40,325,929	1,337,174,083	45,887,923
Bonds payable	2, 18	56,437,209	1,766,423	58,654,684	2,012,858
Other borrowings	19	300,000	9,390	-	-
Other financial liabilities	2, 21	269,216	8,426	191,601	6,575
Separate account products liabilities	2, 20	274,311,184	8,585,639	269,250,514	9,239,894
Reserve for operations and liabilities		2,328,637,481	72,883,802	2,613,983,437	89,704,305
Other liabilities		9,809,725	307,034	11,370,278	390,195
<b>Total liabilities</b>		<b>4,080,112,853</b>	<b>127,703,063</b>	<b>4,466,462,783</b>	<b>153,276,005</b>
<b>Stockholders' Equity attributable to equity holders of the parent</b>					
<b>Stock</b>					
Common stock	22	96,708,774	3,026,879	101,544,213	3,484,702
Capital surplus	23	78,240,933	2,448,855	78,508,148	2,694,171
Retained earnings	24				
Legal reserve		12,540,295	392,498	13,645,400	468,270
Special reserve		7,107,732	222,464	-	-
Unappropriated retained earnings		11,051,057	345,886	11,716,176	402,065
Other stockholders' equity					
Land revaluation increment		1,461	46	1,461	50
Cumulative conversion adjustments		4,444	139	(893,051)	(30,647)
Unrealized gains or losses on financial instruments		6,547,332	204,924	14,672,596	503,521
Net loss not yet recognized as net pension cost		(6,791)	(213)	(650,993)	(22,340)
<b>Total stockholder's equity attributable to equity holders of the parent</b>		<b>212,195,237</b>	<b>6,641,478</b>	<b>218,543,950</b>	<b>7,499,792</b>
<b>Minority interest</b>		<b>3,227,931</b>	<b>101,031</b>	<b>3,930,726</b>	<b>134,891</b>
<b>Total stockholders' equity</b>		<b>215,423,168</b>	<b>6,742,509</b>	<b>222,474,676</b>	<b>7,634,683</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$4,295,536,021</b>	<b>\$134,445,572</b>	<b>\$4,688,937,459</b>	<b>\$160,910,688</b>

(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, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of income**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars, except earnings per share)**

	Notes	2009		2010			
		NT \$	US \$	NT \$	US \$		
<b>Interest income</b>	2	\$99,534,032	\$3,115,306	\$102,405,387	\$3,514,255		
<b>Less: Interest expenses</b>	2	(11,604,601)	(363,211)	(9,670,068)	(331,849)		
<b>Net interest income</b>		87,929,431	2,752,095	92,735,319	3,182,406		
<b>Net income other than interest</b>							
Net commission and handling fee		1,870,210	58,536	184,742	6,340		
Net premiums from insurance business		223,192,764	6,985,689	236,595,977	8,119,285		
Gains on financial assets and liabilities at fair value through profit or loss		20,557,813	643,437	61,944,679	2,125,761		
Realized gains on available-for-sale financial assets		3,286,871	102,875	26,174,834	898,244		
Realized gains (losses) on held-to-maturity financial assets		1,900,726	59,491	(444,960)	(15,270)		
Gains on investments under equity method		311,837	9,760	195,548	6,711		
Gains on investments in real estate		6,253,074	195,714	5,482,035	188,127		
Losses on foreign exchange		(18,701,596)	(585,339)	(83,640,690)	(2,870,305)		
Impairment losses		(971,525)	(30,408)	(75,107)	(2,577)		
Net other non-interest (losses) gains		(2,825,547)	(88,437)	4,840,053	166,097		
<b>Total income</b>		322,804,058	10,103,413	343,992,430	11,804,819		
<b>Bad debt expenses</b>		(3,451)	(108)	-	-		
<b>Provision for premiums reserve</b>		(252,371,298)	(7,898,945)	(284,463,658)	(9,761,965)		
<b>Operating expenses</b>							
Personnel expenses	26	(39,339,997)	(1,231,299)	(41,291,104)	(1,416,990)		
Depreciation and amortizations expenses	26	(4,110,485)	(128,653)	(4,145,218)	(142,252)		
Other general and administration expenses		(10,679,280)	(334,250)	(11,501,448)	(394,696)		
<b>Income from continuing operations before income taxes</b>		16,299,547	510,158	2,591,002	88,916		
<b>Income taxes (expense) benefit</b>	2, 27	(5,467,666)	(171,132)	1,717,242	58,931		
<b>Income from continuing operations after income taxes</b>		10,831,881	339,026	4,308,244	147,847		
<b>Consolidated net income</b>		\$10,831,881	\$339,026	\$4,308,244	\$147,847		
<b>Include:</b>							
Parent company		\$11,051,057	\$345,886	\$4,600,585	\$157,879		
Minority interest		(219,176)	(6,860)	(292,341)	(10,032)		
<b>Consolidated net income</b>		\$10,831,881	\$339,026	\$4,308,244	\$147,847		
<b>Earnings per share (expressed in dollars) :</b>	28						
Primary earnings per share:							
		Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Income from continuing operations		\$1.61	\$1.07	\$0.05	\$0.03	\$0.26	\$0.42
Consolidated net income		\$1.61	\$1.07	\$0.05	\$0.03	\$0.26	\$0.42

(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, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries  
Consolidated statements of changes in stockholders' equity  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars)

Summary	Stock				Retained earnings				Other stockholders' equity																
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not yet recognized as net pension cost		Minority interest		Total		
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	
<b>Balance on January 1, 2009</b>	\$97,375,372	\$3,047,743	\$81,971,213	\$2,565,609	\$12,320,672	\$385,624	\$-	\$-	\$7,060,140	\$220,974	\$2,106	\$66	\$344,257	\$10,775	\$(52,309,533)	\$(1,637,231)	\$(4,140,047)	\$(129,579)	\$(270,687)	\$(8,472)	\$3,145,462	\$98,450	\$145,498,955	\$4,553,959	
Minority interest																					301,645	9,441	301,645	9,441	
Appropriations and distribution for 2008																									
Legal reserve					219,623	6,874			(219,623)	(6,874)															
Special reserve			(267,215)	(8,364)			7,107,732	222,464	(6,840,517)	(214,100)															
Land revaluation increment											(645)	(20)												(645)	(20)
Capital surplus			386	12																				386	12
Cumulative conversion adjustments													(339,813)	(10,636)										(339,813)	(10,636)
Unrealized gains or losses of financial instruments															58,856,865	1,842,155								58,856,865	1,842,155
Cancellation of treasury stock	(666,598)	(20,864)	(3,473,449)	(108,715)													4,140,047	129,579							
Net loss not yet recognized as net pension cost																			263,896	8,259				263,896	8,259
Other capital surplus			9,998	313																				9,998	313
Consolidated net income (loss) for the year ended December 31, 2009									11,051,057	345,886											(219,176)	(6,860)	10,831,881	339,026	
<b>Balance on December 31, 2009</b>	\$96,708,774	\$3,026,879	\$78,240,933	\$2,448,855	\$12,540,295	\$392,498	\$7,107,732	\$222,464	\$11,051,057	\$345,886	\$1,461	\$46	\$4,444	\$139	\$6,547,332	\$204,924	\$-	\$-	\$(6,791)	\$(213)	\$3,227,931	\$101,031	\$215,423,168	\$6,742,509	
<b>Balance on January 1, 2010</b>	\$96,708,774	\$3,318,764	\$78,240,933	\$2,685,001	\$12,540,295	\$430,346	\$7,107,732	\$243,917	\$11,051,057	\$379,239	\$1,461	\$50	\$4,444	\$153	\$6,547,332	\$224,685	\$-	\$-	\$(6,791)	\$(233)	\$3,227,931	\$110,773	\$215,423,168	\$7,392,695	
Minority interest																					995,136	34,150	995,136	34,150	
Appropriations and distribution for 2009																									
Legal reserve					1,105,105	37,924			(1,105,105)	(37,924)															
Special reserve			267,215	9,170			(7,107,732)	(243,917)	6,840,517	234,747															
Cash dividend									(4,835,439)	(165,938)														(4,835,439)	(165,938)
Stock dividend	4,835,439	165,938							(4,835,439)	(165,938)															
Cumulative conversion adjustments													(897,495)	(30,800)										(897,495)	(30,800)
Unrealized gains or losses of financial instruments															8,125,264	278,836								8,125,264	278,836
Net loss not yet recognized as net pension cost																			(644,202)	(22,107)				(644,202)	(22,107)
Consolidated net income (loss) for the year ended December 31, 2010									4,600,585	157,879											(292,341)	(10,032)	4,308,244	147,847	
<b>Balance on December 31, 2010</b>	\$101,544,213	\$3,484,702	\$78,508,148	\$2,694,171	\$13,645,400	\$468,270	\$-	\$-	\$11,716,176	\$402,065	\$1,461	\$50	\$(893,051)	\$(30,647)	\$14,672,596	\$503,521	\$-	\$-	\$(650,993)	\$(22,340)	\$3,930,726	\$134,891	\$222,474,676	\$7,634,683	

Note : The remuneration of directors and supervisors NT \$5,400 (US\$169) thousands, employee bonus NT \$968 (US\$30) thousands were recorded as operating cost and expense in 2009.

(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, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

	2009		2010	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated net income	\$10,831,881	\$339,026	\$4,308,244	\$147,847
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	4,110,485	128,653	4,145,218	142,252
Investment income recognized by equity method (more) less than cash dividends received	(35,162)	(1,100)	147,160	5,050
Bad debt expenses	3,451	108	-	-
Provision for premiums reserve from insurance business	252,371,298	7,898,945	284,463,658	9,761,965
Gain on disposal of property and equipment	(999,961)	(31,298)	(1,198,961)	(41,145)
Impairment loss	971,525	30,408	75,107	2,577
Other adjustments	(559,680)	(17,517)	(824,579)	(28,297)
Decrease (increase) on operating assets and liabilities				
Increase in receivables	(6,449,192)	(201,852)	(29,180,152)	(1,001,378)
Decrease (increase) in deferred income tax assets	2,988,739	93,544	(2,671,653)	(91,683)
Increase in financial assets at fair value through profit or loss	(16,714,728)	(523,153)	(26,732,035)	(917,366)
Increase in other financial assets	(3,437,815)	(107,600)	(3,838,057)	(131,711)
(Increase) decrease in other assets	(6,189,697)	(193,731)	976,519	33,511
Increase in payables	3,095,426	96,884	43,218,252	1,483,125
Decrease in financial liabilities at fair value through profit or loss	(46,481,527)	(1,454,821)	(2,896,426)	(99,397)
Increase (decrease) in deferred income tax liabilities	1,144,167	35,811	(1,270,728)	(43,608)
Decrease in other financial liabilities	(123,254)	(3,858)	(55,892)	(1,918)
Increase in other liabilities	1,029,728	32,230	3,350,233	114,970
<b>Net cash provided by operating activities</b>	<b>195,555,684</b>	<b>6,120,679</b>	<b>272,015,908</b>	<b>9,334,794</b>
<b>Cash flows from investing activities</b>				
Decrease in restricted assets	83,000	2,598	-	-
Decrease (increase) in loans	34,838,822	1,090,417	(56,737,397)	(1,947,063)
Increase in due from the Central Bank and call loans to banks	(31,517,238)	(986,455)	(21,152,810)	(725,903)
Increase in available-for-sale financial assets	(7,564,968)	(236,775)	(101,280,765)	(3,475,661)
(Increase) decrease in held-to-maturity financial assets	(19,030,527)	(595,635)	40,224,262	1,380,380
Decrease in investments under equity method	430,142	13,463	62,937	2,160
Increase investments in real estate	(8,834,105)	(276,498)	(10,568,012)	(362,664)
(Acquisition) disposal of property and equipment	(1,292,650)	(40,459)	1,541,762	52,909
Increase in securities purchased under agreements to resell	(31,653,568)	(990,722)	(5,582,678)	(191,581)
Increase in other financial assets	(77,082,740)	(2,412,605)	(182,015,315)	(6,246,236)
Decrease (increase) in other assets	1,336,252	41,823	(148,030)	(5,080)
<b>Net cash used in investing activities</b>	<b>(140,287,580)</b>	<b>(4,390,848)</b>	<b>(335,656,046)</b>	<b>(11,518,739)</b>
<b>Cash flows from financing activities</b>				
Decrease in due to the Central Bank and call loans from banks	(17,740,144)	(555,247)	(5,506,625)	(188,971)
Increase in deposits	198,363,169	6,208,550	50,294,577	1,725,964
(Decrease) increase in securities sold under agreements to repurchase	(11,555,174)	(361,664)	13,394,091	459,646
Increase in banker's acceptances and funds borrowed	417,948	13,081	5,753,200	197,433
Increase in bonds payable	17,571,231	549,960	2,457,084	84,320
Increase (decrease) in other financial liabilities	1,035,449	32,409	(80,098)	(2,749)
Increase in other liabilities	257,889	8,072	530,969	18,222
Cash dividends	(170,601)	(5,340)	(4,978,300)	(170,841)
Increase in minority stockholders	229,954	7,197	1,536,589	52,731
<b>Net cash provided by financing activities</b>	<b>188,409,721</b>	<b>5,897,018</b>	<b>63,401,487</b>	<b>2,175,755</b>
<b>Effects of exchange rate changes</b>	<b>(300,833)</b>	<b>(9,416)</b>	<b>(649,079)</b>	<b>(22,275)</b>
<b>Effects on merger of subsidiaries</b>	<b>58,782</b>	<b>1,840</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>243,435,774</b>	<b>7,619,273</b>	<b>(887,730)</b>	<b>(30,465)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>400,986,802</b>	<b>12,550,448</b>	<b>644,422,576</b>	<b>22,114,708</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$644,422,576</b>	<b>\$20,169,721</b>	<b>\$643,534,846</b>	<b>\$22,084,243</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period (excluding capitalized interest)	\$13,284,478	\$415,790	\$8,814,069	\$302,473
Income tax paid	\$2,291,530	\$71,722	\$1,796,408	\$61,647
<b>Investing and financing activities with no cash flow effects</b>				
Reclassification of property and equipment to other assets	\$-	\$-	\$107,377	\$3,685

(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, respectively)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to Audited Consolidated Financial Statements**  
**(Expressed in thousands of dollars except**  
**for share and per share data and unless otherwise stated)**  
**December 31, 2009 and 2010**

**1. Organization and business scope**

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on October 27, 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. Cathay United Bank absorption merged with Lucky Bank on January 1, 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007 to improve competitiveness. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of December 31, 2009 and 2010, the total numbers of the employees of the Company and Subsidiaries were 43,340 and 42,605, respectively.

As of and for the years ended December 31, 2009 and 2010, the consolidated financial statements include the following entities:



**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Investee	Business	2009.12.31 Ownership interest	2010.12.31 Ownership interest	Notes
The Company	Cathay Life	Life insurance	100.00%	100.00%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Act (the "Company Act").
The Company	Cathay United Bank	Commercial banking operations	100.00%	100.00%	UWCCB was enfranchised by the ROC government on January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank absorption merged with Lucky Bank on January 1, 2007.
The Company	Cathay Century	Property and casualty insurance	100.00%	100.00%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on August 2, 2002.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Investee	Business	2009.12.31 Ownership interest	2010.12.31 Ownership interest	Notes
The Company	Cathay Securities	Securities	100.00%	100.00%	Cathay Securities was incorporated on May 12, 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were transferred to Cathay Securities using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100.00%	100.00%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Act. Cathay Pacific Venture is the surviving company for the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on August 10, 2009.
Cathay Life	Cathay Life Insurance Company (China) (“Cathay Life (China)”)	Life insurance	50.00%	50.00%	Cathay Life (China) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (China).

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Investee	Business	2009.12.31 Ownership interest	2010.12.31 Ownership interest	Notes
Cathay Life 、 Cathay Pacific Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	100.00%	100.00%	Symphox Information was incorporated on December 12, 1999, under the Company Act. Cathay Life and Cathay Pacific Venture own 60.12% and 39.88% interest in Symphox Information, respectively.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) was incorporated on November 21, 2007.
Cathay Life 、 Cathay Century	Cathay Insurance Company Limited. (China) (“Cathay Century (China)”)	Property and casualty insurance	100.00%	100.00%	Cathay Century (China) was incorporated on August 26, 2008. Cathay Life and Cathay Century each owns 50% interest of Cathay Century (China).
Cathy Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	-	100.00%	Cathay Century (Vietnam) was incorporated on November 2, 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00%	50.00%	Indovina Bank was incorporated in Vietnam on October 29, 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Investee	Business	2009.12.31 Ownership interest	2010.12.31 Ownership interest	Notes
Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99%	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.

As of and for the years ended December 31, 2009 and 2010, the consolidated financial statements excluded the following subsidiaries due to the respective total assets and operating revenues were considered immaterial to the Company.

Investor	Investee	Business	2009.12.31 Ownership interest	2010.12.31 Ownership interest	Notes
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100.00%	100.00%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.

**English Translation of Financial Statements Originally Issued in Chinese**

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

Investor	Investee	Business	2009.12.31 Ownership interest	2010.12.31 Ownership interest	Notes
Cathay life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment research analysis	100.00%	100.00%	Cathay Securities Investment Consulting was incorporated on November 25, 2002.
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100.00%	100.00%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100.00%	-	Cathay Property Insurance Agent was incorporated on March 23, 2000. On January 15, 2010, Cathay Property Insurance Agent was decided its dissolution by the board of directors and finished the process of liquidation on July 2, 2010.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100.00%	100.00%	Seaward Card was incorporated on April 9, 1999.

**2. Summary of significant accounting policies**

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

*(1) Principles of consolidation*

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

*(2) Cash and cash equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in values from fluctuations of interest rates. Cash and cash equivalents include cash on hand, unrestricted bank deposits, checks for clearance, due from commercial banks and all other highly liquid investments with maturities of less than three months.

*(3) Financial assets and financial liabilities*

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading or financial assets or liabilities designated as at fair value through profit or loss. Such assets or liabilities are measured at fair value with changes in fair value recognized in profit or loss.

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

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

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

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

B. Held-to-maturity financial assets

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Derivative financial assets or liabilities for hedging

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

F. Financial assets carried at cost

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



**English Translation of Financial Statements Originally Issued in Chinese**

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

G. Financial liabilities

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

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

*(4) Derecognition of financial assets and liabilities*

A. Derecognition of financial assets

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

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

B. Derecognition of financial liabilities

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

*(5) Accounting for impairment of financial assets*

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

A. Financial assets carried at amortized cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurs after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the reversal date.

B. Financial assets carried at cost

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

C. Available-for-sale financial assets

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

*(6) Derivative financial instruments*

The Company and Subsidiaries enter into derivative financial instrument transactions such as forward foreign exchange, interest rate swap, cross-currency swap, option and futures to hedge its risks associated with interest rates and foreign currency fluctuations. These derivative financial instruments are initially recognized at fair value on the date of which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to profit or loss for the period.

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

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is both attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction, and could affect profit or loss.
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

A. Fair value hedges

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

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

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

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

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

B. Cash flow hedges

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

C. Hedges of a net investment in a foreign operation

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

*(7) Allowance for bad debts*

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

*(8) Investments-equity method*

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

*(9) Investments in real estate*

Investments in real estate are stated at cost when acquired. Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

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

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

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

*(10) Property and equipment*

Property and equipment are stated at cost or cost plus appreciation. When revaluing property and equipment, land and other properties shall be revalued separately. Property appreciation shall be recorded under “land revaluation adjustments” of shareholders’ equity.

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

*(11) Intangible assets*

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

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

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

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

*(12) Accounting for Assets Impairment*

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized by reducing the carrying amount of the assets of the CGU or the group of CGUs in the following order:

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

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

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

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

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



**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

*(14) Reserves for operations and liabilities*

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

*(15) Treasury stock*

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

*(16) Recognition of interest income and service fees*

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

*(17) Insurance premium income and expenses*

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

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

*(18) Pension plan*

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

In compliance with SFC regulations, the Company and Subsidiaries follow the ROC SFAS No. 18, “Accounting for Pensions”. When providing defined benefit plans, an actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets; when providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense over the employee’s employment period.

**English Translation of Financial Statements Originally Issued in Chinese**

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

*(19) Foreign currency transactions*

A. Translation of foreign currency transactions

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

B. Translation of foreign subsidiaries' financial statements

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

*(20) Income taxes*

The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, tax losses and investment tax credits. An allowance is provided based on an assessment of the reliability of deferred tax assets. Adjustment of prior years' income tax payable is included in the current period income tax expense.

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

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

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

*(21) Capital expenditure*

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

*(22) Employee bonus and remuneration of directors*

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

*(23) Translation to U.S. dollars*

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of 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 translation.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**3. Change in accounting and its effects**

None.

**4. Cash and cash equivalents**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Petty cash and cash on hand	\$10,872,239	\$340,289	\$11,038,357	\$378,804
Cash in banks	12,764,115	399,503	31,379,610	1,076,857
Time deposits	550,790,007	17,239,124	559,438,869	19,198,314
Cash equivalents	59,799,322	1,871,653	21,482,409	737,214
Checks for clearance	4,031,517	126,182	3,970,301	136,249
Due from commercial banks	6,165,376	192,970	16,225,300	556,805
Total	<u>\$644,422,576</u>	<u>\$20,169,721</u>	<u>\$643,534,846</u>	<u>\$22,084,243</u>

As of December 31, 2009 and 2010, the amounts of time deposits with maturities beyond one year were NT\$11,243,520 (US\$351,910) thousands and NT\$2,222,948 (US\$76,285) thousands, respectively.

**5. Financial assets at fair value through profit or loss**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Common stock	\$8,465,546	\$264,962	\$6,415,537	\$220,163
Beneficiary certificates	54,713,691	1,712,479	22,507,577	772,395
Exchange traded funds	338,837	10,605	725,628	24,902
Real estate investment trust	600,250	18,787	567,251	19,466
Commercial papers	5,270,203	164,952	3,236,039	111,051
Corporate bonds	3,658,935	114,521	2,762,228	94,792
Government bonds	5,440,257	170,274	1,023,833	35,135
Treasury bills	23,859,665	746,781	42,281,309	1,450,971
Overseas financial instruments	15,796,596	494,416	8,522,837	292,479
Derivative financial instruments	269,972	8,450	207,719	7,128
Margin for futures trading-own funds	56,957	1,783	29,147	1,000
Structured time deposits	1,000,000	31,299	1,000,000	34,317
Valuation adjustment	24,173,028	756,589	80,841,325	2,774,239
Total	<u>\$143,643,937</u>	<u>\$4,495,898</u>	<u>\$170,120,430</u>	<u>\$5,838,038</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (1) As of December 31, 2009 and 2010, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$7,874,000 (US\$246,448) thousands and NT\$603,000 (US\$20,693) thousands, respectively. Such repurchase agreements amounting to NT\$8,745,465 (US\$273,724) thousands and NT\$667,777 (US\$22,916) thousands, respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to December 31, 2009 and 2010 are settled at NT\$8,746,201 (US\$273,747) thousands and NT\$667,911 (US\$22,921) thousands prior to February 28, 2010 and March 31, 2011, respectively.
- (2) Please refer to Note 29 for related information on the above financial assets at fair value through profit or loss as of December 31, 2009 and 2010 being pledged as collaterals.

**6. Loans-net**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Inward-outward documentary bills	\$830,433	\$25,992	\$250,054	\$8,581
Loans	1,330,096,995	41,630,579	1,387,859,141	47,627,287
Overdrafts	457,479	14,318	494,831	16,981
Delinquent accounts	5,435,313	170,119	3,046,766	104,556
Subtotal	1,336,820,220	41,841,008	1,391,650,792	47,757,405
Less: Allowance for bad debts	(8,437,965)	(264,099)	(8,156,582)	(279,910)
Total	<u>\$1,328,382,255</u>	<u>\$41,576,909</u>	<u>\$1,383,494,210</u>	<u>\$47,477,495</u>

**7. Available-for-sale financial assets-net**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Common stock	\$128,710,319	\$4,028,492	\$168,259,067	\$5,774,161
Beneficiary certificates	2,156,101	67,484	1,909,152	65,517
Collateralized loans obligation and collateralized bonds obligation	2,157,013	67,512	1,569,388	53,857
Exchange traded funds	4,430,659	138,675	4,467,963	153,327
Government bonds	73,917,095	2,313,524	55,799,303	1,914,870
Corporate bonds	60,083,617	1,880,551	59,161,194	2,030,240
Financial debentures	145,367,150	4,549,833	161,445,325	5,540,334
Overseas financial instruments	123,828,172	3,875,686	183,300,834	6,290,351
Real estate investment trust beneficiary	9,360,911	292,986	9,383,157	322,003
Accumulated impairments	(735,000)	(23,005)	(735,000)	(25,223)
Valuation adjustment	4,140,896	129,606	17,432,074	598,218
Total	<u>\$553,416,933</u>	<u>\$17,321,344</u>	<u>\$661,992,457</u>	<u>\$22,717,655</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (1) As of December 31, 2010, certain available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$20,240,213 (US\$694,585) thousands. Such repurchase agreements amounting to NT\$21,011,779 (US\$721,063) thousands was recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to December 31, 2010 is settled at NT\$21,018,127 (US\$721,281) thousands prior to March 31, 2011.
- (2) Please refer to Note 29 for related information on the above available-for-sale financial assets as of December 31, 2009 and 2010 being pledged as collaterals.
- (3) An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with collateralized loans obligation held by Cathay Life. As of December 31, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$735,000 (US\$23,005) and NT\$735,000 (US\$25,223) thousands, respectively.

