

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
As of March 31, 2012 and 2011
With Independent Auditors' Reviewed Report

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

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

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

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of March 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three months ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

Base on our review, we are not aware of any material modifications that should be made to the consolidated financial statements as of and for the three-month periods ended March 31, 2012 and 2011 in order for them to be in conformity with Regulation Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and accounting principles generally accepted in the ROC.

As described in Note 3 to the consolidated financial statements, effective from January 1, 2011, the Company and its subsidiaries have adopted the third revision of the ROC Statement of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement", the newly issued SFAS No. 41, "Operating Segments", and SFAS No. 40, "Insurance Contracts".

Ernst & Young
Taipei, Taiwan
The Republic of China
April 24, 2012

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
Unaudited consolidated balance sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)

	Notes	March 31, 2012		March 31, 2011	
		NT \$	US \$	NT \$	US \$
Assets					
Cash and cash equivalents	2, 4	\$762,718,848	\$25,854,876	\$727,793,929	\$24,754,895
Due from the Central Bank and call loans to banks		104,471,430	3,541,404	72,923,691	2,480,398
Financial assets at fair value through profit or loss	2, 5	107,153,265	3,632,314	97,089,912	3,302,378
Securities purchased under agreements to resell		19,980,344	677,300	35,996,619	1,224,375
Receivables -net		133,592,728	4,528,567	120,529,522	4,099,643
Loans -net	2, 6	1,496,802,642	50,739,073	1,409,356,820	47,937,307
Available-for-sale financial assets -net	2, 7	1,325,314,996	44,925,932	666,389,047	22,666,294
Held-to-maturity financial assets -net	2, 8	23,320,474	790,524	602,226,713	20,483,902
Investments under equity method -net	2, 9	1,384,812	46,943	2,574,052	87,553
Other financial assets -net	2, 10	38,140,716	1,292,906	57,929,380	1,970,387
Investments in debt securities with no active market	2, 11	586,795,682	19,891,379	446,298,992	15,180,238
Separate account products assets		300,144,570	10,174,392	296,149,488	10,073,112
Investments in real estate -net	2, 12	147,162,599	4,988,563	130,179,583	4,427,877
Property and equipment -net		38,809,491	1,315,576	38,005,399	1,292,701
Goodwill and intangible assets -net	2, 13	9,619,150	326,073	8,270,758	281,318
Other assets -net		107,969,846	3,659,995	69,536,923	2,365,201
Total assets		\$5,203,381,593	\$176,385,817	\$4,781,250,828	\$162,627,579
Liabilities & stockholders' equity					
Liabilities					
Due to the Central Bank and call loans from banks		\$61,204,218	\$2,074,719	\$49,762,078	\$1,692,588
Funds borrowed from the Central Bank and other banks		1,476,500	50,051	1,470,900	50,031
Commercial paper payable -net	2, 14	9,500,000	322,034	1,560,000	53,061
Financial liabilities at fair value through profit or loss	2, 15	10,450,223	354,245	14,255,008	484,864
Securities sold under agreements to repurchase	5, 7	17,412,765	590,263	13,398,726	455,739
Payables		93,098,955	3,155,897	79,403,487	2,700,799
Deposits	16	1,442,614,260	48,902,178	1,331,919,292	45,303,377
Bonds payable	2, 17	75,646,552	2,564,290	68,975,538	2,346,106
Other financial liabilities	2, 19	16,408,822	556,231	9,795,200	333,170
Separate account products liabilities		300,144,570	10,174,392	296,149,488	10,073,112
Reserve for operations and liabilities	18	2,921,273,799	99,026,231	2,673,864,698	90,947,779
Other liabilities		13,606,568	461,240	23,852,870	811,322
Total liabilities		4,962,837,232	168,231,771	4,564,407,285	155,251,948
Stockholders' Equity attributable to equity holders of the parent					
Capital Stock					
Common stock	20	103,575,097	3,511,021	101,544,213	3,453,885
Capital surplus	21	78,508,148	2,661,293	78,508,148	2,670,345
Retained earnings					
Legal reserve		14,105,459	478,151	13,645,400	464,129
Special reserve		333,598	11,308	333,598	11,347
Unappropriated retained earnings		16,274,157	551,666	13,661,710	464,684
Other stockholders' equity					
Land revaluation increment		1,461	50	1,461	50
Cumulative conversion adjustments		(874,006)	(29,628)	(856,729)	(29,140)
Unrealized gains or losses on financial instruments		33,122,781	1,122,806	6,674,448	227,022
Treasury stock	23	(7,179,872)	(243,385)	-	-
Net loss not yet recognized as net pension cost		(1,425,167)	(48,311)	(650,993)	(22,143)
Total stockholder's equity attributable to equity holders of the parent		236,441,656	8,014,971	212,861,256	7,240,179
Minority interest		4,102,705	139,075	3,982,287	135,452
Total stockholders' equity		240,544,361	8,154,046	216,843,543	7,375,631
Total liabilities and stockholders' equity		\$5,203,381,593	\$176,385,817	\$4,781,250,828	\$162,627,579

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT\$29.5 and NT\$29.4 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
Unaudited consolidated statements of income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

	Notes	January 1 ~ March 31, 2012		January 1 ~ March 31, 2011	
		NT \$	US \$	NT \$	US \$
Interest income	2	\$31,355,769	\$1,062,907	\$28,204,279	\$959,329
Less: Interest expenses	2	(3,580,950)	(121,388)	(2,792,799)	(94,993)
Net interest income		27,774,819	941,519	25,411,480	864,336
Net income other than interest					
Net commission and handling fee		3,752,281	127,196	3,009,068	102,349
Net premiums from insurance business		79,938,118	2,709,767	34,761,479	1,182,363
Gains (losses) on financial assets and liabilities at fair value through profit or loss		19,576,774	663,619	(20,493,584)	(697,061)
Realized gains on available-for-sale financial assets		4,580,760	155,280	7,893,994	268,503
Realized gains on held-to-maturity financial assets		567,521	19,238	168,565	5,734
Gains on investments under equity method		22,702	770	76,787	2,612
Gains on investments in real estate		1,727,004	58,543	1,540,622	52,402
(Losses) gains on foreign exchange		(21,445,954)	(726,982)	11,032,928	375,270
Net other non-interest gains		986,416	33,438	1,504,484	51,173
Total income		117,480,441	3,982,388	64,905,823	2,207,681
Bad debt expenses		(357,988)	(12,135)	(52,733)	(1,794)
Provision for premiums reserve		(103,205,002)	(3,498,475)	(51,949,351)	(1,766,984)
Operating expenses	24				
Personnel expenses		(7,747,287)	(262,620)	(8,096,698)	(275,398)
Depreciation and amortizations expenses		(956,547)	(32,425)	(1,000,098)	(34,017)
Other general and administration expenses		(3,022,684)	(102,464)	(2,701,480)	(91,887)
Income from continuing operations before income taxes		2,190,933	74,269	1,105,463	37,601
Income taxes (expense) benefit	2, 25	(105,312)	(3,570)	815,310	27,731
Income from continuing operations after income taxes		2,085,621	70,699	1,920,773	65,332
Consolidated net income		\$2,085,621	\$70,699	\$1,920,773	\$65,332
Include:					
Parent company		\$1,970,174	\$66,786	\$1,903,030	\$64,729
Minority interest		115,447	3,913	17,743	603
Consolidated net income		\$2,085,621	\$70,699	\$1,920,773	\$65,332
Earnings per share (expressed in dollars) :					
Primary earnings per share:	26				
		Before taxes	After taxes	Before taxes	After taxes
Income from continuing operations		\$0.22	\$0.21	\$0.01	\$0.01
Consolidated net income		\$0.22	\$0.21	\$0.01	\$0.01

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT\$29.5 and NT\$29.4 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
Unaudited consolidated statements of changes in stockholders' equity
For the three months ended March 31, 2012 and 2011
(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 \$
Balance on January 1, 2011	\$101,544,213	\$3,453,885	\$78,508,148	\$2,670,345	\$13,645,400	\$464,129	\$-	\$-	\$11,748,433	\$399,606	\$1,461	\$50	\$(893,051)	\$(30,376)	\$14,672,596	\$499,068	\$-	\$-	\$(650,993)	\$(22,143)	\$3,930,725	\$133,698	\$222,506,932	\$7,568,262
Minority interest																					33,819	1,151	33,819	1,151
Cumulative conversion adjustments													36,322	1,236									36,322	1,236
Unrealized gains or losses of financial instruments															(7,998,148)	(272,046)							(7,998,148)	(272,046)
Adjustments made by subsidiaries							333,598	11,347	10,247	349													343,845	11,696
Consolidated net income for the three months ended March 31, 2011									1,903,030	64,729											17,743	603	1,920,773	65,332
Balance on March 31, 2011	\$101,544,213	\$3,453,885	\$78,508,148	\$2,670,345	\$13,645,400	\$464,129	\$333,598	\$11,347	\$13,661,710	\$464,684	\$1,461	\$50	\$(856,729)	\$(29,140)	\$6,674,448	\$227,022	\$-	\$-	\$(650,993)	\$(22,143)	\$3,982,287	\$135,452	\$216,843,543	\$7,375,631
Balance on January 1, 2012	\$103,575,097	\$3,511,020	\$78,508,148	\$2,661,293	\$14,105,459	\$478,151	\$333,598	\$11,308	\$14,303,983	\$484,881	\$1,461	\$50	\$(378,127)	\$(12,818)	\$11,816,355	\$400,554	\$(7,179,872)	\$(243,385)	\$(1,425,167)	\$(48,311)	\$4,050,638	\$137,310	\$217,711,573	\$7,380,053
Minority interest																					(63,380)	(2,148)	(63,380)	(2,148)
Cumulative conversion adjustments													(495,879)	(16,809)									(495,879)	(16,809)
Unrealized gains or losses of financial instruments															21,306,426	722,252							21,306,426	722,252
Consolidated net income for the three months ended March 31, 2012									1,970,174	66,785											115,447	3,913	2,085,621	70,698
Balance on March 31, 2012	\$103,575,097	\$3,511,020	\$78,508,148	\$2,661,293	\$14,105,459	\$478,151	\$333,598	\$11,308	\$16,274,157	\$551,666	\$1,461	\$50	\$(874,006)	\$(29,627)	\$33,122,781	\$1,122,806	\$(7,179,872)	\$(243,385)	\$(1,425,167)	\$(48,311)	\$4,102,705	\$139,075	\$240,544,361	\$8,154,046

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NTS29.5 and NTS29.4 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
Unaudited consolidated statements of cash flows
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars)

	January 1 ~ March 31, 2012		January 1 ~ March 31, 2011	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$2,085,621	\$70,699	\$1,920,773	\$65,332
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	956,547	32,425	1,000,098	34,017
Investment income recognized by equity method (more) less than cash dividends received	(22,702)	(770)	(76,786)	(2,612)
Bad debt expenses	357,988	12,135	52,733	1,794
Provision for premiums reserve from insurance business	98,864,063	3,351,324	59,328,557	2,017,978
Gain on disposal of property and equipment	(158)	(5)	(211,290)	(7,187)
Other adjustments	(262,193)	(8,888)	(187,895)	(6,391)
Changes in operating assets and liabilities				
Increase in receivables	(35,548,719)	(1,205,041)	(1,324,529)	(45,052)
Increase in deferred income tax assets	(1,162,356)	(39,402)	(4,391,190)	(149,360)
Increase (decrease) in financial assets at fair value through profit or loss	(22,453,388)	(761,132)	73,139,811	2,487,749
Increase in other financial assets	(7,030,524)	(238,323)	(6,169,952)	(209,862)
	(486,431)	(16,489)	(471,249)	(16,029)
	46,077,094	1,561,935	(2,137,133)	(72,692)
Decrease in financial liabilities at fair value through profit or loss	(12,968,704)	(439,617)	(4,136,736)	(140,705)
(Decrease) increase in deferred income tax liabilities	(392,010)	(13,288)	20,907	711
Increase (decrease) in other financial liabilities	244,676	8,294	(72,851)	(2,478)
Increase in other liabilities	2,018,116	68,411	12,244,966	416,496
Net cash provided by operating activities	70,276,920	2,382,268	128,528,234	4,371,709
Cash flows from investing activities				
Decrease in restricted assets	87,900	2,980	-	-
Increase in loans	(6,041,701)	(204,803)	(25,943,409)	(882,429)
(Increase) decrease in due from the Central Bank and call loans to banks	(17,084,627)	(579,140)	26,142,687	889,207
Decrease (increase) in available-for-sale financial assets	32,726,537	1,109,374	(11,397,184)	(387,659)
(Increase) decrease in held-to-maturity financial assets	(1,411,250)	(47,839)	29,609,283	1,007,118
Increase in investments under equity method	(59,120)	(2,004)	-	-
Increase investments in real estate	(1,764,537)	(59,815)	(4,589,900)	(156,119)
Acquisition of property and equipment	(309,131)	(10,479)	(142,066)	(4,832)
(Increase) decrease in securities purchased under agreements to resell	(8,159,507)	(276,594)	12,987,874	441,764
Increase in other financial assets	(68,576,966)	(2,324,643)	(75,704,096)	(2,574,969)
Decrease (increase) in other assets	360,926	12,235	(174,082)	(5,921)
Net cash used in investing activities	(70,231,476)	(2,380,728)	(49,210,893)	(1,673,840)
Cash flows from financing activities				
Increase in due to the Central Bank and call loans from banks	5,495,047	186,273	4,954,589	168,523
Increase in deposits	28,554,386	967,945	2,257,385	76,782
Increase (decrease) in securities sold under agreements to repurchase	2,730,704	92,566	(8,785,752)	(298,835)
Decrease in banker's acceptances and funds borrowed	(6,378,597)	(216,224)	(600,887)	(20,438)
(Decrease) increase in bonds payable	(304,294)	(10,315)	5,292,324	180,011
Increase in other financial liabilities	6,577,749	222,975	2,057,001	69,966
Increase (decrease) in other liabilities	60,887	2,064	(445,635)	(15,158)
Net cash provided by financing activities	36,735,882	1,245,284	4,729,025	160,851
Effects of exchange rate changes	(811,879)	(27,521)	212,717	7,236
Increase in cash and cash equivalents	35,969,447	1,219,303	84,259,083	2,865,956
Cash and cash equivalents at the beginning of the period	726,749,401	24,635,573	643,534,846	21,888,940
Cash and cash equivalents at the end of the period	\$762,718,848	\$25,854,876	\$727,793,929	\$24,754,896
Supplemental disclosure of cash flows information				
Interest paid during the period (excluding capitalized interest)	\$2,373,699	\$80,464	\$1,600,152	\$54,427
Income tax paid during the period	\$430,008	\$14,577	\$416,937	\$14,182

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT\$29.5 and NT\$29.4 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 Unaudited Consolidated Financial Statements
March 31, 2012 and 2011
(Expressed in thousands of dollars except
for share and per share data and unless otherwise stated)

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. Cathay Venture Inc. (“Cathay Venture”) was incorporated on April 16, 2003, under the Company Act. Cathay Venture is the surviving company for the merger with Cathay Venture, Cathay II Venture and Cathay Capital management on August 10, 2009. On June 13, 2011, the Company obtained the acquisition approval of Cathay Securities Investment Trust Co., Ltd. (Cathay Securities Investment Trust) from Financial Supervisory Commission of Executive Yuan and acquired all shares of Cathay Securities Investments Trust by cash purchase on June 24, 2011. 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 March 31, 2012 and 2011, the total numbers of the employees of the Company and its subsidiaries were 44,194 and 42,586, respectively.

As of and for the three months ended March 31, 2012 and 2011, 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 data and unless otherwise stated)

Investor	Investee	Business	2012.3.31 Ownership interest	2011.3.31 Ownership interest	Notes
The Company	Cathay Life Insurance Co., Ltd. (“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 Co., Ltd. (“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 Insurance Co., Ltd. (“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.
The Company	Cathay Securities Corporation (“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.

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)

Investor	Investee	Business	2012.3.31 Ownership interest	2011.3.31 Ownership interest	Notes
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00%	100.00%	Cathay Venture was incorporated on April 16, 2003, under the Company Act. Cathay Venture is the surviving company for the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on August 10, 2009.
The Company	Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”)	Securities investment trust	100.00%	43.75%	Cathay Securities Investment Trust was incorporated on February 11, 2000.
Cathay Life	Cathay Life Insurance Co., Ltd. (China) (“Cathay Life (China)”)	Life insurance	50.00%	50.00%	Cathay Life (China) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (China).
Cathay Life 、 Cathay 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 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 Co., Ltd. (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%	100.00%	Cathay Century (Vietnam) was incorporated on November 2, 2010.

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)

Investor	Investee	Business	2012.3.31 Ownership interest	2011.3.31 Ownership interest	Notes
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00%	50.00%	Indovina Bank was incorporated in Vietnam on October 29, 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99%	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.

As of and for the three months ended March 31, 2012 and 2011, 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	2012.3.31 Ownership interest	2011.3.31 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.
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.

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Investor	Investee	Business	2012.3.31 Ownership interest	2011.3.31 Ownership interest	Notes
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	-	100.00%	Cathay Life Insurance Agent was incorporated on March 23, 2000. On March 1, 2011, Cathay Life Insurance Agent was liquidated on August 1, 2011.
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 Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles. A summary of significant accounting policies is as follows:

(1) Principles of consolidation

- A. In accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, the preparation of consolidated financial statements shall 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.

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(3) Financial assets and financial liabilities

In accordance with the ROC SFAS No.34 “Accounting for Financial Instruments”, “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, 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”, “financial assets carried at cost”, and “loans and receivables (loans and receivables originated by the enterprise are included in the ROC SFAS No.34 since January 1, 2011.)”. Upon initial recognition, financial assets are measured at fair value, plus in some cases, transaction costs that are directly attributable to the acquisition or issue of the financial assets. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging”, or “financial liabilities carried at cost”.

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

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

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

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

- a. Financial assets 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 assets 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.

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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. 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 three 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 assets 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 assets 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 assets that has been recognized in stockholders' equity shall be amortized over the remaining life of the assets.

C. 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.

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D. 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.

E. 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.

F. 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.

G. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- ① those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;
- ② those that the entity upon initial recognition designates as at fair value through profit or loss;
- ③ those that the entity upon initial recognition designates as available-for-sale; or
- ④ those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Gains and losses are recognized when the investments are derecognized or impaired, as well as through the amortization process.

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H. 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 assets 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 assets) is derecognized when the control over the assets (or a portion of the assets) is surrendered. Transferring or surrendering control over a financial asset (or a portion of the assets) 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.

(5) Accounting for impairment of financial assets

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

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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 assets' original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the assets 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 assets do not exceed what its amortized cost would have been had the impairment not been recognized at the reversal date.

B. Financial assets carried at cost

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

C. Available-for-sale financial assets

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

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D. Loans and receivables

Since January 1, 2011, the Company and its subsidiaries first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Company and its subsidiaries shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for loans and receivables with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is recognized and measured as the difference between the loan or receivable's carrying amount and the present value of estimated future cash flows discounted at its original effective interest rates (excluding future credit losses that have not been incurred). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

(6) Derivative financial instruments

The Company and its 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.

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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 its subsidiaries formally designate and document hedge relationship to which the Company and its 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.

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.

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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 its 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.

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.

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(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 under 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.

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 its 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").

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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.

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) Goodwill and intangible assets

A. Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

B. Intangible assets

The Company and its 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 its subsidiaries are deemed finite.

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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 its 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 its subsidiaries are computer software and are amortized over the estimated useful lives of three to five years using the straight-line method.

(12) Non-financial assets impairment

Pursuant to ROC SFAS No. 35, “Accounting for Asset Impairment” the Company and its 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 its 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.

For previously recognized impairment losses, the Company and its 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 its 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 its 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.

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

(13) Real Estate Investment Trust (REIT)

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”.

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.

(14) Reserve for operations and liabilities

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

(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.

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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.

(16) Recognition of interest income and handling 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. Handling fees are recognized on an accrual basis.

(17) Insurance premiums 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.

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

(19) Foreign currency transactions

A. Translation of foreign currency transactions

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

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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.

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 its 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 its subsidiaries have considered the impact of the "Alternative Minimum Tax Act" to estimate their income tax liabilities.

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(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) Operating segment information

An operating segment is a component of an entity that has the following characteristics: (1) engaging in business activities from which it may earn revenues and incur expenses, (2) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) for which discrete financial information is available.

(24) The interim financial statement

The interim financial statements are prepared according to the ROC SFAS No.23, "Interim Financial Reporting and Disclosures".

(25) Translation to U.S. dollars

The Company's consolidated financial statement are stated in NT dollars. Translation of the March 31, 2012 and 2011 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers. The noon buying rate of NT\$29.5 and NT\$29.4 to US\$1.00 on March 31, 2012 and 2011, respectively, were provided by Federal Reserve Bank of New York. The translation amounts are unrelieved. Such currency transition should not be construed as representations that the NT dollar amount have been, could have been, or could in the future be, converted in to US dollars at this rate or any other rate of exchange.

3. Change in accounting and its effects

- (1) Effective from January 1, 2011, the Company and its subsidiaries adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement". This change in accounting principles has no significant impact on net income or earnings per share for the first quarter of 2011.
- (2) Effective January 1, 2011, the Company and its subsidiaries adopted SFAS No.41, "Operating Segments", to present operating segment information. The new SFAS No.41 replaces SFAS No.20, "Segment Reporting".

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(3) Insurance subsidiaries apply SFAS No.40 “Financial Accounting Standard on Insurance Contract” and “Regulations Governing the Preparation of Financial Reports by Insurance Enterprises” issued on December 30, 2009 according to FSC Insurance Interpretation No. 09802506492 from January 1, 2011. The change in accounting principle has no significant effect on the income or earnings per share for the first quarter of 2011.

4. Cash and cash equivalents

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Petty cash and cash on hand	\$12,229,207	\$414,549	\$11,238,796	\$382,272
Cash in banks	91,940,655	3,116,632	48,248,043	1,641,090
Time deposits	615,574,212	20,866,923	616,024,295	20,953,207
Cash equivalents	15,447,845	523,656	29,112,762	990,230
Checks for clearance	8,086,695	274,125	3,930,693	133,697
Due from commercial banks	19,440,234	658,991	19,239,340	654,399
Total	<u>\$762,718,848</u>	<u>\$25,854,876</u>	<u>\$727,793,929</u>	<u>\$24,754,895</u>

As of March 31, 2012 and 2011, the amounts of time deposits with maturities beyond one year were NT\$19,226,392 (US\$651,742) thousands and NT\$2,089,835 (US\$71,083) thousands, respectively.

5. Financial assets at fair value through profit or loss

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Common stock	\$7,403,539	\$250,967	\$6,217,824	\$211,491
Beneficiary certificates	54,480,203	1,846,787	12,538,566	426,482
Exchange traded funds	1,486,385	50,386	340,848	11,593
Real estate investment trust	-	-	567,251	19,294
Corporate bonds	2,441,376	82,759	3,133,342	106,576
Government bonds	1,572,423	53,302	651,070	22,145
Treasury bills	14,859,330	503,706	23,099,181	785,686
Structured time deposits	11,000,000	372,881	1,000,000	34,014
Commercial papers and certificate of deposit	-	-	641,183	21,809
Margin for futures trading-own funds	36,613	1,241	28,920	984
Derivative financial instruments	446,634	15,140	232,321	7,902
Overseas financial instruments	4,359,940	147,795	9,120,577	310,224
Valuation adjustment	9,066,822	307,350	39,518,829	1,344,178
Total	<u>\$107,153,265</u>	<u>\$3,632,314</u>	<u>\$97,089,912</u>	<u>\$3,302,378</u>

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**(Expressed in thousand of dollars except for share and per
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- (1) As of March 31, 2012 and 2011, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$134,000 (US\$4,542) thousands and NT\$160,500 (US\$5,459) thousands, respectively. Such repurchase agreements amounting to NT\$148,778 (US\$5,043) thousands and NT\$178,579 (US\$6,074) thousands, respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to March 31, 2012 and 2011 are settled at NT\$148,783 (US\$5,043) thousands and NT\$178,597 (US\$6,074) thousands prior to April 30, 2012 and 2011, respectively.
- (2) Please refer to Note 29 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of March 31, 2012 and 2011.

6. Loans-net

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Inward-outward documentary bills	\$417,320	\$14,147	\$231,262	\$7,866
Loans	1,504,301,099	50,993,258	1,412,946,221	48,059,395
Overdrafts	500,854	16,978	480,820	16,354
Delinquent accounts	3,121,902	105,827	3,751,572	127,605
Subtotal	1,508,341,175	51,130,210	1,417,409,875	48,211,220
Adjustment for discounts and premiums	988,404	33,505	258,472	8,792
Less: Allowance for bad debts	(12,526,937)	(424,642)	(8,311,527)	(282,705)
Total	<u>\$1,496,802,642</u>	<u>\$50,739,073</u>	<u>\$1,409,356,820</u>	<u>\$47,937,307</u>

7. Available-for-sale financial assets-net

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Common stock	\$225,929,224	\$7,658,618	\$190,755,806	\$6,488,293
Beneficiary certificates	3,167,544	107,374	2,000,317	68,038
Exchange traded funds	7,067,933	239,591	5,553,060	188,879
Collateralized loans obligation and collateralized bonds obligation	9,097,439	308,388	1,321,934	44,964
Government bonds	191,725,629	6,499,174	53,299,138	1,812,896
Corporate bonds	70,088,956	2,375,897	59,285,247	2,016,505
Financial debentures	192,669,815	6,531,180	159,049,355	5,409,842
Overseas financial instruments	583,043,892	19,764,200	177,806,696	6,047,847
Real estate investment trust beneficiary	8,466,015	286,983	9,398,231	319,668
Accumulated impairments	(735,000)	(24,915)	(735,000)	(25,000)
Valuation adjustment	34,793,549	1,179,442	8,654,263	294,362
Total	<u>\$1,325,314,996</u>	<u>\$44,925,932</u>	<u>\$666,389,047</u>	<u>\$22,666,294</u>

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**(Expressed in thousand of dollars except for share and per
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- (1) As of March 31, 2012 and 2011, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$15,976,300 (US\$541,569) thousands and NT\$12,287,700 (US\$417,949) thousands, respectively. Such repurchase agreements amounting to NT\$16,161,158 (US\$547,836) thousands and NT\$12,714,880 (US\$432,479) thousands, respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to March 31, 2012 and 2011 are settled at NT\$16,199,577 (US\$549,138) thousands and NT\$12,718,108 (US\$432,589) thousands, prior to June 30, 2012 and 2011, respectively.
- (2) 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 March 31, 2012 and 2011, Cathay Life recognized impairment losses amounting to NT\$735,000 (US\$24,915) thousands and NT\$735,000 (US\$25,000) thousands, respectively. Cathay Life had reclassified held to maturity financial assets to available-for-sale financial assets in the ended of 2011. Please refer to Note 8 for the reclassification of held-to-maturity financial asset information.
- (3) Please refer to Note 29 for related information on the above available-for-sale financial assets being pledged as collaterals as of March 31, 2012 and 2011.

8. Held-to-maturity financial assets-net

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Government bonds	\$1,272,771	\$43,145	\$98,523,603	\$3,351,143
Treasury bills	-	-	1,586,749	53,971
Corporate bonds	-	-	11,439,619	389,103
Financial debentures	200,000	6,779	23,908,634	813,219
Collateralized loans obligation and collateralized bonds obligation	-	-	8,073,618	274,613
Overseas financial instruments	21,847,703	740,600	458,694,490	15,601,853
Total	<u>\$23,320,474</u>	<u>\$790,524</u>	<u>\$602,226,713</u>	<u>\$20,483,902</u>

- (1) Cathay Life in response to the increase in the financial market fluctuation and downgrade of the sovereign rating in the recent days, the requirement for investment operating flexibility is increased and it leads to the relevant investment exposures need to be adjusted for a quick response to the market and credit outlook changes. Nevertheless, the investment intention for held-to-maturity financial assets has been changed. In accordance with the R.O.C SFAS No.34 “Financial Instruments: Recognition and Measurement,” held-to-maturity financial assets NT\$590,598,621 (US\$20,088,388) thousands are reclassified to available-for-sale financial assets measured at fair value on December 31, 2011.
- (2) Please refer to Note 29 for related information on the above held-to-maturity financial assets being pledged as collaterals as of March 31, 2012 and 2011.

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9. Investments under equity method

Investee	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Securities Investment Consulting	\$177,807	\$6,027	\$182,467	\$6,206
Seaward Card	39,465	1,338	39,617	1,348
Cathay Life Insurance Agent	-	-	36,165	1,230
Cathay Insurance (Bermuda)	119,606	4,054	114,453	3,893
WK Technology Fund VI Co., Ltd	347,689	11,786	361,869	12,309
Vista Technology Venture Capital Corp.	38,259	1,297	40,015	1,361
Omnitek Venture Capital Corp.	74,701	2,532	64,545	2,195
Wa Tech Venture Capital Co., Ltd.	-	-	47,543	1,617
Taiwan Real-estate Management Corp.	98,985	3,356	79,035	2,688
Taiwan Finance Corp.	1,410,968	47,830	1,430,152	48,645
IBT Venture Capital Corp.	77,878	2,640	90,039	3,063
Cathay Securities Investment Trust	-	-	485,634	16,518
Cathay Conning Asset Management Ltd.	89,002	3,017	-	-
Subtotal	2,474,360	83,877	2,971,534	101,073
Less: Unrealized gain from intercompany transactions	(1,089,548)	(36,934)	(397,482)	(13,520)
Total	\$1,384,812	\$46,943	\$2,574,052	\$87,553

10. Other financial assets-net

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Derivative financial assets for hedging	\$3,159,233	\$107,093	\$3,103,131	\$105,549
Financial assets carried at cost	15,688,248	531,805	15,069,868	512,581
Structured time deposits	20,000,000	677,966	40,610,000	1,381,292
Customer's margin accounts	528,264	17,907	450,822	15,334
Other miscellaneous financial assets	45,161	1,531	58,281	1,982
Accumulated impairment	(1,280,190)	(43,396)	(1,362,722)	(46,351)
Total	\$38,140,716	\$1,292,906	\$57,929,380	\$1,970,387

(1) As of March 31, 2012 and 2011, Cathay Life recognized impairment losses amounting to NT\$894,058 (US\$30,307) thousands and NT\$975,337 (US\$33,175) thousands, respectively, due to the existence of objective impairment evidence of its investees.

(2) Cathay United Bank has recognized accumulated impairment loss for the equity instruments in the amount of NT\$386,132 (US\$13,089) thousands and NT\$387,385 (US\$13,176) thousands as of March 31, 2012 and 2011, respectively. Due to the existence of objective impairment evidence.

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11. Investments in debt securities with no active market

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Preferred stocks	\$4,091,730	\$138,702	\$1,691,730	\$57,542
Corporate bonds	17,395,586	589,681	15,595,586	530,462
Overseas financial instruments	567,202,519	19,227,204	430,911,844	14,656,865
Subtotal	588,689,835	19,955,587	448,199,160	15,244,869
Less: accumulated impairment	(1,894,153)	(64,208)	(1,900,168)	(64,631)
Net balance	<u>\$586,795,682</u>	<u>\$19,891,379</u>	<u>\$446,298,992</u>	<u>\$15,180,238</u>

(1) A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by Cathay Life. As of March 31, 2012 and 2011, Cathay Life recognized impairment losses amounting to NT\$383,890 (US\$13,013) thousands and NT\$382,434 (US\$13,008) thousands, respectively.

(2) Cathay United Bank recognized impairment losses amounting NT\$1,390,016 (US\$47,119) thousands and NT\$1,384,744 (US\$47,100) thousands as of March 31, 2012 and 2011, respectively, due to the credit deterioration of certain securitization and financial debentures.

Cathay United Bank recognized impairment losses amounting NT\$120,247 (US\$4,076) thousands and NT\$132,990 (US\$4,523) thousands as of March 31, 2012 and 2011, 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 being pledged as collaterals as of March 31, 2012 and 2011.

12. Investments in real estate

Item	March 31, 2012									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$162,633,185	\$5,512,989	\$4,329	\$147	\$(22,813,345)	\$(773,334)	\$(140,701)	\$(4,769)	\$139,683,468	\$4,735,033
Construction	6,114,022	207,255	-	-	-	-	-	-	6,114,022	207,255
Prepayments										
for building										
and land	1,108,341	37,571	-	-	-	-	-	-	1,108,341	37,571
Lease	263,880	8,945	-	-	(7,112)	(241)	-	-	256,768	8,704
Total	<u>\$170,119,428</u>	<u>\$5,766,760</u>	<u>\$4,329</u>	<u>\$147</u>	<u>\$(22,820,457)</u>	<u>\$(773,575)</u>	<u>\$(140,701)</u>	<u>\$(4,769)</u>	<u>\$147,162,599</u>	<u>\$4,988,563</u>

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March 31, 2011										
Item	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$144,183,487	\$4,904,200	\$4,329	\$147	\$(20,998,248)	\$(714,226)	\$(140,701)	\$(4,786)	\$123,048,867	\$4,185,335
Construction	3,597,761	122,373	-	-	-	-	-	-	3,597,761	122,373
Prepayments										
for building										
and land	3,275,650	111,417	-	-	-	-	-	-	3,275,650	111,417
Lease	263,881	8,976	-	-	(6,576)	(224)	-	-	257,305	8,752
Total	\$151,320,779	\$5,146,966	\$4,329	\$147	\$(21,004,824)	\$(714,450)	\$(140,701)	\$(4,786)	\$130,179,583	\$4,427,877

- (1) The real estate investments are held mainly for lease business.
- (2) All the lease agreements of the Company's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- (3) Rents from real estate investment are received annually, semiannually, quarterly, monthly or in a lump sum.
- (4) No investments in real estate were pledged as collaterals as of March 31, 2012 and 2011.

13. Goodwill and intangible assets-net

Item	January 1, 2012		Increase		Decrease		March 31, 2012	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$8,263,272	\$280,111	\$-	\$-	\$-	\$-	\$8,263,272	\$280,111
Computer								
software	3,498,841	118,605	26,545	900	(75,532)	(2,561)	3,449,854	116,944
Land use right	369,220	12,516	-	-	(9,264)	(314)	359,956	12,202
Subtotal	12,131,333	411,232	26,545	900	(84,796)	(2,875)	12,073,082	409,257
Amortization and impairment								
Amortized	(2,438,436)	(82,659)	(87,714)	(2,973)	72,218	2,448	(2,453,932)	(83,184)
Book value	\$9,692,897	\$328,573	\$(61,169)	\$(2,073)	\$(12,578)	\$(427)	\$9,619,150	\$326,073

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Item	January 1, 2011		Increase		Decrease		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,673,084	\$226,976	\$-	\$-	\$-	\$-	\$6,673,084	\$226,976
Computer software	3,490,029	118,708	107,453	3,655	(191,699)	(6,520)	3,405,783	115,843
Land use right	355,081	12,078	3,510	119	-	-	358,591	12,197
Subtotal	10,518,194	357,762	110,963	3,774	(191,699)	(6,520)	10,437,458	355,016
Amortization and impairment								
Amortized	(2,127,373)	(72,360)	(101,783)	(3,462)	62,456	2,124	(2,166,700)	(73,698)
Book value	\$8,390,821	\$285,402	\$9,180	\$312	\$(129,243)	\$(4,396)	\$8,270,758	\$281,318

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

14. Commercial paper payables

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Commercial paper payable	\$9,500,000	\$322,034	\$1,560,000	\$53,061
Less: Discount on commercial paper payable	-	-	-	-
Total	\$9,500,000	\$322,034	\$1,560,000	\$53,061

For the three months ended March 31, 2012 and 2011, the average interest rates for the commercial paper payables were 0.77%~0.948% and 0.47%~0.71%, respectively.

15. Financial liabilities at fair value through profit or loss

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Derivative financial instruments	\$597,897	\$20,268	\$925,149	\$31,468
Dominant financial debentures	-	-	5,000,000	170,068
Security lending payables hedging	69,131	2,343	58,009	1,973
Security lending payables non-hedging	598,401	20,285	128,787	4,380
Valuation adjustment	9,184,794	311,349	8,143,063	276,975
Total	\$10,450,223	\$354,245	\$14,255,008	\$484,864

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- (1) 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\$33,898) thousands, NT\$3,500,000 (US\$118,644) thousands, NT\$2,000,000 (US\$67,797) thousands, and NT\$1,000,000 (US\$33,898) 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\$84,746) thousands, NT\$1,500,000 (US\$50,847) thousands, NT\$1,500,000 (US\$50,847) thousands, NT\$2,500,000 (US\$84,746) thousands, NT\$1,500,000 (US\$50,847) thousands, NT\$2,500,000 (US\$84,746) thousands, NT\$1,000,000 (US\$33,898) thousands and NT\$1,000,000 (US\$33,898) thousands, NT\$2,000,000 (US\$67,797) thousands, NT\$1,500,000 (US\$50,847) thousands, respectively, with fixed interest rates. These dominant financial debentures are repaid at maturity and the interests are paid quarterly. These dominant financial debentures are matured before December 31, 2011.
- (2) 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.

16. Deposits

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Check deposits	\$12,302,497	\$417,034	\$11,782,804	\$400,775
Demand deposits	221,421,053	7,505,798	213,632,276	7,266,404
Demand savings deposits	582,257,058	19,737,527	564,533,737	19,201,828
Time deposits	626,081,776	21,223,111	541,251,552	18,409,917
Remittances	551,876	18,708	718,923	24,453
Total	<u>\$1,442,614,260</u>	<u>\$48,902,178</u>	<u>\$1,331,919,292</u>	<u>\$45,303,377</u>

17. Bonds payable

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Subordinated bonds payable-net	\$40,000,000	\$1,355,932	\$40,000,000	\$1,360,544
Subordinated financial debentures	34,403,137	1,166,208	27,972,772	951,455
Discount in financial debentures	(29,572)	(1,002)	(36,573)	(1,244)
Valuation adjustment	1,272,987	43,152	1,039,339	35,351
Total	<u>\$75,646,552</u>	<u>\$2,564,290</u>	<u>\$68,975,538</u>	<u>\$2,346,106</u>

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- (1) Cathay United Bank issued a 15-year US\$500,000 thousands subordinated financial debenture with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures. Cathay United Bank has bought back the bonds amounting to US\$172,620 thousands on May 12, 2009.
- (2) Cathay United Bank issued a ten-year subordinated financial debenture totaling NT\$2,500,000 (US\$84,746) thousands with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- (3) Cathay United Bank issued a seven-year subordinated financial debenture totaling NT\$3,900,000 (US\$132,203) thousands with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.
- (4) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 (US\$50,847) thousands with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (5) Cathay United Bank issued a seven-year subordinated financial debenture totaling NT\$3,850,000 (US\$130,508) thousands with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.
- (6) On September 16, 2009, the Company issued a seven-year subordinated bond totaling NT\$20,000,000 (US\$677,966) thousands with a stated interest rate of 2.65%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (7) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 (US\$50,847) thousands with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.
- (8) Cathay United Bank issued an eight-year subordinated financial debenture totaling NT\$3,650,000 (US\$123,729) thousands with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (9) On December 8, 2008, the Company issued a seven-year subordinated bond totaling NT\$20,000,000 (US\$677,966) thousands with a stated interest rate of 3.10%. The subordinated bonds and repayable at maturity and the interest is payable annually.
- (10) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$2,800,000 (US\$94,915) thousands with a stated interest rate of 2.95% in October 2008 and the interest is payable quarterly.
- (11) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$1,000,000 (US\$33,898) thousands with a floating interest rate in September 2008 and the interest is payable quarterly.

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- (12) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$1,200,000 (US\$40,678) thousands with a stated interest rate of 2.95% in September 2008 and the interest is payable quarterly.
- (13) Each subordinated financial debentures 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.
- (14) Indovina Bank issued a two-year subordinated financial debentures totaling VND\$2,000,000,000 thousands in 2010 with the first year interest rate of 13.50% and the second year interest rate of average interest rate of VND deposit plus 2.50%.

18. Reserve for operations and liabilities

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Reserve for insurance business	\$2,921,248,907	\$99,025,387	\$2,673,839,806	\$90,946,932
Reserves for losses on guarantees	24,892	844	24,892	847
Total	<u>\$2,921,273,799</u>	<u>\$99,026,231</u>	<u>\$2,673,864,698</u>	<u>\$90,947,779</u>

(1) Life insurance subsidiaries

A. Cathay Life

a. Reserve for life insurance liabilities:

	March 31, 2012 (NT\$)			March 31, 2011 (NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	\$2,363,335,641	\$44,621,530	\$2,407,957,171	\$2,113,769,008	\$44,158,975	\$2,157,927,983
Injury insurance	247,472	-	247,472	217,816	-	217,816
Health insurance	244,031,171	-	244,031,171	207,527,184	-	207,527,184
Annuity insurance	1,450,463	139,157,888	140,608,351	1,538,103	179,971,836	181,509,939
Investment-linked insurance	1,122,732	-	1,122,732	1,511,562	-	1,511,562
Recover from major incident reserve	15,823	-	15,823	-	-	-
Total	<u>\$2,610,203,302</u>	<u>\$183,779,418</u>	<u>\$2,793,982,720</u>	<u>\$2,324,563,673</u>	<u>\$224,130,811</u>	<u>\$2,548,694,484</u>

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	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$80,113,073	\$1,512,594	\$81,625,667	\$71,896,905	\$1,502,006	\$73,398,911
Injury insurance	8,389	-	8,389	7,408	-	7,408
Health insurance	8,272,243	-	8,272,243	7,058,748	-	7,058,748
Annuity insurance	49,168	4,717,217	4,766,385	52,317	6,121,491	6,173,808
Investment-linked insurance	38,059	-	38,059	51,414	-	51,414
Recover from major incident reserve	536	-	536	-	-	-
Total	\$88,481,468	\$6,229,811	\$94,711,279	\$79,066,792	\$7,623,497	\$86,690,289

Reserve for life insurance liabilities is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$2,501,123,752	\$193,632,148	\$2,694,755,900	\$2,254,981,751	\$241,995,513	\$2,496,977,264
Reserve	141,640,404	385,400	142,025,804	94,594,691	7,411,852	102,006,543
Recover	(29,950,651)	(10,226,585)	(40,177,236)	(25,474,951)	(25,416,531)	(50,891,482)
(Gains) losses on foreign exchange	(2,610,203)	(11,545)	(2,621,748)	462,182	139,977	602,159
Ending Balance	\$2,610,203,302	\$183,779,418	\$2,793,982,720	\$2,324,563,673	\$224,130,811	\$2,548,694,484

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$84,783,856	\$6,563,802	\$91,347,658	\$76,700,060	\$8,231,140	\$84,931,200
Reserve	4,801,370	13,064	4,814,434	3,217,506	252,104	3,469,610
Recover	(1,015,276)	(346,664)	(1,361,940)	(866,495)	(864,508)	(1,731,003)
(Gains) losses on foreign exchange	(88,482)	(391)	(88,873)	15,721	4,761	20,482
Ending Balance	\$88,481,468	\$6,229,811	\$94,711,279	\$79,066,792	\$7,623,497	\$86,690,289

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b. Unearned premium reserve:

	March 31, 2012 (NT\$)			March 31, 2011 (NT\$)		
	Insurance contract	Financial instruments with discretionary participation	Total	Insurance contract	Financial instruments with discretionary participation	Total
		feature			feature	
Individual life insurance	\$220,882	\$3	\$220,885	\$177,365	\$2	\$177,367
Individual injury insurance	4,279,095	-	4,279,095	4,126,172	-	4,126,172
Individual health insurance	5,410,143	-	5,410,143	5,067,680	-	5,067,680
Group insurance	1,224,233	-	1,224,233	1,477,866	-	1,477,866
Investment-linked insurance	120,828	-	120,828	119,439	-	119,439
Total	11,255,181	3	11,255,184	10,968,522	2	10,968,524
Less ceded unearned premium reserve:						
Individual life insurance	2,235,866	-	2,235,866	913,036	-	913,036
Individual injury insurance	4,607,690	-	4,607,690	4,581,855	-	4,581,855
Group insurance	331	-	331	(1,717)	-	(1,717)
Investment-linked insurance	1,154,448	-	1,154,448	1,215,983	-	1,215,983
Total	7,998,335	-	7,998,335	6,709,157	-	6,709,157
Net	\$3,256,846	\$3	\$3,256,849	\$4,259,365	\$2	\$4,259,367

	March 31, 2012 (US\$)			March 31, 2011 (US\$)		
	Insurance contract	Financial instruments with discretionary participation	Total	Insurance contract	Financial instruments with discretionary participation	Total
		feature			feature	
Individual life insurance	\$7,488	\$-	\$7,488	\$6,033	\$-	\$6,033
Individual injury insurance	145,054	-	145,054	140,346	-	140,346
Individual health insurance	183,395	-	183,395	172,370	-	172,370
Group insurance	41,499	-	41,499	50,268	-	50,268
Investment-linked insurance	4,096	-	4,096	4,062	-	4,062
Total	381,532	-	381,532	373,079	-	373,079
Less ceded unearned premium reserve:						
Individual life insurance	75,792	-	75,792	31,056	-	31,056
Individual injury insurance	156,193	-	156,193	155,845	-	155,845
Group insurance	11	-	11	(58)	-	(58)
Investment-linked insurance	39,134	-	39,134	41,360	-	41,360
Total	271,130	-	271,130	228,203	-	228,203
Net	\$110,402	\$-	\$110,402	\$144,876	\$-	\$144,876

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Unearned premium reserve is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$12,017,977	\$4	\$12,017,981	\$11,743,204	\$2	\$11,743,206
Reserve	11,255,181	3	11,255,184	10,968,522	2	10,968,524
Recover	(12,017,977)	(4)	(12,017,981)	(11,743,204)	(2)	(11,743,206)
Ending Balance	11,255,181	3	11,255,184	10,968,522	2	10,968,524
Less ceded unearned premium reserve:						
Beginning balance-Net	8,610,317	-	8,610,317	6,263,909	-	6,263,909
Increase	-	-	-	737,929	-	737,929
Decrease	(611,982)	-	(611,982)	(292,681)	-	(292,681)
Total	7,998,335	-	7,998,335	6,709,157	-	6,709,157
Ending Balance-Net	\$3,256,846	\$3	\$3,256,849	\$4,259,365	\$2	\$4,259,367

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$407,389	\$-	\$407,389	\$399,429	\$-	\$399,429
Reserve	381,532	-	381,532	373,079	-	373,079
Recover	(407,389)	-	(407,389)	(399,429)	-	(399,429)
Ending Balance	381,532	-	381,532	373,079	-	373,079
Less ceded unearned premium reserve:						
Beginning balance-Net	291,875	-	291,875	213,058	-	213,058
Increase	-	-	-	25,100	-	25,100
Decrease	(20,745)	-	(20,745)	(9,955)	-	(9,955)
Total	271,130	-	271,130	228,203	-	228,203
Ending Balance-Net	\$110,402	\$-	\$110,402	\$144,876	\$-	\$144,876

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c. Reserve for claims:

	March 31, 2012 (NT\$)			March 31, 2011 (NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$137,537	\$-	\$137,537	\$157,813	\$506	\$158,319
– Unreported claim	37,993	-	37,993	23,083	-	23,083
Individual injury insurance						
– Reported but not paid claim	165,889	-	165,889	199,172	-	199,172
– Unreported claim	846,443	-	846,443	612,857	-	612,857
Individual health insurance						
– Reported but not paid claim	154,837	-	154,837	138,939	-	138,939
– Unreported claim	1,367,588	-	1,367,588	1,160,980	-	1,160,980
Group insurance						
– Reported but not paid claim	44,519	-	44,519	19,808	-	19,808
– Unreported claim	1,244,079	-	1,244,079	1,192,047	-	1,192,047
Investment-linked insurance						
– Reported but not paid claim	18,482	-	18,482	27,440	-	27,440
Total	4,017,367	-	4,017,367	3,532,139	506	3,532,645
Less ceded reserve for claims:						
Individual injury insurance	612,541	-	612,541	544,235	-	544,235
Net	\$3,404,826	\$-	\$3,404,826	\$2,987,904	\$506	\$2,988,410

	March 31, 2012 (US\$)			March 31, 2011 (US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$4,662	\$-	\$4,662	\$5,368	\$17	\$5,385
– Unreported claim	1,288	-	1,288	785	-	785
Individual injury insurance						
– Reported but not paid claim	5,623	-	5,623	6,775	-	6,775
– Unreported claim	28,693	-	28,693	20,845	-	20,845
Individual health insurance						
– Reported but not paid claim	5,249	-	5,249	4,726	-	4,726
– Unreported claim	46,359	-	46,359	39,489	-	39,489
Group insurance						
– Reported but not paid claim	1,509	-	1,509	674	-	674
– Unreported claim	42,172	-	42,172	40,546	-	40,546
Investment-linked insurance						
– Reported but not paid claim	627	-	627	933	-	933
Total	136,182	-	136,182	120,141	17	120,158
Less ceded reserve for claims:						
Individual injury insurance	20,764	-	20,764	18,511	-	18,511
Net	\$115,418	\$-	\$115,418	\$101,630	\$17	\$101,647

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Reserve for claims is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$3,875,488	\$3,242	\$3,878,730	\$3,444,087	\$211	\$3,444,298
Reserve	4,017,367	-	4,017,367	3,532,139	506	3,532,645
Recover	(3,875,488)	(3,242)	(3,878,730)	(3,444,087)	(211)	(3,444,298)
Ending balance	4,017,367	-	4,017,367	3,532,139	506	3,532,645
Less ceded reserve for claims:						
Beginning balance-Net	549,591	-	549,591	497,707	-	497,707
Increase	62,950	-	62,950	46,528	-	46,528
Total	612,541	-	612,541	544,235	-	544,235
Net	\$3,404,826	\$-	\$3,404,826	\$2,987,904	\$506	\$2,988,410

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$131,372	\$110	\$131,482	\$117,146	\$7	\$117,153
Reserve	136,182	-	136,182	(117,146)	(7)	(117,153)
Recover	(131,372)	(110)	(131,482)	120,141	17	120,158
Ending balance	136,182	-	136,182	120,141	17	120,158
Less ceded reserve for claims:						
Beginning balance-Net	18,630	-	18,630	16,929	-	16,929
Increase	2,134	-	2,134	1,582	-	1,582
Total	20,764	-	20,764	18,511	-	18,511
Net	\$115,418	-	\$115,418	\$101,630	\$17	\$101,647