**8. Held-to-maturity financial assets-net**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Government bonds	\$92,459,559	\$2,893,883	\$104,086,927	\$3,571,961
Corporate bonds	7,628,296	238,757	11,441,278	392,631
Financial debentures	11,603,925	363,190	18,108,243	621,422
Overseas financial instruments	550,838,776	17,240,650	488,703,391	16,770,878
Collateralized loans obligation and collateralized bonds obligation	9,310,633	291,413	9,128,862	313,276
Short-term notes	516,331	16,161	359,110	12,324
Total	<u>\$672,357,520</u>	<u>\$21,044,054</u>	<u>\$631,827,811</u>	<u>\$21,682,492</u>

Please refer to Note 29 for related information on the above held-to-maturity financial assets as of December 31, 2009 and 2010 being pledged as collaterals.



**English Translation of Financial Statements Originally Issued in Chinese**

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

**9. Investments under equity method**

Investee	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Consulting	\$152,952	\$4,787	\$165,315	\$5,673
Seaward Card	39,319	1,231	39,312	1,349
Cathay Property Insurance Agent	7,672	240	-	-
Cathay Life Insurance Agent	53,909	1,687	36,182	1,242
Cathay Insurance (Bermuda)	99,646	3,119	113,179	3,884
WK Technology Fund VI Co., Ltd	358,464	11,220	367,319	12,605
Vista Technology Venture Capital Corp.	39,911	1,249	40,036	1,374
Omnitek Venture Capital Corp.	63,074	1,974	63,963	2,195
Wa Tech Venture Capital Co., Ltd.	101,798	3,186	49,036	1,683
Taiwan Real-estate Management Corp.	55,972	1,752	77,389	2,656
Taiwan Finance Corp.	1,417,631	44,370	1,419,443	48,711
IBT Venture Capital Corp.	114,099	3,571	88,485	3,036
Cathay Securities Investment Trust Co., Ltd.	398,322	12,467	438,820	15,059
Subtotal	2,902,769	90,853	2,898,479	99,467
Less: Unrealized gain from intercompany transactions	(397,482)	(12,440)	(397,482)	(13,640)
Total	\$2,505,287	\$78,413	\$2,500,997	\$85,827

**10. Other financial assets-net**

Item	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Derivative financial assets for hedging	\$3,704,253	\$115,939	\$3,124,064	\$107,209
Financial assets carried at cost	27,368,413	856,602	15,246,136	523,203
Structured time deposits	38,300,000	1,198,748	34,600,000	1,187,371
Customer's margin accounts	140,416	4,395	295,286	10,133
Other miscellaneous financial assets	153,625	4,808	404,629	13,886
Accumulated impairment	(1,980,931)	(62,001)	(1,362,722)	(46,765)
Total	\$67,685,776	\$2,118,491	\$52,307,393	\$1,795,037

(1) An impairment provision is recognized as the stocks held by Cathay Life are assessed to be over-valued. As of December 31, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$1,352,987 (US\$42,347) thousands and NT\$975,337 (US\$33,471) thousands, respectively, due to objective evidence of impairment of its investees.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (2) Due to the recurring losses incurred, Cathay United Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT\$627,944 (US\$19,654) thousands and NT\$387,385 (US\$13,294) thousands as of December 31, 2009 and 2010, respectively.

**11. Investments in debt securities with no active market**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Preferred stocks	\$1,691,730	\$52,949	\$1,691,730	\$58,055
Corporate bonds	14,895,586	466,216	15,595,586	535,196
Beneficiary certificates	400,000	12,520	-	-
Overseas financial instruments	163,284,413	5,110,623	355,893,128	12,213,216
Subtotal	180,271,729	5,642,308	373,180,444	12,806,467
Less: accumulated impairment	(2,727,271)	(85,361)	(1,882,501)	(64,602)
Net balance	<u>\$177,544,458</u>	<u>\$5,556,947</u>	<u>\$371,297,943</u>	<u>\$12,741,865</u>

- (1) A CDO impairment provision is recognized as the overseas bonds held by Cathay Life are assessed to be over-valued. As of December 31, 2009 and 2010, Cathay Life recognized impairment losses amounting to NT\$416,390 (US\$13,033) thousands and NT\$378,690 (US\$12,996) thousands, respectively.
- (2) The amounts of the accumulated impairment loss were NT\$2,166,853 (US\$67,820) thousands and NT\$1,371,188 (US\$47,055) thousands, Cathay United Bank have been recognized as of December 31, 2009 and 2010, respectively, due to the credit deterioration of certain securitization and financial debentures.

The amounts of the accumulated impairment loss were NT\$144,028 (US\$4,508) thousands and NT\$132,623 (US\$4,551) thousands, Cathay United Bank have been recognized as of December 31, 2009 and 2010, respectively, due to the default on certain conversable bonds.

- (3) Please refer to Note 29 for related information on the above investments in debt securities with no active market as of December 31, 2009 and 2010 being pledged as collaterals.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**12. Investments in real estate**

December 31, 2009										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$133,555,993	\$4,180,156	\$4,366	\$136	\$(18,749,777)	\$(586,847)	\$(195,594)	\$(6,122)	\$114,614,988	\$3,587,323
Construction	2,657,404	83,174	-	-	-	-	-	-	2,657,404	83,174
Lease	153,970	4,819	-	-	(3,445)	(108)	-	-	150,525	4,711
Prepayments										
for building										
and land	3,115	98	-	-	-	-	-	-	3,115	98
Total	<u>\$136,370,482</u>	<u>\$4,268,247</u>	<u>\$4,366</u>	<u>\$136</u>	<u>\$(18,753,222)</u>	<u>\$(586,955)</u>	<u>\$(195,594)</u>	<u>\$(6,122)</u>	<u>\$117,426,032</u>	<u>\$3,675,306</u>

December 31, 2010										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$143,040,669	\$4,908,738	\$4,329	\$149	\$(20,605,048)	\$(707,105)	\$(140,701)	\$(4,828)	\$122,299,249	\$4,196,954
Construction	3,352,339	115,042	-	-	-	-	-	-	3,352,339	115,042
Lease	263,880	9,056	-	-	(6,440)	(221)	-	-	257,440	8,835
Prepayments										
for building										
and land	519,879	17,841	-	-	-	-	-	-	519,879	17,841
Total	<u>\$147,176,767</u>	<u>\$5,050,677</u>	<u>\$4,329</u>	<u>\$149</u>	<u>\$(20,611,488)</u>	<u>\$(707,326)</u>	<u>\$(140,701)</u>	<u>\$(4,828)</u>	<u>\$126,428,907</u>	<u>\$4,338,672</u>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semiannually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collaterals as of December 31, 2009 and 2010.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**13. Financial assets securitization**

During 2007, Cathay United Bank securitized a collateralized loans obligation (CLO) with a carrying value of NT\$5,446,335 (US\$186,901) thousands with Land Bank Co., Ltd. as the Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014.

The Trust was terminated after the principal amount of senior beneficiary certificates has been repaid on April 28, 2010. The Trust agreement stipulated that the Trust be terminated after distributing the residual asset to subordinated certificate holders and wind up in May, 2010.

The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands of dollars)	Interest rate
Senior tranche 1 <sup>st</sup>	NT\$3,335,000(US\$114,447)	2.175%
Senior tranche 2 <sup>nd</sup>	NT\$315,000(US\$10,810)	2.325%
Senior tranche 3 <sup>rd</sup>	NT\$340,000(US\$11,668)	2.545%
Senior tranche 4 <sup>th</sup>	NT\$480,000(US\$16,472)	2.945%
Subordinated tranche 5 <sup>th</sup>	NT\$200,000(US\$6,863)	3.00%
Subordinated tranche 6 <sup>th</sup>	NT\$200,000(US\$6,863)	3.20%
Subordinated tranche 7 <sup>th</sup>	NT\$576,335(US\$19,778)	-

Cathay United Bank holds the subordinated beneficiary certificates amounting to NT\$976,335 (US\$33,504) thousands and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor trustee has the right of recourse to Cathay United Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests:

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and December 31, 2009 were as follows:

**English Translation of Financial Statements Originally Issued in Chinese**

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

	<u>Corporate Loans Securitization</u>
	<u>December 31, 2009</u>
Expected weighted-average life (in years)	0.252
Prepayment rate (annual rate)	3.00%
Expected credit losses rate (annual rate)	3.71%
Discounting rate for residual cash flows (annual rate)	2.49%

(2) Sensitivity analysis:

As of December 31, 2009, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	<u>December 31, 2009</u>	
	<u>(NT\$)</u>	<u>(US\$)</u>
Carrying amount of retained interests	\$972,625	\$30,442
Expected weighted-average life (in years)	0.252	0.252
Expected prepayment rate (annual rate)	3.00%	3.00%
Impact on fair value with 10% adverse change	-	-
Impact on fair value with 20% adverse change	-	-
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(2,219)	(69)
Impact on fair value with 20% adverse change	(2,736)	(86)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on fair value with 10% adverse change	(1,003)	(31)
Impact on fair value with 20% adverse change	(2,005)	(63)

(3) Expected static pool credit losses:

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

(4) Cash flows:

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Servicing fees received	\$240	\$8	\$104	\$4
Other cash received on retained interests	24,600	770	7,789	267
Repayment of cash reserve	6,319	198	15,613	536

**14. Goodwill and intangible assets-net**

Item	January 1, 2009		Increase		Decrease		December 31, 2009	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,673,084	\$208,860	\$-	\$-	\$-	\$-	\$6,673,084	\$208,860
Computer								
software	2,567,375	80,356	471,131	14,746	(73,932)	(2,314)	2,964,574	92,788
Land use right	19,630	614	370,800	11,606	-	-	390,430	12,220
Subtotal	9,260,089	289,830	841,931	26,352	(73,932)	(2,314)	10,028,088	313,868
Amortization and impairment								
Amortized	(1,469,517)	(45,994)	(394,646)	(12,352)	63,956	2,002	(1,800,207)	(56,344)
Book value	<u>\$7,790,572</u>	<u>\$243,836</u>	<u>\$447,285</u>	<u>\$14,000</u>	<u>\$(9,976)</u>	<u>\$(312)</u>	<u>\$8,227,881</u>	<u>\$257,524</u>
Item	January 1, 2010		Increase		Decrease		December 31, 2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,673,084	\$229,001	\$-	\$-	\$-	\$-	\$6,673,084	\$229,001
Computer								
software	2,964,574	101,736	709,276	24,340	(183,821)	(6,308)	3,490,029	119,768
Land use right	390,430	13,398	-	-	(35,349)	(1,213)	355,081	12,185
Subtotal	10,028,088	344,135	709,276	24,340	(219,170)	(7,521)	10,518,194	360,954
Amortization and impairment								
Amortized	(1,800,207)	(61,778)	(495,242)	(16,995)	168,076	5,768	(2,217,373)	(73,005)
Book value	<u>\$8,227,881</u>	<u>\$282,357</u>	<u>\$214,034</u>	<u>\$7,345</u>	<u>\$(51,094)</u>	<u>\$(1,753)</u>	<u>\$8,390,821</u>	<u>\$287,949</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

**15. Commercial paper payable**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Commercial paper payable	\$1,170,000	\$36,620	\$1,450,000	\$49,760
Less: Discount on commercial paper payable	-	-	-	-
Total	<u>\$1,170,000</u>	<u>\$36,620</u>	<u>\$1,450,000</u>	<u>\$49,760</u>

As of December 31, 2009 and 2010, the average interest rates for the commercial paper payable were 0.248%~1.038% and 0.162%~0.57%, respectively.

**16. Financial liabilities at fair value through profit or loss**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Derivative financial instruments	\$872,498	\$27,308	\$699,978	\$24,021
Financial debentures	12,500,000	391,236	5,000,000	171,585
Subordinated financial debentures	5,000,000	156,495	5,000,000	171,585
Security lending payable hedging	155,448	4,865	86,155	2,957
Security lending payable non-hedging	-	-	191,116	6,559
Valuation adjustment	<u>8,175,301</u>	<u>255,878</u>	<u>12,818,588</u>	<u>439,897</u>
Total	<u>\$26,703,247</u>	<u>\$835,782</u>	<u>\$23,795,837</u>	<u>\$816,604</u>

(1) On September 19, 2008 and October 27, 2008, Cathay United Bank issued seven-year subordinated financial debentures totaling NT\$2,200,000 (US\$75,497) thousands and NT\$2,800,000 (US\$96,088) thousands, with fixed interest rates. These subordinated financial debentures are repaid at maturity, and the interest is paid quarterly.

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (2) On June 20, 2003, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$5,000,000 (US\$171,585) thousands. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$3,200,000 (US\$109,815) thousands, NT\$2,700,000 (US\$92,656) thousands and NT\$1,800,000 (US\$61,771) thousands, respectively. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$68,634) thousands. These dominant financial debentures have matured before December 31, 2010.
- (3) On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$34,317) thousands, NT\$3,500,000 (US\$120,110) thousands, NT\$2,000,000 (US\$68,634) thousands, and NT\$1,000,000 (US\$34,317) thousands, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repaid at maturity, and the interest is paid quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$85,793) thousands, NT\$1,500,000 (US\$51,476) thousands, NT\$1,500,000 (US\$51,476) thousands, NT\$2,500,000 (US\$85,793) thousands, NT\$1,500,000 (US\$51,476) thousands, NT\$2,500,000 (US\$85,793) thousands, NT\$1,000,000 (US\$34,317) thousands and NT\$1,000,000 (US\$34,317) thousands, NT\$2,000,000 (US\$68,634) thousands, NT\$1,500,000 (US\$51,476) thousands, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity and the interest is paid quarterly. These five-year dominant financial debentures totaling NT\$20,000,000 (US\$686,342) thousands have matured as of December 31, 2010.
- (4) These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank.

## 17. Deposits

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Check deposits	\$14,043,924	\$439,559	\$13,106,278	\$449,769
Demand deposits	235,582,226	7,373,466	215,945,648	7,410,626
Demand savings deposits	474,075,684	14,838,050	572,330,202	19,640,707
Time deposits	564,080,221	17,655,093	535,117,845	18,363,687
Remittances	631,365	19,761	674,110	23,134
Total	<u>\$1,288,413,420</u>	<u>\$40,325,929</u>	<u>\$1,337,174,083</u>	<u>\$45,887,923</u>



**English Translation of Financial Statements Originally Issued in Chinese**

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

**18. Bonds payable**

	December 31,			
	<u>2009(NT\$)</u>	<u>2009(US\$)</u>	<u>2010(NT\$)</u>	<u>2010(US\$)</u>
Subordinated bond payable-net	\$40,000,000	\$1,251,956	\$42,890,189	\$1,471,866
Subordinated financial debentures	15,635,981	489,389	14,686,580	504,001
Discount in financial debentures	(48,885)	(1,530)	(37,910)	(1,301)
Valuation adjustment	850,113	26,608	1,115,825	38,292
Total	<u>\$56,437,209</u>	<u>\$1,766,423</u>	<u>\$58,654,684</u>	<u>\$2,012,858</u>

- (1) Cathay United Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.50% on October 5, 2005, and the interest is payable semiannually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its remaining subordinated financial debentures. Cathay United Bank has bought back the bonds amounting to US\$172,620 thousands on May 12, 2009 and recognized gain in the amount of NT\$430,023 (US\$13,459) thousands which was included in other noninterest income.
- (2) On September 16, 2009, the Company issued a seven-year subordinated bond totaling NT\$20,000,000 (US\$686,342) thousands with a stated interest rate of 2.65%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (3) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 (US\$51,476) thousands with a stated interest rate of 2.60% in July, 2009, and the interest is payable quarterly.
- (4) Cathay United Bank issued an eight-year subordinated financial debentures totaling NT\$3,650,000 (US\$125,257) thousands with a stated interest rate of 2.42% in June, 2009, and the interest is payable quarterly.
- (5) On December 8, 2008, the Company issued a seven-year subordinated bond totaling NT\$20,000,000 (US\$686,342) thousands with a stated interest rate of 3.10%. The subordinated bonds and repayable at maturity and the interest is payable annually.

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

(7) Indovina Banks issued a two-year subordinated financial debentures totaling VND \$2,000 billions with a stated interest rate of 13.50% in July, 2010, and the interest is payable annually.

The Subordinated financial debenture is more senior to common stock.

**19. Other borrowings**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Short-term borrowings	\$300,000	\$9,390	\$-	\$-

As of December 31, 2009, the average interest rate for the other borrowings was 0.65%~1.00% annually.

**20. Reserve for operations and liabilities**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Reserve for insurance business	\$2,328,289,133	\$72,872,899	\$2,613,616,824	\$89,691,724
Reserves for losses on guarantees	24,892	779	24,892	854
Reserves for losses on stock brokerage transactions	54,665	1,711	71,028	2,438
Reserves for losses on trading securities	268,791	8,413	270,693	9,289
Total	<u>\$2,328,637,481</u>	<u>\$72,883,802</u>	<u>\$2,613,983,437</u>	<u>\$89,704,305</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(1) Cathay Life according to “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and related insurance regulations, when the cumulative provisions for special risk-volatility reserve exceed 30% of the amount of retained earned premiums for the current year, that portion in excess may be retired and treated as income. However, the retired reserves are appropriated as special reserve in equity and shall not be distributed or used for other purposes unless approved by the R.O.C Ministry of Finance (the “MOF”). As of December 31, 2010, the cumulative special reserves released from the special risk-volatility reserves amounted to NT\$21,687,527 (US\$744,253) thousands.

(2) Unearned premium reserve

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

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

(3) 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.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.
- a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve. Provision contingency reserve was thirty and fifteen percentage before and after January 1, 2008, respectively.
  - b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.
  - c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance and health insurance due within a year contingency reserve exceed 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.
- C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
- D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- E. The residential earthquake insurance product is in compliance of “Regulations for Method of insurance and Contingency allocation on Residential Earthquake”.

(4) Claims reserve:

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

- 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”.
- (5) Premiums deficiency reserve:

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

**21. Other financial liabilities**

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Derivative financial liabilities for hedging	\$28,722	\$899	\$11,205	\$384
Borrowed funds	240,494	7,527	180,396	6,191
Total	<u>\$269,216</u>	<u>\$8,426</u>	<u>\$191,601</u>	<u>\$6,575</u>

**22. Common stock**

- (1) As of December 31, 2009 and 2010, the authorized share capital amounted NT\$120,000,000 (US\$4,118,051) thousands, and the issued share capital amounted NT\$96,708,774 (US\$3,026,879) thousands and NT\$101,544,213 (US\$3,484,702) thousands, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (2) The recapitalization of undistributed earnings of NT\$4,835,439 (US\$165,938) thousands by issuing 483,544 thousand shares with par value of NT\$10 (US\$0.34) was resolved by the Company's shareholders' meeting on June 18, 2010 and approved by the Financial Supervisory commission on July 14, 2010. The recapitalization record date was August 10, 2010.
- (3) The cancellation of treasury stock of NT\$666,598 (US\$20,864) thousand by reducing 66,660 thousand shares with par value of NT\$10 (US\$0.31) was resolved by the board of directors on August 21, 2009 and approved by the Financial Supervisory commission on October 5, 2009. The recapitalization record date was October 13, 2009.
- (4) On December 31, 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

### **23. Capital surplus**

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$78,240,933 (US\$2,448,855) and NT\$78,508,148 (US\$2,694,171) thousands as of December 31, 2009 and 2010, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to NT\$0 (US\$0) and NT\$267,215 (US\$9,170) thousands were included in the capital surplus as of December 31, 2009 and 2010, respectively.
- (2) The capital surplus of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends or to be capitalized.
- (3) In addition, pursuant to the Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. Furthermore, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

**English Translation of Financial Statements Originally Issued in Chinese**

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

**24. Retained earnings**

(1) Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its shareholders.

(2) Special reserve

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

(3) Undistributed earnings

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

- C. On June 19, 2009, the shareholders' meeting resolved the distribution of earnings for the year ended December 31, 2008. After the appropriations of legal reserve and special reserve, there is not remainder to be appropriated as cash dividends and bonuses.
- D. The Company is required to pay 10% surtax in the forthcoming tax year for undistributed earnings.
- E. In accordance with SFC regulations, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The costs of these shares are exempted from distributing as special reserve.
- F. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost expect for the special reserve since 2007.
- G. Dividends policy
- The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations. Excess cash from retained earnings after taking into account operating needs may be distributed in cash; moreover cash dividends must be a minimum of 10% of the total dividends declared.
- H. The accrual of employee bonus and remuneration of directors for the years ended December 31, 2010 was NT\$8,907 (US\$306) thousands based on the average of actual distribution in the past three years or the net income after tax for the years ended December 31, 2010 and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2011 fiscal year.
- I. The accrual of employee bonus and remuneration of directors for the years of 2009 was NT\$33,242 (US\$1,040) thousands based on the average of actual distribution in the past three years or the net income after tax for the years of 2009 and was recognized as operating costs or expenses. The actual distribution was NT\$28,214 (US\$883) thousands. The difference of NT\$5,028 (US\$157) thousands between actual distribution and estimated amount has been recognized in 2010 fiscal year.



**English Translation of Financial Statements Originally Issued in Chinese**

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

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

## 25. Treasury stock

The following is a summary of the movement of treasury stock as of December 31, 2009 and 2010:

Reason for acquisition	December 31, 2009									
	In thousands of shares				Book value		Book value per share		Market value per share	
	January 1, 2009	Increase	Decrease	December 31, 2009	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares acquired through share exchange from merger transaction	66,660	-	66,660	-	\$-	\$-	\$-	\$-	\$-	\$-

There is no treasury stock for the years ended December 31, 2010.

## 26. Operating Expense

For the years ended December 31, 2009 and 2010, personnel expense, depreciation and amortizations are summarized below:

	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Personnel expenses				
Salary and wages	\$33,638,947	\$1,052,862	\$35,057,763	\$1,203,080
Labor & health insurance expenses	2,332,543	73,006	2,733,169	93,794
Pension expenses	1,418,695	44,404	1,358,682	46,626
Other expenses	1,949,812	61,027	2,141,490	73,490
Depreciation	3,709,236	116,095	3,646,335	125,132
Amortization	401,249	12,558	498,883	17,120

**English Translation of Financial Statements Originally Issued in Chinese**

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

**27. Estimated income taxes**

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Adjusted income tax calculates on accounting income	\$1,234,709	\$38,645	\$1,230,778	\$42,237
Plus (Less): Tax of interest income on a separate basis	124,321	3,891	8,964	308
Extra 10% income tax on undistributed retained earning	8,716	273	199,525	6,847
Alternative minimum tax payable	-	-	1,337,835	45,910
Withholding tax for overseas investments	21,999	688	148,237	5,087
Tax effects under consolidated income tax	(102,029)	(3,193)	(1,495,635)	(51,326)
Deferred income tax expense (benefits)	4,280,562	133,977	(4,965,644)	(170,407)
Adjustment of income tax	797,404	24,958	(547,554)	(18,790)
Income tax credit	(11,383)	(356)	(1,909)	(66)
Operating loss carry-forward	(3,255,088)	(101,881)	1,075,126	36,895
Effects of tax rate change on deferred tax assets / liabilities	1,922,969	60,187	1,220,430	41,882
Other	445,486	13,943	72,605	2,492
Total income tax expenses (benefits)	<u>\$5,467,666</u>	<u>\$171,132</u>	<u>\$(1,717,242)</u>	<u>\$(58,931)</u>

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

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Total deferred tax assets	<u>\$11,076,900</u>	<u>\$346,695</u>	<u>\$22,004,822</u>	<u>\$755,141</u>
Total deferred tax liabilities	<u>\$4,701,245</u>	<u>\$147,144</u>	<u>\$11,830,005</u>	<u>\$405,971</u>
Allowance for deferred assets	<u>\$108,274</u>	<u>\$3,389</u>	<u>\$102,797</u>	<u>\$3,528</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Temporary differences:				
Pension expense	\$1,476,010	\$46,198	\$1,330,535	\$45,660
Unrealized exchange losses	7,272,537	227,622	87,252,154	2,994,240
Gains from valuation on financial assets and liabilities	(13,894,091)	(434,870)	(67,264,585)	(2,308,325)
Allowance for bad debts	591,097	18,501	586,364	20,122
Operating loss carry-forward	35,633,395	1,115,286	29,666,224	1,018,058
Other difference	1,218,318	38,132	451,264	15,486
Total	<u>\$32,297,266</u>	<u>\$1,010,869</u>	<u>\$52,021,956</u>	<u>\$1,785,241</u>
Tax effect under consolidated income tax system	<u>\$(1,515,565)</u>	<u>\$(47,435)</u>	<u>\$1,025,739</u>	<u>\$35,200</u>
Deferred income tax assets of foreign branches	<u>\$911,630</u>	<u>\$28,533</u>	<u>\$185,598</u>	<u>\$6,369</u>
Investment tax credit	<u>\$184,940</u>	<u>\$5,788</u>	<u>\$119,748</u>	<u>\$4,110</u>

	December 31,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Deferred tax assets	\$11,076,900	\$346,695	\$22,004,822	\$755,141
Allowance for deferred tax assets	(108,274)	(3,389)	(102,797)	(3,528)
Net deferred tax assets	10,968,626	343,306	21,902,025	751,613
Deferred tax liabilities	(4,701,245)	(147,144)	(11,830,005)	(405,971)
Net offset balance of deferred tax assets	<u>\$6,267,381</u>	<u>\$196,162</u>	<u>\$10,072,020</u>	<u>\$345,642</u>

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(3) Income tax returns:

		December 31, 2010
		Notes
	Income tax returns examined by tax authorities	
The Company	through 2005	The Company filed applications for administrative petition of 2002 and re-examination of 2003, 2004 and 2005 tax returns.
Cathay Life	through 2005	Cathay Life filed applications for administrative petition of 2002 and re-examination of 2003, 2004 and 2005 tax returns.
Cathay United Bank	through 2005	-
Cathay Century	through 2005	Cathay Century filed applications for re-examination of 2004 and 2005 tax return.
Cathay Securities	through 2005	-
Cathay Pacific Venture	through 2005	-
Symphox Information	through 2008	-
Cathay Futures	through 2008	-