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d. Special reserve:

	March 31, 2012				March 31, 2011			
	(NT\$)				(NT\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Statutory special reserve :								
Individual life								
insurance	\$79,778	\$-	\$-	\$79,778	\$122,435	\$-	\$-	\$122,435
Individual injury								
insurance	1,160,656	-	-	1,160,656	2,482,860	-	-	2,482,860
Individual health								
insurance	1,849,066	-	-	1,849,066	3,781,387	-	-	3,781,387
Group insurance	1,399,265	-	-	1,399,265	4,120,115	-	-	4,120,115
Participating policies								
dividends reserve	703	-	-	703	(829)	-	-	(829)
Dividends risk reserve	-	-	-	-	829	-	-	829
Total	\$4,489,468	\$-	\$-	\$4,489,468	\$10,506,797	\$-	\$-	\$10,506,797

	March 31, 2012				March 31, 2011			
	(US\$)				(US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Statutory special reserve :								
Individual life								
insurance	\$2,704	\$-	\$-	\$2,704	\$4,164	\$-	\$-	\$4,164
Individual injury								
insurance	39,344	-	-	39,344	84,451	-	-	84,451
Individual health								
insurance	62,680	-	-	62,680	128,619	-	-	128,619
Group insurance	47,333	-	-	47,333	140,140	-	-	140,140
Participating policies								
dividends reserve	24	-	-	24	(28)	-	-	(28)
Dividends risk reserve	-	-	-	-	28	-	-	28
Total	\$152,185	\$-	\$-	\$152,185	\$357,374	\$-	\$-	\$357,374

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Special reserve is summarized below:

	For the three months ended March 31, 2012				For the three months ended March 31, 2011			
	(NT\$)				(NT\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$9,023,039	\$-	\$-	\$9,023,039	\$10,556,945	\$-	\$-	\$10,556,945
Reserves for major incidents over 15 years	(15,823)	-	-	(15,823)	(42,481)	-	-	(42,481)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(6,818)	-	-	(6,818)	(7,667)	-	-	(7,667)
Reserves for participating policies dividends reserve	476	-	-	476	60	-	-	60
Reserves for dividends risk reserve	-	-	-	-	(60)	-	-	(60)
Other (Reclassify to foreign exchange volatility reserve)	(4,511,406)	-	-	(4,511,406)	-	-	-	-
Ending balance	\$4,489,468	\$-	\$-	\$4,489,468	\$10,506,797	\$-	\$-	\$10,506,797

	For the three months ended March 31, 2012				For the three months ended March 31, 2011			
	(US\$)				(US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$305,866	\$-	\$-	\$305,866	\$359,080	\$-	\$-	\$359,080
Reserves for major incidents over 15 years	(537)	-	-	(537)	(1,445)	-	-	(1,445)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(231)	-	-	(231)	(261)	-	-	(261)
Reserves for participating policies dividends reserve	16	-	-	16	2	-	-	2
Reserves for dividends risk reserve	-	-	-	-	(2)	-	-	(2)
Other (Reclassify to foreign exchange volatility reserve)	(152,929)	-	-	(152,929)	-	-	-	-
Ending balance	\$152,185	\$-	\$-	\$152,185	\$357,374	\$-	\$-	\$357,374

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e. Premium deficiency reserve:

	March 31, 2012			March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	\$13,686,386	\$-	\$13,686,386	\$10,630,560	\$-	\$10,630,560
Individual health insurance	671,567	-	671,567	628,985	-	628,985
Group insurance	48,536	-	48,536	57,913	-	57,913
Total	\$14,406,489	\$-	\$14,406,489	\$11,317,458	\$-	\$11,317,458

	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	\$463,945	\$-	\$463,945	\$361,583	\$-	\$361,583
Individual health insurance	22,765	-	22,765	21,394	-	21,394
Group insurance	1,645	-	1,645	1,970	-	1,970
Total	\$488,355	\$-	\$488,355	\$384,947	\$-	\$384,947

Premium deficiency reserve is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$13,599,727	\$-	\$13,599,727	\$10,064,101	\$-	\$10,064,101
Reserve	933,657	-	933,657	1,329,232	-	1,329,232
Recover	-	-	-	(88,320)	-	(88,320)
(Gains) losses on foreign exchange	(126,895)	-	(126,895)	12,445	-	12,445
Ending balance	\$14,406,489	\$-	\$14,406,489	\$11,317,458	\$-	\$11,317,458

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	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$461,008	\$-	\$461,008	\$342,316	\$-	\$342,316
Reserve	31,649	-	31,649	45,212	-	45,212
Recover	-	-	-	(3,004)	-	(3,004)
(Gains) losses on foreign exchange	(4,302)	-	(4,302)	423	-	423
Ending balance	\$488,355	\$-	\$488,355	\$384,947	\$-	\$384,947

f. Liability adequacy reserve

	March 31, 2012 (NT\$)	March 31, 2012 (US\$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,793,982,720	\$94,711,279
Unearned premium reserve	11,255,184	381,532
Premium deficiency reserve	14,406,489	488,355
Total	\$2,819,644,393	\$95,581,166
Book value of insurance liabilities	\$2,819,644,393	\$95,581,166
Estimated present value of cash flows	\$2,117,105,767	\$71,766,297
Balance of liability adequacy reserve	\$-	\$-
	March 31, 2011 (NT\$)	March 31, 2011 (US\$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,548,694,484	\$86,690,289
Unearned premium reserve	10,968,524	373,079
Premium deficiency reserve	11,317,458	384,947
Total	2,570,980,466	87,448,315
Book value of insurance liabilities	\$2,570,980,466	\$87,448,315
Estimated present value of cash flows	2,125,193,488	\$72,285,493
Balance of liability adequacy reserve	\$-	\$-

Note 1: Shown by liability adequacy test range (integrated contract).

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Note 2: Reserve for claims and special reserve are not included in liability adequacy test. Reserve for claim is determined based on claims incurred before valuation date (March 31, 2012), therefore, not included in the test.

Note 3: There are no instances of merge or transfer of insurance contract portfolio for Cathay Life. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Liability adequacy testing methodology are listed as follows:

	March 31, 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of March 31, 2012.

(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011 with neutral assumption for discount rates after 30 years.

	March 31, 2011
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of March 31, 2011.

(2) Discount rate: Under assets allocation plan of 2010, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2009.

g. Reserve for insurance contract with feature of financial instruments:

Cathay Life issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of March 31, 2012 and 2011 reserve for insurance contract with feature of financial instruments are summarized below:

	March 31,			
	2012		2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Life insurance	\$60,028,409	\$2,034,861	\$61,832,638	\$2,103,151

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	For the three months ended March 31,2012 (NT\$)	For the three months ended March 31,2011 (NT\$)
Beginning balance	\$60,624,750	\$55,083,797
Premiums (return) receipt this period	(4,118)	6,764,188
Insurance claim payments this period	(958,203)	(407,938)
Net provision of statutory reserve this period	365,980	392,591
Ending balance	<u>\$60,028,409</u>	<u>\$61,832,638</u>

	For the three months ended March 31,2012 (US\$)	For the three months ended March 31,2011 (US\$)
Beginning balance	\$2,055,076	\$1,873,599
Premiums (return) receipt this period	(140)	230,074
Insurance claim payments this period	(32,481)	(13,875)
Net provision of statutory reserve this period	12,406	13,353
Ending balance	<u>\$2,034,861</u>	<u>\$2,103,151</u>

h. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is NT\$4,511,406 (US\$152,929) thousands which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. Please refer to Note 36 for related information on the foreign exchange volatility reserves hedge strategy and risk exposure.

B. Cathay Life (China)

a. Reserve for life insurance liabilities:

	March 31, 2012 (NT\$)			March 31, 2011 (NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	\$2,417,249	\$-	\$2,417,249	\$2,498,806	\$-	\$2,498,806
Health insurance	(2,963)	-	(2,963)	(3,063)	-	(3,063)
Investment-linked insurance	31,524	-	31,524	32,587	-	32,587
Total	<u>\$2,445,810</u>	<u>\$-</u>	<u>\$2,445,810</u>	<u>\$2,528,330</u>	<u>\$-</u>	<u>\$2,528,330</u>

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	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$81,941	\$-	\$81,941	\$84,994	\$-	\$84,994
Health insurance	(101)	-	(101)	(104)	-	(104)
Investment-linked insurance	1,069	-	1,069	1,108	-	1,108
Total	\$82,909	\$-	\$82,909	\$85,998	\$-	\$85,998

Reserve for life insurance liabilities are summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$2,481,498	\$-	\$2,481,498	\$3,083,702	\$-	\$3,083,702
Reserve	249,978	-	249,978	230,591	-	230,591
Recover	(221,752)	-	(221,752)	(834,647)	-	(834,647)
(Gains) losses on foreign exchange	(63,914)	-	(63,914)	48,684	-	48,684
Ending Balance	\$2,445,810	\$-	\$2,445,810	\$2,528,330	\$-	\$2,528,330

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$84,118	\$-	\$84,118	\$104,888	\$-	\$104,888
Reserve	8,474	-	8,474	7,843	-	7,843
Recover	(7,517)	-	(7,517)	(28,389)	-	(28,389)
(Gains) losses on foreign exchange	(2,166)	-	(2,166)	1,656	-	1,656
Ending Balance	\$82,909	\$-	\$82,909	\$85,998	\$-	\$85,998

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b. Unearned premium reserve:

	March 31, 2012			March 31, 2011		
	(NT\$)			(NT\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$7,166	\$-	\$7,166	\$6,552	\$-	\$6,552
Individual health insurance	659	-	659	602	-	602
Group insurance	237,711	-	237,711	217,313	-	217,313
Total	245,536	-	245,536	224,467	-	224,467
Less ceded unearned premium reserve:						
Individual life insurance	61	-	61	58	-	58
Individual injury insurance	66	-	66	64	-	64
Individual health insurance	2,871	-	2,871	2,741	-	2,741
Group insurance	4,184	-	4,184	3,995	-	3,995
Total	7,182	-	7,182	6,858	-	6,858
Net	\$238,354	\$-	\$238,354	\$217,609	\$-	\$217,609

	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$243	\$-	\$243	\$223	\$-	\$223
Individual health insurance	22	-	22	20	-	20
Group insurance	8,058	-	8,058	7,392	-	7,392
Total	8,323	-	8,323	7,635	-	7,635
Less ceded unearned premium reserve:						
Individual life insurance	2	-	2	2	-	2
Individual injury insurance	2	-	2	2	-	2
Individual health insurance	97	-	97	93	-	93
Group insurance	142	-	142	136	-	136
Total	243	-	243	233	-	233
Net	\$8,080	\$-	\$8,080	\$7,402	\$-	\$7,402

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Unearned premium reserve is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$238,718	\$-	\$238,718	\$211,489	\$-	\$211,489
Reserve	66,535	-	66,535	59,341	-	59,341
Recover	(53,520)	-	(53,520)	(49,820)	-	(49,820)
Losses (gains) on foreign exchange	(6,197)	-	(6,197)	3,457	-	3,457
Ending Balance	245,536	-	245,536	224,467	-	224,467
Less ceded unearned premium reserve:						
Beginning balance-net	7,347	-	7,347	6,749	-	6,749
Increase	24	-	24	-	-	-
Decrease	-	-	-	-	-	-
Losses (gains) on foreign exchange	(189)	-	(189)	109	-	109
Total	7,182	-	7,182	6,858	-	6,858
Ending Balance-net	\$238,354	\$-	\$238,354	\$217,609	\$-	\$217,609

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$8,092	\$-	\$8,092	\$7,194	\$-	\$7,194
Reserve	2,255	-	2,255	2,018	-	2,018
Recover	(1,814)	-	(1,814)	(1,695)	-	(1,695)
(Gains) losses on foreign exchange	(210)	-	(210)	118	-	118
Ending Balance	8,323	-	8,323	7,635	-	7,635
Less ceded unearned premium reserve:						
Beginning balance-net	249	-	249	229	-	229
Increase	1	-	1	-	-	-
Decrease	-	-	-	-	-	-
(Gains) losses on foreign exchange	(7)	-	(7)	4	-	4
Total	243	-	243	233	-	233
Ending Balance-net	\$8,080	\$-	\$8,080	\$7,402	\$-	\$7,402

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c. Reserve for claims:

	March 31, 2012 (NT\$)			March 31, 2011 (NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature		Insurance contract	Financial instruments with discretionary participation feature	
		Total	Total		Total	
Individual life insurance						
– Reported but not paid claim	\$2,625	\$-	\$2,625	\$1,917	\$-	\$1,917
– Unreported claim	2,135	-	2,135	1,560	-	1,560
Individual injury insurance						
– Reported but not paid claim	3,272	-	3,272	2,390	-	2,390
– Unreported claim	2,735	-	2,735	1,998	-	1,998
Individual health insurance						
– Reported but not paid claim	2,975	-	2,975	2,173	-	2,173
– Unreported claim	6,673	-	6,673	4,874	-	4,874
Group insurance						
– Reported but not paid claim	59,912	-	59,912	43,765	-	43,765
– Unreported claim	296,936	-	296,936	216,906	-	216,906
Total	377,263	-	377,263	275,583	-	275,583
Less ceded reserve for claims:						
Individual health insurance	525	-	525	1,100	-	1,100
Net	\$376,738	\$-	\$376,738	\$274,483	\$-	\$274,483

	March 31, 2012 (US\$)			March 31, 2011 (US\$)		
	Insurance contract	Financial instruments with discretionary participation feature		Insurance contract	Financial instruments with discretionary participation feature	
		Total	Total		Total	
Individual life insurance						
– Reported but not paid claim	\$89	\$-	\$89	\$65	\$-	\$65
– Unreported claim	72	-	72	53	-	53
Individual injury insurance						
– Reported but not paid claim	111	-	111	81	-	81
– Unreported claim	93	-	93	68	-	68
Individual health insurance						
– Reported but not paid claim	101	-	101	74	-	74
– Unreported claim	226	-	226	166	-	166
Group insurance						
– Reported but not paid claim	2,031	-	2,031	1,489	-	1,489
– Unreported claim	10,066	-	10,066	7,378	-	7,378
Total	12,789	-	12,789	9,374	-	9,374
Less ceded reserve for claims:						
Individual health insurance	18	-	18	38	-	38
Net	\$12,771	\$-	\$12,771	\$9,336	\$-	\$9,336

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Reserve for claims is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$420,564	\$-	\$420,564	\$210,756	\$-	\$210,756
Reserve	450,119	-	450,119	206,062	-	206,062
Recover	(482,762)	-	(482,762)	(144,800)	-	(144,800)
(Gains) losses on foreign exchange	(10,658)	-	(10,658)	3,565	-	3,565
Ending balance	377,263	-	377,263	275,583	-	275,583
Less ceded unearned premium reserve:						
Beginning balance-net	1,178	-	1,178	1,082	-	1,082
Increase	-	-	-	-	-	-
Decrease	(626)	-	(626)	-	-	-
(Gains) losses on foreign exchange	(27)	-	(27)	18	-	18
Total	525	-	525	1,100	-	1,100
Net	\$376,738	\$-	\$376,738	\$274,483	\$-	\$274,483

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$14,256	\$-	\$14,256	\$7,169	\$-	\$7,169
Reserve	15,258	-	15,258	7,009	-	7,009
Recover	(16,364)	-	(16,364)	(4,925)	-	(4,925)
(Gains) losses on foreign exchange	(361)	-	(361)	121	-	121
Ending balance	12,789	-	12,789	9,374	-	9,374
Less ceded unearned premium reserve:						
Beginning balance-net	40	-	40	37	-	37
Increase	-	-	-	-	-	-
Decrease	(21)	-	(21)	-	-	-
(Gains) losses on foreign exchange	(1)	-	(1)	1	-	1
Total	18	-	18	38	-	38
Net	\$12,771	\$-	\$12,771	\$9,336	\$-	\$9,336

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d. Liability adequacy reserve

	March 31, 2012 (NT\$)	March 31, 2011 (US\$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,445,810	\$82,909
Unearned premium reserve	245,536	8,323
Total	\$2,691,346	\$91,232
Book value of insurance liabilities	\$2,691,346	\$91,232
Estimated present value of cash flows	\$2,437,296	\$82,620
Balance of liability adequacy reserve	\$-	\$-

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Reserve for claims is not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date (March 31, 2012); therefore, is not included in the test.

Note 3: There are no instances of merge or transfer of insurance contract portfolio for Cathay Life (China). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Liability adequacy testing methodology are listed as follows:

	March 31, 2012										
Test method	Gross premium valuation method (GPV)										
Groups	Testing based on products feature										
Assumptions	Discount rate: Discount rate of ordinary insurance is calculated based on ROI for the year end, 2011.										
	<table border="1"> <thead> <tr> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>After 2015</th> </tr> </thead> <tbody> <tr> <td align="center">3.69%</td> <td align="center">3.71%</td> <td align="center">3.75%</td> <td align="center">3.79%</td> <td align="center">3.84%</td> </tr> </tbody> </table>	2011	2012	2013	2014	After 2015	3.69%	3.71%	3.75%	3.79%	3.84%
2011	2012	2013	2014	After 2015							
3.69%	3.71%	3.75%	3.79%	3.84%							

e. Reserve for insurance contract with feature of financial instruments:

Cathay Life (China) issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of March 31, 2012 and 2011 reserve for insurance contract with feature of financial instruments are summarized below:

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	March 31,			
	2012		2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Life insurance	\$5,786,382	\$196,148	N5,560,803	\$189,143

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
	(NT\$)	(NT\$)
Beginning balance	\$6,259,962	\$5,518,921
Premiums receipt this period	27,397	29,454
Insurance claim payments this period	(168,847)	(114,362)
Net provision of statutory reserve this period	(172,684)	37,261
(Gains) losses on foreign exchange	(159,446)	89,529
Ending balance	\$5,786,382	\$5,560,803

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
	(US\$)	(US\$)
Beginning balance	\$212,202	\$187,718
Premiums receipt this period	929	1,002
Insurance claim payments this period	(5,724)	(3,890)
Net provision of statutory reserve (recover) this period	(5,854)	1,267
(Gains) losses on foreign exchange	(5,405)	3,046
Ending balance	\$196,148	\$189,143

C. Cathay Life (Vietnam)

a. Reserve for life insurance liabilities:

	March 31, 2012			March 31, 2011		
	(NT\$)			(NT\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$236,233	\$-	\$236,233	\$126,312	\$-	\$126,312

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	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$8,008	\$-	\$8,008	\$4,296	\$-	\$4,296

Reserve for life insurance liabilities are summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$231,165	\$-	\$231,165	\$118,431	\$-	\$118,431
Reserve	8,419	-	8,419	14,886	-	14,886
Recover	-	-	-	-	-	-
Gains on foreign exchange	(3,351)	-	(3,351)	(7,005)	-	(7,005)
Ending Balance	\$236,233	\$-	\$236,233	\$126,312	\$-	\$126,312

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$7,836	\$-	\$7,836	\$4,028	\$-	\$4,028
Reserve	285	-	285	506	-	506
Recover	-	-	-	-	-	-
Gains on foreign exchange	(113)	-	(113)	(238)	-	(238)
Ending Balance	\$8,008	\$-	\$8,008	\$4,296	\$-	\$4,296

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b. Unearned premium reserve:

	March 31, 2012			March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	\$1,330	\$-	\$1,330	\$1,085	\$-	\$1,085
Individual health insurance	1,531	-	1,531	716	-	716
Total	\$2,861	\$-	\$2,861	\$1,801	\$-	\$1,801

	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	\$45	\$-	\$45	\$37	\$-	\$37
Individual health insurance	52	-	52	24	-	24
Total	\$97	\$-	\$97	\$61	\$-	\$61

Unearned premium reserve is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$3,334	\$-	\$3,334	\$2,061	\$-	\$2,061
Reserve	(427)	-	(427)	(150)	-	(150)
Recover	-	-	-	-	-	-
Gains on foreign exchange	(46)	-	(46)	(110)	-	(110)
Ending Balance	\$2,861	\$-	\$2,861	\$1,801	\$-	\$1,801

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	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$113	\$-	\$113	\$70	\$-	\$70
Reserve	(14)	-	(14)	(5)	-	(5)
Recover	-	-	-	-	-	-
Gains on foreign exchange	(2)	-	(2)	(4)	-	(4)
Ending Balance	\$97	\$-	\$97	\$61	\$-	\$61

c. Reserve for claims:

	March 31, 2012			March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$645	\$-	\$645	\$205	\$-	\$205
– Unreported claim	-	-	-	-	-	-
Individual injury insurance						
– Reported but not paid claim	145	-	145	136	-	136
– Unreported claim	147	-	147	122	-	122
Individual health insurance						
– Reported but not paid claim	234	-	234	12	-	12
– Unreported claim	130	-	130	43	-	43
Total	\$1,301	\$-	\$1,301	\$518	\$-	\$518

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	March 31, 2012			March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation		Insurance contract	Financial instruments with discretionary participation	
feature		Total	feature		Total	
Individual life insurance						
– Reported but not paid claim	\$22	\$-	\$22	\$7	\$-	\$7
– Unreported claim	-	-	-	-	-	-
Individual injury insurance						
– Reported but not paid claim	5	-	5	5	-	5
– Unreported claim	5	-	5	4	-	4
Individual health insurance						
– Reported but not paid claim	8	-	8	-	-	-
– Unreported claim	4	-	4	2	-	2
Total	\$44	\$-	\$44	\$18	\$-	\$18

Reserve for claims is summarized below:

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(NT\$)			(NT\$)		
	Insurance contract	Financial instruments with discretionary participation		Insurance contract	Financial instruments with discretionary participation	
feature		Total	feature		Total	
Beginning balance	\$789	\$-	\$789	\$545	\$-	\$545
Reserve	524	-	524	3	-	3
Recover	-	-	-	-	-	-
Gains on foreign exchange	(12)	-	(12)	(30)	-	(30)
Ending balance	\$1,301	\$-	\$1,301	\$518	\$-	\$518

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	(US\$)			(US\$)		
	Insurance contract	Financial instruments with discretionary participation		Insurance contract	Financial instruments with discretionary participation	
feature		Total	feature		Total	
Beginning balance	\$27	\$-	\$27	\$19	\$-	\$19
Reserve	18	-	18	-	-	-
Recover	-	-	-	-	-	-
Gains on foreign exchange	(1)	-	(1)	(1)	-	(1)
Ending balance	\$44	\$-	\$44	\$18	\$-	\$18

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d. Special reserve:

	March 31, 2012 (NT\$)				March 31, 2011 (NT\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	\$525	\$-	\$-	\$525	\$521	\$-	\$-	\$521

	March 31, 2012 (US\$)				March 31, 2011 (US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	\$18	\$-	\$-	\$18	\$18	\$-	\$-	\$18

Special reserve is summarized below:

	For the three months ended March 31, 2012 (NT\$)				For the three months ended March 31, 2011 (NT\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$533	\$-	\$-	\$533	\$551	\$-	\$-	\$551
Reserves for major incidents over 15 years	-	-	-	-	-	-	-	-
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	-	-	-	-
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	-	-	-	-	-	-	-	-
Reserves participating policies dividends reserve	-	-	-	-	-	-	-	-
Participating policies dividends reserve	-	-	-	-	-	-	-	-
Reserves dividends risk reserve	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Gains on foreign exchange	(8)	-	-	(8)	(30)	-	-	(30)
Ending balance	\$525	\$-	\$-	\$525	\$521	\$-	\$-	\$521

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	For the three months ended March 31, 2012				For the three months ended March 31, 2011			
	(US\$)				(US\$)			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
	Insurance contract	feature	Other		Insurance contract	feature	Other	
Beginning balance	\$18	\$-	\$-	\$18	\$19	\$-	\$-	\$19
Reserves for major incidents over 15 years	-	-	-	-	-	-	-	-
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	-	-	-	-
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	-	-	-	-	-	-	-	-
Reserves participating policies dividends reserve	-	-	-	-	-	-	-	-
Participating policies dividends reserve	-	-	-	-	-	-	-	-
Reserves dividends risk reserve	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Gains on foreign exchange	-	-	-	-	(1)	-	-	(1)
Ending balance	\$18	\$-	\$-	\$18	\$18	\$-	\$-	\$18

e. Liability adequacy reserve

	March 31, 2012 (NT\$)	March 31, 2011 (US\$)
Reserve for life insurance liabilities	\$236,233	\$8,008
Unearned premium reserve	2,861	97
Total	\$239,094	\$8,105
Book value of insurance liabilities	\$239,094	\$8,105
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-

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- Note 1: Shown by liability adequacy test range (integrated contract).
- Note 2: Outstanding reserve for claims special reserve are not included in liability adequacy test. Reserve for claim is determined based on claims incurred before valuation date (March 31, 2011); therefore, is not included in the test.
- Note 3: As the loss ratio of one-year injury medical insurance is less than 100%, unearned premium reserve is included in the calculation of estimate present value of cash flows.
- Note 4: Extended contracts are calculated based on maximum possibility of loss, which assumes the insured immediately death of the insured to calculate estimated present value of cash flows.
- Note 5: There are no instances of merge or transfer of insurance contract portfolio for Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

(2) Property and casualty insurance subsidiaries

① Cathay Century

A. Unearned premium reserve:

- a. Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

Item	March 31, 2012 (NT\$)			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$1,528,124	\$40,106	\$562,736	\$1,005,494
Marine insurance	231,156	3,094	204,912	29,338
Land and air insurance	2,662,792	4,048	124,861	2,541,979
Liability insurance	391,952	244	122,424	269,772
Bonding insurance	27,444	549	11,956	16,037
Other property insurance	813,882	9,343	487,115	336,110
Accident insurance	1,484,649	11,163	82,787	1,413,025
Health insurance	125,029	-	2,348	122,681
Compulsory automobile liability insurance	1,155,736	180,046	463,141	872,641
Total	<u>\$8,420,764</u>	<u>\$248,593</u>	<u>\$2,062,280</u>	<u>\$6,607,077</u>

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March 31, 2012 (US\$)				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	
		Retained business		
Fire insurance	\$51,801	\$1,360	\$19,076	\$34,085
Marine insurance	7,836	105	6,946	995
Land and air insurance	90,264	137	4,233	86,168
Liability insurance	13,287	8	4,150	9,145
Bonding insurance	930	19	405	544
Other property insurance	27,589	317	16,512	11,394
Accident insurance	50,327	378	2,806	47,899
Health insurance	4,238	-	80	4,158
Compulsory automobile liability insurance	39,178	6,103	15,700	29,581
Total	\$285,450	\$8,427	\$69,908	\$223,969

b. Reconciliation statement of unearned premium reserve and ceded unearned premium reserve:

For the three months ended March 31, 2012				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$8,624,366	\$292,351	\$2,151,896	\$72,946
Reserve	8,669,357	293,877	2,062,280	69,908
Recover	(8,624,366)	(292,351)	(2,151,896)	(72,946)
Ending balance	\$8,669,357	\$293,877	\$2,062,280	\$69,908

B. Special reserve:

a. Special reserve- Compulsory car insurance:

For the three months ended March 31, 2012		
Item	(NT\$)	(US\$)
Beginning balance	\$2,434,891	\$82,539
Reserve	51,643	1,751
Recover	(20,082)	(681)
Ending balance	\$2,466,452	\$83,609

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b. Special reserve- Non-compulsory car insurance:

For the three months ended March 31, 2012 (NT\$)			
Item	Liability		
	Major incidents	Fluctuation of risks	Total
Beginning balance	\$1,172,396	\$1,153,814	\$2,326,210
Reserve	-	-	-
Recover	-	(5,226)	(5,226)
Ending balance	\$1,172,396	\$1,148,588	\$2,320,984

For the three months ended March 31, 2012 (US\$)			
Item	Liability		
	Major incidents	Fluctuation of risks	Total
Beginning balance	\$39,742	\$39,112	\$78,854
Reserve	-	-	-
Recover	-	(177)	(177)
Ending balance	\$39,742	\$38,935	\$78,677

C. Reserve for claims:

a. Claim reserve and ceded claim reserve:

March 31, 2012				
(NT\$)				
Item	Claim reserve		Ceded claim reserve	
	Direct business	Assumed reinsurance	Ceded reinsurance	
		business	business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claim reported but not paid off	\$3,711,760	\$182,962	\$1,759,518	\$2,135,204
Unreported claim	1,014,123	84,803	274,636	824,290
Total	\$4,725,883	\$267,765	\$2,034,154	\$2,959,494

March 31, 2012				
(US\$)				
Item	Claim reserve		Ceded claim reserve	
	Direct business	Assumed reinsurance	Ceded reinsurance	
		business	business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claim reported but not paid off	\$125,822	\$6,202	\$59,644	\$72,380
Unreported claim	34,377	2,875	9,310	27,942
Total	\$160,199	\$9,077	\$68,954	\$100,322

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b. Net changes for claim reserve and ceded claim reserve:

March 31, 2012 (NT\$)								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve (5)=(1)-(2)+(3)-(-4)	Ceded reinsurance business		Ceded premium deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	Net change
	(1)	(2)	(3)	(4)		(6)	(7)	(8)=(6)-(7)
Claim reported but not paid off	\$3,711,760	\$3,892,767	\$182,962	\$180,872	\$(178,917)	\$1,759,518	\$1,841,574	\$(82,056)
Unreported claim	1,014,123	904,613	84,803	44,432	149,881	274,636	202,724	71,912
Total	\$4,725,883	\$4,797,380	\$267,765	\$225,304	\$(29,036)	\$2,034,154	\$2,044,298	\$(10,144)

March 31, 2012 (US\$)								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve (5)=(1)-(2)+(3)-(-4)	Ceded reinsurance business		Ceded premium deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	Net change
	(1)	(2)	(3)	(4)		(6)	(7)	(8)=(6)-(7)
Claim reported but not paid off	\$125,822	\$131,958	\$6,202	\$6,131	\$(6,065)	\$59,644	\$62,426	\$(2,782)
Unreported claim	34,377	30,665	2,875	1,506	5,081	9,310	6,872	2,438
Total	\$160,199	\$162,623	\$9,077	\$7,637	\$(984)	\$68,954	\$69,298	\$(344)

c. Liability claim for policyholder who reported claim but not yet paid off or unreported claim:

March 31, 2012						
Item	Claim reserve					
	Claim reported but not yet paid off		Unreported claim		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Fire insurance	\$1,838,578	\$62,324	\$107,990	\$3,661	\$1,946,568	\$65,985
Marine insurance	624,553	21,171	215,989	7,322	840,542	28,493
Land and air insurance	438,415	14,862	451,153	15,293	889,568	30,155
Liability insurance	197,053	6,680	45,325	1,536	242,378	8,216
Bonding insurance	20,866	707	490	17	21,356	724
Other property insurance	252,124	8,547	17,539	594	269,663	9,141
Accident insurance	152,779	5,179	209,616	7,106	362,395	12,285
Health insurance	9,536	323	30,075	1,020	39,611	1,343
Compulsory automobile liability insurance	360,818	12,231	20,749	703	381,567	12,934
Total	\$3,894,722	\$132,024	\$1,098,926	\$37,252	\$4,993,648	\$169,276

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d. Reinsurance asset- ceded claim reserve for policyholder who reported claim buy not yet paid off or unreported claim:

Item	March 31, 2012					
	Ceded claim reserve					
	Claim reported but not yet paid off		Unreported claim		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Fire insurance	\$924,452	\$31,337	\$78,386	\$2,657	\$1,002,838	\$33,994
Marine insurance	455,997	15,457	131,743	4,466	587,740	19,923
Land and air insurance	21,561	731	10,257	348	31,818	1,079
Liability insurance	75,960	2,575	13,750	466	89,710	3,041
Bonding insurance	18,928	642	(1)	-	18,927	642
Other property insurance	114,330	3,876	4,412	149	118,742	4,025
Accident insurance	23,639	801	27,542	934	51,181	1,735
Health insurance	-	-	1,306	44	1,306	44
Compulsory automobile liability insurance	124,651	4,225	7,241	246	131,892	4,471
Total	\$1,759,518	\$59,644	\$274,636	\$9,310	\$2,034,154	\$68,954

e. Reconciliation statement for claim reserve and ceded claim reserve:

Item	For the three months ended March 31, 2012			
	Claim reserve		Ceded claim reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$5,022,684	\$170,260	\$2,044,298	\$69,298
Reserve	4,993,648	169,276	2,034,154	68,954
Recover	(5,022,684)	(170,260)	(2,044,298)	(69,298)
Ending balance	\$4,993,648	\$169,276	\$2,034,154	\$68,954

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D. Premium deficiency reserve

a. Premium deficiency reserve and ceded premium deficiency reserve:

March 31, 2012									
Item	Premium deficiency reserve				Ceded premium deficiency reserve				
	Direct business		Assumed reinsurance business		Ceded reinsurance business			Retained business	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Fire insurance	\$28,487	\$966	\$92	\$3	\$28,579	\$969	\$-	\$-	
Marine insurance	-	-	28	1	(10,772)	(365)	10,800	366	
Land and air insurance	-	-	488	17	(170)	(5)	658	22	
Liability insurance	-	-	40	1	41	1	(1)	-	
Bonding insurance	-	-	2	-	2	-	-	-	
Other property insurance	90,803	3,078	34	1	90,837	3,079	-	-	
Total	\$119,290	\$4,044	\$684	\$23	\$108,517	\$3,679	\$11,457	\$388	

b. Recognized net loss for premium deficiency reserve- Net change for premium deficiency reserve and ceded premium deficiency reserve:

For the three months ended March 31, 2012 (NT\$)									
Item	Direct underwriting business		Assumed reinsurance business		Premium deficiency reserve	Ceded reinsurance business		Ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency
	Reserve	Recover	Reserve	Recover	Net change	Reserve	Recover	Net change	reserve
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$28,487	\$-	\$92	\$432	\$28,147	\$28,579	\$(5,485)	\$34,064	\$(5,917)
Marine insurance	-	9,805	28	54	(9,831)	(10,772)	1,867	(12,639)	2,808
Land & air insurance	-	-	488	2	486	(170)	(1,480)	1,310	(824)
Liability insurance	-	-	40	49	(9)	41	49	(8)	(1)
Bonding insurance	-	11,179	2	6	(11,183)	2	11,185	(11,183)	-
Other property insurance	90,803	-	34	3	90,834	90,837	-	90,837	(3)
Total	\$119,290	\$20,984	\$684	\$546	\$98,444	\$108,517	\$6,136	\$102,381	\$(3,937)

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For the three months ended March 31, 2012 (US\$)

Item	Direct underwriting business		Assumed reinsurance business		Premium deficiency reserve	Ceded reinsurance business		Ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency
	Reserve	Recover	Reserve	Recover	Net change	Reserve	Recover	Net change	reserve
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$966	\$-	\$3	\$15	\$954	\$969	\$(186)	\$1,155	\$(201)
Marine insurance	-	332	1	2	(333)	(365)	63	(428)	95
Land & air insurance	-	-	16	-	16	(6)	(50)	44	(28)
Liability insurance	-	-	2	2	-	2	2	-	-
Bonding insurance	-	379	-	-	(379)	-	379	(379)	-
Other property insurance	3,078	-	1	-	3,079	3,079	-	3,079	-
Total	\$4,044	\$711	\$23	\$19	\$3,337	\$3,679	\$208	\$3,471	\$(134)

c. Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve:

For the three months ended March 31, 2012

Item	Premium deficiency reserve		Ceded premium deficiency reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$21,531	\$730	\$6,136	\$208
Reserve	119,974	4,067	108,517	3,679
Recover	(21,531)	(730)	(6,136)	(208)
Ending balance	\$119,974	\$4,067	\$108,517	\$3,679

b. Effects for the change of estimation and assumption:

Premium deficiency reserve for Cathay Century is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data from Cathay Century in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio was referred to the insurance expense statements from Cathay Century in the past three years exclude entertainment expense and membership fee. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

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② Cathay Century (China)

A. Unearned premium reserve:

- a. Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

March 31, 2012 (NT\$)				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	
		Retained business		
Fire insurance	\$131,274	\$193	\$75,927	\$55,540
Marine insurance	4,245	47	627	3,665
Liability insurance	68,775	6	24,957	43,824
Bonding insurance	2,115	-	331	1,784
Other property insurance	114,271	1,124	12,774	102,621
Accident insurance	-	364	-	364
Total	\$320,680	\$1,734	\$114,616	\$207,798

March 31, 2012 (US\$)				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	
		Retained business		
Fire insurance	\$4,450	\$7	\$2,574	\$1,883
Marine insurance	144	2	21	125
Liability insurance	2,331	-	846	1,485
Bonding insurance	72	-	11	61
Other property insurance	3,873	38	433	3,478
Accident insurance	-	12	-	12
Total	\$10,870	\$59	\$3,885	\$7,044

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- b. Reconciliation statement for unearned premium reserve and ceded unearned premium reserve:

Item	For the three months ended March 31, 2012			
	Unearned premium reserve		Ceded unearned premium reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$283,372	\$9,606	\$92,918	\$3,150
Reserve	323,920	10,980	115,152	3,903
Recover	(277,378)	(9,403)	(90,952)	(3,083)
Gains on foreign exchange	(7,500)	(254)	(2,502)	(85)
Ending balance	\$322,414	\$10,929	\$114,616	\$3,885

B. Claim reserve:

- a. Liability claim for policyholder who reported claim but not yet paid off or unreported claim:

Item	March 31, 2012					
	Claim reserve					
	Claim reported and paid off		Unreported claim		Total	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Fire insurance	\$33,551	\$1,137	\$122,649	\$4,158	\$156,200	\$5,295
Marine insurance	35,644	1,208	20,941	710	56,585	1,918
Liability insurance	44,645	1,514	20,176	684	64,821	2,198
Bonding insurance	-	-	6,001	203	6,001	203
Other property insurance	54,780	1,857	60,859	2,063	115,639	3,920
Accident insurance	-	-	85	3	85	3
Total	\$168,620	\$5,716	\$230,711	\$7,821	\$399,331	\$13,537

- b. Reinsurance asset- Ceded claim reserve for policyholder who reported claim buy not yet paid off or unreported claim:

Item	March 31, 2012					
	Ceded claim reserve					
	Claim reported and paid off		Unreported claim		Total	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Fire insurance	\$18,700	\$634	\$79,321	\$2,689	\$98,021	\$3,323
Marine insurance	7,790	264	10,069	341	17,859	605
Liability insurance	16,733	567	9,837	334	26,570	901
Bonding insurance	-	-	718	24	718	24
Other property insurance	2,934	100	9,144	310	12,078	410
Total	\$46,157	\$1,565	\$109,089	\$3,698	\$155,246	\$5,263

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c. Reconciliation statement for claim reserve and ceded claim reserve:

Item	For the three months ended March 31, 2012			
	Claim reserve		Ceded claim reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$325,048	\$11,019	\$130,754	\$4,433
Reserve	401,196	13,600	155,971	5,287
Recover	(318,172)	(10,786)	(127,988)	(4,339)
Gains on foreign exchange	(8,741)	(296)	(3,491)	(118)
Ending balance	\$399,331	\$13,537	\$155,246	\$5,263

C. Premium deficiency reserve:

a. Premium deficiency reserve and ceded premium deficiency reserve:

Item	March 31, 2012 (NT\$)			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		Direct business		
Marine insurance	\$345	\$4	\$-	\$349
Liability insurance	6	-	-	6
Bonding insurance	47	-	-	47
Other property insurance	5,283	52	-	5,335
Total	\$5,681	\$56	\$-	\$5,737

Item	March 31, 2012 (US\$)			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		Direct business		
Marine insurance	\$12	\$-	\$-	\$12
Liability insurance	-	-	-	-
Bonding insurance	1	-	-	1
Other property insurance	179	2	-	181
Total	\$192	\$2	\$-	\$194

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b. Recognized net loss for premium deficiency reserve- Net changes for premium deficiency reserve and ceded premium deficiency reserve:

For the three months ended March 31, 2012 (NT\$)

Item	Direct underwriting business		Assumed reinsurance business		premium deficiency reserve	Ceded reinsurance business		Ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Marine insurance	\$345	\$1	\$4	\$-	\$348	\$-	\$-	\$-	\$348
Liability insurance	6	-	-	-	6	-	-	-	6
Bonding insurance	47	113	-	-	(66)	-	-	-	(66)
Other property insurance	5,283	3,230	52	50	2,055	-	-	-	2,055
Accident insurance	-	-	-	11	(11)	-	-	-	(11)
Total	\$5,681	\$3,344	\$56	\$61	\$2,332	\$-	\$-	\$-	\$2,332

For the three months ended March 31, 2012 (US\$)

Item	Direct underwriting business		Assumed reinsurance business		premium deficiency reserve	Ceded reinsurance business		Ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Marine insurance	\$12	\$-	\$-	\$-	\$12	\$-	\$-	\$-	\$12
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	1	4	-	-	(3)	-	-	-	(3)
Other property insurance	179	109	2	2	70	-	-	-	70
Accident insurance	-	-	-	-	-	-	-	-	-
Total	\$192	\$113	\$2	\$2	\$79	\$-	\$-	\$-	\$79

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c. Reconciliation statement for claim reserve and ceded claim reserve:

Item	For the three months ended March 31, 2012			
	Claim reserve		Ceded claim reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$3,495	\$118	\$-	\$-
Reserve	5,763	195	-	-
Recover	(3,421)	(116)	-	-
Gains on foreign exchange	(100)	(3)		
Ending balance	\$5,737	\$194	\$-	\$-

d. Effects for the change of estimation and assumption:

Cathay Century (China) use future cash flow method to measure its unearned reserves and recognize the excess amount of incurred reserve to net profit. In contrast, do not make any adjustment.

③ Cathay Century (Vietnam)

A. Unearned premium reserve:

a. Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

Item	March 31, 2012 (NT\$)			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$2,055	\$-	\$-	\$2,055
Marine insurance	43	-	-	43
Land and air insurance	6,771	-	-	6,771
Liability insurance	88	-	-	88
Other property insurance	(725)	-	-	(728)
Accident insurance	1,995	-	-	1,995
Total	\$10,227	\$-	\$-	\$10,227

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March 31, 2012 (US\$)				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$70	\$-	\$-	\$70
Marine insurance	1	-	-	1
Land and air insurance	230	-	-	230
Liability insurance	3	-	-	3
Other property insurance	(25)	-	-	(25)
Accident insurance	68	-	-	68
Total	\$347	\$-	\$-	\$347

b. Reconciliation statement for unearned premium reserve and ceded unearned premium reserve:

For the three months ended March 31, 2012				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$7,261	\$246	\$-	\$-
Reserve	3,080	105	-	-
Recover	-	-	-	-
Gains on foreign exchange	(114)	(4)	-	-
Ending balance	\$10,227	\$347	\$-	\$-

B. Claim reserve:

a. Liability claim for policyholder who reported claim but not yet paid off or unreported claim:

March 31, 2012						
Item	Claim reserve					
	Claim reported and paid off		Unreported claim		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Fire insurance	\$235	\$8	\$104	\$4	\$339	\$12
Marine insurance	9	-	12	1	21	1
Land and air insurance	725	25	214	7	939	32
Liability insurance	6	-	2	-	8	-
Other property insurance	36	1	27	1	63	2
Accident insurance	53	2	78	2	131	4
Total	\$1,064	\$36	\$437	\$15	\$1,501	\$51

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b. Reconciliation statement for claim reserve and ceded claim reserve:

Item	For the three months ended March 31, 2012			
	Claim reserve		Ceded claim reserve	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Beginning balance	\$1,115	\$38	\$-	\$-
Reserve	403	14	-	-
Recover	-	-	-	-
Gains on foreign exchange	(17)	(1)	-	-
Ending balance	\$1,501	\$51	\$-	\$-

19. Other financial liabilities

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Derivative financial liabilities for hedging	\$-	\$-	\$580	\$20
Borrowed funds	121,410	4,115	171,000	5,816
Principle received from the sale of structured products	16,287,412	552,116	9,623,620	327,334
Total	\$16,408,822	\$556,231	\$9,795,200	\$333,170

20. Common stock

- (1) As of March 31, 2012 and 2011, the authorized share capital amounted NT\$120,000,000 (US\$4,067,797) thousands, and the issued share capital amounted NT\$103,575,097 (US\$3,511,020) thousands and NT\$101,544,213 (US\$3,453,885) thousands, respectively.
- (2) On March 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).

21. 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\$78,508,148 (US\$2,661,293) thousands and NT\$78,508,148 (US\$2,670,345) thousands as of March 31, 2012 and 2011, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to NT\$267,215 (US\$9,058) thousands were included in the capital surplus as of both March 31, 2012 and 2011.

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- (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. In compliance with Item 1 of Article 72 of Criteria Governing the Offering and Issuance of Securities by Securities Issuers, Capital Increase by Earnings Recapitalization shall not exceed 10% of total paid in capital and can be capitalized one year after the approval of the competent authority.

22. 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 only be used to offset deficits. For companies with no accumulated deficits, legal reserve may be used for new share issuance or return cash to shareholders with the approval of stockholders' meeting.

(2) Special reserve

A. 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' inappropriate earnings. However, the special reserve of equal amounts for prior years' accumulated shareholders' equity contra accounts should only be provided from prior years' inappropriate earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed.

B. For Cathay United Bank, Cathay Securities and Cathay Future, the remaining balance should be reclassified as special reserve as of December 31, 2010 according to the related regulation. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock.

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- C. Cathay Life's special reserves for major incidents and special reserve for fluctuation of risks should be recorded as special reserve at the end of this year. As of March 31, 2012 and 2011, the reserves amounted to NT\$474,684 (US\$16,091) thousands and NT\$545,071 (US\$18,540) thousands, respectively.
- D. Cathay Century's special reserves for major incidents and special reserve for fluctuation of risks should be recorded as special reserve at the end of this year. As of March 31, 2012 and 2011, the reserves amounted to NT\$129,286 (US\$4,383) thousands and NT\$91,886 (US\$3,125) thousands, respectively.

(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 10, 2011, the shareholders' meeting resolved the distribution of earnings of NT\$0.8 (US\$0.03) per share for the year of 2010. The cash and stock dividends with record dates are NT\$0.6 (US\$0.02) and NT\$0.2 (US\$0.01) on July 4 and August 5, 2011, respectively.
- C. The Company is required to pay 10% surtax in the forthcoming tax year for undistributed earnings.
- D. 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.

E. 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.

- F. The accrual of employee bonus and remuneration of directors for the three months ended March 31, 2012 was NT\$8,102 (US\$275) thousands based on the average of actual distribution in the past three years or the net income after tax for the three months ended March 31, 2012 and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2013 fiscal year.

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G. The accrual of employee bonus and remuneration of directors for the three months ended March 31, 2011 was NT\$12,467 (US\$424) thousands based on the average of actual distribution in the past three years or the net income after tax for the three months ended March 31, 2011 and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2012 fiscal year.

H. The Company's distribution of 2011 retained earnings has been approved by the board of directors and still waits for the resolution of stockholder's meeting held on June 15, 2012. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

23. Treasury stock

The following is a summary of the movement of treasury stock for the three months ended March 31, 2012:

Reason for acquisition	March 31, 2012									
	In thousands of shares			Book value		Book value per share		Market value per share		
	January 1, 2012	Increase	Decrease	March 31, 2012	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Shares acquired through share exchange from merger transaction	200,000	-	-	200,000	\$7,179,872	\$243,385	\$35.90	\$1.22	\$33.60	\$1.14

There was no transaction for treasury stock for the three months ended March 31, 2011.

24. Operating Expense

For the three months ended March 31, 2012 and 2011, personnel expense, depreciation and amortizations are summarized below:

	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Personnel expenses				
Salary and wages	\$5,969,316	\$202,350	\$6,440,067	\$219,050
Labor & health insurance expenses	745,486	25,271	712,013	24,218
Pension expenses	466,169	15,802	424,805	14,449
Other expenses	566,316	19,197	519,813	17,681
Depreciation	868,341	29,435	898,781	30,571
Amortization	88,206	2,990	101,317	3,446

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25. Estimated income taxes

(1) Income tax expenses include the following:

	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Adjusted income tax calculates on accounting income	\$1,127,471	\$38,219	\$3,458,222	\$117,627
Plus (Less): Alternative minimum tax payable	4,909	166	4,699	159
Withholding tax for overseas investments	(6,530)	(221)	(1,649)	(56)
Tax effects under consolidated income tax	(4,909)	(166)	71,121	2,419
Deferred income tax benefits	(1,513,235)	(51,296)	(4,419,819)	(150,335)
Adjustment of income tax	298,887	10,132	46,498	1,582
Allowance for tax assets	14,027	475	-	-
Other	184,692	6,261	25,618	873
Total income tax expense (benefits)	<u>\$105,312</u>	<u>\$3,570</u>	<u>\$(815,310)</u>	<u>\$(27,731)</u>

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

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Total deferred tax assets	<u>\$19,868,906</u>	<u>\$673,522</u>	<u>\$20,792,512</u>	<u>\$707,228</u>
Total deferred tax liabilities	<u>\$542,164</u>	<u>\$18,379</u>	<u>\$5,617,094</u>	<u>\$191,057</u>
Allowance for deferred assets	<u>\$920,329</u>	<u>\$31,197</u>	<u>\$686,044</u>	<u>\$23,335</u>
Temporary differences:				
Pension expense	\$1,501,756	\$50,907	\$1,354,789	\$46,081
Unrealized exchange losses	67,546,252	2,289,703	76,204,617	2,591,994
Losses (gains) from valuation on financial assets and liabilities	674,191	22,854	(30,301,938)	(1,030,678)
Allowance for bad debts	2,327,367	78,894	722,553	24,576
Operating loss carry-forward	29,574,860	1,002,538	29,352,667	998,390
Other difference	(419,236)	(14,212)	365,263	12,424
Total	<u>\$101,205,190</u>	<u>\$3,430,684</u>	<u>\$77,697,951</u>	<u>\$2,642,787</u>
Tax effect under consolidated income tax system	<u>\$1,021,352</u>	<u>\$34,622</u>	<u>\$1,078,046</u>	<u>\$36,668</u>
Deferred income tax assets of foreign branches	<u>\$1,025,428</u>	<u>\$34,760</u>	<u>\$768,972</u>	<u>\$26,156</u>
Investment tax credit	<u>\$75,080</u>	<u>\$2,545</u>	<u>\$119,748</u>	<u>\$4,073</u>

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	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Deferred tax assets	\$19,868,906	\$673,522	\$20,792,512	\$707,228
Allowance for deferred tax assets	(920,329)	(31,197)	(686,044)	(23,335)
Net deferred tax assets	18,948,577	642,325	20,106,468	683,893
Deferred tax liabilities	(542,164)	(18,379)	(5,617,094)	(191,057)
Net offset balance of deferred tax assets	\$18,406,413	\$623,946	\$14,489,374	\$492,836

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 and its subsidiaries were 17%.