(4) Information related to imputation credit account:

A. Balance of imputation credit account

	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
The Company	\$17,778	\$556	\$547,186	\$18,778
Cathay Life	2,465,683	77,173	2,930,509	100,567
Cathay United Bank	41,917	1,312	274,653	9,425
Cathay Century	21,401	670	14,157	486
Cathay Securities	9,332	292	2	-
Cathay Pacific Venture	11,151	349	18,162	623
Cathay Futures	13,038	408	14,222	488
Symphox Information	17,497	548	12,982	446

**English Translation of Financial Statements Originally Issued in Chinese**

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

B. Imputation ratio

	For the years ended December 31,	
	2009	2010
	Actual	Estimated
The Company-cash dividends	7.69%	4.67%
The Company- stock dividends	7.69%	4.67%
Cathay Life	33.33%	-
Cathay United Bank	0.49%	2.45%
Cathay Century	2.48%	4.71%
Cathay Securities	10.11%	-
Cathay Pacific Venture	-	20.48%
Cathay Futures	33.33%	20.48%
Symphox Information	33.33%	14.99%

The imputation credit allocated to shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

(5) Information relating of undistributed retained earnings:

Year	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	11,051,057	345,886	11,716,176	402,065
Total	<u>\$11,051,057</u>	<u>\$345,886</u>	<u>\$11,716,176</u>	<u>\$402,065</u>

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

**28. Earnings per share**

	For the year ended December 31, 2009								
	Amount (Numerator)				Shares (in thousands of shares)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(denominator)	(NT\$)	(US\$)	(NT\$)	(US\$)
	Primary earnings per share:								
Consolidated losses	<u>\$16,299,547</u>	<u>\$510,158</u>	<u>\$10,831,881</u>	<u>\$339,026</u>	10,154,421	<u>\$1.61</u>	<u>\$0.05</u>	<u>\$1.07</u>	<u>\$0.03</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

	For the year ended December 31, 2010								
	Amount (Numerator)				Shares	EPS (in dollars)			
	Before income taxes		After income taxes		(in thousands of shares) (denominator)	Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Primary earnings per share:									
Consolidated income	\$2,591,002	\$88,916	\$4,308,244	\$147,847	10,154,421	\$0.26	\$0.01	\$0.42	\$0.01

**29. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Pacific Venture	"
Cathay Life (China)	Subsidiary of Cathay Life
Cathay Life (Vietnam)	"
Symphox Information	"
Cathay Insurance (Bermuda)	"
Cathay Securities Investment Consulting	"
Cathay Century (China)	Subsidiary of Cathay Century
Indovina Bank	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent	"
Seaward Card	"
Cathay Futures	Subsidiary of Cathay Securities
Cathay Securities Investment Trust Co., Ltd.	Investee accounted for under the equity method
Taiwan Real-estate Management Corp.	"
Cathay Bond Fund etc.	The fund is managed by Cathay Securities Trust Co., Ltd.
Vietinbank	Joint venture partner of Indovina Bank
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Cathay General Hospital	"
Seaward Leasing Ltd.	"
Cathay Real Estate Development Co., Ltd.	"
Culture and Charity Foundation of Cathay Life	"
Cathay Century Realty Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Other related parties	Includes chairmen, managers, their spouses and relatives of subsidiaries

**English Translation of Financial Statements Originally Issued in Chinese**

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

(2) Significant transactions with related parties:

A. Cash and cash equivalent

a. Due from commercial banks

Name	For the years ended December 31,							
	2009				2010			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Vietinbank	\$4,873	\$153	\$38	\$1	\$16,158	\$554	\$13,734	\$471

b. Call loans from banks

Name	For the years ended December 31,							
	2009				2010			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Vietinbank	\$178,530	\$5,588	\$3,368	\$105	\$615,466	\$21,121	\$13,627	\$468

B. Financial assets at fair value through profit or loss

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$4,893,249	\$153,153	\$2,441,656	\$83,791

C. Receivables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	\$12,938	\$405	\$9,234	\$317

**English Translation of Financial Statements Originally Issued in Chinese**

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

D. Loans

Name	For the year ended December 31, 2009			
	Ending	Ending	Interest	Interest
	Balance	Balance	Revenue	Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$2,460,000	\$76,995	\$16,370	\$512
Taiwan Real-estate Management Corp.	107,000	3,349	1,936	61
Cathay General Hospital	4,262,030	133,397	101,046	3,163
Other related parties	544,420	17,040	8,346	261
Total	<u>\$7,373,450</u>	<u>\$230,781</u>	<u>\$127,698</u>	<u>\$3,997</u>

Name	For the year ended December 31, 2010			
	Ending	Ending	Interest	Interest
	Balance	Balance	Revenue	Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$720,000	\$24,708	\$5,373	\$184
Taiwan Real-estate Management Corp.	100,000	3,432	1,730	59
Cathay General Hospital	3,968,320	136,181	85,373	2,930
Other related parties	557,429	19,130	9,437	324
Total	<u>\$5,345,749</u>	<u>\$183,451</u>	<u>\$101,913</u>	<u>\$3,497</u>

E. Available-for-sale financial assets

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$201,519</u>	<u>\$6,307</u>	<u>\$637,706</u>	<u>\$21,884</u>



**English Translation of Financial Statements Originally Issued in Chinese**

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

F. Deposit

Name	For the year ended December 31, 2009			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Expense (NT\$)	Interest Expense (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$511,943	\$16,023	\$3,815	\$119
Cathay Real Estate Development Co., Ltd.	139,654	4,371	66	2
Cathay Bond Fund etc.	7,731,112	241,975	83,956	2,628
Other related parties	3,536,416	110,686	36,632	1,147
<b>Total</b>	<b>\$11,919,125</b>	<b>\$373,055</b>	<b>\$124,469</b>	<b>\$3,896</b>

Name	For the year ended December 31, 2010			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Expense (NT\$)	Interest Expense (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$736,759	\$25,283	\$2,063	\$71
Cathay Real Estate Development Co., Ltd.	133,171	4,570	51	2
Cathay Bond Fund etc.	4,586,292	157,388	30,024	1,030
Other related parties	5,891,878	202,192	37,153	1,275
<b>Total</b>	<b>\$11,348,100</b>	<b>\$389,433</b>	<b>\$69,291</b>	<b>\$2,378</b>

G. Property transactions

a. Transactions between Cathay Life and related parties are in the nature of undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

Name	Item	For the year ended December 31, 2009	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building etc.	\$107,318	\$3,359
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	18,980	594
<b>Total</b>		<b>\$126,298</b>	<b>\$3,953</b>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Name	Item	For the year ended December 31, 2010	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building etc.	\$41,972	\$1,440
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	295,483	10,140
Total		<u>\$337,455</u>	<u>\$11,580</u>

b. Real estate rental income from Cathay Life:

Name	Rental income			
	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$22,087	\$691	\$20,064	\$689
Cathay General Hospital	175,841	5,504	177,634	6,096
Cathay Securities Investment Trust Co., Ltd.	22,375	700	25,236	866
San Ching Engineering Co., Ltd.	9,657	302	9,305	319
Cathay Securities Investment Consulting	9,289	291	9,657	331
Total	<u>\$239,249</u>	<u>\$7,488</u>	<u>\$241,896</u>	<u>\$8,301</u>

Name	Guarantee deposits in			
	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$4,886	\$153	\$4,886	\$168
Cathay General Hospital	11,658	365	11,984	411
Cathay Securities Investment Trust Co., Ltd.	4,948	155	6,210	213
Total	<u>\$21,492</u>	<u>\$673</u>	<u>\$23,080</u>	<u>\$792</u>

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

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

Name	Rental expenses			
	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$41,102	\$1,286	\$38,968	\$1,337
Seaward Leasing Ltd.	14,463	453	17,495	601
Total	<u>\$55,565</u>	<u>\$1,739</u>	<u>\$56,463</u>	<u>\$1,938</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

Name	Guarantee deposits paid			
	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Real Estate Development Co., Ltd.	\$8,779	\$275	\$8,675	\$298

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

H. Securities sold under agreements to repurchase

Name	December 31,			
	Ending balance			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$110,000	\$3,443	\$100,000	\$3,432
Other related parties	558,189	17,471	538,594	18,483
Total	\$668,189	\$20,914	\$638,594	\$21,915

Name	For the years ended December 31,			
	Interest expenses			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$149	\$4	\$93	\$3
Other related parties	823	26	732	25
Total	\$972	\$30	\$825	\$28

I. Payables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
	Seaward Card	\$24,683	\$772	\$25,810
Lin Yuan Property Management Co., Ltd.	4,396	138	4,705	161
Total	\$29,079	\$910	\$30,515	\$1,047

**English Translation of Financial Statements Originally Issued in Chinese**

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

J. Net commission and handling fees

a. Handling fees income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$24,466	\$766	\$30,296	\$1,040
Cathay Securities Investment Consulting	3,125	98	3,996	137
Total	<u>\$27,591</u>	<u>\$864</u>	<u>\$34,292</u>	<u>\$1,177</u>

b. Commissions expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life Insurance Agent	<u>\$34,956</u>	<u>\$1,094</u>	<u>\$16,866</u>	<u>\$579</u>

c. Reinsurance service expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	<u>\$8,493</u>	<u>\$266</u>	<u>\$10,245</u>	<u>\$352</u>

K. Net premiums from insurance business

a. Insurance income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay General Hospital	\$36,747	\$1,150	\$37,350	\$1,282
Seaward Leasing Ltd.	6,067	190	7,411	254
Other related parties	407,957	12,769	179,532	6,161
Total	<u>\$450,771</u>	<u>\$14,109</u>	<u>\$224,293</u>	<u>\$7,697</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

b. Reinsurance income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	\$89,771	\$2,810	\$111,781	\$3,836

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

c. Reinsurance claims payment

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	\$109,757	\$3,435	\$87,588	\$3,006

d. Reinsurance commission expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	\$3,416	\$107	\$4,379	\$150

L. Net other non-interest income

a. Sales

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Charity Foundation	\$4,179	\$131	\$-	\$-

b. Service income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay General Hospital	\$-	\$-	\$5,674	\$195

**English Translation of Financial Statements Originally Issued in Chinese**

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

c. Miscellaneous income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$101,165	\$3,166	\$126,779	\$4,351
Cathay General Hospital	5,782	181	6,100	209
Total	<u>\$106,947</u>	<u>\$3,347</u>	<u>\$132,879</u>	<u>\$4,560</u>

M. Operating expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Consulting	\$22,680	\$710	\$22,680	\$778
Seaward Card	312,840	9,792	320,764	11,008
Cathay General Hospital	11,213	351	13,617	467
Lin Yuan Property Management Co., Ltd.	575,271	18,005	589,417	20,227
Cathay Real Estate Development Co., Ltd.	10,291	322	7,229	248
Seaward Leasing Ltd.	16,613	520	15,786	542
Total	<u>\$948,908</u>	<u>\$29,700</u>	<u>\$969,493</u>	<u>\$33,270</u>

P. Information about key management personnel compensation:

	For the years ended December 31,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Remunerations including wages, awards, bonus and etc.	<u>\$149,138</u>	<u>\$4,668</u>	<u>\$162,770</u>	<u>\$5,586</u>

The management of the Company and Subsidiaries 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.

O. Others Disclosures

- a. Cathay United Bank entered into a contract with San Ching Engineering Co., Ltd. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$ 1,411,880 (US\$48,452) thousands, in 2006. The project was completed in 2009. Cathay United Bank paid the amount of NT\$218,894 (US\$6,851) thousands during the years ended December 31, 2009. As of December 31, 2009, the accumulated paid amount was NT\$1,400,790 (US\$43,843) thousands.

**English Translation of Financial Statements Originally Issued in Chinese**

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

b. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$29,548 (US\$925) thousands and NT\$15,504 (US\$532) thousands during the years ended December 31, 2009 and 2010, respectively.

c. Cathay Century Realty Co., Ltd. acted as a broker for Cathay United Bank to dispose of real estate, the commissions of NT\$4,271 (US\$134) thousands and NT\$23,415 (US\$804) were included in disposal gains of foreclosed properties, premises and equipment, during the years ended December 31, 2009 and 2010, respectively.

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

A. Cash in bank

		For the year ended December 31, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$4,740	0.00%~0.10%	\$232

		For the year ended December 31, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$148	0.00%~0.10%	\$7

		For the year ended December 31, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$3,448	0.00%~0.12%	\$8

		For the year ended December 31, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$118	0.00%~0.12%	\$-

**English Translation of Financial Statements Originally Issued in Chinese**

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

**B. Receivables**

Name	Item	December 31,			
		2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	Receivables due to consolidated income tax	\$1,375,483	\$43,051	\$2,086,065	\$71,588
Cathay Life	Receivables due to consolidated income tax and interest	547,753	17,144	845,533	29,016
Cathay Century	Receivables due to consolidated income tax	231,855	7,257	64,360	2,209
Cathay Securities	Receivables due to consolidated income tax	195,257	6,111	37,224	1,277
Total		<u>\$2,350,348</u>	<u>\$73,563</u>	<u>\$3,033,182</u>	<u>\$104,090</u>

**C. Guarantee deposits paid**

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	<u>\$5,964</u>	<u>\$187</u>	<u>\$5,816</u>	<u>\$199</u>

**D. Payables**

Name	Item	December 31,			
		2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	Payables due to consolidated income tax	\$5,306,663	\$166,093	\$4,957,560	\$170,129
Cathay United Bank	Payables due to consolidated income tax	3,330,544	104,242	3,508,224	120,392
Cathay Securities	Payables due to consolidated income tax	14,199	445	14,199	487
Total		<u>\$8,651,406</u>	<u>\$270,780</u>	<u>\$8,479,983</u>	<u>\$291,008</u>

**E. Interest income**

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	<u>\$537,712</u>	<u>\$16,830</u>	<u>\$815,000</u>	<u>\$27,968</u>



**English Translation of Financial Statements Originally Issued in Chinese**

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

F. Operating expenses

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$25,787	\$807	\$26,649	\$915
Cathay Securities	3,210	101	-	-
Total	<u>\$28,997</u>	<u>\$908</u>	<u>\$26,649</u>	<u>\$915</u>

G. Sales of securities

Name	Securities	For the year ended December 31, 2009		
		Shares (thousand)	Amount (NT\$)	Amount (US\$)
Cathay Life	Cathay Pacific Venture	27,854	\$271,315	\$8,492
Cathay United Bank	Cathay Pacific Venture	2,228	21,705	679
Cathay Century	Cathay Pacific Venture	27,854	271,315	8,492
Cathay Real Estate Development Co., Ltd.	Cathay Pacific Venture	27,854	271,315	8,492
Total		<u>85,790</u>	<u>\$835,650</u>	<u>\$26,155</u>

There is no significant related parties transaction for the year ended December 31, 2010.

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

A. Cathay Life

a. Cash in banks

Name	Item	For the year ended December 31, 2009		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$10,148,850	0.10%~2.42%	\$42,918
Bank	Cash in bank	<u>9,318,427</u>	0.02%~1.00%	<u>5,265</u>
Total		<u>\$19,467,277</u>		<u>\$48,183</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

		For the year ended December 31, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$317,648	0.10%~2.42%	\$1,343
Bank	Cash in bank	291,657	0.02%~1.00%	165
Total		<u>\$609,305</u>		<u>\$1,508</u>

		For the year ended December 31, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$4,770,956	0.10%~4.60%	\$71,843
Bank	Cash in bank	4,648,049	0.02%~1.10%	2,984
Total		<u>\$9,419,005</u>		<u>\$74,827</u>

		For the year ended December 31, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$163,725	0.10%~4.60%	\$2,466
Bank	Cash in bank	159,508	0.02%~1.10%	102
Total		<u>\$323,233</u>		<u>\$2,568</u>

b. Other receivables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$5,306,663	\$166,093	\$4,957,560	\$170,129
Cathay Century	230,135	7,203	118,621	4,071
Total	<u>\$5,536,798</u>	<u>\$173,296</u>	<u>\$5,076,181</u>	<u>\$174,200</u>

c. Secured loans

		For the year ended December 31, 2009		
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,286,249	\$4,026,030	1.85%~3.91%	\$94,888
Other related parties	385,439	323,147	1.01%~5.37%	6,015
Total	<u>\$4,671,688</u>	<u>\$4,349,177</u>		<u>\$100,903</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

For the year ended December 31, 2009				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$134,155	\$126,010	1.85%~3.91%	\$2,970
Other related parties	12,064	10,114	1.01%~5.37%	188
<b>Total</b>	<b>\$146,219</b>	<b>\$136,124</b>		<b>\$3,158</b>

For the year ended December 31, 2010				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,026,030	\$3,756,320	1.85%~2.22%	\$79,792
Other related parties	329,969	291,345	1.18%~3.65%	5,310
<b>Total</b>	<b>\$4,355,999</b>	<b>\$4,047,665</b>		<b>\$85,102</b>

For the year ended December 31, 2010				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$138,162	\$128,906	1.85%~2.22%	\$2,738
Other related parties	11,323	9,998	1.18%~3.65%	182
<b>Total</b>	<b>\$149,485</b>	<b>\$138,904</b>		<b>\$2,920</b>

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

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$4,020,682	\$125,843	\$2,337,898	\$80,230

**English Translation of Financial Statements Originally Issued in Chinese**

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

e. Other overdue receivable

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life (China)	\$204,097	\$6,388	\$204,097	\$7,004

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

f. Property transactions

Transactions between Cathay Life and related parties are in the nature of undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

Name	For the year ended December 31, 2009	
	Item	(NT\$) (US\$)
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	\$18,980 \$594
Lin Yuan Property Management Co., Ltd.	International Building etc	107,318 3,359
		\$126,298 \$3,953

Name	For the year ended December 31, 2010	
	Item	(NT\$) (US\$)
San Ching Engineering Co., Ltd.	Cathay Land Mark etc.	\$295,483 \$10,140
Lin Yuan Property Management Co., Ltd.	International Building etc	41,972 1,440
		\$337,455 \$11,580

g. Guarantee deposits paid

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Futures	\$270,492	\$8,466	\$166,345	\$5,708

As of December 31, 2009 and 2010, the imputed interest income of guarantee deposits paid from Cathay Futures were NT\$389 (US\$12) thousands and NT\$177 (US\$6) thousands, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

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

h. Other payables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	<u>\$547,753</u>	<u>\$17,144</u>	<u>\$845,533</u>	<u>\$29,016</u>

i. Rental income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$334,008	\$10,454	\$366,884	\$12,590
Cathay General Hospital	175,841	5,504	177,634	6,096
Total	<u>\$509,849</u>	<u>\$15,958</u>	<u>\$544,518</u>	<u>\$18,686</u>

j. Insurance income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$609,653	\$19,081	\$595,325	\$20,430
Other related parties	407,957	12,769	179,532	6,161
Total	<u>\$1,017,610</u>	<u>\$31,850</u>	<u>\$774,857</u>	<u>\$26,591</u>

k. Reinsurance income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	<u>\$89,771</u>	<u>\$2,810</u>	<u>\$111,781</u>	<u>\$3,836</u>

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

l. Reinsurance claims payment

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Insurance (Bermuda)	<u>\$109,757</u>	<u>\$3,435</u>	<u>\$87,588</u>	<u>\$3,006</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

m. Miscellaneous income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Century	\$1,009,955	\$31,611	\$1,065,015	\$36,548
Cathay United Bank	87,940	2,752	100,996	3,466
Cathay Securities Investment Trust Co., Ltd.	101,165	3,166	126,779	4,351
Total	<u>\$1,199,060</u>	<u>\$37,529</u>	<u>\$1,292,790</u>	<u>\$44,365</u>

n. Operating expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$1,143,334	\$35,785	\$1,511,864	\$51,883
Symphox Information	229,332	7,178	248,761	8,537
Lin Yuan Property Management Co., Ltd.	575,271	18,005	589,417	20,227
Total	<u>\$1,947,937</u>	<u>\$60,968</u>	<u>\$2,350,042</u>	<u>\$80,647</u>

o. Non-operating expenses

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	<u>\$537,712</u>	<u>\$16,830</u>	<u>\$815,000</u>	<u>\$27,968</u>

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

p. Sales of securities

Name	Securities	For the year ended December 31, 2009				
		Shares (thousand)	Amount		Losses from disposal	
			NT\$	US\$	NT\$	US\$
Cathay Financial Holding	Cathay Pacific Venture	27,854	<u>\$271,315</u>	<u>\$8,492</u>	<u>\$9,251</u>	<u>\$290</u>

There is no significant related parties transaction for the year ended December 31, 2010.

**English Translation of Financial Statements Originally Issued in Chinese**

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

q. Other disclosures

(A) As of December 31, 2009 and 2010, the notional amounts of the financial instruments transactions with Cathay United Bank are listed below:

Item	December 31,	
	2009	2010
Forward foreign exchange contracts	US\$500,000	US\$989,084
CS contracts	US\$3,421,000	US\$3,102,691

(B) Cathay Life had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$804,300 (US\$25,174) thousands and NT\$910,000 (US\$31,229) thousands during the years ended December 31, 2009 and 2010, respectively.

B. Cathay United Bank

a. Loans and deposits

Account/Name	For the years ended December 31,							
	2009				2010			
	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward								
Leasing Ltd.	\$2,460,000	\$76,995	\$16,370	\$512	\$720,000	\$24,708	\$5,373	\$184
Taiwan								
Real-estate								
Management								
Corp.	107,000	3,349	1,936	61	100,000	3,432	1,730	59
Cathay General								
Hospital	236,000	7,387	6,158	193	212,000	7,275	5,581	192
Other related								
parties	203,865	6,381	2,331	73	245,380	8,421	3,778	130
Total	\$3,006,865	\$94,112	\$26,795	\$839	\$1,277,380	\$43,836	\$16,462	\$565

**English Translation of Financial Statements Originally Issued in Chinese**

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

Account/Name	For the years ended December 31,							
	2009				2010			
	Ending Balance		Interest expense		Ending Balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$19,467,277	\$609,305	\$48,183	\$1,508	\$9,419,005	\$323,233	\$74,827	\$2,568
Cathay Futures	1,346,203	42,135	12,355	387	1,136,562	39,004	11,137	382
Cathay								
Securities	117,909	3,690	872	27	310,162	10,644	335	11
Cathay Century	1,626,681	50,913	14,405	451	1,599,445	54,888	7,776	267
Cathay								
Securities								
Investment								
Trust Co.,								
Ltd.	511,943	16,023	3,815	119	736,759	25,283	2,063	71
Cathay Real								
Estate								
Development								
Co., Ltd.	139,654	4,371	66	2	133,171	4,570	51	2
Cathay Global								
Money								
Market Fund								
etc.	7,731,112	241,975	83,956	2,628	4,586,292	157,388	30,024	1,030
Other related								
parties	3,536,416	110,686	36,632	1,147	5,891,878	202,192	37,153	1,275
<b>Total</b>	<b>\$34,477,195</b>	<b>\$1,079,098</b>	<b>\$200,284</b>	<b>\$6,269</b>	<b>\$23,813,274</b>	<b>\$817,202</b>	<b>\$163,366</b>	<b>\$5,606</b>

Account/Name	For the year ended December 31, 2009							
	Maximum amount		Ending balance		Rate	Interest revenue (expense)		
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	
Call loans to banks								
Indovina Bank	\$1,911,490	\$59,828	\$388,130	\$12,148	0.24%~12.00%	\$6,070	\$190	
Call loans from banks								
Indovina Bank	\$2,888,055	\$90,393	\$-	\$-	0.20%~7.50%	\$(2,842)	\$(89)	



**English Translation of Financial Statements Originally Issued in Chinese**

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

Account/Name	For the year ended December 31, 2010						
	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$1,624,974</u>	<u>\$55,764</u>	<u>\$1,165,200</u>	<u>\$39,986</u>	0.24%~11.50%	<u>\$510</u>	<u>\$17</u>
Call loans from banks							
Indovina Bank	<u>\$1,393,907</u>	<u>\$47,835</u>	<u>\$582,600</u>	<u>\$19,993</u>	0.18%~10.00%	<u>\$(431)</u>	<u>\$(15)</u>

b. Securities sold under agreements to repurchase

Name	December 31,			
	Ending balance			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$110,000	\$3,443	\$100,000	\$3,432
Other related parties	558,189	17,471	538,594	18,483
Total	<u>\$668,189</u>	<u>\$20,914</u>	<u>\$638,594</u>	<u>\$21,915</u>

Name	For the years ended December 31,			
	Interest expense			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$149	\$5	\$93	\$3
Other related parties	823	26	732	25
Total	<u>\$972</u>	<u>\$31</u>	<u>\$825</u>	<u>\$28</u>

c. Rental expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	<u>\$334,566</u>	<u>\$10,472</u>	<u>\$367,217</u>	<u>\$12,602</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

d. Handling fees income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$1,143,334	\$35,785	\$1,511,864	\$51,883

e. Accrued insurance expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$609,653	\$19,081	\$595,325	\$20,430
Cathay Century	116,050	3,632	116,774	4,007
Total	\$725,703	\$22,713	\$712,099	\$24,437

f. General expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$87,382	\$2,735	\$100,663	\$3,455
Symphox Information	434,462	13,598	476,154	16,340
Seaward Card	247,272	7,739	243,444	8,354
Total	\$769,116	\$24,072	\$820,261	\$28,149

g. Receivables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$1,955,061	\$61,191	\$2,205,274	\$75,678

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

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$561,857	\$17,586	\$-	\$-

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$316,996	\$10,878

j. Payables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$-	\$-	\$783,115	\$26,874

k. Other disclosures

(a) Cathay United Bank entered into a contract with San Ching Engineering Co., Ltd. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$48,452) thousands, in 2006. The project was completed in 2009. Cathay United Bank paid the amount of NT\$218,894 (US\$6,851) thousands during the years ended December 31, 2009. As of December 31, 2009, the accumulated paid amount was NT\$1,400,790 (US\$43,843) thousands.