(3)Income tax returns:

March 31, 2012		
	Income tax returns examined by tax authorities	Notes
The Company	through 2006	The Company was in the process of administrative litigation for 2003, 2004 and 2005 tax return, and re-examination of 2006 tax returns.
Cathay Life	through 2006	Cathay Life was in the process of administrative litigation for 2003, 2004 and 2005 tax return, and re-examination of 2006 tax returns.
Cathay United Bank	through 2006	Cathay United Bank was in the process of administrative litigation for 2004 and 2005, and re-examination of 2006 tax returns.
Cathay Century	through 2006	Cathay Century as in the process of administrative litigation for 2003, 2004 and 2005, and re-examination of 2006 tax returns.
Cathay Securities	through 2006	-
Cathay Venture	through 2009	-
Cathay Securities Investment Trust	through 2010	Cathay Security Investment Trust has not examine for 2009 tax return.
Symphox Information	through 2009	-
Cathay Futures	through 2009	-

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(4) Information related to imputation credit account:

A. Balance of imputation credit account

	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
The Company	\$1,063,636	\$36,055	\$547,186	\$18,612
Cathay Life	4,376,601	148,359	2,949,872	100,336
Cathay United Bank	149,097	5,054	275,813	9,381
Cathay Century	18,018	611	14,196	483
Cathay Securities	6,458	219	2	-
Cathay Venture	34,326	1,164	27,044	920
Cathay Securities Investment Trust	51,628	1,750	48,933	1,664
Cathay Futures	18,104	614	14,222	484
Symphox Information	10,687	362	12,982	442

B. Imputation ratio

	2012	2011
	(Estimated)	(Actual)
The Company-cash dividends	7.44%	25.56%
The Company-stock dividends	7.44%	25.56%
Cathay Life	-	-
Cathay United Bank	1.33%	2.45%
Cathay Century	4.74%	4.85%
Cathay Securities	6.99%	6.99%
Cathay Venture	20.45%	4.52%
Cathay Securities Investment Trust	15.28%	20.64%
Cathay Futures	20.48%	20.48%
Symphox Information	15.95%	33.33%

(5) Information relating of undistributed retained earnings:

Year	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Prior to 1997	\$267,215	\$9,058	\$267,215	\$9,089
After 1998	14,303,983	484,881	11,758,680	399,955
Total	<u>\$14,571,198</u>	<u>\$493,939</u>	<u>\$12,025,895</u>	<u>\$409,044</u>

A. Net income for the three months ended March 31, 2012 and 2011 were excluded from the undistributed retained earnings after 1998.

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

26. Earnings per share

	For the three months ended March 31, 2012								
	Amount (Numerator)				Shares (in thousands of shares) denominator	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes	After income taxes		
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Primary earnings per share:									
Consolidated income	\$2,190,933	\$74,269	\$2,085,621	\$70,699	10,157,510	\$0.22	\$0.01	\$0.21	\$0.01

	For the three months ended March 31, 2011								
	Amount (Numerator)				Shares (in thousands of shares) denominator	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes	After income taxes		
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Primary earnings per share:									
Consolidated income	\$1,105,463	\$37,601	\$1,920,773	\$65,332	10,357,510	\$0.11	\$-	\$0.19	\$0.01

27. Information of insurance contract

(1) Cathy Life, Cathay Life (China) and Cathay Life (Vietnam)

Risk management objectives, policies, procedures and methods

A. Framework for risk management, organization structure and responsibilities

a. Board of directors

(A) The board of directors should establish appropriate risk management function and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.

(B) The board of directors and senior management should promote and execute risk management policies and standards. Furthermore, they should ensure the policies and standards are in line with Cathy Life's operational objective and operational strategy.

(C) The board of directors should acknowledge the risk of operation, ensure the effectiveness of risk management and assume the ultimate responsibility for risk management.

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- (D) The board of directors should delegate authority to risk management department to deal with violation of risk quotas by other departments.
- b. Risk management committee
- (A) The committee should draft the risk management policies, framework and organizational function to establish quantitative and qualitative risk management standards. The committee is also responsible to report the execution results to the board periodically and make necessary improvement suggestions.
- (B) The committee should execute the risk management decisions set by the board of directors and evaluate the development, implementation and results of execution of the risk management function
- (C) The committee should assist and monitor the risk management activities.
- (D) The committee should adjust the risk category, risk quota allocation and risk taking according to the change of the big environment.
- (E) The committee should enhance cross-department interaction and communication.
- c. Risk management department
- (A) The department is responsible for monitoring, measuring and evaluating daily risks. The department should execute its authority independently from the operating department.
- (B) The department should perform following function based on activity categories:
- ① Assist drafting and execute the risk management policies set by the board of directors.
 - ② Assist determines the risk quotas based on risk appetite.
 - ③ Summarize the risk information provided by all departments. Facilitate and communicate the execution of the policies as well as the risk quotas with departments.
 - ④ Periodically provide risk management related reports.
 - ⑤ Periodically monitor all operating department's risk quotas and manage the exceptions attributable to exceed the risk quotas granted.

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⑥ Assist the pressure test. Execute back testing if necessary.

⑦ Other risk management issues.

d. Operating departments

(A) Managers of the operating departments:

① Responsible for the departments' daily risk management report and respond to issues if necessary.

② Make sure to delivery risk management information periodically to the risk management department.

(B) Operating departments:

① Address and measure risks and report the pervasiveness of exposure.

② Periodically review the risk quotas. If exception happens, report the exceptions as well as the actions taken.

③ Assist to develop the risk model. Ensure the measurement of risk, the usage of the model and the assumptions made are reasonable and has been applied consistently.

④ Ensure internal control operates effectively to comply with related regulation and company's risk management policies.

⑤ Assist gathering risk management related data.

e. Audit department

The department is required to audit all departments to determine the execution status of the risk management policies complies with the related regulations and Cathay Life's risk management policies.

B. Reporting risk or measuring the range and characteristics of the system

Cathy Life set its risk management standards based on markets, credibility, sovereign, liquidity, operations, insurance, risks of matching between assets / liability positions and the capital adequacy. The company also periodically provides the risk management report for monitoring Cathy Life's risks.

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a. Market risk

The risk represents decrease in value of the company's financial asset due to the price fluctuation of the financial instrument market. The company applies the 95% and 99% confidence level as the benchmark to measure odd week market risk. The company also applies back testing periodically to the market risk to ensure accuracy of the model. Furthermore, Cathy Life applies scenario analysis and stress test to evaluate the change in value of the asset groups due to significant domestic and international incidences.

b. Credit risk

This risk represents Cathy Life's loss due to the default of debtors. The measurements that Cathy Life uses include credit rating, concentration analysis and value at risk (VAR). Cathy Life also periodically applies back-testing to the credit risk to ensure accuracy of the model. Furthermore, Cathy Life applies scenario analysis and stress test to evaluate the change in value of the asset groups due to significant domestic and international incidences.

c. Sovereign risk

This represents risks of Cathy Life's investment positions caused by changes of the local government's politics or economy further causes price fluctuation or default that eventually results in a loss. Cathy Life takes international credit ranking companies' ranking and other economy indexes into consideration to set the investment ceiling for specific countries. Cathy Life review and adjust the ceiling periodically.

d. Liquidity risk

Liquidity risks include "Funding liquidity risk" and "Market liquidity risk". Funding liquidity risk is the risk of insufficient funding to meet Cathy Life's commitment when due. Cathy Life uses current ratio to measure funding liquidity risk and manages to maintain the ratio below high risk. Operating departments have established funding communication system. The risk management department manages funding liquidity based on the information provided by the operating departments. Furthermore, operating departments have also built up their own cash flow analysis models and monitor the result of the analysis. They also set the annual assets allocation plan to better maintain the liquidity of funding. "Market liquidity risk" occurs when the market is under turmoil or lack of market depth further cause the drastic change of market price. All investment departments have evaluated the market liquidity risk based on the characteristics and intentions of current investment portfolio.

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e. Operating risk

This risk occurs when there are errors caused by internal process, employee or system breakdown or external issues including legislative risks but strategic risk and reputation risks. Cathy Life had set the standard operating procedure based all characteristics of operations meanwhile established losses reporting system to manage operating risk losses information.

f. Insurance risk

This risk occurs after collecting premium from the policy holder. Cathy Life assumed the risk transferred from the policy holder and when the company pays the claim, due to unexpected change Cathy Life assumed a loss. This generally happens because of the policy design, pricing risks, underwriting risks, reinsurance risks, catastrophe risks, claim risks and reserve related risks.

g. Asset and liability matching risk

The type of risks happens when the changes in value of assets and liability are not equal. Cathy Life measures the risk by referencing capital costs, duration, cash flow management and scenario analysis.

h. Capital adequacy rate

Capital adequacy ratio is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies. Cathy Life applies capital adequacy rate as the index of capital adequacy.

C. Manage the process of assuming, measuring, monitoring and controlling risks to ensure proper risk classification, premium level and underwriting policies.

a. The process of assuming, measuring, monitoring and controlling risks:

- ① Promulgate Cathy Life's risk management standards including the definition and range of risk, management structure, risk management indexes and other risk management measures.
- ② Establish methods to evaluate insurance risks.
- ③ Periodically provide the insurance risk management report to the risk management committee for supervising insurance risks and developing insurance risk management strategies.

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- ④ When a risk exceptional incidence occur, related departments should draft the possible solution and submit it to the risk management committee and Cathay Financial Holding's risk management committee.
- b. Ensure proper risk classification and underwriting policies of premium level:
- ① Underwriters should ensure clients' financial underwriting, checking insurance notification for exceptions, considering the amount insured, types of insurance, age, family members, reason for insurance, employment, etc. to confirm client's appropriateness of the amount insured and the ability to meet premium deadlines.
 - ② Cathy Life has an underwriter team dealing with controversy events such as new type of contracts and change of security systems and clarifying related underwriting standards.
 - ③ Cathy Life has a judging team for highly insured projects to enhance its risk management and prevent adverse selection and moral hazard.
- D. Evaluation based on the enterprise taken as a whole and range of managing insurance risks.
- a. Evaluation of insurance risks include the following risks:
- ① Product design and pricing risks: This type of risk arises from improper design of products, inappropriate policies, inappropriate pricing, referencing the wrong source of information, inconsistency and unexpected changes.
 - ② Underwriting risks: Unexpected losses arise from promoting business, underwriting activities and approval, other expenditure activities etc.
 - ③ Reinsurance risks: This type of risk arises from failing to reinsure the excess risk or reinsurer fails to fulfill its responsibility that results in loss in premium, claims or non-reimbursed expenses.
 - ④ Catastrophe risks: This type of risk arises from accidents that cause a type or more than one type of insurance a loss which in aggregate might affect Cathy Life's credit raking and solvency.
 - ⑤ Claim risks: This type of risk arises from inappropriate operation or mistakes while handling claim.

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⑥ Risks of insufficient reserve: This type of risk arises from insufficient reserve due to underestimate of liability. As a result, Cathy Life fails to fulfill its anticipated responsibility.

b. Range of managing insurance risks

① Establish Cathy Life's insurance risk management standards as the guidance of performing risk management.

② Establish Cathy Life's insurance risk management standards including the definition and range of risks, management structure, risk management index and other risk management measures.

③ Draft action plans for matching Cathy Life's expanding strategy and response to the changes of financial environment worldwide.

④ Establish measurement methods for insurance risks.

⑤ Periodically provide insurance risks management report for monitoring insurance risk and drafting insurance managing strategy.

⑥ Other issues related to insurance risks management.

E. Methods to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks

The method that Cathy Life mainly uses to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks is the reinsurance managing plan. The company estimates the risk that Cathy Life is able to assume including characteristics of the risk, regulation issues and development technique factors all together to determine the range of reinsurance. In order to maintain safety of risk transfer and control the risk of reinsurance transactions, Cathy Life has established reinsurer selection standards.

F. Methods for managing assets and liabilities

a. Cathy Life has assets and liabilities managing committee to ensure full application of the managing policy, establish management structure, integrate human capital and resources, review the strategy and practice periodically and further reduce all types of risks.

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- b. Responsible departments will review the measurement of the matching risks of assets and liabilities periodically. The reports will be sent to the risk management committee. Furthermore, the reports should be delivered to the risk management committee of Cathay Financial Holding annually.
 - c. When exceptional situation occur, related departments should hold a meeting to find possible actions plan and deliver the report to assets and liabilities managing committee, risk management committee and the risk management committee of the Company.
- G. When special incidence happens, the managing, monitoring and controlling procedures relating to extra liability or commitment of contributing extra owner equity are as following:

To comply with laws and regulation, Cathy Life is required to maintain its capital adequacy rate in a certain rage. In order to enhance Cathy Life's capital management and maintain its capital adequacy ratio, Cathy Life has established a set of capital adequacy management standards as following:

- a. Capital adequacy management
 - ① Periodically provide capital adequacy management reports and analysis to the financial department of Cathay Financial Holding.
 - ② Periodically provide the risk management committee the capital adequacy management analysis report.
 - ③ Practice scenario analysis for capital adequacy ratio focusing on Cathy Life's usage of funding, changes of the financial environment including updates of laws and regulations.
 - ④ Periodically review the capital adequacy rate and related control standards to fulfill the management of capital adequacy.
- b. Exception management process

When Cathy Life's capital adequacy rate exceeds the risk management standard or other exceptions occur, Cathy Life is required to notify the risk management department and financial department of the Company enclosed with capital adequacy analysis report and related planned actions reports.

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Information of Insurance Risk

A. Sensitivity of insurance risk- Insurance contracts and financial instruments with discretionary participation features

a. Cathay Life

	March 31, 2012 (NT\$)		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 506,085	Decrease (increase) 420,051
Expense	×1.05 (×0.95)	Decrease (increase) 640,808	Decrease (increase) 531,871
Surrender rates	×1.05 (×0.95)	Increase (decrease) 77,436	Increase (decrease) 64,272
Investment return rate	+0.10%	Increase 734,655	Increase 609,764
Investment return rate	-0.10%	Decrease 734,838	Decrease 609,916

	March 31, 2012 (US\$)		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 17,155	Decrease (increase) 14,239
Expense	×1.05 (×0.95)	Decrease (increase) 21,722	Decrease (increase) 18,030
Surrender rates	×1.05 (×0.95)	Increase (decrease) 2,625	Increase (decrease) 2,179
Investment return rate	+0.10%	Increase 24,904	Increase 20,670
Investment return rate	-0.10%	Decrease 24,910	Decrease 20,675

b. Cathay Life (China)

	March 31, 2012 (NT\$)		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10(×0.90)	Decrease (increase) 2,108	Decrease (increase) 2,108
Expense	×1.05(×0.95)	Decrease (increase) 6,860	Decrease (increase) 6,860
Surrender rates	×1.10(×0.90)	Decrease (increase) 4,134	Decrease (increase) 4,134
Investment return rate	+0.25%	Increase 20,212	Increase 20,212
Investment return rate	-0.25%	Decrease 22,079	Decrease 22,079

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	March 31, 2012 (US\$)		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10(×0.90)	Decrease (increase) 71	Decrease (increase) 71
Expense	×1.05(×0.95)	Decrease (increase) 233	Decrease (increase) 233
Surrender rates	×1.10(×0.90)	Decrease (increase) 140	Decrease (increase) 140
Investment return rate	+0.25%	Increase 685	Increase 685
Investment return rate	-0.25%	Decrease 748	Decrease 748

c. Cathay Life (Vietnam)

	March 31, 2012 (NT\$)		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.15 (×0.95)	Decrease (increase) 16	Decrease (increase) 12
Expense	×1.05 (×0.95)	Decrease (increase) 3,643	Decrease (increase) 2,732
Surrender rates	×1.05 (×0.95)	Increase (decrease) 577	Increase (decrease) 433
Investment return rate	+0.10%	Increase 383	Increase 287
Investment return rate	-0.10%	Decrease 383	Decrease 287

	March 31, 2011 (US\$)		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.15 (×0.95)	Decrease (increase) 1	Decrease (increase) 1
Expense	×1.05 (×0.95)	Decrease (increase) 123	Decrease (increase) 93
Surrender rates	×1.05 (×0.95)	Increase (decrease) 20	Increase (decrease) 15
Investment return rate	+0.10%	Increase 13	Increase 10
Investment return rate	-0.10%	Decrease 13	Decrease 10

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- ① Changes in income before tax listed above refer to the effects of income before tax in the profits and losses for the three months ended March 31, 2012 by the assumption. Change of the stockholders' equity is assumed 17%, 25% and 25% of income tax rate has been used by Cathay Life, Cathay Life (China) and Cathay Life (Vietnam).
- ② Increase (decrease) 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and stockholders' equity. The result of the test shows adequacy. However, if the discount rate keeps decreasing to significant degree, income before tax and stockholders' equity will probably be affected.
- ③ Test of sensitivity:
 - (i) Life Table/Morbidity test is measured by mortality, morbidity and the occurrence rate of injury insurance multiply the change in supposition rate, in opposition to the change in income before tax.
 - (ii) Expenses sensitivity is measured by all expenses listed on income statement of the first three quarter in 2012 (Note 1) multiply the change in supposition rate, in opposition to the change in income before tax.
 - (iii) Surrender rate sensitivity test is measured by surrender rate multiply the change in supposition rate, in opposition to the change in income before tax.
 - (iv) The rate of returns sensitivity test is measured by the rate of returns (Note 2) increases (decreases) the change in supposition rate, in opposition to income before tax.

Note 1: Expenses includes brokerage expenses, commission expenses, other operating expenses under operating costs as well as business expenses, administration expenses and staffs training expenses under operating expenses.

Note 2: The rate of returns is measured by $2 \times \text{net profits or losses on investment} / (\text{the beginning balance of usable capital} + \text{the ending balance of usable capital} - \text{net profits or losses on investment})$ and it needs to be annualized.

B. Interpretation of concentration on insurance risk

Cathy Life's insurance business is mainly from Taiwan, Republic of China. All the insurance contracts which have been signed have the similar risk of exposure, for example, the exposure of the unanticipated changes in trend (ex: mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by a specific event (ex: the simultaneous exposure of life insurance, health insurance, and accidental insurance caused by one earthquake). Cathy Life reduces the risk of exposure not only by monitoring the status of the risk continuously, but also buying reinsurance contracts.

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Cathy Life reviews the profits and losses on compensation as a whole and the capability of assuming the risk periodically. Depending upon the feature of each risk, the company assesses the amount of coverage a company retains on that risk, also called “net line,” as well as reviewed and approved by each competent authority. For the excess of net line, the company reinsures this portion of amount. At the same time, the company takes the possibility of suddenness of human and nature disasters into account periodically and estimates the reasonable maximum amount of compensation on retained risks. Depending upon the dollar amount of losses and the capability of assuming risks, the company makes the decision on whether it is necessary to adjust the insurance limits or reinsurance on disasters. Hence, the insurance risk to some extent has been spread out to reduce the potential impact on unanticipated losses.

Furthermore, according to “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.”, the annual increase after-tax amount of special reserve for major accidents and special reserve for fluctuation of risks which is based upon the loss ratio of each type of insurance and used for the abnormal movement of compensation needs to be recognized and recorded in appropriated retained earnings of equity in accordance with the Statements of Financial Accounting Standards No. 22 since the beginning of 2011.

C. Trend of the Development on Compensation

a. Cathay Life

① Direct business trend of development

Accident year	Development period (years)							Expected future payment
	(NT\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	10,997,552	12,820,869	12,945,105	12,980,910	13,000,377	13,007,522	13,013,824	-
2006Q2~2007Q1	11,878,552	14,013,520	14,137,529	14,172,928	14,207,949	14,226,676	14,233,182	6,506
2007Q2~2008Q1	12,487,783	14,726,326	14,896,224	14,956,935	15,042,774	15,057,292	15,063,783	21,009
2008Q2~2009Q1	13,384,763	15,820,692	16,011,049	16,085,163	16,134,348	16,149,326	16,156,395	71,232
2009Q2~2010Q1	14,445,550	17,287,961	17,551,424	17,611,663	17,665,958	17,682,705	17,690,319	138,895
2010Q2~2011Q1	14,307,274	17,419,063	17,611,104	17,670,741	17,723,811	17,740,607	17,748,153	329,090
2011Q2~2012Q1	14,912,513	17,665,831	17,858,041	17,917,095	17,968,349	17,985,128	17,992,856	3,080,343

Expected future payment	\$3,647,075
Less : expected reported but not paid claim	(184,390)
Add: assumed reserve for incurred but not reported claim	33,418
Reserve for unreported claim	3,496,103
Add : reported but not paid claim	521,264
Reserve claim balance	<u>\$4,017,367</u>

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Accident year	Development period (years)							Expected future payment
	(US\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	372,798	434,606	438,817	440,031	440,691	440,933	441,147	-
2006Q2~2007Q1	402,663	475,035	479,238	480,438	481,625	482,260	482,481	221
2007Q2~2008Q1	423,315	499,197	504,957	507,015	509,925	510,417	510,637	712
2008Q2~2009Q1	453,721	536,295	542,747	545,259	546,927	547,435	547,674	2,415
2009Q2~2010Q1	489,680	586,033	594,964	597,006	598,846	599,414	599,672	4,708
2010Q2~2011Q1	484,992	590,476	596,987	599,008	600,807	601,377	601,632	11,156
2011Q2~2012Q1	505,509	598,842	605,357	607,359	609,097	609,665	609,927	104,418

Expected future payment	\$123,630
Less : expected reported but not paid claim	(6,251)
Add: assumed reserve for incurred but not reported claim	1,133
Reserve for unreported claim	118,512
Add : reported but not paid claim	17,670
Reserve claim balance	<u>\$136,182</u>

(B) Retained business trend of development

Accident year	Development period (years)							Expected future payment
	(NT\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	11,086,339	12,908,176	13,023,606	13,068,883	13,096,101	13,104,824	13,111,572	-
2006Q2~2007Q1	11,965,114	14,107,519	14,241,493	14,284,091	14,321,037	14,340,289	14,346,892	6,603
2007Q2~2008Q1	12,557,191	14,819,422	14,997,598	15,060,233	15,147,981	15,162,635	15,169,220	21,239
2008Q2~2009Q1	13,453,933	15,858,471	16,049,632	16,122,415	16,172,023	16,186,856	16,193,909	71,494
2009Q2~2010Q1	13,110,104	15,406,063	15,596,505	15,645,201	15,691,989	15,702,974	15,708,793	112,288
2010Q2~2011Q1	12,494,337	14,953,506	15,100,538	15,146,346	15,189,777	15,199,824	15,205,311	251,805
2011Q2~2012Q1	13,026,617	15,373,699	15,525,811	15,572,299	15,614,644	15,625,243	15,631,140	2,604,523

Note : Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	\$3,067,952
Less : expected reported but not paid claim	(184,390)
Add : reported but not paid claim	521,264
Retained reserve claim balance	<u>\$3,404,826</u>

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Accident year	Development period (years)							Expected future payment
	(US\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	375,808	437,565	441,478	443,013	443,936	444,231	444,460	-
2006Q2~2007Q1	405,597	478,221	482,762	484,206	485,459	486,111	486,335	224
2007Q2~2008Q1	425,667	502,353	508,393	510,516	513,490	513,988	514,211	721
2008Q2~2009Q1	456,066	537,575	544,055	546,523	548,204	548,707	548,946	2,423
2009Q2~2010Q1	444,410	522,239	528,695	530,346	531,932	532,304	532,501	3,806
2010Q2~2011Q1	423,537	506,898	511,883	513,435	514,908	515,248	515,434	8,536
2011Q2~2012Q1	441,580	521,142	526,299	527,875	529,310	529,669	529,869	88,289

Note : Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	\$103,999
Less : expected reported but not paid claim	(6,251)
Add : reported but not paid claim	17,670
Retained reserve claim balance	<u>\$115,418</u>

② Cathay Life (China)

(A) Direct business trend of development

Accident year	Development period (years)							Expected future payment
	(NT\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	26	51	53	53	53	53	53	-
2006Q2~2007Q1	786	3,158	3,170	3,170	3,170	3,170	3,170	-
2007Q2~2008Q1	9,021	17,375	18,144	18,144	18,144	18,144	18,144	-
2008Q2~2009Q1	49,739	112,394	118,293	118,293	118,293	118,293	118,293	-
2009Q2~2010Q1	93,501	187,122	199,099	199,099	199,099	199,099	199,099	-
2010Q2~2011Q1	172,740	351,630	364,799	364,799	364,799	364,799	364,799	13,169
2011Q2~2012Q1	190,866	505,238	522,432	522,432	522,432	522,432	522,432	331,566

Expected future payment	\$344,735
less: expected reported but not paid claim	(36,256)
add: assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	308,479
add: reported but not paid claim	68,784
Reserve claim balance	<u>\$377,263</u>

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Accident year	Development period (years)							Expected future payment
	(US\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	1	2	2	2	2	2	2	-
2006Q2~2007Q1	27	107	107	107	107	107	107	-
2007Q2~2008Q1	306	589	615	615	615	615	615	-
2008Q2~2009Q1	1,686	3,810	4,010	4,010	4,010	4,010	4,010	-
2009Q2~2010Q1	3,170	6,343	6,749	6,749	6,749	6,749	6,749	-
2010Q2~2011Q1	5,856	11,920	12,366	12,366	12,366	12,366	12,366	446
2011Q2~2012Q1	6,470	17,127	17,710	17,710	17,710	17,710	17,710	11,240

Expected future payment	\$11,686
less: expected reported but not paid claim	(1,229)
add: assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	10,457
add: reported but not paid claim	2,332
Reserve claim balance	<u>\$12,789</u>

(B) Retained business trend of development

Accident year	Development period (years)							Expected future payment
	(NT\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	26	51	53	53	53	53	53	-
2006Q2~2007Q1	786	3,158	3,170	3,170	3,170	3,170	3,170	-
2007Q2~2008Q1	9,021	17,375	18,144	18,144	18,144	18,144	18,144	-
2008Q2~2009Q1	49,739	112,394	118,293	118,293	118,293	118,293	118,293	-
2009Q2~2010Q1	93,501	186,991	198,966	198,966	198,966	198,966	198,966	-
2010Q2~2011Q1	172,351	356,864	362,915	362,915	362,915	362,915	362,915	6,050
2011Q2~2012Q1	182,334	502,425	520,494	520,494	520,494	520,494	520,494	338,160

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

Expected future payment	\$344,210
less: expected reported but not paid claim	(36,256)
add: reported but not paid claim	68,784
Retained reserve claim balance	<u>\$376,738</u>

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Accident year	Development period (years)							Expected future payment
	(US\$)							
	1	2	3	4	5	6	7	
2005Q2~2006Q1	1	2	2	2	2	2	2	-
2006Q2~2007Q1	27	107	107	107	107	107	107	-
2007Q2~2008Q1	306	589	615	615	615	615	615	-
2008Q2~2009Q1	1,686	3,810	4,010	4,010	4,010	4,010	4,010	-
2009Q2~2010Q1	3,170	6,339	6,745	6,745	6,745	6,745	6,745	-
2010Q2~2011Q1	5,842	12,097	12,302	12,302	12,302	12,302	12,302	205
2011Q2~2012Q1	6,181	17,031	17,644	17,644	17,644	17,644	17,644	11,463

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

Expected future payment	\$11,668
less: expected reported but not paid claim	(1,229)
add: reported but not paid claim	2,332
Retained reserve claim balance	<u>\$12,771</u>

Cathay Life and Cathay Life (China) record and recognize reserve for claim for anticipated payment of reported and unreported compensations. Due to the factors of uncertainty, estimation, and judgment involved in recording and recognition, there is a high degree of complexity of reserve for claim. Any change of the estimation or judgment is treated as the change of the accounting principle and recorded and recognized as profit and loss in current year. Some claims of compensation are delayed notification. Also, the estimated unreported cases probably need to be settled by compensation. All these are involved in heavy judgment and estimation. Thus, it exists uncertainty that the estimated reserve for claim in balance sheet date will be not equal to the final settled amount of compensation. The reserve for claim recorded on the book is estimated based upon the current information obtained. However, the settled amount probably will be deviated from the original estimated amount because of the follow-up events.

The chart above has shown the development trend of the compensation. The accident year is the actual year for the occurrence of the claimed accident; The cross axle is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific accident year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount showed below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each accident year. It is possible that the circumstances and trends affecting dollar amount of recording and recognition to the reserve for claim in current year will be different from that in the future. Thus, the anticipated dollar amounts need to be paid for the settlement cases cannot be made the decision to be made from this chart.

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③ Cathay Life (Vietnam)

(A) Direct business trend of development

Accident year	Development period (years) (NT\$)		
	1	2	3
2009Q2~2010Q1	12	156	156
2010Q2~2011Q1	155	168	168
2011Q2~2012Q1	362	700	700

Accident year	Development period (years) (US\$)		
	1	2	3
2009Q2~2010Q1	-	5	5
2010Q2~2011Q1	5	6	6
2011Q2~2012Q1	12	24	24

(B) Retained business trend of development

Accident year	Development period (years) (NT\$)		
	1	2	3
2009Q2~2010Q1	12	156	156
2010Q2~2011Q1	155	168	168
2011Q2~2012Q1	362	700	700

Accident year	Development period (years) (US\$)		
	1	2	3
2009Q2~2010Q1	-	5	5
2010Q2~2011Q1	5	6	6
2011Q2~2012Q1	12	24	24

The chart above has shown the development trend of the compensation. The accident year is the actual year for the occurrence of the claimed accident; The cross axle is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific accident year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount showing below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each accident year.

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Cathay Life (Vietnam) records and recognizes indemnify reserve for anticipated payment of reported claim and unreported claim compensations. The estimated method of unreported claim is earned premium reserve multiply by claim rate based upon the past indemnity experiences instead of loss triangle method, which approved by Vietnam local authorities. Thus, the anticipated dollar amounts need to be paid for the settlement cases cannot be made the decision to be made from this chart. Also, the estimated unreported cases probably need to be settled by compensation. All these are involved in heavy judgment and estimation. Thus, it exists uncertainty that the estimated indemnify reserve in balance sheet date will be not equal to the final settled amount of compensation.

Credit Risk, Liquidity Risk, and Market Risk for Insurance Contracts

A. Credit Risk

Due to the limitation of the features for reinsurance market and the qualification of reinsurer under the related regulation, the insurance company in Taiwan sustains certain degree of concentration of credit risk in reinsurer. To reduce this risk, Cathay Life chooses trading entity carefully and also reviews its credit rating periodically. Also, Cathay Life monitors and controls the risk of reinsurance transactions properly in accordance with Cathay Life's "Reinsurance Risk Management Plan" and "Reinsurance Entity Assessment Procedures."

If Cathay Life has unqualified ceded reinsurance under "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms," Cathay Life records and recognizes reserves for unqualified reinsurance in accordance with the requirements set forth by the competent authority to reduce the possible influence on the increase of reinsurer credit risk.

The credit rating to the trading entities of reinsurance in the company is good and above certain level, complying with Cathay Life's related rules and the regulations in Taiwan.

B. Liquidity Risk

The chart below is the analysis (undiscounted) of insurance contracts and net cash flows on liabilities of financial instruments with discretionary participation features. The figures showed in this chart are the total insurance payments and expenses of valid insurance contracts at every payment time in the future on the balance sheet date. The actual dollar amounts paid in the future will not be the same due to the difference between the practical and anticipated experiences.

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	Unit: Billion		
March 31, 2012 (NT\$)	<u>Within 1 year</u>	<u>1 to 5 year</u>	<u>Over 5 year</u>
Insurance contracts and financial instruments with discretionary participation feature	(1.55)	18.92	871.01
March 31, 2011 (US\$)	<u>Within 1 year</u>	<u>1 to 5 year</u>	<u>Over 5 year</u>
Insurance contracts and financial instruments with discretionary participation feature	(0.05)	0.64	29.53

C. Market Risk

When Cathay Life measures insurance liabilities, the discounted rate approved by the competent authority is applied. The competent authority reviews periodically the discount rate assumption which has been used for reserves. However, the discount rate assumption is not necessarily the same of the time, dollar amount, and direction with those variables (ex: yield rate) in market risk. Thus, those possible variables in market risk to the company's valid insurance contracts have slight impact on profit and loss or equity. When the competent authority changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonable possibly change on the market risk probably will have impact on the insurance contracts which are estimated on balance sheet date based upon the current obtained information and the future cash flows of financial instruments with discretionary participation features, used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonable possibly changes on current market risk, it has no or little impact on the adequacy of current recognized insurance liabilities.

(2) Cathay Century

Risk management objectives, policies, procedures and methods

A. Risk management framework, organization, and responsibility

a. Board of directors

- (A) Recognize various risks associating with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.

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- (B) Establish proper mechanism and culture for risk management, ratify proper risk management policies and optimize resources allocation.
- (C) Consider aggregate effect of various risks from the perspective of the company as a whole, at the same time take into account regulatory capital requirements from the authority and other related capital allocation regulations regarding finance and business.

b. Risk Management Committee

- (A) Formulate risk management policies, frameworks, and organizations. Build quantitative and qualitative management standards. Regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
- (B) Execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for company as a whole on a regular basis.
- (C) Assist and supervise various departments in risk management activities.
- (D) Adjust risk category, allotment, and attribution in reaction to changes in scenario.
- (E) Coordinate interaction and communication of risk management function across departments.

c. Risk management department

- (A) Assist the draft of risk management policies and execute one ratified by the board of directors.
- (B) Assist the set-up of risk limits according to the risk appetite.
- (C) Compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
- (D) Propose risk management related reports on a regular basis.
- (E) Supervise risk limit and its use of each business unit on a regular basis.

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(F) Assist in stress test and conduct back-testing when necessary.

(G) Other risk management related tasks.

d. Business unit

① Responsibilities in risk management of business are as follows:

(A) Manage daily risk management and report of the corresponding unit and take necessary reactions.

(B) Oversee the passage of risk management information to risk management on a regular basis.

② Responsibilities in operation of risk management of business unit are as follows:

(A) Identify risk and report risk exposure.

(B) Evaluate (quantitative or qualitative) the degree of influence when risks occur and pass risk information in a timely and correct manner.

(C) Review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.

(D) Oversee risk exposure and report when over-limit occur, including measures taken against it.

(E) Assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducting on a reasonable basis and is consistent with actual practice.

(F) Assure effective execution of internal control within business unit to comply with related regulation and risk management policies of the company.

(G) Assist in collecting information regarding operation risk.

e. Internal audit room

Audit the execution of risk management of each unit in the company according to current related regulation.

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B. Scope and nature of risk reporting and evaluation system of property insurance

a. Risks reporting

- ① Each business unit within Cathay Century should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and corresponding measures when risk exposure is over limit.
- ② Risk management unit compile risk information from each department, examine and track the use of major risk limit, submit monthly risk management report to general manager, and make quarter report to the board of director to oversee risk on a regular basis.

b. Scope and nature of risk evaluation system

The risk management unit of the Company and Cathay Century collaborate in building market risk management system. The structure will consider functionality, source of information, completeness of uploaded information, and the safety of the environment in which the system operates. Function-wise, risk management system focuses on the need of middle office to quantify risk, and it would only be authorized to risk management personnel.

C. Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard.

In Cathay Century, risk management department takes responsibilities in monitoring risks, integrate insurance risk of the company as a whole, and set up each risk indicator, risk limit, and managing mechanism. Each related department is execution unit of insurance risk control. They report execution process to risk management department every month based on regulation, internal rules, and professional knowledge and experience of their respective field. Risk management department then propose insurance risk management report to the board of directors each quarter.

D. Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

Scope of insurance risk management of Cathay Century includes product design and pricing, underwriting, reinsurance, risks related to catastrophe, claim, and provision. Proper management mechanisms are set up and execute thoroughly.

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E. Methods with which property insurance business limit insurance risk exposure and improper risk concentration

Before a business is introduced, underwriting personnel will evaluate the quality of the business based on the underwriting guideline of each insurance to decide whether to undertake the business. Risk is properly avoided and controlled to reduce exposure.

In addition, as Cathay Century undertakes reinsurance business, risk management mechanism is set up in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” and the ability to undertake risk is taken into account for the establishment of re-insurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to Cathay Century’s “Reinsurance Risk Managing Plan”, the limit of underlying retention for each risk unit of insurance is based on 10% of total amount of special reserve under stockholders’ equity and liability (exclude compulsory automobile liability insurance). The following summarize underlying retention for each risk unit by types of insurance:

Item	2012		2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Fire insurance	\$613,000	\$20,780	\$630,000	\$21,429
Marine insurance	613,000	20,780	US\$12,000	12,000
Engineering insurance	613,000	20,780	630,000	21,429
Casualty insurance	613,000	20,780	630,000	21,429
Automobile insurance	613,000	20,780	100,000	3,401
Health and injury insurance	613,000	20,780	630,000	21,429

F. Methods of asset/liability management

Provisions are evaluated on a regular basis based on Cathay Century’s business characteristics to insure current fund allocation and the liquidity of asset investment is sufficient to meet possible future claims. Cash flow management with comprehensive consideration of the amount of fund required and its timeline of every department is conducted through fund procurement department, which is independent of trading unit.

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Operation standards under crisis are set up in accordance with the “Directions for Handling Financial Institutes in Crisis” issued by Financial Supervision Commission. When tremendous sum of fund is loss or liquidity is severely lacked, operation crisis team will be set up immediately to evaluate the impact on fund liquidity of Cathay Century cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and the company.

G. Management, supervision, control process when additional liability or commitment to equity contribution is required for the property insurance business

Cathay Century has established management mechanism for capital adequacy, which includes capital adequacy indicators for regular review, and every six months a capital adequacy management report will be compiled to implement capital adequacy management.

If capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will be summoned to study counter-measures and report to the Company, to review the impact on the group’s capital adequacy ratio.

Information of management achievement

A. Acquisition cost for insurance contracts:

For the three months ended March 31, 2012												
Item	Commission expense		Agency fee		Surcharge		Reinsurance commission expense		Other cost		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Fire insurance	\$480	\$16	\$950	\$32	\$340	\$12	\$428	\$15	\$20,650	\$700	\$22,848	\$775
Marine insurance	2,100	71	224	8	36	1	252	8	12,680	430	15,292	518
Land & air insurance	6,553	222	392	13	-	-	339	12	169,179	5,735	176,463	5,982
Liability insurance	1,935	66	197	7	-	-	73	2	13,067	443	15,272	518
Bonding insurance	477	16	(8)	-	-	-	(2)	-	248	8	715	24
Other property insurance	9,141	310	1,175	40	-	-	511	17	18,326	621	29,153	988
Accident insurance	2,008	68	83	3	2	-	6	-	77,414	2,624	79,513	2,695
Health insurance	575	20	52	1	-	-	-	-	4,096	139	4,723	160
Compulsory automobile liability insurance	-	-	-	-	92,564	3,137	-	-	1,693	58	94,257	3,195
Total	\$23,269	\$789	\$3,065	\$104	\$92,942	\$3,150	\$1,607	\$54	\$317,353	\$10,758	\$438,236	\$14,855

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B. Disclosure for insurance cost benefit analysis:

① Cost benefits analysis for direct underwriting:

For the three months ended March 31, 2012 (NT\$)						
Item	Premium income	Net change for unearned premium reserve	Acquisition cost for insurance contract	Claims	Net change for claim reserve	Net gain
Fire insurance	\$405,316	\$151,228	\$(22,420)	\$(243,058)	\$160,878	\$451,944
Marine insurance	173,881	20,288	(15,040)	(63,609)	(78,862)	36,658
Land & air insurance	1,143,076	(193,064)	(176,124)	(631,679)	86,017	228,226
Liability insurance	206,427	(57,211)	(15,199)	(28,712)	(7,281)	98,024
Bonding insurance	19,059	(4,912)	(717)	(147)	1,229	14,512
Other property insurance	182,440	(19,525)	(28,642)	(39,987)	(6,219)	88,067
Accident insurance	555,698	23,796	(79,507)	(217,922)	(66,643)	215,422
Health insurance	26,922	22,614	(4,723)	(41,886)	(27,691)	(24,764)
Compulsory automobile liability insurance	665,381	(8,596)	(94,257)	(416,125)	10,069	156,472
Total	\$3,378,200	\$(65,382)	\$(436,629)	\$(1,683,125)	\$71,497	\$1,264,561

For the three months ended March 31, 2012 (US\$)						
Item	Premium income	Net change for unearned premium reserve	Acquisition cost for insurance contract	Claims	Net change for claim reserve	Net gain
Fire insurance	\$13,740	\$5,126	\$(760)	\$(8,239)	\$5,453	\$15,320
Marine insurance	5,894	688	(510)	(2,156)	(2,673)	1,243
Land & air insurance	38,748	(6,545)	(5,970)	(21,413)	2,916	7,736
Liability insurance	6,998	(1,939)	(516)	(973)	(247)	3,323
Bonding insurance	646	(167)	(24)	(5)	42	492
Other property insurance	6,184	(662)	(971)	(1,355)	(211)	2,985
Accident insurance	18,837	807	(2,695)	(7,388)	(2,259)	7,302
Health insurance	913	767	(160)	(1,420)	(939)	(839)
Compulsory automobile liability insurance	22,555	(291)	(3,195)	(14,106)	341	5,304
Total	\$114,515	\$(2,216)	\$(14,801)	\$(57,055)	\$2,423	\$42,866

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② Cost benefits analysis for assumed reinsurance business:

For the three months ended March 31, 2012 (NT\$)							
Item	Reinsurance premium	Net change for unearned		Reinsurance commission expense	Reinsurance claims	Net change for claim reserve	Net (loss) gain for assumed reinsurance business
		premium	reserve				
Fire insurance	\$16,102	\$115	\$115	\$(428)	\$(68)	\$(19,717)	\$(3,996)
Marine insurance	2,654	(1,700)	(1,700)	(252)	(3,800)	(4,954)	(8,052)
Land & air insurance	1,565	1,274	1,274	(339)	(1,165)	(12,862)	(11,527)
Liability insurance	315	(125)	(125)	(73)	(113)	1,131	1,135
Bonding insurance	349	(151)	(151)	2	(8)	7	199
Other property insurance	2,286	4,272	4,272	(511)	(1,024)	304	5,327
Accident insurance	1,785	14,682	14,682	(6)	(2,586)	(6,521)	7,354
Health insurance	-	-	-	-	-	114	114
Compulsory automobile liability insurance	65,379	2,024	2,024	-	(63,506)	37	3,934
Total	\$90,435	\$20,391	\$20,391	\$(1,607)	\$(72,270)	\$(42,461)	\$(5,512)

For the three months ended March 31, 2012 (US\$)							
Item	Reinsurance premium	Net change for unearned		Reinsurance commission expense	Reinsurance claims	Net change for claim reserve	Net (loss) gain for assumed reinsurance business
		premium	reserve				
Fire insurance	\$546	\$4	\$4	\$(15)	\$(2)	\$(668)	\$(135)
Marine insurance	90	(58)	(58)	(8)	(129)	(168)	(273)
Land & air insurance	53	43	43	(12)	(39)	(436)	(391)
Liability insurance	11	(4)	(4)	(3)	(4)	38	38
Bonding insurance	12	(5)	(5)	-	-	-	7
Other property insurance	77	145	145	(17)	(35)	11	181
Accident insurance	61	497	497	-	(88)	(221)	249
Health insurance	-	-	-	-	-	4	4
Compulsory automobile liability insurance	2,216	69	69	-	(2,153)	1	133
Total	\$3,066	\$691	\$691	\$(55)	\$(2,450)	\$(1,439)	\$(187)

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③ Recognized gain (loss) for reinsurance contract purchased:

For the three months ended March 31, 2012 (NT\$)							
Item	Reinsurance expense	Net change for unearned premium reserve			Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
		ceded	Reinsurance commission revenue	Reinsurance reserve			
Fire insurance	\$232,575	\$107,212	\$(3,839)	\$(104,700)	\$64,602	\$295,850	
Marine insurance	152,231	11,317	(27,440)	(21,535)	(27,196)	87,377	
Land & air insurance	20,006	24,895	(6,841)	(18,225)	(8,201)	11,634	
Liability insurance	73,511	(29,040)	(18,659)	1,460	(6,831)	20,441	
Bonding insurance	12,013	(5,538)	(2,433)	2,427	228	6,697	
Other property insurance	103,220	(6,188)	(18,801)	(4,621)	2,797	76,407	
Accident insurance	46,890	(8,829)	(9,317)	(17,596)	(18,079)	(6,931)	
Health insurance	954	69	(335)	(400)	(1,174)	(886)	
Compulsory automobile liability insurance	183,382	(4,283)	-	(162,896)	3,998	20,201	
Total	\$824,782	\$89,615	\$(87,665)	\$(326,086)	\$10,144	\$510,790	

For the three months ended March 31, 2012 (US\$)							
Item	Reinsurance expense	Net change for unearned premium reserve			Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
		ceded	Reinsurance commission revenue	Reinsurance reserve			
Fire insurance	\$7,884	\$3,634	\$(130)	\$(3,549)	\$2,190	\$10,029	
Marine insurance	5,160	384	(930)	(730)	(922)	2,962	
Land & air insurance	678	844	(232)	(618)	(278)	394	
Liability insurance	2,492	(984)	(633)	50	(232)	693	
Bonding insurance	408	(188)	(83)	82	8	227	
Other property insurance	3,499	(210)	(637)	(157)	95	2,590	
Accident insurance	1,589	(299)	(316)	(596)	(613)	(235)	
Health insurance	33	2	(11)	(14)	(40)	(30)	
Compulsory automobile liability insurance	6,216	(145)	-	(5,522)	136	685	
Total	\$27,959	\$3,038	\$(2,972)	\$(11,054)	\$344	\$17,315	

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Information of insurance risk

A. Sensitivity of insurance risk

Insurance type	Premium income (NT\$)	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance (NT\$)	After reinsurance (NT\$)
Fire insurance	\$406,802	62.54	\$20,340	\$5,905
Marine insurance	173,881	65.40	8,694	795
Land and air insurance	1,143,076	64.89	57,154	36,492
Liability insurance	206,427	68.28	10,321	4,538
Bonding insurance	19,059	71.62	953	265
Other property insurance	182,440	61.75	9,122	2,515
Accident insurance	555,698	72.04	27,785	18,392
Health insurance	26,923	68.25	1,346	-
Compulsory automobile liability insurance	665,380	NA	NA	NA

Insurance type	Premium income (US\$)	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance (US\$)	After reinsurance (US\$)
Fire insurance	\$13,790	62.54	\$689	\$200
Marine insurance	5,894	65.40	295	27
Land and air insurance	38,748	64.89	1,937	1,237
Liability insurance	6,998	68.28	350	154
Bonding insurance	646	71.62	32	9
Other property insurance	6,184	61.75	309	85
Accident insurance	18,837	72.04	942	623
Health insurance	913	68.25	46	-
Compulsory automobile liability insurance	22,555	NA	NA	NA

Note : Premium income doesn't include preferential premium; Fire insurance does not include long-term fire insurance.

The chart above shows that with every 5% increase of the expected loss rate of every insurance contract of the company, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

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B. Concentration Risk

a. Situations that might cause concentration of insurance risk:

① Single insurance contract or few related contracts

For the three months ended March 31, 2012, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

② Exposure to unexpected changes in trend

For the three months ended March 31, 2012, the loss rate of fire insurance is high due to several large claim cases. Other than these, the loss rates of the rest insurance categories are still within reasonable range.

③ Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the three months ended March 31, 2012, no material lawsuit or legal risks has taken place.

④ Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, Cathay Century has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the three months ended March 31, 2012, no catastrophe has taken place.

⑤ When a certain key variable has approached significant non-linear relationship with future cash flow which could dramatically influence its performance

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Since the 3rd stage of liberalization of property insurance fee took into effect, Cathay Century has conducted regular fee reviews on automobile insurance, fire insurance, and residential fire insurance in accordance with regulation. Fee will be raised when actual loss rate exceeds expected loss rate by a certain percentage to avoid worsening of further losses. In addition, from time to time related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

⑥ Concentration risks in geographic regions and operating segments

Cathay Century's catastrophe insurance for earthquakes and floods are centralizing in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

b. Risk concentration before and after reinsurance by types of insurance:

Insurance type	For the three months ended March 31,2012 (NT\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,057,001	\$66,965	\$216,952	\$1,907,014
Fire insurance	412,247	16,095	232,505	195,837
Marine insurance	160,446	2,640	138,585	24,501
Engineering insurance	165,901	2,266	100,206	67,961
Health and injury insurance	316,028	1,696	34,297	283,427
Other insurance	266,577	773	102,237	165,113
Total	\$3,378,200	\$90,435	\$824,782	\$2,643,853

Insurance type	For the three months ended March 31,2012 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$69,729	\$2,270	\$7,354	\$64,645
Fire insurance	13,974	546	7,882	6,638
Marine insurance	5,439	89	4,698	830
Engineering insurance	5,624	77	3,397	2,304
Health and accident insurance	10,713	57	1,162	9,608
Other insurance	9,036	27	3,466	5,597
Total	\$114,515	\$3,066	\$27,959	\$89,622

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c. Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business. The greatest loss rate for such catastrophes for Cathay Century in the past would be the 2000 Typhoon Fanapi and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at NT\$342 million (US\$12 million).