(b) Cathay United Bank entered into a contract with Cathay Life to transferring credit facilities. The transferring loan amount was NT\$804,300 (US\$25,174) thousands and NT\$910,000 (US\$31,229) thousands during the years ended December 31, 2009 and 2010, respectively.

(c) Cathay United Bank entered into a contract with Cathay Century to transferring credit facilities. The transferring loan amounts was NT\$100,000 (US\$3,432) thousands during the years ended December 31, 2010.

**English Translation of Financial Statements Originally Issued in Chinese**

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

C. Cathay Century

a. Cash in banks

For the year ended December 31, 2009				
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$775,553	0.10%	\$471
	Time deposits	851,128	0.13%~1.08%	13,934
Total		<u>\$1,626,681</u>		<u>\$14,405</u>

For the year ended December 31, 2009				
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$24,274	0.10%	\$15
	Time deposits	26,639	0.13%~1.08%	436
Total		<u>\$50,913</u>		<u>\$451</u>

For the year ended December 31, 2010				
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$629,445	0.10%	\$514
	Time deposits	970,000	0.10%~1.13%	7,262
Total		<u>\$1,599,445</u>		<u>\$7,776</u>

For the year ended December 31, 2010				
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$21,601	0.10%	\$18
	Time deposits	33,287	0.10%~1.13%	249
Total		<u>\$54,888</u>		<u>\$267</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

c. Other payables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Financial Holding	\$231,855	\$7,257	\$64,360	\$2,209
Cathay Life	230,135	7,203	118,621	4,071
Total	\$461,990	\$14,460	\$182,981	\$6,280

d. Premiums Income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	\$116,050	\$3,632	\$116,774	\$4,007

e. Operating expense

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$1,109,833	\$34,736	\$1,164,601	\$39,966

f. Sales of securities

Name	Securities	For the year ended December 31, 2009				
		Shares (thousand)	Amount		Losses from disposal	
			NT\$	US\$	NT\$	US\$
Cathay Financial Holding	Cathay Pacific Venture	27,854	\$271,315	\$8,492	\$9,250	\$289

There is no significant related parties transaction for the year ended December 31, 2010.

**English Translation of Financial Statements Originally Issued in Chinese**

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

g. Other disclosures

(a) 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	2010
CS contracts	US\$18,050	US\$41,050
IRS	NT\$600,000 (US\$18,779)	NT\$600,000 (US\$20,590)

(b) Cathay Century had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$100,000 (US\$3,432) thousands for the years ended December 31, 2010.

D. Cathay Securities

a. Cash in bank

Name	Item	For the year ended December 31, 2009		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$47,233	0.05%~2.62%	\$213
	Cash in banks	70,676	0.02%~0.90%	659
	Total	\$117,909		\$872

Name	Item	For the year ended December 31, 2009		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$1,478	0.05%~2.62%	\$7
	Cash in banks	2,212	0.02%~0.90%	20
	Total	\$3,690		\$27

**English Translation of Financial Statements Originally Issued in Chinese**

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

		For the year ended December 31, 2010		
Name	Item	Ending balance		Interest income
		(NT\$)	Rate	(NT\$)
Cathay United Bank	Cash in banks	\$310,162	0.02%~1.10%	\$335

		For the year ended December 31, 2010		
Name	Item	Ending balance		Interest income
		(US\$)	Rate	(US\$)
Cathay United Bank	Cash in banks	\$10,644	0.02%~1.10%	\$11

As of December 31, 2009, NT\$12,000 (US\$376) thousands in time deposits reflected premiums received for structured notes and were recognized under guarantee deposits paid.

b. Other payables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Cathay Financial Holding	\$195,257	\$6,111	\$37,224	\$1,277

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

		For the year ended December 31, 2009							
Name		Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures		\$-	\$-	\$-	\$-	\$-	\$-	\$353,469	\$11,063

		For the year ended December 31, 2010							
Name		Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures		\$-	\$-	\$-	\$-	\$-	\$-	\$228,983	\$7,858

**English Translation of Financial Statements Originally Issued in Chinese**

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

E. Cathay Pacific Venture

Available-for-sale financial assets

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010 (US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$175,238</u>	<u>\$5,485</u>	<u>\$277,885</u>	<u>\$9,536</u>

F. Indovina Bank

a. Call loans from banks

Name	For the year ended December 31, 2009			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Vietinbank	\$178,530	\$5,588	\$3,368	\$105
Cathay United Bank	388,130	12,148	6,070	190
Total	<u>\$566,660</u>	<u>\$17,736</u>	<u>\$9,438</u>	<u>\$295</u>

Name	For the year ended December 31, 2010			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Vietinbank	\$615,466	\$21,121	\$13,627	\$468
Cathay United Bank	1,165,200	39,986	510	17
Total	<u>\$1,780,666</u>	<u>\$61,107</u>	<u>\$14,137</u>	<u>\$485</u>

b. Call loans to banks

Name	For the year ended December 31, 2009			
	Ending balance (NT\$)	Ending balance (US\$)	Interest revenue (NT\$)	Interest revenue (US\$)
Cathay United Bank	<u>\$-</u>	<u>\$-</u>	<u>\$2,842</u>	<u>\$89</u>



**English Translation of Financial Statements Originally Issued in Chinese**

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

Name	For the year ended December 31, 2010			
	Ending balance (NT\$)	Ending balance (US\$)	Interest revenue (NT\$)	Interest revenue (US\$)
Cathay United Bank	\$582,600	\$19,993	\$431	\$15

c. Deposits

Name	For the year ended December 31, 2009		
	Ending balance (NT\$)	Rate	Interest expense (NT\$)
Cathay Life Vietnam	\$227,496	0.20%~10.80%	\$3,748

Name	For the year ended December 31, 2009		
	Ending balance (US\$)	Rate	Interest expense (US\$)
Cathay Life Vietnam	\$7,120	0.20%~10.80%	\$117

Name	For the year ended December 31, 2010		
	Ending balance (NT\$)	Rate	Interest expense (NT\$)
Cathay Life Vietnam	\$49,865	1.00%~14.40%	\$13,952

Name	For the year ended December 31, 2010		
	Ending balance (US\$)	Rate	Interest expense (US\$)
Cathay Life Vietnam	\$1,711	1.00%~14.40%	\$479

G. Cathay Futures

a. Cash in bank

Name	Item	For the year ended December 31, 2009		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$305,500	0.12%~2.04%	\$2,379
	Cash in bank	8,856	0.10%	17
	Total	\$314,356		\$2,396

**English Translation of Financial Statements Originally Issued in Chinese**

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

		For the year ended December 31, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$9,562	0.12%~2.04%	\$74
	Cash in bank	277	0.10%	1
	<b>Total</b>	<b>\$9,839</b>		<b>\$75</b>

		For the year ended December 31, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$317,100	0.14%~1.125%	\$2,717
	Cash in bank	19,456	0.12%	14
	<b>Total</b>	<b>\$336,556</b>		<b>\$2,731</b>

		For the year ended December 31, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$10,882	0.14%~1.125%	\$93
	Cash in bank	668	0.12%	1
	<b>Total</b>	<b>\$11,550</b>		<b>\$94</b>

As of December 31, 2009 and 2010, Cathay Futures has time deposit amounting to NT\$60,000 (US\$1,878) and NT\$60,000 (US\$2,059) thousands in Cathay United Bank as the guaranty bond, in accordance with Article 14 of Rules Governing Futures Commission Merchants and Article 11 of Regulation Governing Futures Advisory Enterprises.

**b. Customer's margin accounts**

Name	December 31,					
	2009			2010		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	\$1,031,846	\$32,296	0.02%~2.17%	\$800,006	\$27,454	0.02%~1.065%

**English Translation of Financial Statements Originally Issued in Chinese**

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

c. Futures customers' equity

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$270,492	\$8,466	\$166,345	\$5,708
Cathay Securities	353,469	11,063	228,983	7,858
Total	<u>\$623,961</u>	<u>\$19,529</u>	<u>\$395,328</u>	<u>\$13,566</u>

H. Symphox Information

a. Cash in bank

		For the year ended December 31, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$130,000	0.72%~0.83%	\$3,021
Bank	Cash in bank	9,560	0.10%	35
Total		<u>\$139,560</u>		<u>\$3,056</u>

		For the year ended December 31, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$4,069	0.72%~0.83%	\$95
Bank	Cash in bank	299	0.10%	1
Total		<u>\$4,368</u>		<u>\$96</u>

		For the year ended December 31, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$180,000	0.78%~0.84%	\$1,365
Bank	Cash in bank	4,301	0.10%	46
Total		<u>\$184,301</u>		<u>\$1,411</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

		For the year ended December 31, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposit	\$6,177	0.78%~0.84%	\$47
	Cash in bank	148	0.10%	1
Total		<u>\$6,325</u>		<u>\$48</u>

b. Financial assets at fair value through profit or loss

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$100,630</u>	<u>\$3,150</u>	<u>\$93,748</u>	<u>\$3,217</u>

c. Sales revenue

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay United Bank	<u>\$273,294</u>	<u>\$8,554</u>	<u>\$321,956</u>	<u>\$11,048</u>

d. Service income

Name	For the years ended December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	\$167,699	\$5,249	\$171,678	\$5,891
Cathay United Bank	161,168	5,044	154,198	5,292
Total	<u>\$328,867</u>	<u>\$10,293</u>	<u>\$325,876</u>	<u>\$11,183</u>

I. Cathay Life (China)

Other payables

Name	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Cathay Life	<u>\$204,097</u>	<u>\$6,388</u>	<u>\$204,097</u>	<u>\$7,004</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

J. Cathay Life (Vietnam)

a. Cash in bank

		For the year ended December 31, 2009		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	Time deposits	\$222,070	1.20%~10.80%	\$3,524
	Cash in bank	5,426	0.20%~0.50%	224
Total		<u>\$227,496</u>		<u>\$3,748</u>

		For the year ended December 31, 2009		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	Time deposits	\$6,950	1.20%~10.80%	\$110
	Cash in bank	170	0.20%~0.50%	7
Total		<u>\$7,120</u>		<u>\$117</u>

		For the year ended December 31, 2010		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	Time deposits	\$38,436	1.00%~14.40%	\$13,952
	Cash in bank	11,429	2.40%	-
Total		<u>\$49,865</u>		<u>\$13,952</u>

		For the year ended December 31, 2010		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	Time deposits	\$1,319	1.00%~14.40%	\$479
	Cash in bank	392	2.40%	-
Total		<u>\$1,711</u>		<u>\$479</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

**29. Pledged assets**

As of December 31, 2009 and 2010, the Company and Subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loan, other financial or leasing	\$1,226,082	\$38,375	\$1,176,236	\$40,365
Guarantee deposits paid	Government bonds	9,578,473	299,796	9,606,011	329,650
Financial assets at fair value through profit or loss	Business reserves and guarantees	630,476	19,733	601,334	20,636
Available-for-sale financial assets	Business reserves and guarantees	2,447,943	76,618	3,558,448	122,116
Held-to-maturity financial assets	Business reserves and guarantees	105,627	3,306	352,172	12,085
Investments in debt securities with no active market	Business reserves and guarantees	15,235,000	476,839	23,500,000	806,452
Other financial assets	Business reserves and guarantees	23,428	733	15,000	515
Total		<u>\$29,247,029</u>	<u>\$915,400</u>	<u>\$38,809,201</u>	<u>\$1,331,819</u>

**30. Commitment and contingent liabilities**

(1) Cathay United Bank

- A. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. The Taipei District Court and the High Court adjudged that Cathay United Bank win the lawsuit. However, the Supreme Court reversed the High Court's decision and remanded the case for new trial. Cathay United Bank and Pacific SOGO signed a settlement agreement on January 14, 2011 and withdrew the lawsuits and security cases.

**English Translation of Financial Statements Originally Issued in Chinese**

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

B. Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$31 million) and NT\$3.09 billion (US\$106 million), respectively. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

C. As of December 31, 2010, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$248,709 (US\$8,535) thousands with prepayments of NT\$86,531 (US\$2,969) thousands.

(2) Cathay Century

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

(3) Cathay Securities

As of December 31, 2010, Cathay Securities requested banks to issue letters of guarantees for warrants issuance of NT\$340,000 (US\$11,668) thousands.

(4) As of December 31, 2009 and 2010, Cathay United Bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31,			
	2009(NT\$)	2009(US\$)	2010(NT\$)	2010(US\$)
Trust and security held for safekeeping	\$182,243,631	\$5,704,026	\$158,366,145	\$5,434,665
Travelers checks for sale	326,697	10,225	402,334	13,807
Bills for collection	40,552,946	1,269,263	40,288,987	1,382,601
Book-entry for government bonds and depository for short-term marketable securities under management	555,682,805	17,392,263	580,710,900	19,928,308
Guarantees on duties and contracts	15,798,961	494,490	15,370,165	527,459
Unused commercial letters of credit	3,520,713	110,194	5,969,664	204,861
Irrevocable loan commitments	34,165,997	1,069,358	54,888,936	1,883,629
Credit card lines commitments	257,571,261	8,061,698	265,430,323	9,108,796
Stamp tax, securities and memorial currency consignments	1,727	54	1,006	35
Entrusted financial management business	-	-	2,667,662	91,546

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

Periods	NT\$	US\$
January 1, 2011~December 31, 2012	\$1,087,178	\$37,309
January 1, 2012~December 31, 2015	2,133,912	73,229
Total	<u>\$3,221,090</u>	<u>\$110,538</u>

**30. Significant disaster losses:** None.

**31. Subsequent events:**

- (1) The Company will purchase Cathay Securities Investment Trust Co., Ltd. to increase the capital adequacy ratio. The totaling amount is NT\$2,773,902 (US\$95,192) thousands. On November 25, 2010, the Company has applied to competent authority.
- (2) Cathay Life Insurance Agent was decided its dissolution by the board of directors on March 1, 2011.



**English Translation of Financial Statements Originally Issued in Chinese**

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

**32. Other significant matters**

(1) Pension related information

A. Net periodic pension cost:

	For the years ended December 31,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Service cost	\$558,397	\$17,477	\$532,535	\$18,275
(2) Interest cost	342,127	10,708	308,005	10,570
(3) Projected return on plan assets	(232,388)	(7,273)	(268,832)	(9,225)
(4) Amortization of unrealized gain on pension	(93)	(3)	(115)	(4)
(5) Amortization of unrealized transit on obligation	(377,968)	(11,830)	731	25
(6) Net amortization	65,306	2,044	74,538	2,558
(7) Amortization of prior service cost	51,733	1,619	51,733	1,775
(8) Amortization of gain or loss	101,171	3,167	3,382	116
(9) Gain or loss on curtailment or settlement	816	25	-	-
(10) Net periodic pension cost	<u>\$509,101</u>	<u>\$15,934</u>	<u>\$701,977</u>	<u>\$24,090</u>

B. Pension funded status:

	For the years ended December 31,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Vested benefit obligation	\$(7,835,363)	\$(245,238)	\$(8,497,286)	\$(291,602)
(2) Non-vested benefit obligation	(3,780,579)	(118,328)	(3,822,581)	(131,180)
(3) Accumulated benefit obligation	(11,615,942)	(363,566)	(12,319,867)	(422,782)
(4) Additional benefits based on future salaries	(1,701,308)	(53,249)	(1,992,397)	(68,373)
(5) Projected benefit obligation	(13,317,250)	(416,815)	(14,312,264)	(491,155)
(6) Fair value of plan assets	11,500,961	359,967	13,323,733	457,232
(7) Funded status=(5)+(6)	(1,816,289)	(56,848)	(988,531)	(33,923)
(8) Unrecognized transitional net assets	(247,291)	(7,740)	91,278	3,132
(9) Unrecognized prior service cost	103,467	3,239	51,734	1,775
(10) Unrecognized pension gain and loss	479,992	15,023	(487,583)	(16,732)
(11) Additional accrued pension liability	(12,013)	(376)	(739,828)	(25,389)
(12) Accrued pension liability / prepaid pension cost=(7)+(8)+(9)+(10)+(11)	<u>\$(1,492,134)</u>	<u>\$(46,702)</u>	<u>\$(2,072,930)</u>	<u>\$(71,137)</u>
(13) Vested benefit	<u>\$10,679,162</u>	<u>\$334,246</u>	<u>\$11,059,418</u>	<u>\$379,527</u>

**English Translation of Financial Statements Originally Issued in Chinese**

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

C. Actuarial assumptions

	For the year ended December 31,	
	2009	2010
(1) Discount rate	2.25%~2.50%	2.00%
(2) Rate of increase in future salaries	1.50%~3.00%	1.50%~3.00%
(3) Expected return on pension plan assets	2.25%~2.50%	2.00%

(2) Financial instruments related information

A. The Company

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$10,812,475	\$10,812,475	\$338,419	\$338,419
Receivables	6,665,004	6,665,004	208,607	208,607
Held-to-maturity financial assets	25,000,000	25,000,000	782,472	782,472
Investments under equity method	216,251,195	216,251,195	6,768,425	6,768,425
Other financial assets	31,720	31,720	993	993
<u>Liabilities</u>				
Payables	8,851,563	8,851,563	277,044	277,044
Bonds payables	40,000,000	40,000,000	1,251,956	1,251,956
Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$14,561,773	\$14,561,773	\$499,718	\$499,718
Receivables	7,664,904	7,664,904	263,037	263,037
Held-to-maturity financial assets	25,000,000	25,000,000	857,927	857,927
Investments under equity method	218,763,041	218,763,041	7,507,311	7,507,311
Other financial assets	31,720	31,720	1,089	1,089
<u>Liabilities</u>				
Payables	9,430,336	9,430,336	323,622	323,622
Bonds payables	40,000,000	40,000,000	1,372,684	1,372,684

**English Translation of Financial Statements Originally Issued in Chinese**

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

- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:
- (a) The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables, payables and other financial assets.
  - (b) The fair value of bonds payables is in accordance with the term of issuance.
  - (c) The fair value of the Company's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.
  - (d) If no quoted market prices exist for the Company's investments accounted for equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- c. The fair value of the Company's financial assets or liabilities determined by quoted market price or pricing models is summarized as following:

Financial instruments	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$10,078	\$316	\$10,802,397	\$338,103
Receivables	-	-	6,665,004	208,607
Held-to-maturity financial assets	-	-	25,000,000	782,472
Investments under equity method	-	-	216,251,195	6,768,425
Other financial assets	-	-	31,720	993
<u>Liabilities</u>				
Payables	-	-	8,851,563	277,044
Bonds payable	-	-	40,000,000	1,251,956

**English Translation of Financial Statements Originally Issued in Chinese**

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

Financial instruments	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$9,110,769	\$312,655	\$5,451,004	\$187,063
Receivables	-	-	7,664,904	263,037
Held-to-maturity financial assets	-	-	25,000,000	857,927
Investments under equity method	-	-	218,763,041	7,507,311
Other financial assets	-	-	31,720	1,089
<u>Liabilities</u>				
Payables	-	-	9,430,336	323,622
Bonds payable	-	-	40,000,000	1,372,684

d. Information on financial risks

(a) Risk of interest rate

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

(b) Credit risk

The Company's exposure to credit risk is minimal.

e. Financial risk management objectives and policies

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

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, the Company has also established risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitor and manage the Company's risks.

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### Market Risk

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

### Credit Risk

Credit risk is the risk of loss arising from the potential default of the counter-party. An internal credit risk evaluation model for investments in financial instruments is created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.

### Operational Risk

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

### Liquidity Risk

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per  
share date and unless otherwise stated)**

B. Cathay Life

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$336,054,525	\$336,054,525	\$10,518,138	\$10,518,138
Notes and accounts receivable	45,392,723	45,392,723	1,420,742	1,420,742
Financial assets at fair value through profit or loss - current	82,461,276	82,461,276	2,580,948	2,580,948
Available-for-sale financial assets - current	191,072,750	191,072,750	5,980,368	5,980,368
Held-to-maturity financial assets - current	13,274,664	11,946,525	415,482	373,913
Investments in debt securities with no active market - current	5,162,576	5,051,571	161,583	158,109
Other financial assets - current	2,000,000	2,000,000	62,598	62,598
Available-for-sale financial assets - noncurrent	253,527,662	253,527,662	7,935,138	7,935,138
Held-to-maturity financial assets - noncurrent	651,706,686	643,765,211	20,397,706	20,149,146
Financial assets carried at cost - noncurrent	20,092,425	(Note)	628,871	(Note)
Investments in debt securities with no active market - noncurrent	145,147,440	140,524,027	4,542,956	4,398,248
Investments under the equity method	5,266,745	5,266,745	164,843	164,843
Other financial assets – noncurrent	36,300,000	36,300,000	1,136,150	1,136,150
Guarantee deposits paid	11,350,142	11,350,142	355,247	355,247
<u>Liabilities</u>				
Notes and accounts payable	15,761,085	15,761,085	493,304	493,304
Preferred stock liability –noncurrent	25,000,000	25,821,054	782,473	808,171
Guarantee deposits received	1,616,655	1,616,655	50,599	50,599

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per  
share date and unless otherwise stated)**

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	\$7,731	\$7,731	\$242	\$242
Forward, CS and CCS	16,900,272	16,900,272	528,960	528,960
IRS and CDS	54,982	54,982	1,721	1,721
Derivative financial assets for hedging - current				
IRS	1,681,365	1,681,365	52,625	52,625
CDS	1,078,680	1,078,680	33,761	33,761
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS and CCS	1,583,418	1,583,418	49,560	49,560
IRS and CDS	862,816	862,816	27,005	27,005
Derivative financial liabilities for hedging - current				
IRS and CDS	28,722	28,722	899	899

Note: In reality, the fair value of the specified items can't be accountably measured.

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$358,071,833	\$358,071,833	\$12,287,983	\$12,287,983
Notes and accounts receivable	56,925,120	56,925,120	1,953,504	1,953,504
Financial assets at fair value through profit or loss - current	39,435,487	39,435,487	1,353,311	1,353,311
Available-for-sale financial assets - current	253,839,045	253,839,045	8,711,017	8,711,017
Held-to-maturity financial assets - current	16,311,312	16,387,430	559,757	562,369
Investments in debt securities with no active market - current	4,783,583	4,873,388	164,159	167,240

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Other financial assets-current	\$7,000,000	\$7,000,000	\$240,220	\$240,220
Available-for-sale financial assets - noncurrent	321,068,362	321,068,362	11,018,132	11,018,132
Held-to-maturity financial assets - noncurrent	606,846,721	612,453,809	20,825,213	21,017,632
Financial assets carried at cost - noncurrent	9,115,550	(Note)	312,819	(Note)
Investments in debt securities with no active market - noncurrent	354,531,805	349,196,966	12,166,500	11,983,424
Investments under the equity method	5,067,119	5,067,119	173,889	173,889
Other financial assets – noncurrent	27,600,000	27,600,000	947,152	947,152
Guarantee deposits paid	10,421,935	10,421,935	357,651	357,651
<u>Liabilities</u>				
Notes and accounts payable	41,570,712	41,570,712	1,426,586	1,426,586
Preferred stock liability –noncurrent	25,000,000	25,662,615	857,927	880,666
Guarantee deposits received	1,661,874	1,661,874	57,031	57,031
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	13,988	13,988	480	480
Forward, CS and CCS	69,276,547	69,276,547	2,377,370	2,377,370
IRS and CDS	3,408	3,408	117	117
Derivative financial assets for hedging - current				
IRS	1,888,598	1,888,598	64,811	64,811
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	2,197,269	2,197,269	75,404	75,404
IRS and CDS	405,635	405,635	13,920	13,920
Derivative financial liabilities for hedging - current				
IRS and CDS	11,205	11,205	385	385

Note: In reality, the fair value of the specified items can't be accountably measured.