C. Claim development table

Underwriting Year (NT\$)	2007.4.1~ 2008.3.31	2008.4.1~ 2009.3.31	2009.4.1~ 2010.3.31	2010.4.1~ 2011.3.31	2011.4.1~ 2012.3.31	Total
Estimate of cumulative claims incurred:						
At the end of underwriting year	\$2,857,559	\$3,309,373	\$3,451,224	\$5,047,820	\$4,157,056	
One year later	3,594,047	4,395,761	4,362,499	6,226,914		
Two years later	3,503,804	4,390,348	4,509,300			
Three years later	3,492,947	4,463,529				
Four years later	3,511,120					
Estimate of cumulative claims incurred	3,511,120	4,463,529	4,509,300	6,226,914	4,157,056	
Cumulative payment to date	3,451,504	4,360,549	4,259,003	4,590,644	2,884,984	
Subtotal	59,616	102,980	250,297	1,636,270	1,272,072	3,321,235
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	\$59,616	\$102,980	\$250,297	\$1,636,270	\$1,272,072	\$3,321,235

Underwriting Year (US\$)	2007.4.1~ 2008.3.31	2008.4.1~ 2009.3.31	2009.4.1~ 2010.3.31	2010.4.1~ 2011.3.31	2011.4.1~ 2012.3.31	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	\$96,866	\$112,182	\$116,991	\$171,113	\$140,917	
One year later	121,832	149,009	147,881	211,082		
Two years later	118,773	148,825	152,858			
Three years later	118,405	151,306				
Four years later	119,021					
Estimate of cumulative claims incurred	119,021	151,306	152,858	211,082	140,917	
Cumulative payment to date	117,000	147,815	144,373	155,615	97,796	
Subtotal	2,021	3,491	8,485	55,467	43,121	112,585
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	\$2,021	\$3,491	\$8,485	\$55,467	\$43,121	\$112,585

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Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time; the lower part adjusts cumulative claim amount to the balance sheet.

(3) Cathay Century (China)

Risk management objectives, policies, procedures and methods

A. The framework, organization structure and responsibilities for risk management.

a. The framework and organization structure for risk management.

Cathay Century (China) established the Audit Committee which is directly under the board of directors to be responsible for risk management, find out the significant risks and supervise the efficiency of operation for risk management.

Cathay Century (China) also established risk management team which is responsible for coordinating the risk management affairs and specific risk management. The team is lead by general manager and the team members include high-level management and the department managers from marketing, financial accounting, sales, information technology etc.

b. Responsibilities:

① The Audit Committee: discuss the following issues and give opinions and suggestions to the board of directors.

(a) The overall objective, basic policies and working system for risk management.

(b) The establishment and obligation of risk management institution.

(c) Risk assessment for important decision and the solution for significant risk.

(d) Annual risk assessment report.

② Risk management department (risk management team)

(a) Coordinate the risk management affairs:

(i) Set up the policies and system for risk management that can match up to the development strategies and overall risk tolerance for the insurance company.

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(ii) Provide the risk assessment reports for significant events, decisions and business process, and find out the solution for important risks.

(iii) Submit the annual risk assessment report to the board of direct and the management.

(iv) Direct, coordinate and supervise each department and business unit to launch risk management.

(b) Responsible for specific risk management:

(i) Evaluate the risk by qualitative and quantitative; meanwhile, improve the methods, technique and models for risk management.

(ii) Ensure the risk limit for each types of insurance and coordinate the daily work for risk management. In addition, support business units to launch business under the risk limit and monitor the compliance.

(iii) Assets and liabilities management.

(iv) Implement and establish the information system for risk management.

(v) Implement culture construction for risk.

(c) Business unit (operating department and administrative department)

Cathay Century (China) has set up a basic process to identify, assess and control risks for operating activities. It is lead by risk management team and finished by the close cooperation between each department.

(d) Audit department

The department is required to audit all departments to determine the execution status of the risk management policies complies with the related regulations and company's risk management policies.

B. The description and execution of overall strategies for risk management:

a. Overall strategies for risk management

According to the risk management policies and annual operating objectives from Cathay Century (China), every business unit should take measures to the risks they faced during the operating activity. The type of risks includes insurance risk, market risk, credit risk, liquidity risk and operating risk.

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b. Execution for risk management

(a) Insurance risk:

- ① Implement pressure test periodically (include negative assumption of premium income, claim expense and expenditure).
- ② Continuously developing a balanced structure of product sales.

(b) Market risk:

- ① Periodically provide pressure test (include negative assumption for investment under equity asset).
- ② Implement pressure test periodically for investment (include debt deadline gap analysis, exchange rate sensitive analysis, interest rate sensitive analysis and so on).

(c) Credit risk:

- ① Fulfill the related regulation for reinsurance.
- ② Invest in the underlying asset with higher credit rating.

(d) Liquidity risk:

- ① According to “the Guidelines for the Risk Control in the Operation of Insurance Funds” and the company’s annual strategies to plan the asset allocation.
- ② Practice the policy of the insurance policy will not be approved until the premium been paid and enhance the collection of insurance premium.

(e) Operating risk:

- ① Periodically perform the audit.
- ② Continuously improve the regulations and system for Cathay Century (China).

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Information of management achievement

A. Acquisition cost for insurance contracts:

Item	For the three months ended March 31, 2011					
	Surcharge		Reinsurance commission expense		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Fire insurance	\$9,989	\$339	\$7	\$-	\$9,996	\$339
Marine insurance	1,928	65	-	-	1,928	65
Land & air insurance	-	-	217	7	217	7
Liability insurance	6,026	204	3	-	6,029	204
Bonding insurance	287	10	-	-	287	10
Other property insurance	11,205	380	202	7	11,407	387
Accident insurance	-	-	46	2	46	2
Total	\$29,435	\$998	\$475	\$16	\$29,910	\$1,014

B. Disclosure for insurance cost benefit analysis:

① Cost benefit analysis for direct underwriting:

Item	For the three months ended March 31, 2012 (NT\$)					
	Premium income	Net change for unearned premium reserve	Acquired cost for insurance contract	Claims	Net change for claim reserve	Net gain(loss)
Fire insurance	\$100,732	\$(18,919)	\$(9,996)	\$(19,895)	\$(29,149)	\$22,773
Marine insurance	14,986	1,548	(1,928)	(5,101)	(9,888)	(383)
Land & air insurance	-	-	(217)	-	-	(217)
Liability insurance	50,547	(8,062)	(6,029)	(12,683)	(13,894)	9,879
Bonding insurance	2,048	18	(287)	(538)	(838)	403
Other property insurance	85,887	(20,968)	(11,407)	(21,358)	(28,194)	3,960
Accident insurance	-	-	(46)	8	-	(38)
Total	\$254,200	\$(46,383)	\$(29,910)	\$(59,567)	\$(81,963)	\$36,377

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For the three months ended March 31, 2012 (US\$)						
Item	Premium income	Net change for unearned premium reserve	Acquired cost for insurance contract	Claims	Net change for claim reserve	Net gain(loss)
Fire insurance	\$3,415	\$(641)	\$(339)	\$(675)	\$(988)	\$772
Marine insurance	508	52	(65)	(173)	(335)	(13)
Land & air insurance	-	-	(7)	-	-	(7)
Liability insurance	1,713	(273)	(204)	(430)	(471)	335
Bonding insurance	69	1	(10)	(18)	(28)	14
Other property insurance	2,912	(711)	(387)	(724)	(956)	134
Accident insurance	-	-	(2)	1	-	(2)
Total	\$8,617	\$(1,572)	\$(1,014)	\$(2,020)	\$(2,778)	\$1,233

② Cost benefit analysis for assumed reinsurance business:

For the three months ended March 31, 2012 (NT\$)						
Item	Reinsurance premium	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claim	Net change for claim reserve	Net gain (loss) for assumed reinsurance business
Fire insurance	\$37	\$95	\$(7)	\$(4)	\$(96)	\$25
Marine insurance	724	(19)	-	(701)	(252)	(248)
Land & air insurance	-	-	(217)	-	-	(217)
Liability insurance	12	(5)	(3)	-	27	31
Other property insurance	687	321	(202)	-	(279)	527
Accident insurance	471	(335)	(46)	-	(75)	15
Total	\$1,931	\$57	\$(475)	\$(705)	\$(675)	\$133

For the three months ended March 31, 2011 (US\$)						
Item	Reinsurance premium	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claim	Net change for claim reserve	Net gain (loss) for assumed reinsurance business
Fire insurance	\$1	\$3	\$-	\$-	\$(3)	\$1
Marine insurance	25	(1)	-	(24)	(9)	(9)
Land & air insurance	-	-	(7)	-	-	(7)
Liability insurance	-	-	-	-	1	1
Other property insurance	23	11	(7)	-	(9)	18
Accident insurance	16	(11)	(1)	-	(3)	1
Total	\$65	\$2	\$(15)	\$(24)	\$(23)	\$5

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③ Recognized gain (loss) for reinsurance contract purchased:

For the year March 31, 2012 (NT\$)							
Item	Reinsurance expense	Net change for unearned premium reserve			Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
		ceded	Reinsurance commission revenue	Reinsurance reserve			
Fire insurance	\$72,886	\$(22,092)	\$(16,943)	\$10,018	\$(18,477)	\$5,356	
Marine insurance	5,709	1,520	(1,960)	(2,260)	(2,862)	147	
Liability insurance	21,011	(405)	(5,714)	(4,468)	(6,012)	4,412	
Bonding insurance	267	(24)	(83)	(352)	252	60	
Other property insurance	11,734	(3,086)	(2,119)	1,139	(754)	6,914	
Total	\$111,607	\$(24,087)	\$(26,819)	\$(15,959)	\$(27,853)	\$16,889	

For the year March 31, 2012 (US\$)							
Item	Reinsurance expense	Net change for unearned premium reserve			Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
		ceded	Reinsurance commission revenue	Reinsurance reserve			
Fire insurance	\$2,471	\$(749)	\$(574)	\$340	\$(626)	\$182	
Marine insurance	193	52	(66)	(77)	(97)	5	
Liability insurance	712	(13)	(194)	(151)	(204)	150	
Bonding insurance	9	(1)	(3)	(12)	9	2	
Other property insurance	398	(105)	(72)	39	(26)	234	
Total	\$3,783	\$(816)	\$(909)	\$(541)	\$(944)	\$573	

Insurance risk information

A. Sensitivity of insurance risk

Insurance type	Premium income	The impact to profit and loss when the ending loss rate increases 5% (NT\$)	
		Before reinsurance	After reinsurance
Fire insurance	\$101,203	\$5,060	\$1,401
Marine insurance	15,056	753	502
Liability Insurance	50,783	2,539	1,484
Bonding insurance	2,057	103	89
Other property insurance	86,288	4,314	3,759

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Insurance type	Premium income	The impact to profit and loss when the ending loss rate increases 5% (US\$)	
		Before reinsurance	After reinsurance
Fire insurance	\$3,431	\$172	\$47
Marine insurance	510	26	17
Liability Insurance	1,702	86	50
Bonding insurance	70	3	3
Other property insurance	2,925	146	127

According to the above chart, with every 5% increase in the ending loss rate of every insurance contract of Cathay Century (China), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

B. Concentration of insurance risk

a. Conditions that may lead to the concentration of insurance risk:

① The exposure of unanticipated change in trend

As of March 31, 2012, every types of insurance for Cathay Century (China) were under a reasonable range except for marine insurance with a higher reinsurance loss ratio of 89.47% due to the frequency occurrence cases of local freight compensation.

② The correlation and cross effect between risks

When significant incidents happened, the company may face the huge claim for the insured cases or the impairment loss for intangible or tangible assets. It may also create risks such as market risk, credit risk, liquidity risk and so on. To ensure management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for significant incidents handling process”. If necessary, the general manager or assigned personnel will held the emergency response team to make sure the operation of the company and protect the safety of policyholders’ property as well as the company’s equity. There is no significant incident occurred for the three months ended March 31, 2012.

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b. Risk concentration before and after reinsurance by types of insurance is summarized as follows:

Types of insurance	For the three months ended March 31, 2012							
	Premium income		Reinsurance premium income		Reinsurance premium expense		Net premium income	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Car insurance	\$72,035	\$2,442	\$687	\$23	\$408	\$14	\$72,314	\$2,451
Fire insurance	106,752	3,619	37	1	76,408	2,590	30,381	1,030
Marine insurance	14,985	508	724	25	5,709	194	10,000	339
Engineering insurance	5,588	189	-	-	7,804	264	(2,216)	(75)
Health and accident insurance	-	-	471	16	-	-	471	16
Other insurance	54,840	1,859	12	-	21,278	721	33,574	1,138
Total	\$254,200	\$8,617	\$1,931	\$65	\$111,607	\$3,783	\$144,524	\$4,899

Types of insurance	For the three months ended March 31, 2011							
	Premium income		Reinsurance premium income		Reinsurance premium expense		Net premium income	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Car insurance	\$22,390	\$761	\$-	\$-	\$-	\$-	\$22,390	\$761
Fire insurance	65,176	2,217	-	-	38,921	1,324	26,255	893
Marine insurance	23,109	786	-	-	9,685	329	13,424	457
Engineering insurance	4,340	148	-	-	2,928	100	1,412	48
Health and accident insurance	-	-	-	-	-	-	-	-
Other insurance	19,661	669	-	-	8,961	305	10,700	364
Total	\$134,676	\$4,581	\$-	\$-	\$60,495	\$2,058	\$74,181	\$2,523

C. Claim development table

	Incident period (NT\$)					
	2008	2009	2010	2011	2012	Total
Estimated accumulation amount of claim						
As to 2008/12/31	\$2,567					
As to 2009/12/31	2,446	\$148,910				
As to 2010/12/31	2,441	143,102	\$318,449			
As to 2011/12/31	2,468	140,220	315,420	\$342,706		
As to 2012/3/31	2,468	140,658	316,567	354,170	\$119,016	
Estimated accumulation of claim	2,468	140,658	316,567	354,170	119,016	\$932,879
Accumulated claim paid	1,282	121,368	270,634	149,152	7,417	549,853
Subtotal	1,186	19,290	45,933	205,018	111,599	383,026
Indirect claim expense, discount and risk margin						16,305
Recognized amount on balance sheet						<u>\$399,331</u>

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	Incident period (US\$)					Total
	2008	2009	2010	2011	2012	
Estimated accumulation amount of claim						
As to 2008/12/31	\$87					
As to 2009/12/31	83	\$5,048				
As to 2010/12/31	83	4,851	\$10,795			
As to 2011/12/31	84	4,753	10,692	\$11,617		
As to 2012/3/31	84	4,768	10,731	12,006	\$4,034	
Estimated accumulation of claim	84	4,768	10,731	12,006	4,034	\$31,623
Accumulated claim paid	44	4,114	9,174	5,056	251	18,639
Subtotal	40	654	1,557	6,950	3,783	12,984
Indirect claim expense, discount and risk margin						553
Recognized amount on balance sheet						<u>\$13,537</u>

(4)Cathay Century (Vietnam)

Information of management achievement

A. Acquisition cost for insurance contracts:

Item	For the three months ended March 31,2012 (NT\$)			
	Commission expense	Agency fee	Reinsurance commission expense	Total
Fire insurance	\$94	\$117	\$26	\$237
Marine insurance	11	-	-	11
Land and air insurance	186	-	25	211
Liability insurance	1	6	-	7
Other property insurance	316	-	-	316
Accident insurance	77	-	-	77
Total	<u>\$685</u>	<u>\$123</u>	<u>\$51</u>	<u>\$859</u>

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For the three months ended March 31,2012 (US\$)				
Item	Commission expense	Agency fee	Reinsurance commission expense	Total
Fire insurance	\$3	\$4	\$1	\$8
Marine insurance	-	-	-	-
Land and air insurance	6	-	1	7
Liability insurance	-	-	-	-
Other property insurance	11	-	-	11
Accident insurance	3	-	-	3
Total	\$23	\$4	\$2	\$29

B. Disclosure for insurance cost benefit analysis:

① Cost benefit analysis for direct underwriting:

For the three months ended March 31,2012 (NT\$)						
Item	Premium income	Net change for unearned premium reserve	Acquired cost for insurance contract	Claims	Net change for claim reserve	Net gain
Fire insurance	\$7,096	\$6,603	\$210	\$-	\$177	\$14,086
Marine insurance	283	87	11	-	2	383
Land and air insurance	4,127	2,012	186	550	582	7,457
Liability insurance	105	8	7	-	1	121
Other property insurance	157	27	316	-	2	502
Accident insurance	1,126	461	78	363	(280)	1,748
Total	\$12,894	\$9,198	\$808	\$913	\$484	\$24,297

For the three months ended March 31,2012 (US\$)						
Item	Premium income	Net change for unearned premium reserve	Acquired cost for insurance contract	Claims	Net change for claim reserve	Net gain
Fire insurance	\$240	\$224	\$7	\$-	\$6	\$477
Marine insurance	10	3	-	-	-	13
Land and air insurance	140	68	6	19	20	253
Liability insurance	4	-	-	-	-	4
Other property insurance	5	1	11	-	-	17
Accident insurance	38	16	3	12	(9)	60
Total	\$437	\$312	\$27	\$31	\$17	\$824

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② Recognized loss for reinsurance contract purchased:

For the three months ended March 31,2012 (NT\$)								
Item	Reinsurance expense	Net change for unearned premium		Reinsurance commission revenue	Claims recoverable from reinsurers	Net change for claim reserve		Net loss for reinsurance ceded
		reserve ceded				ceded		
Fire insurance	\$4,204	\$6,035		\$-	\$-	\$296		\$10,535
Marine insurance	164	78		-	-	36		278
Liability insurance	52	12		-	-	-		64
Other property insurance	79	2		-	-	-		81
Total	\$4,499	\$6,127		\$-	\$-	\$332		\$10,958

For the three months ended March 31, 2012 (US\$)								
Item	Reinsurance expense	Net change for unearned premium		Reinsurance commission revenue	Claims recoverable from reinsurers	Net change for claim reserve		Net loss for reinsurance ceded
		reserve ceded				ceded		
Fire insurance	\$142	\$205		\$-	\$-	\$10		\$357
Marine insurance	5	3		-	-	1		9
Liability insurance	2	-		-	-	-		2
Other property insurance	3	-		-	-	-		3
Total	\$152	\$208		\$-	\$-	\$11		\$371

Although Cathay Century (Vietnam) still in the early stage of business, the reserve for incurred but not reported claim was developed by the suggestion of Vietnamese Ministry of Finance 2842/BTC/QLBH, and the amount was withdraw from 5% of retained premium. As of March 31 2012, Cathay Century (Vietnam) does not have related data for trend of development.

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28. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Venture	"
Cathay Securities Investment Trust	"
	(Merge with the Company on June 24, 2011)
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
Cathay Century (Vietnam)	"
Indovina Bank	Subsidiary of Cathay United Bank
Seaward Card	"
Cathay Futures	Subsidiary of Cathay Securities
Taiwan Real-estate Management Corp.	Investee accounted for under the equity method
Cathay Bond Fund etc.	The fund is managed by Cathay Securities Investment Trust
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	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Seaward Leasing Ltd.	"
	(Merge with Cathay Real Estate Development Co., Ltd on July 28, 2011.)
Other related parties	Includes chairmen, managers, their spouses and relatives of subsidiaries

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

a. Call loans to banks

Name	For the three months ended March 31,							
	2012				2011			
	Ending balance		Interest income		Ending balance		Interest income	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$1,476,500	\$50,051	\$88,225	\$2,991	\$568,381	\$19,333	\$24,242	\$825

b. Due from commercial banks

Name	For the three months ended March 31,							
	2012				2011			
	Ending balance		Interest income		Ending balance		Interest income	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$3,841	\$130	\$3,714	\$126	\$27,552	\$937	\$4	\$-

c. Call loans from banks

Name	For the three months ended March 31,							
	2012				2011			
	Ending balance		Interest expense		Ending balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$-	\$-	\$73,046	\$2,476	\$568,381	\$19,333	\$20,805	\$708

d. Due to commercial banks

Name	For the three months ended March 31,							
	2012				2011			
	Ending balance		Interest expense		Ending balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$11,801	\$400	\$-	\$-	\$4,805	\$163	\$-	\$-

B. Financial assets at fair value through profit or loss

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	\$1,668,954	\$56,575	\$2,351,391	\$79,979

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C. Receivables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Insurance (Bermuda)	\$1,035	\$35	\$15,723	\$535
Cathay General Hospital	35,921	1,218	32,130	1,093
Cathay Bond Fund etc.	73,952	2,507	-	-
Total	<u>\$110,908</u>	<u>\$3,760</u>	<u>\$47,853</u>	<u>\$1,628</u>

D. Loans

Name	For the three months ended March 31, 2012			
	Ending balance	Ending balance	Interest income	Interest income
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Real Estate Development Co., Ltd.	\$50,000	\$1,695	\$82	\$3
Taiwan Real-estate Management Corp.	75,000	2,542	392	13
Cathay General Hospital	3,520,448	119,337	22,215	753
Other related parties	379,178	12,854	1,862	63
Total	<u>\$4,024,626</u>	<u>\$136,428</u>	<u>\$24,551</u>	<u>\$832</u>

Name	For the three months ended March 31, 2011			
	Ending balance	Ending balance	Interest income	Interest income
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$420,000	\$14,286	\$934	\$32
Taiwan Real-estate Management Corp.	95,000	3,231	452	15
Cathay General Hospital	3,841,730	130,671	22,115	752
Other related parties	600,139	20,413	3,041	104
Total	<u>\$4,956,869</u>	<u>\$168,601</u>	<u>\$26,542</u>	<u>\$903</u>

E. Available-for-sale financial assets

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	<u>\$233,646</u>	<u>\$7,920</u>	<u>\$535,315</u>	<u>\$18,208</u>

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F. Deposit

Name	For the three months ended March 31, 2012			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay Real Estate Development Co., Ltd.	\$339,444	\$11,506	\$31	\$1
Cathay Bond Fund etc.	2,973,708	100,804	7,294	247
Other related parties	6,278,432	212,828	14,652	497
Total	\$9,591,584	\$325,138	\$21,977	\$745

Name	For the three months ended March 31, 2011			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay Real Estate Development Co., Ltd.	\$61,425	\$2,089	\$20	\$1
Cathay Bond Fund etc.	4,984,473	169,540	6,845	233
Other related parties	5,153,458	175,288	10,260	349
Total	\$10,199,356	\$346,917	\$17,125	\$583

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 three months ended March 31, 2012	
		(NT\$)	(US\$)
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	\$14,195	\$481
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	464,744	15,754
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	4,327	147
Total		\$483,266	\$16,382

Name	Item	For the three months ended March 31, 2011	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building, etc.	\$4,869	\$166

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b. Real estate rental income from Cathay Life:

Name	Rental income			
	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Real Estate Development Co., Ltd.	\$4,322	\$146	\$5,016	\$171
Cathay General Hospital	43,676	1,481	44,727	1,521
Total	<u>\$47,998</u>	<u>\$1,627</u>	<u>\$49,743</u>	<u>\$1,692</u>

Name	Guarantee deposits received			
	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Real Estate Development Co., Ltd.	\$4,028	\$136	\$4,886	\$166
Cathay General Hospital	10,166	345	11,984	408
Total	<u>\$14,194</u>	<u>\$481</u>	<u>\$16,870</u>	<u>\$574</u>

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

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

Name	Rental expenses			
	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Real Estate Development Co., Ltd.	\$8,444	\$286	\$9,714	\$330
Seaward Leasing Ltd.	-	-	3,731	127
Total	<u>\$8,444</u>	<u>\$286</u>	<u>\$13,445</u>	<u>\$457</u>

Name	Guarantee deposits paid			
	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Real Estate Development Co., Ltd.	\$5,566	\$189	\$10,855	\$369

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

H. Securities sold under agreements to repurchase

Name	March 31,			
	Ending balance			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Other related parties	<u>\$100,120</u>	<u>\$3,394</u>	<u>\$338,630</u>	<u>\$11,518</u>

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Name	For the three months ended March 31,			
	Interest expenses			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Other related parties	\$138	\$5	\$181	\$6

I. Guarantee deposits

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Lin Yuan Property Management Co., Ltd.	\$5,000	\$169	\$-	\$-

The guarantee deposits received from Lin Yuan Property management Co., Ltd. are due to the construction contracts.

J. Payables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Seaward Card	\$26,548	\$900	\$-	\$-
Lin Yuan Property Management Co., Ltd.	41,008	1,390	37,733	1,283
San Ching Engineering Co., Ltd.	3,696	125	19,608	667
Total	\$71,252	\$2,415	\$57,341	\$1,950

K. Net commission and handling fees

Reinsurance handling fee paid

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Insurance (Bermuda)	\$4,110	\$139	\$2,070	\$70

L. Net premiums from insurance business

a. Insurance income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay General Hospital	\$10,088	\$342	\$11,554	\$393
Other related parties	28,114	953	39,229	1,334
Total	\$38,202	\$1,295	\$50,783	\$1,727

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b. Reinsurance income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Insurance (Bermuda)	\$34,471	\$1,169	\$36,272	\$1,234

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 three months ended March 31, 2012 and 2011, Cathay Life assumes 90% of the reinsurance business from Cathay Insurance (Bermuda).

c. Reinsurance claims payment

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Insurance (Bermuda)	\$33,399	\$1,132	\$17,614	\$599

M.Net other non-interest income

a. Sales

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay General Hospital	\$26,123	\$886	\$7,029	\$239

b. Management fee income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	\$212,609	\$7,207	\$244,857	\$8,328

N. Operating expense

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Securities Investment Consulting	\$6,339	\$215	\$5,670	\$193
Seaward Card	83,102	2,817	91,496	3,112
Lin Yuan Property Management Co., Ltd.	151,372	5,131	141,659	4,818
Cathay General Hospital	183	6	3,372	115
Cathay Real Estate Development Co., Ltd.	3,330	113	318	11
Seaward Leasing Ltd.	-	-	3,873	132
Total	\$244,326	\$8,282	\$246,388	\$8,381

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O. Others Disclosures

Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$3,519 (US\$119) thousands and NT\$2,864 (US\$97) thousands during the three months ended March 31, 2012 and 2011, respectively.