**English Translation of Financial Statements Originally Issued in Chinese**

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

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

- (a) The fair value of Cathay Life's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
  - (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life predicts the future cash inflow or outflow will be of similar amount to the carrying value.
  - (c) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Cathay Life's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Cathay Life. Cathay Life uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
  - (d) The fair value of Cathay Life's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.
  - (e) If no quoted market prices exist for Cathay Life's investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- c. As of December 31, 2009 and 2010, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$247,411,784	\$7,743,717	\$88,642,741	\$2,774,421
Notes and accounts receivable	-	-	45,392,723	1,420,742
Financial assets at fair value through profit or loss -				
current	81,859,615	2,562,116	601,661	18,832
Available-for-sale financial assets - current	188,182,163	5,889,896	2,890,587	90,472
Held-to-maturity financial assets - current	2,027,388	63,455	9,919,137	310,458
Investments in debt securities with no active market -				
current	-	-	5,051,571	158,109
Other financial assets - current	-	-	2,000,000	62,598
Available-for-sale financial assets - noncurrent	243,877,935	7,633,112	9,649,727	302,026
Held-to-maturity financial assets - noncurrent	36,687,806	1,148,288	607,077,405	19,000,858
Investment in debt securities with no active market -				
noncurrent	481,529	15,071	140,042,498	4,383,177
Investments under the equity method	-	-	5,266,745	164,843
Other financial assets - noncurrent	-	-	36,300,000	1,136,150
<u>Liabilities</u>				
Notes and accounts payable	-	-	15,761,085	493,304
Preferred stock liability - noncurrent	-	-	25,821,054	808,171
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss -				
current				
Option	7,731	242	-	-
Forward, CS and CCS	-	-	16,900,272	528,960
IRS and CDS	-	-	54,982	1,721
Derivative financial assets for hedging - current				
IRS	-	-	1,681,365	52,625
CDS	-	-	1,078,680	33,761
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss -				
current				
Forward, CS and CCS	-	-	1,583,418	49,560
IRS and CDS	-	-	862,816	27,005
Derivative financial liabilities for hedging - current				
IRS and CDS	-	-	28,722	899

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$313,348,126	\$10,753,196	\$44,723,707	\$1,534,787
Notes and accounts receivable	-	-	56,925,120	1,953,504
Financial assets at fair value through profit or loss -				
current	39,146,081	1,343,380	289,406	9,931
Available-for-sale financial assets - current	245,773,307	8,434,225	8,065,738	276,792
Held-to-maturity financial assets - current	2,380,441	81,690	14,006,989	480,679
Investments in debt securities with no active market -				
current	-	-	4,873,388	167,240
Other financial assets - current	-	-	7,000,000	240,220
Available-for-sale financial assets - noncurrent	303,469,047	10,414,175	17,599,315	603,957
Held-to-maturity financial assets - noncurrent	40,276,018	1,382,156	572,177,791	19,635,476
Investment in debt securities with no active market –				
noncurrent	-	-	349,196,966	11,983,424
Investments under the equity method	-	-	5,067,119	173,889
Other financial assets - noncurrent	-	-	27,600,000	947,152
<u>Liabilities</u>				
Notes and accounts payable	-	-	41,570,712	1,426,586
Preferred stock liability - noncurrent	-	-	25,662,615	880,666
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss -				
current				
Option	13,988	480	-	-
Forward, CS and CCS	-	-	69,276,547	2,377,370
IRS and CDS	-	-	3,408	117
Derivative financial assets for hedging – current				
IRS	-	-	1,888,598	64,811
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss -				
current				
Forward, CS, and CCS	-	-	2,197,269	75,404
IRS and CDS	-	-	405,635	13,920
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	11,205	385

**English Translation of Financial Statements Originally Issued in Chinese**

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

d. Information on financial risk

(a) Interest rate risk

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

① December 31, 2009

**Non-derivative financial instruments of fixed interest rate**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$393,856	\$12,327	\$2,155,601	\$67,468	\$2,008,099	\$62,851	\$873,860	\$27,351
Available-for-sale financial assets	12,183,543	381,332	13,025,147	407,673	15,425,840	482,812	12,061,415	377,509
Held-to-maturity financial assets	186,792,865	5,846,412	18,021,715	564,060	15,242,413	477,071	22,801,989	713,677
Investments in debt securities with								
no active market	4,752,771	148,757	7,933,592	248,313	14,203,692	444,560	3,936,736	123,215
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$249,348	\$7,804	\$2,979,288	\$93,249	\$8,660,052	\$271,050
Available-for-sale financial assets	11,510,037	360,251	79,921,401	2,501,452	144,127,383	4,511,029
Held-to-maturity financial assets	27,702,640	867,062	335,768,647	10,509,191	606,330,269	18,977,473
Investments in debt securities with						
no active market	12,220,116	382,476	86,850,311	2,718,320	129,897,218	4,065,641
Preferred stock liability	-	-	25,000,000	782,473	25,000,000	782,473

**Non-derivative financial instruments of float interest rate**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$232,273	\$7,270	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	126,820,845	3,969,354	-	-	-	-	-	-
Held-to-maturity financial assets	58,651,080	1,835,715	-	-	-	-	-	-
Investments in debt securities with								
no active market	20,412,799	638,898	-	-	-	-	-	-

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$232,273	\$7,270
Available-for-sale financial assets	-	-	-	-	126,820,845	3,969,354
Held-to-maturity financial assets	-	-	-	-	58,651,080	1,835,715
Investments in debt securities with						
no active market	-	-	-	-	20,412,799	638,898

**Derivative financial instruments**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$26,781	\$838	\$-	\$-	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	156,812	4,908	20,519	642	17,889	560	529,306	16,567
Financial liabilities at fair value								
through profit or loss	72,437	2,267	-	-	-	-	-	-
Derivative financial liabilities for								
hedging	15,531	486	12,091	379	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$26,629	\$834	\$-	\$-	\$53,410	\$1,672
Derivative financial assets for						
hedging	955,790	29,915	1,049	33	1,681,365	52,625
Financial liabilities at fair value						
through profit or loss	-	-	-	-	72,437	2,267
Derivative financial liabilities for						
hedging	-	-	1,100	34	28,722	899

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per share date and unless otherwise stated)**

② December 31, 2010

**Non-derivative financial instruments of fixed interest rate**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$1,419,921	\$48,728	1,512,938	\$51,920	\$779,097	\$26,736	\$206,468	\$7,085
Available-for-sale financial assets	13,908,027	477,283	23,281,012	798,937	16,448,421	564,462	14,314,185	491,221
Held-to-maturity financial assets	16,061,951	551,199	21,703,449	744,799	25,652,587	880,322	27,774,224	953,131
Investments in debt securities with								
no active market	4,588,573	157,466	15,796,049	542,074	5,770,408	198,024	17,280,170	593,005
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$173,360	\$5,949	\$2	\$-	\$4,091,786	\$140,418
Available-for-sale financial assets	34,124,975	1,171,070	102,806,214	3,528,010	204,882,834	7,030,983
Held-to-maturity financial assets	15,558,730	533,931	492,889,902	16,914,547	599,640,843	20,577,929
Investments in debt securities with						
no active market	6,277,883	215,439	285,699,372	9,804,371	335,412,455	11,510,379
Preferred stock liability	-	-	25,000,000	857,927	25,000,000	857,927

**Non-derivative financial instruments of float interest rate**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$71,048	\$2,438	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	136,626,740	4,688,632	-	-	-	-	-	-
Held-to-maturity financial assets	23,517,190	807,042	-	-	-	-	-	-
Investments in debt securities with								
no active market	23,902,933	820,279	-	-	-	-	-	-

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$71,048	\$2,438
Available-for-sale financial assets	-	-	-	-	136,626,740	4,688,632
Held-to-maturity financial assets	-	-	-	-	23,517,190	807,042
Investments in debt securities with						
no active market	-	-	-	-	23,902,933	820,279

**Derivative financial instruments**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Derivative financial assets for								
hedging	\$11,276	\$387	\$42,712	\$1,466	\$608,724	\$20,890	\$1,140,665	\$39,144
Financial liabilities at fair value								
through profit or loss	-	-	-	-	-	-	116,121	3,985
Derivative financial liabilities for								
hedging	2,267	78	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Derivative financial assets for						
hedging	\$-	\$-	\$85,221	\$2,924	\$1,888,598	\$64,811
Financial liabilities at fair value						
through profit or loss	118,892	4,080	-	-	235,013	8,065
Derivative financial liabilities for						
hedging	-	-	8,938	307	11,205	385

**(b) Credit risk**

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

e. Hedge Accounting Disclosures

Cash flow hedges - IRS

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

(a) December 31, 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,260	4.000%-6ml	Half year	2010.4.7
300,000	9,390	4.0002%-6ml	Half year	2010.4.7
500,000	15,649	4.0006%-6ml	Half year	2010.4.7
500,000	15,649	4.0007%-6ml	Half year	2010.4.7
200,000	6,260	4.0003%-6ml	Half year	2010.4.7
300,000	9,390	4.3%-12ml	Yearly	2010.6.20
900,000	28,169	90DCP	Each quarter	2010.8.18
600,000	18,779	90DCP	Each quarter	2010.8.19
200,000	6,260	6.3%-6ml	Yearly	2010.11.27
300,000	9,390	5.37%-6ml	Yearly	2011.3.15
500,000	15,649	If 6ml<1.1%,6ml If 1.1%≤6ml≤2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	62,598	90DCP	Each quarter	2011.9.9
1,000,000	31,299	90DCP	Each quarter	2012.6.26
2,000,000	62,598	90DCP	Each quarter	2012.9.9
2,000,000	62,598	90DCP	Each quarter	2012.10.11
700,000	21,909	90DCP	Each quarter	2012.11.24
2,000,000	62,598	90DCP	Yearly	2013.3.26
2,425,000	75,900	90DCP	Each quarter	2013.4.24
2,700,000	84,507	90DCP+25bps	Each quarter	2013.8.24
3,000,000	93,897	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	62,598	90DCP	Yearly	2013.11.3
1,000,000	31,299	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,649	90DCP+23bps	Yearly	2013.12.14



**English Translation of Financial Statements Originally Issued in Chinese**

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

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$1,500,000	\$46,948	90DCP+23bps	Yearly	2013.12.16
1,000,000	31,299	90DCP+26.5bps	Yearly	2013.12.16
900,000	28,169	90DCP	Yearly	2014.3.12
1,000,000	31,299	90DCP	Yearly	2014.6.12
2,000,000	62,598	90DCP	Yearly	2014.6.29
5,000,000	156,495	90DCP	Yearly	2014.8.23
1,000,000	31,299	90DCP	Yearly	2014.9.20
3,200,000	100,156	90DCP	Yearly	2014.9.27
2,000,000	62,598	90DCP	Each quarter	2014.9.28
1,500,000	46,948	90DCP	Yearly	2014.9.29
2,500,000	78,247	90DCP	Yearly	2014.12.20
2,000,000	62,598	90DCP	Yearly	2014.12.24
2,543,500	79,609	90DCP	Each quarter	2016.10.23

(b) December 31, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$10,295	5.37%-6ml	Yearly	2011.3.15
500,000	17,159	If 6ml<1.1%,6ml If 1.1%≤6ml≤2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	68,634	90DCP	Each quarter	2011.9.9
1,000,000	34,317	90DCP	Each quarter	2012.6.26
2,000,000	68,634	90DCP	Each quarter	2012.9.9
2,000,000	68,634	90DCP	Each quarter	2012.10.11
700,000	24,022	90DCP	Each quarter	2012.11.24
2,000,000	68,634	90DCP	Yearly	2013.3.26
2,425,000	83,219	90DCP	Each quarter	2013.4.24
3,600,000	123,542	90DCP	Each quarter	213.6.8
2,700,000	92,656	90DCP+25bps	Each quarter	2013.8.24
3,000,000	102,951	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,634	90DCP	Yearly	2013.11.3
1,000,000	34,317	90DCP+26.5bps	Yearly	2013.12.14

**English Translation of Financial Statements Originally Issued in Chinese**

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

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$500,000	\$17,159	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,476	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,317	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,885	90DCP	Yearly	2014.3.12
1,000,000	34,317	90DCP	Yearly	2014.6.12
2,000,000	68,634	90DCP	Yearly	2014.6.29
5,000,000	171,585	90DCP	Yearly	2014.8.23
1,000,000	34,317	90DCP	Yearly	2014.9.20
3,200,000	109,815	90DCP	Yearly	2014.9.27
2,000,000	68,634	90DCP	Each quarter	2014.9.28
1,500,000	51,476	90DCP	Yearly	2014.9.29
2,500,000	85,793	90DCP	Yearly	2014.12.20
2,000,000	68,634	90DCP	Yearly	2014.12.24
2,543,500	87,286	90DCP	Each quarter	2016.10.23
900,000	30,885	90DCP	Each quarter	2016.10.24
1,200,000	41,181	90DCP	Each quarter	2017.10.25
1,400,000	48,044	90DCP	Each quarter	2017.12.9

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

Cathay Life's interest rate swap agreements are considered to be highly effective cash flow hedges. As of December 31, 2009 and 2010, unrealized gains on these financial instruments recognized in equity are NT\$1,631,880 (US\$51,076) thousands and NT\$1,893,489 (US\$64,979) thousands, respectively.

**Fair value hedges**

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

① December 31, 2009

<u>Par value</u>		
<u>US\$</u>	<u>Hedge item</u>	<u>Maturity date</u>
\$30,000	CDO	2010.09.23
20,000	CDO	2012.06.20
7,000	Structured notes	2014.03.20
3,000	Structured notes	2014.03.20

② December 31, 2010

None.

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

Cathay Life's credit default swap agreements are considered to be highly effective fair value hedges. As of December 31, 2010, unrealized gains on these financial instruments recognized in profit are NT\$272,986 (US\$9,368) thousands recorded as losses from valuation on financial assets by NT\$149,393 (US\$5,127) thousands and profits from valuation on financial liabilities by NT\$422,379 (US\$14,495) thousands, respectively. As of December 31, 2009, unrealized losses on these financial instruments recognized in loss were NT\$191,450 (US\$5,992) thousands recorded as losses from valuation on financial assets by NT\$272,986 (US\$8,544) thousands and profits from valuation on financial liabilities by NT\$81,536 (US\$2,552) thousands, respectively.

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

③ December 31, 2009

<u>Par value</u>		
<u>US\$</u>	<u>Hedge item</u>	<u>Maturity date</u>
\$20,000	Debenture with no active market	2019.09.18
20,000	Debenture with no active market	2019.09.29
30,000	Debenture with no active market	2019.09.30
20,000	Debenture with no active market	2019.10.07
20,000	Debenture with no active market	2019.12.01

**English Translation of Financial Statements Originally Issued in Chinese**

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

② December 31, 2010

None.

Cathay Life's interest rate swap agreements are considered to be highly effective fair value hedges. As of December 31, 2010, unrealized losses on these financial instruments recognized in loss was NT\$143,750 (US\$4,933) thousands, which was recorded as losses from valuation on financial assets by NT\$169,539 (US\$5,818) thousands and profits from valuation on financial liabilities by NT\$25,789 (US\$885) thousands, respectively. As of December 31, 2009, unrealized gain on these financial instruments recognized in profit was NT\$143,750 (US\$4,499) thousands, which was recorded as profits from valuation on financial assets.

f. Financial risk management objectives and policies

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

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

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

## **English Translation of Financial Statements Originally Issued in Chinese**

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

### Market Risk

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

### Credit Risk

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

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

Operational Risk

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

Liquidity Risk

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

Country Risk

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per  
share date and unless otherwise stated)**

C. Cathay United Bank

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$33,752,996	\$33,752,996	\$1,056,432	\$1,056,432
Available-for-sale financial assets	97,991,344	97,991,344	3,067,022	3,067,022
Held-to-maturity financial assets and debt securities				
with no active market	373,760,824	373,795,598	11,698,305	11,699,393
Other financial assets-financial assets carried at cost	4,000,440	(Note)	125,209	(Note)
Others	950,035,191	950,035,191	29,735,060	29,735,060
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	18,029,523	18,029,523	564,304	564,304
Financial debentures payable	16,437,209	16,437,209	514,467	514,467
Others	1,374,491,058	1,374,491,058	43,020,064	43,020,064
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	591,826	591,826	18,523	18,523
Non-delivery forward	10,402	10,402	326	326
Currency swap	3,187,797	3,187,797	99,775	99,775
Interest rate swap	4,382,566	4,382,566	137,170	137,170
Cross currency swap	308,869	308,869	9,667	9,667
Options	113,502	113,502	3,552	3,552
<u>Liabilities</u>				
Forward	2,796,876	2,796,876	87,539	87,539
Non-delivery forward	9,014	9,014	282	282
Currency swap	982,839	982,839	30,762	30,762
Interest rate swap	2,789,443	2,789,443	87,306	87,306
Cross currency swap	229,282	229,282	7,176	7,176
Options	113,503	113,503	3,553	3,553
Credit derivative instruments	43,701	43,701	1,368	1,368
Credit default swaps	2,800	2,800	88	88

Note: Fair value cannot be reliably estimated.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per  
share date and unless otherwise stated)**

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Financial assets at fair value through profit or loss	\$46,551,233	\$46,551,233	\$1,597,503	\$1,597,503
Available-for-sale financial assets	75,699,236	75,699,236	2,597,777	2,597,777
Held-to-maturity financial assets and debt securities with no active market	307,740,813	307,782,792	10,560,769	10,562,210
Other financial assets-financial assets carried at cost	3,507,414	(Note)	120,364	(Note)
Others	1,081,619,786	1,081,619,786	37,118,044	37,118,044
<b><u>Liabilities</u></b>				
Financial liabilities at fair value through profit or loss	10,395,305	10,395,305	356,737	356,737
Financial debentures payable	15,764,495	15,764,495	540,992	540,992
Others	1,434,583,060	1,434,583,060	49,230,716	49,230,716
<b><u>Derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Forward	551,246	551,246	18,917	18,917
Non-delivery forward	43,458	43,458	1,491	1,491
Currency swap	15,882,187	15,882,187	545,031	545,031
Interest rate swap	3,703,040	3,703,040	127,078	127,078
Cross currency swap	282,727	282,727	9,702	9,702
Options	166,845	166,845	5,726	5,726
<b><u>Liabilities</u></b>				
Forward	15,528,114	15,528,114	532,880	532,880
Non-delivery forward	61,854	61,854	2,123	2,123
Currency swap	699,030	699,030	23,989	23,989
Interest rate swap	2,188,747	2,188,747	75,111	75,111
Cross currency swap	270,316	270,316	9,276	9,276
Options	166,548	166,548	5,715	5,715
Credit default swap	2,251	2,251	77	77
Futures	3,266	3,266	112	112

Note: Fair value cannot be reliably estimated.



**English Translation of Financial Statements Originally Issued in Chinese**

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

- b. The methodologies and assumptions used by Cathay United Bank to estimate the above fair value of financial instruments are summarized as following:
- (a) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, guarantee deposits borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.
  - (b) Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments, held-to-maturity financial assets and debt securities with no active market. If no quoted market prices exist for certain of Cathay United Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay United Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
  - (c) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face values are equivalent to their fair values.

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

- (d) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments.
- (e) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, Cathay United Bank assesses fair value by using pricing models.

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Item	December 31, 2009			
	Value determined by quoted market		Value determined by pricing	
	price		models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$4,439,415	\$138,949	\$29,313,581	\$917,483
Available-for-sale financial assets	81,486,623	2,550,442	16,504,721	516,580
Held-to-maturity financial assets and debt securities				
with no active market	1,907,217	59,694	371,888,381	11,639,699
Others	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	18,029,523	564,304
Financial debentures payable	-	-	16,437,209	514,467
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	-	-	591,826	18,523
Non-delivery forward	-	-	10,402	326
Currency swap	-	-	3,187,797	99,775
Interest rate swap	-	-	4,382,566	137,170
Cross currency swap	-	-	308,869	9,667
Options	-	-	113,502	3,552
<u>Liabilities</u>				
Forward	-	-	2,796,876	87,539
Non-delivery forward	-	-	9,014	282
Currency swap	-	-	982,839	30,762
Interest rate swap	-	-	2,789,443	87,306
Cross currency swap	-	-	229,282	7,176
Options	-	-	113,503	3,553
Credit derivative instruments	-	-	43,701	1,368
Credit default swap	-	-	2,800	88

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per  
share date and unless otherwise stated)**

Item	December 31, 2010			
	Value determined by quoted market		Value determined by pricing	
	price		models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Financial assets at fair value through profit or loss	\$905,918	\$31,089	\$45,645,315	\$1,566,414
Available-for-sale financial assets	51,681,591	1,773,562	24,017,645	824,215
Held-to-maturity financial assets and debt securities				
with no active market	1,327,853	45,568	306,454,939	10,516,642
Others	(Note)	(Note)	(Note)	(Note)
<b><u>Liabilities</u></b>				
Financial liabilities at fair value through profit or loss	-	-	10,395,305	356,737
Financial debentures payable	-	-	15,764,495	540,992
Others	(Note)	(Note)	(Note)	(Note)
<b><u>Derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Forward	-	-	551,246	18,917
Non-delivery forward	-	-	43,458	1,491
Currency swap	-	-	15,882,187	545,031
Interest rate swap	-	-	3,703,040	127,078
Cross currency swap	-	-	282,727	9,702
Options	-	-	166,845	5,726
<b><u>Liabilities</u></b>				
Forward	-	-	15,528,114	532,880
Non-delivery forward	-	-	61,854	2,123
Currency swap	-	-	699,030	23,989
Interest rate swap	-	-	2,188,747	75,111
Cross currency swap	-	-	270,316	9,276
Options	-	-	166,548	5,715
Credit default swap	-	-	2,251	77
Futures	3,266	112	-	-

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

- d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gains NT\$1,359,942 (US\$42,565) thousands and losses NT\$51,178 (US\$1,756) thousands for the years ended December 31, 2009 and 2010, respectively.
- e. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the years ended December 31, 2009 and 2010 were NT\$23,409,714 (US\$732,698) thousands and NT\$21,958,192 (US\$753,541) thousands, and expenses were NT\$9,485,214 (US\$296,877) thousands and NT\$7,145,252 (US\$245,204) thousands, respectively.
- f. Cathay United Bank recognized an unrealized gains of NT\$3,102,314 (US\$97,099) thousands and NT\$1,633,240 (US\$56,048) thousands in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$1,472,472 (US\$46,087) thousands and NT\$1,944,388 (US\$66,726) thousands in income statements, for the years ended December 31, 2009 and 2010, respectively.
- g. Information on financial risk

(a) Market risk

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

Ⓐ Interest rate risk

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

Ⓑ Foreign exchange risk

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

© Equity securities price risk

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

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

January 1 ~ December 31, 2009						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$469,921	\$14,708	\$685,573	\$21,458	\$260,585	\$8,156
Foreign exchange	277,307	8,679	580,316	18,163	111,744	3,497
Equity Securities price	130,914	4,097	175,459	5,492	70,017	2,191

January 1 ~ December 31, 2010						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$470,896	\$16,160	\$564,511	\$19,372	\$339,016	\$11,634
Foreign exchange	113,753	3,904	122,457	4,202	103,550	3,554
Equity Securities price	134,997	4,633	175,459	6,021	93,439	3,207

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

		<u>December 31, 2010</u>	
		<u>(NT\$)</u>	<u>(US\$)</u>
Foreign exchange rate factor sensitivity (FX Delta)			
	USD+1%	\$381,977	\$13,108
	HKD+1%	11,296	388
	JPY+1%	1,830	63
	NTD+1%	(395,115)	(13,559)
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(12,753)	(438)
	Yield curves (HKD) parallel shift+1bp	(31)	(1)
	Yield curves (JPY) parallel shift+1bp	(4)	-
	Yield curves (NTD) parallel shift+1bp	(7,790)	(267)
Equity securities price factor sensitivity (Equity Delta)		78,399	2,690

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

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

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

Stress Test			
Market/ Product	Scenarios	December 31, 2010	
		(NT\$)	(US\$)
Stock Market	Major Stock Exchanges +15%	\$1,175,990	\$40,357
	Major Stock Exchanges -15%	(1,175,990)	(40,357)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,005,167)	(68,811)
	Major Interest Rate - 100bp	1,808,038	62,047
Foreign Exchange Market	Major Currencies +3%	1,231,915	42,276
	Major Currencies -3%	(1,165,179)	(39,986)
Composite	Major Stock Exchanges -15%	(1,949,242)	(66,892)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

**English Translation of Financial Statements Originally Issued in Chinese**

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

(b) Credit risk

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

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

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

Ⓐ Information on concentrations of credit risk:

Financial assets	December 31, 2009			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$33,752,996	\$1,056,432	\$33,752,996	\$1,056,432
Available-for-sale financial assets	97,991,344	3,067,022	97,991,344	3,067,022
Held-to-maturity financial assets and debt securities with no active market	373,760,824	11,698,305	373,760,824	11,698,305
Other financial assets-financial assets carried at cost	4,000,440	125,209	4,000,440	125,209
Others	950,035,191	29,735,060	950,035,191	29,735,060
Guarantees on duties and contracts	-	-	15,798,961	494,490
Unused commercial letters of credit	-	-	3,520,713	110,194
Irrevocable loan commitments	-	-	34,165,997	1,069,358
Credit card line commitments	-	-	257,571,261	8,061,698

**English Translation of Financial Statements Originally Issued in Chinese**

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

Financial assets	December 31, 2009			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
Forward	\$591,826	\$18,523	\$591,826	\$18,523
Non-delivery forward	10,402	326	10,402	326
Currency swap	3,187,797	99,775	3,187,797	99,775
Interest rate swap	4,382,566	137,170	4,382,566	137,170
Cross currency swap	308,869	9,667	308,869	9,667
Options	113,502	3,552	113,502	3,552
Financial assets	December 31, 2010			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$46,551,233	\$1,597,503	\$46,551,233	\$1,597,503
Available-for-sale financial assets	75,699,236	2,597,777	75,699,236	2,597,777
Held-to-maturity financial assets and debt securities with no active market	307,740,813	10,560,769	307,740,813	10,560,769
Other financial assets-financial assets carried at cost	3,507,414	120,364	3,507,414	120,364
Others	1,081,619,786	37,118,044	1,081,619,786	37,118,044
Guarantees on duties and contracts	-	-	15,370,165	527,459
Unused commercial letters of credit	-	-	5,969,664	204,861
Irrevocable loan commitments	-	-	54,888,936	1,883,629
Credit card line commitments	-	-	265,430,323	9,108,796
<u>Derivative financial instruments</u>				
Forward	551,246	18,917	551,246	18,917
Non-delivery forward	43,458	1,491	43,458	1,491
Currency swap	15,882,187	545,031	15,882,187	545,031
Interest rate swap	3,703,040	127,078	3,703,040	127,078
Cross currency swap	282,727	9,702	282,727	9,702
Options	166,845	5,726	166,845	5,726



**English Translation of Financial Statements Originally Issued in Chinese**

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

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

	December 31,			
	2009		2010	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans, customers' liabilities under acceptances, bill purchased and guarantees account				
Industry type				
Manufacturing	\$135,491,126	\$4,240,724	\$124,001,296	\$4,255,363
Financial institutions and insurance	35,823,850	1,121,247	31,757,274	1,089,817
Leasing and real estate	80,406,880	2,516,647	91,593,503	3,143,222
Individuals	425,995,574	13,333,195	454,228,578	15,587,803
Others	149,351,672	4,674,544	202,629,882	6,953,668
Total	827,069,102	25,886,357	904,210,533	31,029,873
Valuation allowance	(6,062,695)	(189,756)	(6,901,878)	(236,852)
Maximum credit risk exposed	<u>\$821,006,407</u>	<u>\$25,696,601</u>	<u>\$897,308,655</u>	<u>\$30,793,021</u>
Geographic Region				
Domestic	\$746,057,104	\$23,350,770	\$819,044,413	\$28,107,220
South East Asia	23,753,704	743,465	27,171,898	932,460
North East Asia	1,108,292	34,688	1,543,299	52,962
America	15,960,143	499,535	12,574,444	431,518
Others	40,189,859	1,257,899	43,876,479	1,505,713
Total	827,069,102	25,886,357	904,210,533	31,029,873
Valuation allowance	(6,062,695)	(189,756)	(6,901,878)	(236,852)
Maximum credit risk exposed	<u>\$821,006,407</u>	<u>\$25,696,601</u>	<u>\$897,308,655</u>	<u>\$30,793,021</u>

(c) Liquidity risk

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

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

The liquidity risk rate was 35.30%. Capital and working capital of Cathay United Bank have sufficed to deliver contracts. Cathay United Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of December 31, 2010, there is no significant change in these dates.

As of December 31, 2009 and 2010, respectively, the effective interest rates of financial instruments held and issued by Cathay United Bank are classified as follows:

**English Translation of Financial Statements Originally Issued in Chinese**

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

Financial instruments	Effective interest rate (%)	
	December 31, 2009	December 31, 2010
Available-for-sale financial assets		
Bonds	0.3457~6.6626	0.35-5.9295
Overseas financial instruments	0~7.75	0-6.3574
Held-to-maturity financial assets		
Bonds	2.2292~6.9559	2.2292-6.9559
Overseas financial instruments	0~7.2864	0-7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.57~0.71	0.25-0.757
Overseas financial instruments	0~11.61	0-5.15
Financial debentures payable	2.42~5.593	2.42-5.593

h. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets fair value			
		December 31, 2009		December 31, 2010	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Financial debentures payable	Interest rate swap	\$916,995	\$28,701	\$1,205,075	\$41,355

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

D. Cathay Century

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
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	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
Investments under equity method	859,351	859,351	26,897	26,897
Guarantee deposits paid	507,383	507,383	15,881	15,881
<u>Liabilities</u>				
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
<u>Derivative financial instruments</u>				
<u>Assets</u>				
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-current				
IRS	27,213	27,213	852	852

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
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	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
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
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
<u>Liabilities</u>				
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
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial liabilities at fair value through profit or loss-current				
Forward and SWAP	180,808	180,808	6,205	6,205
Derivative financial assets for hedging				
IRS	30,391	30,391	1,043	1,043

**English Translation of Financial Statements Originally Issued in Chinese**

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

- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:
- (a) The fair value of Cathay Century's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables and payables, prepaid reinsurance premiums ceded, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.
  - (b) The fair value of the guarantee deposits paid is based on the carrying amount.
  - (c) Quoted market prices, if available, are utilized as estimating of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price. Cathay Century uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
  - (d) The fair value of Cathay Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, their fair value was based on relevant financial or any other information.
  - (e) If no quoted market prices exist for Cathay Century's investments accounted for equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- c. The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,636,923	\$113,831	\$2,019,999	\$63,224
Financial assets at fair value through profit or loss-current	671,592	21,020	-	-
Available-for-sale financial assets-current	3,372,772	105,564	-	-
Held-to-maturity financial assets-noncurrent	-	-	3,005,706	94,075
Other financial assets-current	23,428	733	-	-
Financial assets carried at cost-noncurrent	-	-	25,500	798
Investment in debt securities with no active market-noncurrent	-	-	300,000	9,390
Investments under equity method	-	-	859,351	26,897
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and loss-current				
Option	-	-	107	3
Forward and SWAP	-	-	38,458	1,204
Derivative financial assets for hedging-current				
IRS	-	-	27,213	852
Item	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$5,098,019	\$174,949	\$1,365,798	\$46,870
Available-for-sale financial assets - current	3,791,947	130,129	-	-
Held-to-maturity financial asset - current	-	-	161,477	5,541
Other financial assets - current	15,000	515	-	-
Held-to-maturity financial assets - noncurrent	-	-	2,397,614	82,279
Financial assets carried at cost-noncurrent	-	-	61,500	2,111
Investment in debt securities with no active market - noncurrent	-	-	500,000	17,159
Investments under the equity method	-	-	1,143,316	39,235

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial liabilities at fair value through profit and loss-current				
Forward and SWAP	\$-	\$-	\$180,808	\$6,205
Derivative financial assets for hedging-current				
IRS	-	-	30,391	1,043

d. Information on financial risk

(a) Interest rate risk

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

Fixed interest rate

① December 31, 2009

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$-	\$-	\$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	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	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		



**English Translation of Financial Statements Originally Issued in Chinese**

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

② December 31, 2010

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	\$101,241	\$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	-	-

  

Item	Due in 4~5 years		Over 5 years		Total	
	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

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

  

Item	Due in 4~5 years		Over 5 years		Total	
	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

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

  

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(b) Credit risk

Cathay Century's exposure to credit risk is minimal.

e. Hedging activities

Fair value hedges

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

The following table summarizes the terms of Cathay Century's forward and swap for overseas bonds hedging at December 31, 2009 and 2010:

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

Cash flow hedges-IRS

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

December 31, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

Cathay Century's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gain on financial instruments were recognized in equity by of NT\$27,213 (US\$852) thousands and NT\$30,391 (US\$1,043) thousands as of December 31, 2009 and 2010, respectively.

f. Financial risk management objectives policies and hedge strategies

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

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

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

(a) Market Risk

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

(b) Credit risk

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

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

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

(c) Operational Risk

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

(d) Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousand of dollars except for share and per  
share date and unless otherwise stated)**

E. Cathay Securities

a. Information of fair value

Item	December 31, 2009			
	Carrying			Carrying
	amount	Fair value	amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Cash and cash equivalents	\$169,614	\$169,614	\$5,309	\$5,309
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	73,461	73,461	2,299	2,299
Operating securities – net	2,297,939	2,297,939	71,923	71,923
Receivable amount for margin loans	1,359,615	1,359,615	42,554	42,554
Securities refinancing margin deposits	4,470	4,470	140	140
Receivables from securities refinance	4,949	4,949	155	155
Receivables from refinance guaranty	56,004	56,004	1,753	1,753
Security lending deposits	71,756	71,756	2,246	2,246
Receivables-net	45,904	45,904	1,436	1,436
Available-for-sale financial assets – current	937,848	937,848	29,354	29,354
Investments under equity method	730,571	730,571	22,866	22,866
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,202	7,202
Settlement and clearance funds	74,138	74,138	2,320	2,320
Guarantee deposits paid	7,277	7,277	228	228
<b><u>Liabilities</u></b>				
Short-term loans	300,000	300,000	9,389	9,389
Commercial paper payable	1,170,000	1,170,000	36,620	36,620
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	72,674	72,674	2,275	2,275
Security lending payable-non-hedging	97,615	97,615	3,055	3,055
Securities financing guarantee deposits-in	108,717	108,717	3,403	3,403
Deposit payable for securities financing	125,997	125,997	3,943	3,943
Payables	343,059	343,059	10,738	10,738



**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Commercial paper payable	\$1,450,000	\$1,450,000	\$49,760	\$49,760
Bonds sold under repurchase agreements	460,000	460,000	15,786	15,786
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	91,656	91,656	3,145	3,145
Security lending payable-non-hedging	211,659	211,659	7,264	7,264
Securities financing guarantee deposits-in	67,522	67,522	2,317	2,317
Deposit payable for securities financing	74,445	74,445	2,555	2,555
Payables	230,578	230,578	7,913	7,913
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options – futures	3,333	3,333	114	114
Margin for futures trading – own funds	256,941	256,941	8,817	8,817
Derivative financial instrument assets				
-GreTai (over-the-counter)	6,502	6,502	223	223
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,465,289	1,465,289	50,284	50,284
Repurchase of issued call (put) warrants	(1,271,118)	(1,271,118)	(43,621)	(43,621)
Put options-futures	32,321	32,321	1,109	1,109

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

The following table summarizes the fair value information of financial assets and liabilities as of December 31, 2009 and 2010:



**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$73,461	\$2,299	\$-	\$-
Operating securities – net	2,297,939	71,923	-	-
Call options-futures	3,557	111	-	-
Margin for futures trading – own funds	410,426	12,846	-	-
Derivative financial instrument				
assets-GreTai (over-the-counter)	-	-	50,334	1,576
Available-for-sale financial assets-current	937,848	29,354	-	-
Available-for-sale financial assets-noncurrent	18	1	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,669,460	52,252	-	-
Repurchase of issued call (put) warrants	(1,433,213)	(44,858)	-	-
Security lending payable-hedging	72,674	2,275	-	-
Security lending payable-non-hedging	97,615	3,055	-	-
Put options-futures	33,999	1,064	-	-

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$99,073	\$3,400	\$-	\$-
Operating securities – net	2,380,704	81,699	-	-
Call options – future	3,333	114	-	-
Margin for futures trading – own funds	256,941	8,817	-	-
Derivative financial instrument assets-GreTai (over-the-counter)	-	-	6,502	223
Available-for-sale financial assets – current	511,957	17,569	-	-
Available-for-sale financial assets – noncurrent	18	1	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,465,289	50,284	-	-
Repurchase of issued call (put) warrants	(1,271,118)	(43,621)	-	-
Security lending payable-hedging	91,656	3,145	-	-
Security lending payable-non-hedging	211,659	7,264	-	-
Put options – futures	32,321	1,109	-	-

The above derivative financial instrument assets-GreTai (over-the-counter) is valued using “Binomial Tree”.

**English Translation of Financial Statements Originally Issued in Chinese**

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

c. Financial risk management objectives and policies

(a) Market risk

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

(b) Credit risk

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

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

(c) Liquidity risk

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

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

(d) Cash flow risk from interest rate fluctuations

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

Cathay Securities also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 1.75 years, and as a result, the risk is relatively lower. In addition, Cathay Securities will take appropriate actions with respect to these certificates based on interest rate fluctuations.

d. Financial derivatives

(a) Issuance of call (put) warrants

Ⓐ Nominal principal or contract amount and credit risk

	December 31, 2009		December 31, 2010	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Issuance of call (put) warrants	NT\$1,848,360 <u>(US\$57,852)</u>	NT\$- <u>(US\$-)</u>	NT\$1,544,734 <u>(US\$53,011)</u>	NT\$- <u>(US\$-)</u>

Ⓑ Market risk

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

④Types, purposes, and strategies for financial derivatives

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

⑤Financial statement presentation of derivative financial instruments

As of December 31, 2009 and 2010, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

**Balance sheet**

	December 31, 2009		December 31, 2010	
	Financial liabilities at fair value through profit or loss-current		Financial liabilities at fair value through profit or loss-current	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Liabilities for issuance of call (put) warrants	\$1,669,460	\$52,252	\$1,465,289	\$50,284
Repurchase of issued call (put) warrants	(1,433,213)	(44,858)	(1,271,118)	(43,621)
Total	\$236,247	\$7,394	\$194,171	\$6,663

**English Translation of Financial Statements Originally Issued in Chinese**

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

**Statement of income**

	For the year ended		For the year ended		Comments
	December 31, 2009		December 31, 2010		
	Profits or losses from issuing call (put) warrants				
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Liabilities for issuance of call (put) warrants	\$(2,190,924)	\$(68,574)	\$(464,230)	\$(15,931)	Fair value method
Repurchase of issued call (put) warrants					
- Loss on disposal	(3,741,865)	(117,116)	(2,952,993)	(101,338)	
- Gain from valuation	784,892	24,566	1,741	60	Fair value method
Gain from expiration of warrants issued	5,186,976	162,347	3,773,262	129,487	
Trading securities-hedging					
- Gain (loss) on disposal	99,263	3,107	(137,889)	(4,732)	
- Gain (loss) from valuation	72,849	2,280	(59,340)	(2,036)	Fair value method
Security lending payable-hedging					
- Loss on disposal	(814)	(25)	(11,231)	(385)	
- (Loss) gain from valuation	(7,943)	(249)	2,442	84	Fair value method
Futures transaction-hedging					
- Gain on disposal	-	-	2,752	94	
- Loss from valuation	-	-	(196)	(7)	Fair value method
<b>Total</b>	<b>\$202,434</b>	<b>\$6,336</b>	<b>\$154,318</b>	<b>\$5,296</b>	

(b) Structured notes transactions

Ⓐ Nominal principal or contract amount and credit risk

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

ⓑ Market risk

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

ⓒ Risk from liquidity, cash flow and future cash requirements

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

ⓓ Types, purposes, and strategies for financial derivatives

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

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

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

ⓔ Financial statement presentation of derivative financial instruments

As of December 31, 2009 and 2010, the disclosures of structured notes transactions on the statements of income are summarized as follows:

**English Translation of Financial Statements Originally Issued in Chinese**

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

**Statement of income**

	For the year ended		For the year ended		Comments
	December 31, 2009		December 31, 2010		
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Loss from structured notes	\$(12,197)	\$(382)	\$-	\$-	Fair value method
Trading securities - hedging					
- Gain on disposal	9,369	293	-	-	
- Loss from valuation	(79)	(2)	-	-	Fair value method
<b>Total</b>	<b>\$(2,907)</b>	<b>\$(91)</b>	<b>\$-</b>	<b>\$-</b>	

(c) Futures and options transactions

As of December 31, 2009 and 2010, Cathay Securities' unexercised futures and options were as follows:

December 31, 2009

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	STW	Sell	70	\$(65,747)	\$(2,058)	\$66,521	\$2,082
Futures	FITF	Sell	27	\$(24,383)	\$(763)	\$24,597	\$770
Futures	FITX	Sell	10	\$(16,285)	\$(510)	\$16,402	\$513
Futures	FITX	Buy	154	\$220,541	\$6,903	\$250,651	\$7,845
Options	TXO- Call	Buy	491	\$1,644	\$51	\$2,495	\$78
Options	TXO- Put	Buy	709	\$17,818	\$558	\$1,062	\$33
Options	TXO- Call	Sell	1,104	\$(18,586)	\$(582)	\$33,475	\$1,048
Options	TXO- Put	Sell	588	\$(7,330)	\$(229)	\$524	\$16



**English Translation of Financial Statements Originally Issued in Chinese**

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

December 31, 2010

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Futures	GTF	Buy	20	\$11,753	\$403	\$11,556	\$397
Futures	TE	Sell	134	\$(183,427)	\$6,295	\$183,151	\$6,285
Futures	FITF	Sell	143	\$(136,088)	\$(4,670)	\$149,006	\$5,113
Futures	TX	Buy	172	\$301,149	\$10,335	\$308,961	\$10,603
Futures	TX	Sell	2	\$(3,391)	\$(116)	\$3,587	\$123
Futures	XIFX	Buy	2	\$2,317	\$80	\$2,369	\$81
Options	TXO- Call	Buy	751	\$2,234	\$77	\$3,310	\$114
Options	TXO- Put	Buy	151	\$362	\$12	\$23	\$1
Options	TXO- Call	Sell	1,372	\$(13,416)	\$(460)	\$30,714	\$1,054
Options	TXO- Put	Sell	1,158	\$(9,863)	\$(338)	\$1,607	\$55

(a) Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2009	
	Nominal principal/ contract amount	Credit risk
STW futures	NT\$65,747 (US\$2,058)	NT\$- (US\$-)
FITF	NT\$24,383 (US\$763)	NT\$- (US\$-)
FITX	NT\$236,826 (US\$7,413)	NT\$- (US\$-)
TXO	NT\$45,378 (US\$1,420)	NT\$- (US\$-)
Financial instruments	December 31, 2010	
	Nominal principal/ contract amount	Credit risk
GTF	NT\$11,753 (US\$403)	NT\$- (US\$-)
TE	NT\$183,427 (US\$6,295)	NT\$- (US\$-)
FITF	NT\$136,088 (US\$4,670)	NT\$- (US\$-)
TX futures	NT\$304,540 (US\$10,451)	NT\$- (US\$-)
XIFX	NT\$2,317 (US\$80)	NT\$- (US\$-)
TXO	NT\$25,875 (US\$887)	NT\$- (US\$-)

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

(b) Market risk

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

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

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

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

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

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



**English Translation of Financial Statements Originally Issued in Chinese**

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

F. Cathay Pacific Venture

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$5,794	\$5,794	\$181	\$181
Financial assets at fair value through profit or loss	21,670	21,670	678	678
Available-for-sale financial assets-current	175,238	175,238	5,485	5,485
Other receivables	3,813	3,813	119	119
Investment under equity method	260,395	260,395	8,150	8,150
Available-for-sale financial assets-noncurrent	100,416	100,416	3,143	3,143
Investment in debt securities with no active market-noncurrent	34,000	-	1,064	-
Financial assets carried at cost-noncurrent	1,254,363	-	39,260	-
<u>Liabilities</u>				
Accrued expenses	3,114	3,114	97	97
Other payables	516	516	16	16
Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,461	\$1,461	\$50	\$50
Financial assets at fair value through profit or loss	10,140	10,140	348	348
Available-for-sale financial assets-current	277,885	277,885	9,536	9,536
Other receivables	6,984	6,984	240	240
Investment under equity method	274,631	274,631	9,425	9,425
Available-for-sale financial assets-noncurrent	673,832	673,832	23,124	23,124
Financial assets carried at cost-noncurrent	1,184,196	-	40,638	-
Investment in debt securities with no active market-noncurrent	34,000	-	1,167	-
<u>Liabilities</u>				
Accrued expenses	3,326	3,326	114	114
Other payables	516	516	18	18

**English Translation of Financial Statements Originally Issued in Chinese**

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

- b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:
- (a) The fair value of Cathay Pacific Venture short-term financial instruments is assumed to approximate the carrying amount at reporting date due to the short maturity of those instruments. This assumption is applied to cash and cash equivalents, receivables and payables.
  - (b) Quoted market prices, if available, are used to determine the fair values of available-for-sale financial assets.
  - (c) If no quoted market prices exist for Cathay Pacific Venture's investment under equity method, then their fair value is taken as approximating their carry amounts when no permanent market value decline exists.
  - (d) Financial assets carried at cost are unlisted stock. Since these stocks have no quoted market prices in an active market and their fair value cannot be reliably measured, their fair values are not disclosed.
- c. The following table summarizes the basis of determining fair value of financial assets and liabilities as of December 31, 2009 and 2010:

Item	December 31, 2009			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$5,794	\$181	\$-	\$-
Financial assets at fair value through profit or loss	21,670	678	-	-
Available-for-sale financial assets-current	175,238	5,485	-	-
Other receivable	-	-	3,813	119
Investment under equity method	-	-	260,395	8,150
Financial assets carried at cost-noncurrent	-	-	1,254,363	39,260
Available-for-sale financial assets-noncurrent	100,416	3,143	-	-
Investment in debt securities with no active market	-	-	34,000	1,064
<u>Liabilities</u>				
Accrued expense	-	-	3,114	97
Other payables	-	-	516	16

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,461	\$50	\$-	\$-
Financial assets at fair value through profit or loss	10,140	348	-	-
Available-for-sale financial assets-current	277,885	9,536	-	-
Other receivable	-	-	6,984	240
Investment under equity method	-	-	274,631	9,425
Available-for-sale financial assets-noncurrent	673,832	23,124	-	-
Financial assets carried at cost-noncurrent	-	-	1,184,196	40,638
Investment in debt securities with no active market	-	-	34,000	1,167
<u>Liabilities</u>				
Accrued expense	-	-	3,326	114
Other payables	-	-	516	18

d. Information on financial risk

(a) Market risk

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

(b) Credit risk

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

(c) Liquidity risk and cash flow risk

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

G. Cathay Futures

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$254,406	\$254,406	\$7,963	\$7,963
Customers' margin accounts	1,172,262	1,172,262	36,690	36,690
Futures trading deposits receivable	78	78	2	2
Accounts receivable-related parties	28	28	1	1
Other receivable (contain transactions with related parties)	4,876	4,876	153	153
Available-for-sale financial assets-noncurrent	30,500	30,500	955	955
Operating deposits	60,000	60,000	1,878	1,878
Settlement and clearance funds	73,000	73,000	2,285	2,285
Guarantee deposits paid	1,279	1,279	40	40
<u>Liabilities</u>				
Futures customers' equity	1,171,796	1,171,796	36,676	36,676
Payables (contain transactions with related parties)	4,861	4,861	152	152
Other payable (contain transactions with related parties)	2,034	2,034	64	64

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$276,606	\$276,606	\$9,492	\$9,492
Customers' margin accounts	1,095,292	1,095,292	37,587	37,587
Accounts receivable-related parties	46	46	2	2
Other receivable (contain transactions with related parties)	1,396	1,396	48	48
Available-for-sale financial assets-noncurrent	30,500	30,500	1,047	1,047
Operating deposits	60,000	60,000	2,059	2,059
Settlement and clearance funds	74,000	74,000	2,539	2,539
Guarantee deposits paid	1,287	1,287	44	44
<u>Liabilities</u>				
Futures customers' equity	1,094,902	1,094,902	37,574	37,574
Payables (contain transactions with related parties)	4,865	4,865	167	167
Other payable (contain transactions with related parties)	3,431	3,431	118	118
Guarantee deposit in	1,439	1,439	49	49

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

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



**English Translation of Financial Statements Originally Issued in Chinese**

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

(c) The fair value of financial assets and financial liabilities is determined using pricing models.

c. Information on financial risk

(a) Market risk

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

(b) Credit risk

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

(c) Liquidity risk and cash flow risk

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

H. Symphox Information

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$140,207	\$140,207	\$4,388	\$4,388
Financial assets at fair value through profit or loss-current	545,014	545,014	17,058	17,058
Receivables (contain transactions with related parties)	107,721	107,721	3,372	3,372
Guarantee deposits paid	8,283	8,283	259	259
<u>Liabilities</u>				
Payables (contain transactions with related parties)	148,798	148,798	4,657	4,657
Guarantee deposits in	80	80	3	3
Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$440,242	\$440,242	\$15,108	\$15,108
Financial assets at fair value through profit or loss-current	354,719	354,719	12,713	12,713
Receivables (contain transactions with related parties)	158,878	158,878	5,452	5,452
Guarantee deposits paid	9,441	9,441	324	324
<u>Liabilities</u>				
Payables (contain transactions with related parties)	265,875	265,875	9,124	9,124
Guarantee deposits in	63	63	2	2

**English Translation of Financial Statements Originally Issued in Chinese**

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

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

(a) The fair value of Symphox Information short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, financial assets at fair value through profit or loss-current, receivables and payables.

(b) The fair value of the guarantee deposits paid and guarantee deposits in also approximates the carrying amount.

c. The fair value of Symphox Information financial assets or liabilities determined by quoted market price or pricing models is summarized as following:

Item	December 31, 2009			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$545,014	\$17,058	\$-	\$-

Item	December 31, 2010			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$354,719	\$12,173	\$-	\$-

**English Translation of Financial Statements Originally Issued in Chinese**

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

I. Cathay Life (China)

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,578,503	\$3,578,503	\$112,003	\$112,003
Financial assets at fair value through profit or loss-current	22,680	22,680	710	710
Available-for-sale financial assets-current	769,893	769,893	24,097	24,097
Receivables	211,354	211,354	6,615	6,615
Premiums receivables	23,075	23,075	722	722
Available-for-sale financial assets-noncurrent	3,556,604	3,556,604	111,318	111,318
Held-to-maturity financial assets-noncurrent	281,385	281,385	8,807	8,807
Investment in debt securities with no active market-noncurrent	1,204,005	1,204,005	37,684	37,684
Guarantee deposits paid	773,500	773,500	24,210	24,210
<u>Liabilities</u>				
Payables	411,324	411,324	12,874	12,874
Guarantee deposits in	8,593	8,593	269	269

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,950,662	\$3,950,662	\$135,575	\$135,575
Financial assets at fair value through profit or loss-current	748,333	748,333	25,681	25,681
Available-for-sale financial assets-current	576,270	576,270	19,776	19,776
Premiums receivables	49,918	49,918	1,713	1,713
Receivables	232,893	232,893	7,992	7,992
Available-for-sale financial assets-noncurrent	3,747,556	3,747,556	128,605	128,605
Investment in debt securities with no active market-noncurrent	1,047,124	1,047,124	35,934	35,934
Guarantee deposits paid	1,132,289	1,132,289	38,857	38,857
<u>Liabilities</u>				
Payables	413,262	413,262	14,182	14,182
Guarantee deposits in	8,137	8,137	279	279

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

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

(b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However, fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Life (China). Cathay Life (China) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

**English Translation of Financial Statements Originally Issued in Chinese**

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

(c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.

c. The fair value of the Cathay life (China) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,578,503	\$112,003	\$-	\$-
Financial assets at fair value through profit or loss-current	22,680	710	-	-
Receivables	-	-	211,354	6,615
Available-for-sale financial assets-current	769,893	24,097	-	-
Available-for-sale financial assets-noncurrent	3,556,604	111,318	-	-
Held-to-maturity financial assets-noncurrent	281,385	8,807	-	-
Investment in debt securities with no active market-noncurrent	-	-	1,204,005	37,684
Item	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,950,662	\$135,575	\$-	\$-
Financial assets at fair value through profit or loss-current	748,333	25,681	-	-
Receivables	-	-	232,893	7,992
Available-for-sale financial assets-current	576,270	19,776	-	-
Available-for-sale financial assets-noncurrent	3,747,556	128,605	-	-
Investment in debt securities with no active market-noncurrent	-	-	1,047,124	35,934

**English Translation of Financial Statements Originally Issued in Chinese**

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

J. Cathay Life (Vietnam)

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$362,747	\$362,747	\$11,354	\$11,354
Receivables	67,989	67,989	2,128	2,128
Available-for-sale financial assets-noncurrent	1,391,750	1,391,750	43,560	43,560
Guarantee deposits paid	48,925	48,925	1,531	1,531
<u>Liabilities</u>				
Payables	24,115	24,115	755	755

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$330,804	\$330,804	\$11,352	\$11,352
Receivables	59,435	59,435	2,040	2,040
Available-for-sale financial assets-noncurrent	1,181,275	1,181,275	40,538	40,538
Guarantee deposits paid	39,848	39,848	1,367	1,367
<u>Liabilities</u>				
Payables	28,449	28,449	976	976

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (a) The fair value of Cathay Life (Vietnam) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables and payables.
- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However, the fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Life (Vietnam). Cathay Life (Vietnam) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (c) The fair value of the guarantee deposits paid approximates their carrying amount.
- c. The fair value of the Cathay Life (Vietnam) financial assets and liabilities determined by market price or pricing models are summarized as following:

	December 31, 2009			
	Based on the quoted		Based on pricing models	
	market price			
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$362,747	\$11,354	\$-	\$-
Receivables	-	-	67,989	2,128
Available-for-sale financial assets-noncurrent	1,391,750	43,560	-	-
<u>Liabilities</u>				
Payables	-	-	24,115	755



**English Translation of Financial Statements Originally Issued in Chinese**

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

	December 31, 2010			
	Based on the quoted		Based on pricing models	
	market price			
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$330,804	\$11,352	\$-	\$-
Receivables	-	-	59,435	2,040
Available-for-sale financial assets-noncurrent	1,181,275	40,538	-	-
<u>Liabilities</u>				
Payables	-	-	28,449	976

K. Cathay Century (China)

a. Information of fair value

Item	December 31, 2009			
	(NT\$)		(US\$)	
	Carrying	Fair value	Carrying	Fair value
	amount		amount	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,332,033	\$1,332,033	\$41,691	\$41,691
Receivables-net	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	89	89
Guarantee deposits paid	384,085	384,085	12,021	12,021
<u>Liabilities</u>				
Due to reinsurers and ceding companies	7,994	7,994	250	250
Account payable-reinsurance	13,529	13,529	423	423
Operating and liabilities reserve	204,997	204,997	6,416	6,416

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$781,737	\$781,737	\$26,827	\$26,827
Financial assets at fair value through profit or loss-current	102,471	102,471	3,517	3,517
Available-for-sale financial assets-current	295,580	295,580	10,143	10,143
Receivables-net	40,986	40,986	1,407	1,407
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
<u>Liabilities</u>				
Due to reinsurers and ceding companies	22,077	22,077	758	758
Account payable-reinsurance	457	457	16	16
Operating and liabilities reserve	283,526	283,526	9,730	9,730
Payables				

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (b) Quoted market price, if available, is utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century (China) held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Century (China) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.
- (d) The fair value of the Cathay Century (China) financial assets and liabilities determined by market price or pricing models are summarized as following:

	December 31, 2009			
	Based on the quoted		Based on pricing models	
	market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,332,033	\$41,691	\$-	\$-
December 31, 2010				
Based on the quoted		Based on pricing models		
market price		Based on pricing models		
(NT\$)	(US\$)	(NT\$)	(US\$)	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$781,737	\$26,827	\$-	\$-
Financial assets at fair value through profit or loss-current	102,471	3,517	-	-
Available-for-sale financial assets-current	295,580	10,143	-	-

**English Translation of Financial Statements Originally Issued in Chinese**

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

L. Cathay Century (Vietnam)

a. Information of fair value

Item	December 31, 2010			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$426,098	\$426,098	\$14,622	\$14,622
Receivables	67	67	2	2
Guarantee deposits paid	8,812	8,812	302	302
<u>Liabilities</u>				
Operating and liabilities reserve	70	70	2	2

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

- (a) The fair value of Cathay Century (Vietnam) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.
- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However, the fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Century (Vietnam). Cathay Century (Vietnam) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (c) The fair value of the guarantee deposits paid approximates their carrying amount.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- c. The fair value of the Cathay Century (Vietnam) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	December 31, 2010			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$426,098	\$14,622	\$-	\$-

- (3) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2009.12.31			2010.12.31		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
	<u>Financial Assets</u>					
<u>Monetary Items</u>						
USD	\$25,988,150	32.03	\$832,400,445	\$34,202,849	29.13	\$996,328,991
AUD	768,419	28.80618	22,135,216	1,880,601	29.67473	55,806,327
<u>Non-Monetary Items</u>						
USD	1,357,283	32.03	43,473,774	1,581,981	29.13	46,083,107
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	3,684,149	32.03	118,003,292	4,189,094	29.13	122,028,308

- (4) Discretionary account management for Cathay Life and Cathay Century

Item	December 31, 2009			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$7,823,236	\$244,859	\$7,823,236	\$244,859
Repurchase bonds	1,741,197	54,498	1,741,197	54,498
Cash in banks	2,952,157	92,399	2,952,157	92,399
Net other assets less liabilities	17,647	552	17,647	552
Total	\$12,534,237	\$392,308	\$12,534,237	\$392,308

**English Translation of Financial Statements Originally Issued in Chinese**

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

Item	December 31, 2010			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$5,909,289	\$202,790	\$5,909,289	\$202,790
Repurchase bonds	3,802,129	130,478	3,802,129	130,478
Cash in banks	465,349	15,969	465,349	15,969
Total	\$10,176,767	\$349,237	\$10,176,767	\$349,237

As of December 31, 2009 and 2010, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$9,900,000 (US\$309,859) thousands, and NT\$8,300,000 (US\$284,832) thousands, respectively.

(5) Capital adequacy ratio on a consolidated basis:

A. Capital adequacy ratios

As of December 31, 2009

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	\$249,902,911	\$7,821,687	\$243,656,395	\$7,626,178
Cathay United Bank	100.00%	96,624,673	3,024,247	63,816,619	1,997,390
Cathay Securities	100.00%	3,094,069	96,841	752,205	23,543
Cathay Life	100.00%	137,334,168	4,298,409	97,007,188	3,036,219
Cathay Century	100.00%	4,963,791	155,361	2,319,540	72,599
Cathay Pacific Venture	100.00%	1,880,742	58,865	941,245	29,460
Less: Item		(252,508,683)	(7,903,245)	(241,251,195)	(7,550,898)
Subtotal		(A) 241,291,671	7,552,165	(B) 167,241,997	5,234,491
Consolidated capital adequacy ratios			(C)=(A)/(B)		144.28%

**English Translation of Financial Statements Originally Issued in Chinese**

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

As of December 31, 2010

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	\$252,577,598	\$8,667,728	\$246,851,753	\$8,471,234
Cathay United Bank	100.00%	96,090,408	3,297,543	68,833,108	2,362,152
Cathay Securities	100.00%	3,172,750	108,880	883,268	30,311
Cathay Life	100.00%	174,723,103	5,995,988	118,532,556	4,067,692
Cathay Century	100.00%	3,600,682	123,565	2,656,368	91,159
Cathay Pacific Venture	100.00%	2,479,422	85,087	1,238,862	42,514
Less: Item		(250,393,233)	(8,592,767)	(243,763,041)	(8,365,238)
Subtotal		(A) 282,250,730	9,686,024	(B) 195,232,874	6,699,824
Consolidated capital adequacy ratios			(C)=(A)/(B)		144.57%

B. Eligible capital

As of December 31, 2009

Item	(NT\$)	(US\$)
Common Stock	\$96,708,774	\$3,026,879
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	40,000,000	1,251,956
Capital collected in advance	-	-
Capital surplus	78,240,933	2,448,855
Legal reserve	12,540,295	392,498
Special reserve	7,107,732	222,464
Accumulated profit	11,051,057	345,886
Equity adjustments	6,546,446	204,896
Less : Goodwill	-	-
Less : Deferred assets	(2,292,326)	(71,747)
Less : Treasury stock	-	-
Consolidated eligible capital	249,902,911	7,821,687

**English Translation of Financial Statements Originally Issued in Chinese**

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

As of December 31, 2010

Item	(NT\$)	(US\$)
Common Stock	\$101,544,213	\$3,484,702
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	36,000,000	1,235,415
Capital collected in advance	-	-
Capital surplus	78,508,148	2,694,171
Legal reserve	13,645,400	468,270
Special reserve	-	-
Accumulated profit	11,716,176	402,065
Equity adjustments	13,130,013	450,584
Less : Goodwill	-	-
Less : Deferred assets	(1,966,352)	(67,479)
Less : Treasury stock	-	-
Consolidated eligible capital	\$252,577,598	\$8,667,728

(6) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please refer Note 29 (business with stakeholders) for further details.

B. Integrate business activities:

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

C. Cross utilization of information:

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



**English Translation of Financial Statements Originally Issued in Chinese**

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

D. Locations and business utilities:

The Company has established national presence to provide customers with one-stop services not only in insurance but also in banking and securities services. On September 13, 2010, the competent authority was approved that all domestic branches of Cathay United Bank could service in insurance and securities.

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

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

(7) Material contract: None.

(8) Presentation of financial statements:

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

**33. Information regarding investment in Mainland China**

(1) On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 thousands and US\$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousands approved by MOEAIC on December 20, 2010. Also, MOEAIC authorized Cathay Life to remit US \$59,000 thousands as the registered capital again on May 16, 2008. The total registered capital is US \$107,330 thousands. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004. Cathay Life has remitted US\$48,330 thousands to Cathay Life Insurance Ltd. (China) till December 31, 2009, and injected another US\$29,880 thousands on September 29, 2010. As of December 31, 2010, Cathay Life's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousands.

**English Translation of Financial Statements Originally Issued in Chinese**

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

- (2) On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized Cathay Life to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on August 26, 2008. As of December 31, 2010, Cathay Life's remittances to this general insurance company totaled approximately US\$28,140 thousands.
- (3) On December 31, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to remit US\$28,960 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life.) Cathay Century has received approved from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. Cathay Century and Cathay Life Insurance subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise as legal person on August 26, 2008. As of December 31, 2010, Cathay Century's remittances to this company totaled approximately US\$27,820 thousands.

**34. Segment information**

For the year ended December 31, 2009

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other divisions (NT\$)	Reconciliation (NT\$)	Total (NT\$)
Net interest income	\$14,287,154	\$73,881,242	\$396,721	\$85,531	\$(179,774)	\$(541,443)	\$87,929,431
Non income other than interest	11,755,115	221,115,448	4,238,740	762,144	12,625,147	(15,621,967)	234,874,627
Total income	26,042,269	294,996,690	4,635,461	847,675	12,445,373	(16,163,410)	322,804,058
Bad debt expenses	-	-	(3,451)	-	-	-	(3,451)
Provision for premiums reserve	-	(251,550,562)	(820,736)	-	-	-	(252,371,298)
Operating expenses	(14,456,869)	(39,606,478)	(2,839,687)	(599,301)	(888,733)	4,261,306	(54,129,762)
Income from continuing operations before income taxes	11,585,400	3,839,650	971,587	248,374	11,556,640	(11,902,104)	16,299,547
Income taxes expense	(2,525,710)	(1,903,484)	(268,808)	(80,003)	(689,661)	-	(5,467,666)
Consolidated income	9,059,690	1,936,166	702,779	168,371	10,866,979	(11,902,104)	10,831,881

**English Translation of Financial Statements Originally Issued in Chinese**

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

For the year ended December 31, 2009

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Other divisions (US\$)	Reconciliation (US\$)	Total (US\$)
Net interest income	\$447,172	\$2,312,402	\$12,417	\$2,677	\$(5,627)	\$(16,946)	\$2,752,095
Non income other than interest	367,922	6,920,671	132,668	23,854	395,153	(488,950)	7,351,318
Total income	815,094	9,233,073	145,085	26,531	389,526	(505,896)	10,103,413
Bad debt expenses	-	-	(108)	-	-	-	(108)
Provision for premiums reserve	-	(7,873,257)	(25,688)	-	-	-	(7,898,945)
Operating expenses	(452,484)	(1,239,639)	(88,879)	(18,758)	(27,816)	133,374	(1,694,202)
Income from continuing operations before income taxes	362,610	120,177	30,410	7,773	361,710	(372,522)	510,158
Income taxes expense	(79,052)	(59,577)	(8,413)	(2,504)	(21,586)	-	(171,132)
Consolidated income	283,558	60,600	21,997	5,269	340,124	(372,522)	339,026

For the year ended December 31, 2010

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other divisions (NT\$)	Reconciliation (NT\$)	Total (NT\$)
Net interest income	\$15,463,849	\$77,903,114	\$328,750	\$125,465	\$(270,859)	\$(815,000)	\$92,735,319
Non income other than interest	12,344,158	237,401,614	3,604,223	724,644	6,185,613	(9,003,141)	251,257,111
Total income	27,808,007	315,304,728	3,932,973	850,109	5,914,754	9,818,141	343,992,430
Bad debt expenses	-	-	-	-	-	-	-
Provision for premiums reserve	-	(283,959,499)	(504,159)	-	-	-	(284,463,658)
Operating expenses	(14,896,337)	(41,996,023)	(3,310,139)	(629,109)	(926,622)	4,820,460	(56,937,770)
Income from continuing operations before income taxes	12,911,670	(10,650,794)	118,675	221,000	4,988,132	(4,997,681)	2,591,002
Income taxes (expense) benefit	(1,171,025)	3,114,169	(40,356)	930	(186,476)	-	1,717,242
Consolidated income	11,740,645	(7,536,625)	78,319	221,930	4,801,656	(4,997,681)	4,308,244

**English Translation of Financial Statements Originally Issued in Chinese**

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

For the year ended December 31, 2010

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Other divisions (US\$)	Reconciliation (US\$)	Total (US\$)
Net interest income	\$530,674	\$2,673,408	\$11,282	\$4,305	\$(9,295)	\$(27,968)	\$3,182,406
Non income other than interest	423,616	8,146,933	123,686	24,868	212,272	(308,962)	8,622,413
Total income	954,290	10,820,341	134,968	29,173	202,977	(336,930)	11,804,819
Bad debt expenses	-	-	-	-	-	-	-
Provision for premiums reserve	-	(9,744,664)	(17,301)	-	-	-	(9,761,965)
Operating expenses	(511,199)	(1,441,181)	(113,594)	(21,589)	(31,799)	165,424	(1,953,938)
Income from continuing operations before income taxes	443,091	(365,504)	4,073	7,584	171,178	(171,506)	88,916
Income taxes (expense) benefit	(40,186)	106,869	(1,385)	32	(6,399)	-	58,931
Consolidated income	402,905	(258,635)	2,688	7,616	164,779	(171,506)	147,847

**English Translation of Financial Statements Originally Issued in Chinese**

**35. Parent Company financial statements**

**Cathay Financial Holding Co., Ltd.  
Audited Balance sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

	December 31, 2009		December 31, 2010	
	NT \$	US \$	NT \$	US \$
<b>Assets</b>				
Cash and cash equivalents	\$10,812,475	\$338,419	\$14,561,773	\$499,718
Receivables -net	6,665,004	208,607	7,664,904	263,037
Held-to-maturity financial assets	25,000,000	782,472	25,000,000	857,927
Investments under equity method	216,251,195	6,768,425	218,763,041	7,507,311
Other financial assets -net	31,720	993	31,720	1,089
Property and equipment -net	4,022	126	4,346	149
Goodwill and intangible assets -net	-	-	123	4
Other assets -net	2,309,690	72,291	1,983,651	68,073
<b>Total assets</b>	<b>\$261,074,106</b>	<b>\$8,171,333</b>	<b>\$268,009,558</b>	<b>\$9,197,308</b>
<b>Liabilities &amp; stockholders' equity</b>				
Payables	\$8,851,563	\$277,044	\$9,430,336	\$323,622
Bonds payable	40,000,000	1,251,956	40,000,000	1,372,684
Other liabilities	27,306	855	35,272	1,210
<b>Total liabilities</b>	<b>48,878,869</b>	<b>1,529,855</b>	<b>49,465,608</b>	<b>1,697,516</b>
<b>Stockholders' equity</b>				
Capital stock				
Common stock	96,708,774	3,026,879	101,544,213	3,484,702
Capital surplus	78,240,933	2,448,855	78,508,148	2,694,171
Retained earnings				
Legal reserve	12,540,295	392,498	13,645,400	468,270
Special reserve	7,107,732	222,464	-	-
Unappropriated retained earnings	11,051,057	345,886	11,716,176	402,065
Equity adjustments				
Reserve for land revaluation increment	1,461	46	1,461	50
Cumulative conversion adjustments	4,444	139	(893,051)	(30,647)
Unrealized gains or losses on financial instruments	6,547,332	204,924	14,672,596	503,521
Net loss not yet recognized as net pension cost	(6,791)	(213)	(650,993)	(22,340)
<b>Total stockholders' equity</b>	<b>212,195,237</b>	<b>6,641,478</b>	<b>218,543,950</b>	<b>7,499,792</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$261,074,106</b>	<b>\$8,171,333</b>	<b>\$268,009,558</b>	<b>\$9,197,308</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Audited Statements of Income**

**For the years ended December 31, 2009 and 2010**

**(Expressed in thousands of dollars, except earnings per share)**

	2009		2010					
	NT \$	US \$	NT \$	US \$				
<b>Income</b>								
Gain on investment-equity method	\$12,184,272	\$381,355	\$5,331,619	\$182,966				
Gain on foreign exchange	8	-	-	-				
Other operating income	61,095	1,912	59,358	2,037				
<b>Total income</b>	<u>12,245,375</u>	<u>383,267</u>	<u>5,390,977</u>	<u>185,003</u>				
<b>Expenses and loss</b>								
Interest income	553,282	17,317	868,994	29,821				
Less: interest expenses	(751,896)	(23,534)	(1,154,629)	(39,623)				
Net interest income	(198,614)	(6,217)	(285,635)	(9,802)				
Losses on foreign exchange	-	-	(128)	(4)				
Operating expenses	(318,836)	(9,979)	(328,544)	(11,275)				
<b>Income from continuing operations before income taxes</b>	<u>11,727,925</u>	<u>367,071</u>	<u>4,776,670</u>	<u>163,922</u>				
<b>Income taxes expense</b>	<u>(676,868)</u>	<u>(21,185)</u>	<u>(176,085)</u>	<u>(6,043)</u>				
<b>Net income</b>	<u>\$11,051,057</u>	<u>\$345,886</u>	<u>\$4,600,585</u>	<u>\$157,879</u>				
<b>Earnings per share (expressed in dollars)</b>								
Primary earnings per share:	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Net income	<u>\$1.15</u>	<u>\$1.09</u>	<u>\$0.04</u>	<u>\$0.03</u>	<u>\$0.47</u>	<u>\$0.45</u>	<u>\$0.02</u>	<u>\$0.02</u>

**English Translation of Financial Statements Originally Issued in Chinese**

Cathay Financial Holding Co., Ltd.

Audited Statements of Changes in Stockholders' Equity

For the years ended December 31, 2009 and 2010

(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity											
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost		Total	
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
<b>Balance on January 1, 2009</b>	\$97,375,372	\$3,047,743	\$81,971,213	\$2,565,609	\$12,320,672	\$385,624	\$-	\$-	\$7,060,140	\$220,974	\$2,106	\$66	\$344,257	\$10,775	\$(52,309,533)	\$(1,637,231)	\$(4,140,047)	\$(129,579)	\$(270,687)	\$(8,472)	\$142,353,493	\$4,455,509
Appropriations and distribution for 2008																						
Legal reserve					219,623	6,874			(219,623)	(6,874)											-	-
Special reserve			(267,215)	(8,364)			7,107,732	222,464	(6,840,517)	(214,100)											-	-
Land revaluation increment											(645)	(20)									(645)	(20)
Capital surplus			386	12																	386	12
Cumulative conversion adjustments													(339,813)	(10,636)							(339,813)	(10,636)
Unrealized gains or losses of financial instruments															58,856,865	1,842,155					58,856,865	1,842,155
Cancellation of treasury stock	(666,598)	(20,864)	(3,473,449)	(108,715)													4,140,047	129,579			-	-
Other capital surplus			9,998	313																	9,998	313
Net loss not recognized as pension cost																			263,896	8,259	263,896	8,259
Net income for the year ended December 31, 2009									11,051,057	345,886											11,051,057	345,886
<b>Balance on December 31, 2009</b>	\$96,708,774	\$3,026,879	\$78,240,933	\$2,448,855	\$12,540,295	\$392,498	\$7,107,732	\$222,464	\$11,051,057	\$345,886	\$1,461	\$46	\$4,444	\$139	\$6,547,332	\$204,924	\$-	\$-	\$(6,791)	\$(213)	\$212,195,237	\$6,641,478
<b>Balance on January 1, 2010</b>	\$96,708,774	\$3,318,764	\$78,240,933	\$2,685,001	\$12,540,295	\$430,346	\$7,107,732	\$243,917	\$11,051,057	\$379,239	\$1,461	\$50	\$4,444	\$153	\$6,547,332	\$224,685	\$-	\$-	\$(6,791)	\$(233)	\$212,195,237	\$7,281,922
Appropriations and distribution for 2009																						
Legal reserve					1,105,105	37,924			(1,105,105)	(37,924)											-	-
Special reserve			267,215	9,170			(7,107,732)	(243,917)	6,840,517	234,747											-	-
Cash dividends									(4,835,439)	(165,938)											(4,835,439)	(165,938)
Stock dividend	4,835,439	165,938							(4,835,439)	(165,938)											-	-
Cumulative conversion adjustments													(897,495)	(30,800)							(897,495)	(30,800)
Unrealized gains or losses of financial instruments															8,125,264	278,836					8,125,264	278,836
Net loss not recognized as pension cost																			(644,202)	(22,107)	(644,202)	(22,107)
Net income for the year ended December 31, 2010									4,600,585	157,879											4,600,585	157,879
<b>Balance on December 31, 2010</b>	\$101,544,213	\$3,484,702	\$78,508,148	\$2,694,171	\$13,645,400	\$468,270	\$-	\$-	\$11,716,176	\$402,065	\$1,461	\$50	\$(893,051)	\$(30,647)	\$14,672,596	\$503,521	\$-	\$-	\$(650,993)	\$(22,340)	\$218,543,950	\$7,499,792

Note : The remuneration of directors and supervisors NT \$5,400 (US\$169) thousands, employee bonus NT \$968 (US\$30) thousands were recorded as operating cost and expense in 2009.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Audited Statements of cash flows**

**For the years ended December 31, 2009 and 2010**

**(Expressed in thousands of dollars)**

	2009		2010	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$11,051,057	\$345,886	\$4,600,585	\$157,879
Adjustments:				
Income and other adjustments with no cash flow effects				
Amortizations	533	17	62	2
Depreciation	1,003	31	972	33
Losses on disposal of property and equipment	205	6	382	13
Investment income recognized by equity method (more) less than cash dividends received	(12,132,072)	(379,721)	4,071,720	139,730
Effects of exchange rate changes	(8)	-	128	4
Changes in operating assets and liabilities				
Increase in accounts receivable	(2,605,528)	(81,550)	(999,900)	(34,313)
(Increase) decrease in deferred income tax assets	(70,616)	(2,210)	326,098	11,191
(Increase) decrease in other assets	(117)	(4)	65	2
Increase (decrease) in accounts payable	2,657,150	83,166	(161,893)	(5,556)
Increase in income tax payable	-	-	740,665	25,417
Decrease in deferred income tax liabilities	(3)	-	(3)	-
Increase in other liabilities	4,211	132	7,969	274
<b>Net cash (used in) provided by operating activities</b>	<b>(1,094,185)</b>	<b>(34,247)</b>	<b>8,586,850</b>	<b>294,676</b>
<b>Cash flows from investing activities</b>				
Acquisition of held-to-maturity financial assets	(10,000,000)	(312,989)	-	-
Acquisition of property and equipment	(764)	(24)	(1,677)	(58)
Acquisition of intangible assets	-	-	(185)	(6)
Increase in refundable deposit	(24)	(1)	(123)	(4)
<b>Net cash used in investing activities</b>	<b>(10,000,788)</b>	<b>(313,014)</b>	<b>(1,985)</b>	<b>(68)</b>
<b>Cash flows from financing activities</b>				
Increase in bonds payable	20,000,000	625,978	-	-
Cash received from capital reduction in long-term stock investment	533,300	16,692	-	-
Long-term stock investment	(925,246)	(28,959)	-	-
Cash dividends	-	-	(4,835,439)	(165,938)
<b>Net cash provided by (used in) financing activities</b>	<b>19,608,054</b>	<b>613,711</b>	<b>(4,835,439)</b>	<b>(165,938)</b>
<b>Effects of exchange rate changes</b>	<b>8</b>	<b>-</b>	<b>(128)</b>	<b>(5)</b>
<b>Increase in cash and cash equivalents</b>	<b>8,513,089</b>	<b>266,450</b>	<b>3,749,298</b>	<b>128,665</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>2,299,386</b>	<b>71,969</b>	<b>10,812,475</b>	<b>371,053</b>
<b>Cash and cash equivalents at the end of year</b>	<b>\$10,812,475</b>	<b>\$338,419</b>	<b>\$14,561,773</b>	<b>\$499,718</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$629,320	\$19,697	\$1,154,629	\$39,624
Income tax paid	\$293,909	\$9,199	\$6,465	\$222



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

**Cathay Life Insurance Co., Ltd.  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$701,947,793	\$21,970,197	\$817,635,594	\$28,058,874
Loans	506,130,108	15,841,318	481,605,977	16,527,316
Funds and investments	1,229,316,465	38,476,259	1,450,401,024	49,773,542
Property and equipment	12,504,702	391,383	11,894,833	408,196
Intangible assets	560,518	17,544	386,920	13,278
Other assets	292,410,357	9,152,124	285,727,077	9,805,322
<b>Total assets</b>	<b>\$2,742,869,943</b>	<b>\$85,848,825</b>	<b>\$3,047,651,425</b>	<b>\$104,586,528</b>
<b>Liabilities</b>				
Current liabilities	\$19,752,642	\$618,236	\$44,292,901	\$1,520,004
Long-term liabilities	26,441,827	827,600	26,287,494	902,110
Other liabilities	2,583,545,777	80,862,153	2,863,305,784	98,260,322
<b>Total liabilities</b>	<b>2,629,740,246</b>	<b>82,307,989</b>	<b>2,933,886,179</b>	<b>100,682,436</b>
<b>Stockholders' equity</b>				
Capital stock	52,686,158	1,649,019	53,065,274	1,821,046
Capital surplus	13,009,649	407,188	13,009,649	446,453
Retained earnings	43,393,520	1,358,169	36,033,075	1,236,550
Others	4,040,370	126,460	11,657,248	400,043
<b>Total stockholders' equity</b>	<b>113,129,697</b>	<b>3,540,836</b>	<b>113,765,246</b>	<b>3,904,092</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$2,742,869,943</b>	<b>\$85,848,825</b>	<b>\$3,047,651,425</b>	<b>\$104,586,528</b>

**Cathay Life Insurance Co., Ltd.  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$929,473,158	\$29,091,492	\$1,088,289,018	\$37,346,912
Operating costs	(913,744,207)	(28,599,193)	(1,086,808,553)	(37,296,107)
Operating gross profit	15,728,951	492,299	1,480,465	50,805
Operating expenses	(11,323,451)	(354,412)	(12,338,680)	(423,427)
Non-operating revenues	1,570,558	49,157	2,070,256	71,045
Non-operating expenses	(1,343,531)	(42,051)	(822,209)	(28,216)
Income (loss) from continuing operations before income taxes	\$4,632,527	\$144,993	\$(9,610,168)	\$(329,793)
Net income (loss)	\$2,662,301	\$83,327	\$(6,515,586)	\$(223,596)
<b>Earnings per share (in dollars)</b>				
Income (loss) from continuing operations before income taxes	\$0.87	\$0.03	\$(1.81)	\$(0.06)
Net income (loss)	\$0.50	\$0.02	\$(1.23)	\$(0.04)

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Century Insurance Co., Ltd.  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$14,638,565	\$458,171	\$15,917,534	\$546,243
Loans	1,144,564	35,823	705,214	24,201
Funds and investments	4,190,557	131,160	4,102,430	140,784
Property and equipment	116,339	3,641	101,842	3,495
Intangible assets	14,177	444	24,802	851
Other assets	708,444	22,174	896,912	30,779
<b>Total assets</b>	<b>\$20,812,646</b>	<b>\$651,413</b>	<b>\$21,748,734</b>	<b>\$746,353</b>
<b>Liabilities</b>				
Current liabilities	\$1,822,864	\$57,054	\$1,689,157	\$57,967
Long-term liabilities	17,590	551	57,548	1,975
Other liabilities	14,672,157	459,222	16,530,353	567,273
<b>Total liabilities</b>	<b>16,512,611</b>	<b>516,827</b>	<b>18,277,058</b>	<b>627,215</b>
<b>Stockholders' equity</b>				
Capital stock	2,317,006	72,520	2,317,006	79,513
Capital surplus	1,929	60	1,929	66
Retained earnings	1,785,198	55,874	1,075,361	36,903
Others	195,902	6,132	77,380	2,656
<b>Total stockholders' equity</b>	<b>4,300,035</b>	<b>134,586</b>	<b>3,471,676</b>	<b>119,138</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$20,812,646</b>	<b>\$651,413</b>	<b>\$21,748,734</b>	<b>\$746,353</b>

**Cathay Century Insurance Co., Ltd.  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$20,767,354	\$649,995	\$22,469,299	\$771,081
Operating costs	(17,025,809)	(532,889)	(19,102,591)	(655,545)
Operating gross profit	3,741,545	117,106	3,366,708	115,536
Operating expenses	(2,690,464)	(84,209)	(3,041,366)	(104,371)
Non-operating revenues	3,052	95	16,319	560
Non-operating expenses	(78)	(2)	(157)	(5)
Income from continuing operations before income taxes	\$1,054,055	\$32,990	\$341,504	\$11,720
Net income	\$785,247	\$24,577	\$301,148	\$10,335
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$4.55	\$0.14	\$1.47	\$0.05
Net income	\$3.39	\$0.11	\$1.30	\$0.04

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Company (China)  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$4,605,504	\$144,147	\$5,558,075	\$190,737
Loans	15,392	482	18,853	647
Funds and investments	5,041,993	157,809	4,794,680	164,539
Property and equipment	224,158	7,016	176,754	6,066
Intangible assets	143,279	4,485	119,939	4,116
Other assets	1,304,015	40,814	1,612,614	55,340
<b>Total assets</b>	<b>\$11,334,341</b>	<b>\$354,753</b>	<b>\$12,280,915</b>	<b>\$421,445</b>
<b>Liabilities</b>				
Current liabilities	\$417,315	\$13,062	\$420,724	\$14,438
Other liabilities	9,085,498	284,366	9,485,024	325,498
<b>Total liabilities</b>	<b>9,502,813</b>	<b>297,428</b>	<b>9,905,748</b>	<b>339,936</b>
<b>Stockholders' equity</b>				
Capital stock	3,257,376	101,952	5,134,155	176,189
Retained earnings	(2,166,817)	(67,819)	(3,160,401)	(108,456)
Others	740,969	23,192	401,413	13,776
<b>Total stockholders' equity</b>	<b>1,831,528</b>	<b>57,325</b>	<b>2,375,167</b>	<b>81,509</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$11,334,341</b>	<b>\$354,753</b>	<b>\$12,280,915</b>	<b>\$421,445</b>

**Cathay Life Insurance Company (China)  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$4,252,958	\$133,113	\$5,368,713	\$184,239
Operating costs	(3,942,382)	(123,392)	(4,960,956)	(170,246)
Operating gross profit	310,576	9,721	407,757	13,993
Operating expenses	(1,099,512)	(34,414)	(1,421,009)	(48,765)
Non-operating revenues	10,890	341	6,608	227
Non-operating expenses	(1,059)	(33)	(315)	(11)
Loss from continuing operations before income taxes	\$(779,105)	\$(24,385)	\$(1,006,959)	\$(34,556)
Net loss	\$(717,847)	\$(22,468)	\$(993,584)	\$(34,097)
Earnings per share (in dollars)				
Loss from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd. (Vietnam)**

**Condensed Balance Sheets**

**As of December 31, 2009 and 2010**

**(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$447,073	\$13,993	\$409,051	\$14,037
Loans	18	1	1,084	37
Funds and investments	1,391,750	43,560	1,181,275	40,538
Property and equipment	37,720	1,181	37,291	1,280
Intangible assets	31,005	970	20,109	690
Other assets	53,777	1,683	49,560	1,701
<b>Total assets</b>	<b>\$1,961,343</b>	<b>\$61,388</b>	<b>\$1,698,370</b>	<b>\$58,283</b>
<b>Liabilities</b>				
Current liabilities	\$24,115	\$755	\$29,003	\$995
Other liabilities	63,293	1,981	123,022	4,222
<b>Total liabilities</b>	<b>87,408</b>	<b>2,736</b>	<b>152,025</b>	<b>5,217</b>
<b>Stockholders' equity</b>				
Capital stock	1,940,080	60,722	1,940,080	66,578
Retained earnings	44,208	1,384	16,754	575
Others	(110,353)	(3,454)	(410,489)	(14,087)
<b>Total stockholders' equity</b>	<b>1,873,935</b>	<b>58,652</b>	<b>1,546,345</b>	<b>53,066</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,961,343</b>	<b>\$61,388</b>	<b>\$1,698,370</b>	<b>\$58,283</b>

**Cathay Life Insurance Co., Ltd. (Vietnam)**

**Condensed Statements of Income**

**For the years ended December 31, 2009 and 2010**

**(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$335,248	\$10,493	\$368,229	\$12,637
Operating costs	(85,442)	(2,674)	(127,072)	(4,361)
Operating gross profit	249,806	7,819	241,157	8,276
Operating expenses	(264,920)	(8,292)	(274,893)	(9,433)
Non-operating revenues	1,342	42	70	2
Loss from continuing operations before income taxes	\$(13,772)	\$(431)	\$(33,666)	\$(1,155)
<b>Net loss</b>	<b>\$(8,288)</b>	<b>\$(259)</b>	<b>\$(27,454)</b>	<b>\$(942)</b>
Earnings per share (in dollars)				
Loss from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Insurance Company Limited (China)  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$1,540,676	\$48,222	\$1,385,396	\$47,543
Property and equipment	48,597	1,521	38,417	1,319
Intangible assets	-	-	763	26
Other assets	384,944	12,048	375,011	12,869
<b>Total assets</b>	<b>\$1,974,217</b>	<b>\$61,791</b>	<b>\$1,799,587</b>	<b>\$61,757</b>
<b>Liabilities</b>				
Current liabilities	\$56,675	\$1,774	\$80,364	\$2,758
Other liabilities	210,245	6,580	320,851	11,011
<b>Total liabilities</b>	<b>266,920</b>	<b>8,354</b>	<b>401,215</b>	<b>13,769</b>
Stockholders' equity				
Capital stock	1,745,942	54,646	1,745,942	59,916
Retained earnings	(173,576)	(5,432)	(394,134)	(13,526)
Others	134,931	4,223	46,564	1,598
<b>Total stockholders' equity</b>	<b>1,707,297</b>	<b>53,437</b>	<b>1,398,372</b>	<b>47,988</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,974,217</b>	<b>\$61,791</b>	<b>\$1,799,587</b>	<b>\$61,757</b>

**Cathay Insurance Company Limited (China)  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$324,887	\$10,169	\$644,838	\$22,129
Operating costs	(268,621)	(8,408)	(613,253)	(21,045)
Operating gross profit	56,266	1,761	31,585	1,084
Operating expenses	(152,674)	(4,778)	(264,923)	(9,091)
Non-operating revenues	13,940	436	12,801	439
Non-operating expenses	-	-	(22)	(1)
Loss from continuing operations before income taxes	\$(82,468)	\$(2,581)	\$(220,559)	\$(7,569)
<b>Net loss</b>	<b>\$(82,468)</b>	<b>\$(2,581)</b>	<b>\$(220,559)</b>	<b>\$(7,569)</b>
Earnings per share (in dollars)				
Loss from continuing operations before income taxes	Note	Note	Note	Note
<b>Net loss</b>	<b>Note</b>	<b>Note</b>	<b>Note</b>	<b>Note</b>

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Insurance Co., Ltd. (Vietnam)  
Condensed Balance Sheets  
As of December 31, 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2010	
	NT\$	US\$
<b>Assets</b>		
Current assets	\$434,356	\$14,906
Property and equipment	53,339	1,830
Intangible assets	14,313	491
Other assets	27,737	952
<b>Total assets</b>	<b>\$529,745</b>	<b>\$18,179</b>
<b>Liabilities</b>		
Current liabilities	\$91,264	\$3,132
Other liabilities	70	2
<b>Total liabilities</b>	<b>91,334</b>	<b>3,134</b>
Stockholders' equity		
Capital stock	517,502	17,759
Retained earnings	(2,271)	(78)
Others	(76,820)	(2,636)
<b>Total stockholders' equity</b>	<b>438,411</b>	<b>15,045</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$529,745</b>	<b>\$18,179</b>

**Cathay Insurance Co., Ltd. (Vietnam)  
Condensed Statements of Income  
From November 2 to December 31, 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2010	
	NT\$	US\$
Operating revenues	\$232	\$8
Operating costs	(73)	(3)
Operating gross profit	159	5
Operating expenses	(3,850)	(132)
Non-operating revenues	1,420	49
Loss from continuing operations before income taxes	\$(2,271)	\$(78)
Net loss	\$(2,271)	\$(78)
Earnings per share (in dollars)		
Loss from continuing operations before income taxes	Note	Note
Net loss	Note	Note

Note1 : Cathay Century (Vietnam) is a limited company, there is no information about earnings per share.

Note2 : Cathay Century (Vietnam) was incorporate on November 2, 2010, thus there was no information about 2009.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay United Bank Co., Ltd.  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$19,378,285	\$606,519	\$22,770,606	\$781,421
Due from the Central Bank and call loans to banks	78,836,983	2,467,511	100,094,188	3,434,941
Financial assets at fair value through profit or loss	41,430,963	1,296,744	65,975,661	2,264,093
Securities purchased under agreements to resell	1,736,000	54,335	18,926,393	649,499
Receivables-net	44,816,287	1,402,701	58,314,517	2,001,185
Discounts and loans-net	804,171,890	25,169,699	880,450,829	30,214,510
Available-for-sale financial assets -net	97,991,344	3,067,022	75,699,236	2,597,777
Held-to-maturity financial assets-net	4,089,081	127,984	4,964,381	170,363
Investments under equity method-net	3,892,029	121,816	4,320,844	148,279
Other financial assets-net	4,919,872	153,986	4,716,102	161,843
Investments in debt securities with no active market	369,671,743	11,570,321	302,776,432	10,390,406
Property and equipment-net	26,250,655	821,617	25,282,185	867,611
Intangible assets-net	7,072,206	221,352	7,457,296	255,913
Other assets-net	5,924,651	185,435	4,867,696	167,045
<b>Total assets</b>	<b>\$1,510,181,989</b>	<b>\$47,267,042</b>	<b>\$1,576,616,366</b>	<b>\$54,104,886</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$45,350,827	\$1,419,431	\$39,898,632	\$1,369,205
Funds borrowed from the Central and other banks	1,601,500	50,125	1,456,500	49,983
Financial liabilities at fair value through profit or loss	24,996,981	782,378	29,315,431	1,006,020
Securities sold under agreements to repurchase	8,745,465	273,724	21,679,556	743,979
Payables	21,089,973	660,093	35,843,439	1,230,043
Deposits and remittances	1,296,636,382	40,583,298	1,334,092,471	45,782,171
Financial debentures payable	16,437,209	514,467	15,764,495	540,992
Other financial liabilities	240,494	7,527	180,396	6,191
Other liabilities	2,047,292	64,078	3,187,069	109,371
<b>Total liabilities</b>	<b>1,417,146,123</b>	<b>44,355,121</b>	<b>1,481,417,989</b>	<b>50,837,955</b>
<b>Shareholders' equity</b>				
Capital stock	52,277,026	1,636,214	52,277,026	1,793,995
Capital surplus	15,213,292	476,159	15,213,292	522,076
Retained earnings	23,319,476	729,874	26,831,582	920,782
Others	2,226,072	69,674	876,477	30,078
<b>Total shareholders' equity</b>	<b>93,035,866</b>	<b>2,911,921</b>	<b>95,198,377</b>	<b>3,266,931</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,510,181,989</b>	<b>\$47,267,042</b>	<b>\$1,576,616,366</b>	<b>\$54,104,886</b>

**Cathay United Bank Co., Ltd.  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Net interest income	\$13,796,484	\$431,816	\$14,726,817	\$505,382
Non-interest income	11,655,077	364,791	12,463,742	427,719
Net operating income	25,451,561	796,607	27,190,559	933,101
Operating expenses	(14,400,411)	(450,717)	(14,805,813)	(508,092)
Income from continuing operations before income taxes	\$11,051,150	\$345,890	\$12,384,746	\$425,009
Net income	\$8,617,150	\$269,708	\$11,331,746	\$388,873
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$2.11	\$0.07	\$2.37	\$0.08
Net income	\$1.65	\$0.05	\$2.17	\$0.08

**English Translation of Financial Statements Originally Issued in Chinese**

**Indovina Bank Limited**  
**Condensed Balance Sheets**  
**As of December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$1,453,651	\$45,498	\$8,315,566	\$285,366
Due from the Central Bank and call loans to banks	675,800	21,152	713,156	24,473
Financial assets at fair value through profit or loss	187,449	5,867	152,416	5,230
Available-for-sale financial assets-net	490,140	15,341	298,993	10,261
Held-to-maturity financial assets	-	-	1,146,305	39,338
Receivables-net	221,103	6,920	239,764	8,228
Discounts and loans-net	16,759,762	524,562	20,544,314	705,021
Property and equipment-net	179,765	5,627	178,217	6,116
Intangible assets-net	400,153	12,524	360,955	12,387
Other assets-net	16,111	504	4,624	159
<b>Total assets</b>	<b>\$20,383,934</b>	<b>\$637,995</b>	<b>\$31,954,310</b>	<b>\$1,096,579</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$616,973	\$19,311	\$7,261,767	\$249,203
Payables	381,772	11,949	509,999	17,501
Deposits and remittances	14,760,994	462,003	15,806,210	542,423
Bonds payables	-	-	2,890,189	99,183
<b>Total liabilities</b>	<b>15,759,739</b>	<b>493,263</b>	<b>26,468,165</b>	<b>908,310</b>
<b>Shareholders' equity</b>				
Capital stock	4,017,093	125,730	5,269,493	180,834
Retained earnings	654,139	20,474	777,315	26,675
Others	(47,037)	(1,472)	(560,663)	(19,240)
<b>Total shareholders' equity</b>	<b>4,624,195</b>	<b>144,732</b>	<b>5,486,145</b>	<b>188,269</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$20,383,934</b>	<b>\$637,995</b>	<b>\$31,954,310</b>	<b>\$1,096,579</b>

**Indovina Bank Limited**  
**Condensed Statements of Income**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Net interest income	\$589,497	\$18,451	\$737,031	\$25,293
Non-interest income	287,372	8,994	177,549	6,093
Net operating revenue	876,869	27,445	914,580	31,386
Provision for loan losses	(71,449)	(2,236)	-	-
Operating expenses	(342,509)	(10,720)	(387,656)	(13,304)
Income from continuing operations before income taxes	\$462,911	\$14,489	\$526,924	\$18,082
Net income	\$371,200	\$11,618	\$408,899	\$14,032
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

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



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Securities Corporation  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$5,611,672	\$175,639	\$6,049,349	\$207,596
Funds and investments	730,589	22,867	738,694	25,350
Property and equipment	38,830	1,215	34,195	1,173
Intangible assets	6,969	218	7,692	264
Other assets	378,590	11,850	341,947	11,735
<b>Total assets</b>	<b>\$6,766,650</b>	<b>\$211,789</b>	<b>\$7,171,877</b>	<b>\$246,118</b>
<b>Liabilities</b>				
Current liabilities	\$2,500,246	\$78,255	\$2,828,700	\$97,073
Long-term liabilities	1,096	34	681	23
Other liabilities	54,695	1,712	78,725	2,702
<b>Total liabilities</b>	<b>2,556,037</b>	<b>80,001</b>	<b>2,908,106</b>	<b>99,798</b>
<b>Stockholders' equity</b>				
Capital stock	3,700,000	115,806	3,700,000	126,973
Capital surplus	258,434	8,089	258,434	8,869
Retained earnings	183,509	5,744	298,468	10,242
Others	68,670	2,149	6,869	236
<b>Total stockholders' equity</b>	<b>4,210,613</b>	<b>131,788</b>	<b>4,263,771</b>	<b>146,320</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$6,766,650</b>	<b>\$211,789</b>	<b>\$7,171,877</b>	<b>\$246,118</b>

**Cathay Securities Corporation  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except for earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Revenue	\$1,141,880	\$35,740	\$1,148,666	\$39,419
Expenses	(893,506)	(27,966)	(927,667)	(31,835)
Income from continuing operations before income taxes	\$248,374	\$7,774	\$220,999	\$7,584
<b>Net income</b>	<b>\$168,371</b>	<b>\$5,270</b>	<b>\$221,930</b>	<b>\$7,616</b>
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.67	\$0.02	\$0.60	\$0.02
<b>Net income</b>	<b>\$0.46</b>	<b>\$0.01</b>	<b>\$0.60</b>	<b>\$0.02</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Pacific Venture Capital Co., Ltd.**

**Condensed Balance Sheets**

**As of December 31, 2009 and 2010**

**(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$217,124	\$6,796	\$296,504	\$10,175
Funds and investments	1,649,175	51,617	2,166,659	74,353
Property and equipment	1,002	31	721	25
Other assets	17,084	535	19,398	666
<b>Total assets</b>	<b>\$1,884,385</b>	<b>\$58,979</b>	<b>\$2,483,282</b>	<b>\$85,219</b>
<b>Liabilities</b>				
Current liabilities	\$3,643	\$114	\$3,860	\$132
<b>Total liabilities</b>	<b>3,643</b>	<b>114</b>	<b>3,860</b>	<b>132</b>
<b>Stockholders' equity</b>				
Capital stock	1,895,224	59,318	1,895,224	65,039
Retained earnings	(29,916)	(936)	72,159	2,476
Others	15,434	483	512,039	17,572
<b>Total stockholders' equity</b>	<b>1,880,742</b>	<b>58,865</b>	<b>2,479,422</b>	<b>85,087</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,884,385</b>	<b>\$58,979</b>	<b>\$2,483,282</b>	<b>\$85,219</b>

**Cathay Pacific Venture Capital Co., Ltd.**

**Condensed Statements of Income**

**For the years ended December 31, 2009 and 2010**

**(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$84,097	\$2,632	\$140,211	\$4,812
Operating costs	(340,936)	(10,671)	(40,352)	(1,385)
Operating gross (loss) profit	(256,839)	(8,039)	99,859	3,427
Operating expenses	(8,192)	(256)	(6,614)	(227)
Non-operating revenues	1,317	41	2,855	98
Non-operating expenses	(22)	(1)	-	-
(Loss) income from continuing operations before income taxes	\$(263,736)	\$(8,255)	\$96,100	\$3,298
Net (loss) income	\$(256,435)	\$(8,026)	\$102,074	\$3,503
Earnings per share (in dollars)				
(Loss) income from continuing operations before income taxes	\$(1.29)	\$(0.04)	\$0.51	\$0.02
Net (loss) income	\$(1.25)	\$(0.04)	\$0.54	\$0.02

**English Translation of Financial Statements Originally Issued in Chinese**

**Symphox Information Co., Ltd.  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$812,414	\$25,428	\$983,910	\$33,765
Property and equipment	86,300	2,701	83,104	2,852
Intangible assets	2,672	84	2,537	87
Other assets	11,168	349	15,692	538
<b>Total assets</b>	<b>\$912,554</b>	<b>\$28,562</b>	<b>\$1,085,243</b>	<b>\$37,242</b>
<b>Liabilities</b>				
Current liabilities	\$345,816	\$10,824	\$491,531	\$16,868
Other liabilities	80	2	63	2
<b>Total liabilities</b>	<b>345,896</b>	<b>10,826</b>	<b>491,594</b>	<b>16,870</b>
<b>Stockholders' equity</b>				
Capital stock	499,000	15,618	499,000	17,124
Retained earnings	67,658	2,118	94,649	3,248
<b>Total stockholders' equity</b>	<b>566,658</b>	<b>17,736</b>	<b>593,649</b>	<b>20,372</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$912,554</b>	<b>\$28,562</b>	<b>\$1,085,243</b>	<b>\$37,242</b>

**Symphox Information Co., Ltd.  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$1,335,282	\$41,793	\$1,678,572	\$57,604
Operating costs	(1,147,643)	(35,920)	(1,443,686)	(49,543)
Operating gross profit	187,639	5,873	234,886	8,061
Operating expenses	(110,210)	(3,450)	(138,115)	(4,740)
Non-operating revenues	7,253	227	4,082	140
Non-operating expenses	(4)	-	(72)	(2)
Income from continuing operations before income taxes	\$84,678	\$2,650	\$100,781	\$3,459
Net income	\$66,253	\$2,074	\$86,619	\$2,973
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$1.70	\$0.05	\$2.02	\$0.07
Net income	\$1.33	\$0.04	\$1.74	\$0.06

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Futures Corp.  
Condensed Balance Sheets  
As of December 31, 2009 and 2010  
(Expressed in thousands of dollars)**

Items	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$1,433,668	\$44,872	\$1,374,125	\$47,156
Funds and investments	30,500	955	30,500	1,047
Property and equipment	166,632	5,215	56,310	1,932
Intangible assets	4,745	149	2,633	90
Other assets	285,128	8,924	393,022	13,488
<b>Total assets</b>	<b>\$1,920,673</b>	<b>\$60,115</b>	<b>\$1,856,590</b>	<b>\$63,713</b>
<b>Liabilities</b>				
Current liabilities	\$1,179,872	\$36,929	\$1,104,211	\$37,893
Other liabilities	10,162	318	13,634	468
<b>Total liabilities</b>	<b>1,190,034</b>	<b>37,247</b>	<b>1,117,845</b>	<b>38,361</b>
<b>Stockholders' equity</b>				
Capital stock	650,000	20,344	650,000	22,306
Retained earnings	80,639	2,524	88,745	3,046
<b>Total stockholders' equity</b>	<b>730,639</b>	<b>22,868</b>	<b>738,745</b>	<b>25,352</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,920,673</b>	<b>\$60,115</b>	<b>\$1,856,590</b>	<b>\$63,713</b>

**Cathay Futures Corp.  
Condensed Statements of Income  
For the years ended December 31, 2009 and 2010  
(Expressed in thousands of dollars, except earnings per share)**

Items	2009		2010	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$118,432	\$3,707	\$101,035	\$3,467
Operating costs	(69,563)	(2,177)	(58,128)	(1,995)
Operating gross profit	48,869	1,530	42,907	1,472
Operating expenses	(62,166)	(1,946)	(49,967)	(1,715)
Non-operating revenues	22,137	693	23,297	799
Non-operating expenses	(1,067)	(34)	(1,655)	(56)
Income from continuing operations before income taxes	\$7,773	\$243	\$14,582	\$500
Net income	\$6,104	\$191	\$12,379	\$425
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.12	\$-	\$0.22	\$0.01
Net income	\$0.09	\$-	\$0.19	\$0.01