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

A. Cash in bank

		For the three months ended March 31, 2012		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$13,133	0.05%~0.17%	\$8

		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$445	0.05%~0.17%	\$-

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$1,151	0.00%~0.13%	\$1

		For the three months ended March 31, 2011		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$39	0.00%~0.13%	\$-

B. Receivables

		March 31,			
Name	Item	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	Interest	\$1,868,754	\$63,348	\$1,015,959	\$34,556
Cathay Century	Receivables due to consolidated income tax and interest	141,014	4,780	90,810	3,089
Cathay Securities	Receivables due to consolidated income tax	211,595	7,173	35,110	1,194
Total		\$2,221,363	\$75,301	\$1,141,879	\$38,839

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share data and unless otherwise stated)**

C. Guarantee deposits paid

Name	March 31,			
	2012(NT\$)	2012 (US\$)	2011(NT\$)	2011(US\$)
Cathay Life	\$5,816	\$197	\$5,816	\$198

D. Held-to-maturity financial asset

Name	March 31,			
	2012(NT\$)	2012 (US\$)	2011(NT\$)	2011 (US\$)
Cathay Life	\$30,000,000	\$1,016,949	\$25,000,000	\$850,340
Cathay Century	1,000,000	33,898	-	-
Total	\$31,000,000	\$1,050,847	\$25,000,000	\$850,340

E. Payables

Name	Item	March 31,			
		2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	Payables due to consolidated income tax	\$2,936,991	\$99,559	\$2,264,308	\$77,017
Cathay United Bank	Payables due to consolidated income tax	264,755	8,975	1,090,943	37,107
Total		\$3,201,746	\$108,534	\$3,355,251	\$114,124

F. Interest income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	\$225,760	\$7,653	\$200,959	\$6,835
Cathay Century	4,624	157	-	-
Total	\$230,384	\$7,810	\$200,959	\$6,835

G. Operating expenses

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	\$6,763	\$229	\$6,697	\$228

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

A. Cathay Life

a. Cash in banks

		For the three months ended March 31, 2012		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Cash in bank	\$9,174,000	0.02%~1.05%	\$4,161
Bank	Time deposit	56,303,898	0.17%~1.40%	109,157
Total		<u>\$65,477,898</u>		<u>\$113,318</u>

		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Cash in bank	\$310,983	0.02%~1.05%	\$141
Bank	Time deposit	1,908,607	0.17%~1.40%	3,700
Total		<u>\$2,219,590</u>		<u>\$3,841</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Cash in bank	\$5,736,219	0.02%~1.10%	\$1,495
Bank	Time deposit	20,439,222	0.10%~1.23%	11,162
Total		<u>\$26,175,441</u>		<u>\$12,657</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Cash in bank	\$195,109	0.02%~1.10%	\$51
Bank	Time deposit	695,212	0.10%~1.23%	380
Total		<u>\$890,321</u>		<u>\$431</u>

b. Other receivables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding (Note 1)	\$2,936,991	\$99,559	\$2,264,308	\$77,017
Cathay Century	152,937	5,184	146,359	4,978
Cathay Life (China)(Note 2)	204,097	6,919	204,097	6,942
Total	<u>\$3,294,025</u>	<u>\$111,662</u>	<u>\$2,614,764</u>	<u>\$88,937</u>

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Note 1:Receivables are refundable tax under the consolidated income tax system.

Note 2:Receivables are consisted of other receivables for out-of-pocket IT system expenses.

c. Secured loans

For the three months ended March 31, 2012				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$3,485,571	\$3,417,448	2.43%~2.55%	\$21,458
Other related parties	127,338	112,946	1.525%~3.78%	574
Total		<u>\$3,530,394</u>		<u>\$22,032</u>

For the three months ended March 31, 2012				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$118,155	\$115,846	2.43%~2.55%	\$727
Other related parties	4,317	3,828	1.525%~3.78%	20
Total		<u>\$119,674</u>		<u>\$747</u>

For the three months ended March 31, 2011				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$3,756,320	\$3,688,730	2.09%~2.33%	\$20,672
Other related parties	281,489	274,750	1.305%~3.65%	1,271
Total		<u>\$3,963,480</u>		<u>\$21,943</u>

For the three months ended March 31, 2011				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$127,766	\$125,467	2.09%~2.33%	\$703
Other related parties	9,574	9,345	1.305%~3.65%	43
Total		<u>\$134,812</u>		<u>\$746</u>

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

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	<u>\$1,643,969</u>	<u>\$55,728</u>	<u>\$2,256,600</u>	<u>\$76,755</u>

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e. Guarantee deposits paid

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Futures	<u>\$264,815</u>	<u>\$8,977</u>	<u>\$177,554</u>	<u>\$6,039</u>

As of March 31, 2012 and 2011, the imputed interest income of guarantee deposits paid from Cathay Futures were NT\$113 (US\$4) thousands and NT\$37 (US\$1) thousands, respectively.

f. Other payables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding (Note)	<u>\$1,868,754</u>	<u>\$63,348</u>	<u>\$1,015,959</u>	<u>\$34,556</u>

Note: Interest payable accrued from preferred stock liability.

g. Preferred stock liability

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding	<u>\$30,000,000</u>	<u>\$1,016,949</u>	<u>\$25,000,000</u>	<u>\$850,340</u>

h. Property transactions

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

Real-estate contracted prefect from Cathay Life:

Name	Item	For the three months ended March 31, 2012	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd	Cathay Land Mark, etc.	<u>\$464,744</u>	<u>\$15,754</u>

Cathay Life did not have any significant transaction with related parties for the three months ended March 31, 2011.

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i. Insurance expense

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay United Bank	\$160,037	\$5,425	\$151,822	\$5,164

j. Miscellaneous income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Century	\$287,546	\$9,747	\$313,123	\$10,650

k. Operating expense

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay United Bank	\$538,300	\$18,248	\$331,698	\$11,282
Lin Yuan Property Management Co., Ltd.	151,372	5,131	141,659	4,818
Total	\$689,672	\$23,379	\$473,357	\$16,100

l. Non-operating expenses and losses

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding	\$225,760	\$7,653	\$200,959	\$6,835

(Note)

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

m. Other disclosures

(A) As of March 31, 2012 and 2011, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

Item	March 31,			
	2012		2011	
Forward foreign exchange contracts	USD	-	USD	896,084
CS contracts	USD	1,867,000	USD	2,052,691

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(B) Cathay Life had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$1,290,000 (US\$43,878) thousands during the three months ended March 31, 2011.

B. Cathay United Bank

a. Loans and deposits

Account/Name	For the three months ended March 31,							
	2012				2011			
	Ending balance		Interest income		Ending balance		Interest income	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward Leasing Ltd.	\$-	\$-	\$-	\$-	\$420,000	\$14,286	\$934	\$32
Cathay General Hospital	103,000	3,492	757	26	153,000	5,204	1,443	49
Other related parties	227,739	7,720	1,085	37	290,833	9,892	1,609	55
Total	\$330,739	\$11,212	\$1,842	\$63	\$863,833	\$29,382	\$3,986	\$136

Account/Name	For the three months ended March 31,							
	2012				2011			
	Ending balance		Interest expense		Ending balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$65,477,898	\$2,219,590	\$113,318	\$3,841	\$26,175,441	\$890,321	\$12,657	\$431
Cathay Futures	1,572,657	53,310	4,157	141	1,264,618	43,014	2,591	88
Cathay Securities	638,603	21,648	1,403	48	584,554	19,883	187	6
Cathay Century	1,363,360	46,216	2,986	101	1,369,659	46,587	1,058	36
Cathay Securities Investment Trust	1,744,465	59,134	3,374	115	926,799	31,524	604	20
Symphox Information	214,639	7,276	602	20	197,894	6,731	388	13
Cathay Real Estate Development Co., Ltd.	339,444	11,506	31	1	61,425	2,089	20	1
Cathay Bond Fund etc.	2,973,708	100,804	7,294	247	4,984,473	169,540	6,845	233
Other related parties	6,278,432	212,828	14,652	497	5,153,458	175,288	10,260	349
Total	\$80,603,206	\$2,732,312	\$147,817	\$5,011	\$40,718,321	\$1,384,977	\$34,610	\$1,177

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For the three months ended March 31, 2012							
Account/Name	Maximum amount		Ending balance		Rate	Interest income (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$2,067,100</u>	<u>\$70,071</u>	<u>\$1,624,150</u>	<u>\$55,056</u>	0.51%~2.08%	<u>\$6,580</u>	<u>\$223</u>
Call loans from banks							
Indovina Bank	<u>\$324,830</u>	<u>\$11,011</u>	<u>\$265,770</u>	<u>\$9,009</u>	0.15%~0.28%	<u>\$(4)</u>	<u>\$-</u>

For the three months ended March 31, 2011							
Account/Name	Maximum amount		Ending balance		Rate	Interest income (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$1,176,720</u>	<u>\$40,024</u>	<u>\$1,176,720</u>	<u>\$40,024</u>	0.68%	<u>\$44</u>	<u>\$1</u>
Call loans from banks							
Indovina Bank	<u>\$882,540</u>	<u>\$30,018</u>	<u>\$735,450</u>	<u>\$25,015</u>	0.18%~0.32%	<u>\$(399)</u>	<u>\$(14)</u>

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

b. Securities sold under agreements to repurchase

Name	March 31, Ending balance			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Other related parties	<u>\$100,120</u>	<u>\$3,394</u>	<u>\$338,630</u>	<u>\$11,518</u>

Name	For the three months ended March 31, Interest expense			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Other related parties	<u>\$138</u>	<u>\$5</u>	<u>\$181</u>	<u>\$6</u>

c. Handling fees income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	<u>\$538,300</u>	<u>\$18,248</u>	<u>\$331,698</u>	<u>\$11,282</u>

d. Accrued insurance expense

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	<u>\$160,037</u>	<u>\$5,425</u>	<u>\$151,822</u>	<u>\$5,164</u>

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e. General expense

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Symphox Information	\$110,904	\$3,759	\$150,512	\$5,119

f. Receivables due to consolidated income tax

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding	\$264,756	\$8,975	\$1,090,943	\$37,107

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

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	\$-	\$-	\$300,000	\$10,204

h. Other disclosures

(a) Cathay United Bank entered into a contract with Cathay Life to transferring credit facilities. The transferring loan amount was NT\$1,290,000 (US\$43,878) thousands during the three months ended March 31, 2011.

(b) Cathay United Bank entered into a contract with Cathay Century to transferring credit facilities. The transferring loan amounts was NT\$100,000 (US\$3,401) thousands during the three months ended March 31, 2011.

C. Cathay Century

a. Cash in banks

Name	Item	For the three months ended March 31, 2012		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$459,760	0.17%	\$103
	Time deposits	903,600	0.17%~1.345%	2,883
Total		\$1,363,360		\$2,986

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		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$15,585	0.17%	\$3
	Time deposits	30,631	0.17%~1.345%	98
Total		<u>\$46,216</u>		<u>\$101</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$410,459	0.05%~0.13%	\$134
	Time deposits	959,200	0.10%~1.175%	924
Total		<u>\$1,369,659</u>		<u>\$1,058</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$13,961	0.05%~0.13%	\$5
	Time deposits	32,626	0.10%~1.175%	31
Total		<u>\$46,587</u>		<u>\$36</u>

b. Other payables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	\$152,937	\$5,184	\$146,359	\$4,978
Cathay Financial Holding	141,014	4,780	90,810	3,089
Total	<u>\$293,951</u>	<u>\$9,964</u>	<u>\$237,169</u>	<u>\$8,067</u>

c. Operating expense

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	<u>\$309,804</u>	<u>\$10,502</u>	<u>\$338,884</u>	<u>\$11,527</u>

d. Preferred stock liability

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding	<u>\$1,000,000</u>	<u>\$33,898</u>	<u>\$-</u>	<u>\$-</u>

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e. Other disclosures

(A) As of March 31, 2012 and 2011 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	March 31,	
	2012	2011
CS contracts	USD 44,050	USD 41,050
IRS	NTD 600,000	NTD 600,000
	(USD 20,339)	(USD 20,408)

(B) Cathay Century had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$100,000 (US\$3,401) thousands for the three months ended March 31, 2011.

D. Cathay Securities

a. Cash in bank

		For the three months ended March 31, 2012		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$88,603	0.17%	\$66
	Time deposits	550,000	0.47%~1.215%	1,337
	Total	<u>\$638,603</u>		<u>\$1,403</u>

		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$3,004	0.17%	\$2
	Time deposits	18,644	0.47%~1.215%	46
	Total	<u>\$21,648</u>		<u>\$48</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$458,954	0.02%~0.13%	\$127
	Time deposits	125,600	0.30%~1.175%	60
	Total	<u>\$584,554</u>		<u>\$187</u>

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		For the three months ended March 31, 2011		
Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United Bank	Cash in banks	\$15,611	0.02%~0.13%	\$4
	Time deposits	4,272	0.30%~1.175%	2
	Total	\$19,883		\$6

b. Other payables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Financial Holding	\$211,595	\$7,173	\$35,110	\$1,194

(Note)

Note: Other payable are income tax payable accrued from consolidated income tax.

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

		For the three months ended March 31, 2012							
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	\$-	\$-	\$-	\$-	\$-	\$-	\$530,272	\$17,975	

		For the three months ended March 31, 2011							
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	\$-	\$-	\$-	\$-	\$-	\$-	\$214,601	\$7,300	

E. Cathay Venture

Available-for-sale financial assets

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	\$40,685	\$1,379	\$169,349	\$5,760

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F. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Refundable deposit

		For the three months ended March 31, 2012		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$30,015	0.17%	\$-
	Time deposits (Note)	1,714,450	0.365%~1.395%	3,374
	Total	<u>\$1,744,465</u>		<u>\$3,374</u>

		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$1,017	0.17%	\$-
	Time deposits (Note)	58,117	0.365%~1.395%	115
	Total	<u>\$59,134</u>		<u>\$115</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$17,149	-	\$-
	Time deposits (Note)	909,650	0.15%~2.7%	604
	Total	<u>\$926,799</u>		<u>\$604</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$583	-	\$-
	Time deposits (Note)	30,941	0.15%~2.7%	21
	Total	<u>\$31,524</u>		<u>\$21</u>

Note: As of March 31, 2012 and 2011, according to Standards Governing the Establishment of Futures Trust Enterprises and Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises, Cathay Securities Investment Trust reserve NT\$50,000 (US\$1,695) thousands and NT\$54,700 (US\$1,861) thousands respectively of its time deposits in Cathay United Bank as operating deposit. In addition, Cathay Securities Investment Trust reserve NT\$141,000 (US\$4,780) thousands and NT\$129,000 (US\$4,388) thousands respectively as performance bond according to Discretionary Investment Services Contract.

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b. Available-for-sale financial assets

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	\$136,621	\$4,631	\$-	\$-

c. Management fee income

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Bond Fund etc.	\$212,609	\$7,207	\$244,857	\$8,328

G. Cathay Futures

a. Cash in bank, cash equivalent and operating deposits

Name	Item	For the three months ended March 31, 2012		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$23,729	0.17%	\$-
	Time deposits (Note)	347,200	0.52%~1.345%	1,078
	Total	\$370,929		\$1,078

Name	Item	For the three months ended March 31, 2012		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$804	0.17%	\$-
	Time deposits (Note)	11,770	0.52%~1.345%	37
	Total	\$12,574		\$37

Name	Item	For the three months ended March 31, 2011		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$19,479	0.10%~0.13%	\$24
	Time deposits (Note)	325,800	0.27%~1.175%	2,567
	Total	\$345,279		\$2,591

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Name	Item	For the three months ended March 31, 2011		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$662	0.10%~0.13%	\$1
	Time deposits (Note)	11,082	0.27%~1.175%	87
	Total	<u>\$11,744</u>		<u>\$88</u>

Note: As of March 31, 2012 and 2011, Cathay Futures has time deposit amounting to NT\$60,000 (US\$2,034) thousands and NT\$60,000 (US\$2,041) thousands in Cathay United Bank as the guaranty bond, in accordance with Article 14 of Rules Governing Futures Commission Merchants and Article 10 of Regulation Governing Futures Advisory Enterprises.

b. Customer's margin accounts

Name	March 31,					
	2012			2011		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	<u>\$1,201,728</u>	<u>\$40,736</u>	0.02%~1.345%	<u>\$919,339</u>	<u>\$31,270</u>	0.02%~1.175%

c. Futures customers' equity

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	\$264,815	\$8,977	\$177,554	\$6,039
Cathay Securities	530,272	17,975	214,601	7,300
Total	<u>\$795,087</u>	<u>\$26,952</u>	<u>\$392,155</u>	<u>\$13,339</u>

H. Symphox Information

a. Cash in bank

Name	Item	For the three months ended March 31, 2012		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$4,639	0.17%	\$-
	Time deposit	210,000	0.94%~1.08%	602
Total		<u>\$214,639</u>		<u>\$602</u>

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		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$157	0.17%	\$-
	Time deposit	7,119	0.94%~1.08%	20
Total		<u>\$7,276</u>		<u>\$20</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$17,434	0.10%	\$-
	Time deposit	180,460	0.78%~1.225%	388
Total		<u>\$197,894</u>		<u>\$388</u>

		For the three months ended March 31, 2011		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$593	0.10%	\$-
	Time deposit	6,138	0.78%~1.225%	13
Total		<u>\$6,731</u>		<u>\$13</u>

b. Sales revenue

Name	For the three months ended March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay United Bank	<u>\$69,027</u>	<u>\$2,340</u>	<u>\$106,410</u>	<u>\$3,619</u>

I. Indovina Bank

a. Call loans from banks

		For the three months ended March 31, 2012			
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)	
Cathay United Bank	\$1,624,150	\$55,056	\$6,580	\$223	
Vietinbank	-	-	73,046	2,476	
Total	<u>\$1,624,150</u>	<u>\$55,056</u>	<u>\$79,626</u>	<u>\$2,699</u>	

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Name	For the three months ended March 31, 2011			
	Ending balance	Ending balance	Interest expense	Interest expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay United Bank	\$1,176,720	\$40,024	\$44	\$1
Vietinbank	568,381	19,333	20,805	708
Total	\$1,745,101	\$59,357	\$20,849	\$709

b. Call loans to banks

Name	For the three months ended March 31, 2012			
	Ending balance	Ending balance	Interest income	Interest income
	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$1,476,500	\$50,051	\$88,225	\$2,991
Cathay United Bank	265,770	9,009	4	-
Total	\$1,742,270	\$59,060	\$88,229	\$2,991

Name	For the three months ended March 31, 2011			
	Ending balance	Ending balance	Interest income	Interest income
	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$568,381	\$19,333	\$24,242	\$824
Cathay United Bank	735,450	25,015	399	14
Total	\$1,303,831	\$44,348	\$24,641	\$838

c. Deposits

Name	For the three months ended March 31, 2012			
	Ending balance	Ending balance	Interest expense	Interest expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Century (Vietnam)	\$327,889	\$11,115	\$10,272	\$348

Name	For the three months ended March 31, 2011			
	Ending balance	Ending balance	Interest expense	Interest expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Century (Vietnam)	\$179,527	\$6,106	\$-	\$-

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J. Cathay Life (China)

Other payables

Name	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Cathay Life	\$204,097	\$6,919	\$204,097	\$6,942

K. Cathay Century (Vietnam)

Cash in bank

		For the three months ended March 31, 2012		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	Cash in bank	\$3,165	0.10%~2.40%	\$29
	Time deposits	324,724	0.50%~14.00%	10,243
Total		\$327,889		\$10,272

		For the three months ended March 31, 2012		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	Cash in bank	\$107	0.10%~2.40%	\$1
	Time deposits	11,008	0.50%~14.00%	347
Total		\$11,115		\$348

		For the three months ended March 31, 2011		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	Cash in bank	\$28,550	0.10%~2.40%	\$-
	Time deposits	150,977	1.00%~14.00%	-
Total		\$179,527		\$-

		For the three months ended March 31, 2011		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	Cash in bank	\$971	0.10%~2.40%	\$-
	Time deposits	5,135	1.00%~14.00%	-
Total		\$6,106		\$-

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29. Pledged assets

As of March 31, 2012 and 2011, the Company and Subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loan, other financial or leasing	\$2,085,487	\$70,694	\$1,657,160	\$56,366
Guarantee deposits paid	Government bonds	11,123,034	377,052	9,485,971	322,652
Financial assets at fair value through profit or loss	Business reserves and guarantees, the operation of electronic gift certificate and customer's rights	40,579	1,376	603,276	20,520
Available-for-sale financial assets	Business reserves and guarantees	1,687,659	57,209	1,488,516	50,630
Held-to-maturity financial assets	Business reserves and guarantees	487,257	16,517	561,527	19,099
Investments in debt securities with no active market	Business reserves and guarantees	50,100,000	1,698,305	23,500,000	799,320
Total		<u>\$65,524,016</u>	<u>\$2,221,153</u>	<u>\$37,296,450</u>	<u>\$1,268,587</u>

30. Commitment and contingent liabilities

(1) Cathay United Bank

- A. 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\$0.99 billion (US\$34 million) and NT\$3.09 billion (US\$105 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.
- B. As of March 31, 2012, Cathay United Bank had entered into certain contracts to purchase premises and equipment totaling NT\$241,178 (US\$8,176) thousands with prepayments of NT\$147,086 (US\$4,986) thousands.

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(2) Cathay Securities

As of March 31, 2012, Cathay Securities requested banks to issue letters of guarantees for warrants issuance of NT\$440,000 (US\$14,915) thousands.

(3) As of March 31, 2012 and 2011, Cathay United Bank had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	March 31,			
	2012(NT\$)	2012(US\$)	2011(NT\$)	2011(US\$)
Trust and security held for safekeeping	\$279,697,787	\$9,481,281	\$153,584,442	\$5,223,961
Travelers checks for sale	444,197	15,058	393,120	13,371
Bills for collection	43,991,208	1,491,227	40,303,755	1,370,876
Book-entry for government bonds and depository for short-term marketable securities under management	547,176,405	18,548,353	541,202,600	18,408,252
Entrusted financial management business	2,551,381	86,487	2,766,943	94,114
Guarantees on duties and contracts	13,684,917	463,895	14,682,851	499,417
Unused commercial letters of credit	5,178,705	175,549	6,992,098	237,826
Irrevocable loan commitments	52,057,334	1,764,655	56,293,364	1,914,740
Credit card lines commitments	286,428,584	9,709,444	271,845,378	9,246,441
Stamp tax, securities and memorial currency consignments	1,005	34	1,006	34

(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\$)
April 1, 2012~ March 31, 2013	\$1,133,819	\$38,434
April 1, 2013~ March 31, 2017	1,398,119	47,394
Total	<u>\$2,531,938</u>	<u>\$85,828</u>

31. Significant disaster losses: None.

32. Subsequent events: None.

33. Other significant matters

(1) Pension related information

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

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(2) Financial instruments related information

A. The company and its subsidiaries

- a. The fair values of financial assets or liabilities determined by quoted market price are classified as level 1 or pricing models are classified as level 2 and 3 are summarized as following:

Financial instruments measured at fair value item	March 31, 2012							
	Total		1 st Level		2 nd Level		3 rd Level	
	NT(\$)	US(\$)	NT(\$)	US(\$)	NT(\$)	US(\$)	NT(\$)	US(\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss:								
Financial assets for trading								
Stocks	\$8,052,563	\$272,968	\$7,788,127	\$264,004	\$264,436	\$8,964	\$-	\$-
Bonds	4,889,062	165,731	2,921,703	99,041	1,967,359	66,690	-	-
Others	83,989,932	2,847,116	69,102,553	2,342,459	14,887,379	504,657	-	-
Available-for-sale financial assets:								
Stocks	274,694,935	9,311,693	274,664,417	9,310,658	30,518	1,035	-	-
Bonds	955,685,944	32,396,134	29,847,879	1,011,793	925,838,065	31,384,341	-	-
Others	94,934,117	3,218,105	72,891,371	2,470,894	20,068,959	680,303	1,973,787	66,908
Other financial assets:								
Investments in debt securities with no active market	586,795,682	19,891,379	-	-	583,687,682	19,786,023	3,108,000	105,356
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	853,760	28,941	853,760	28,941	-	-	-	-
<u>Derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss	10,221,708	346,499	675,710	22,906	9,545,998	323,593	-	-
Other financial assets:								
Derivatives financial assets for hedging	3,159,233	107,093	26,011	882	3,133,222	106,211	-	-
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	9,596,463	325,304	11,691	396	9,584,772	324,908	-	-

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Financial instruments measured at fair value item	March 31, 2011							
	Total		1 st Level		2 nd Level		3 rd Level	
	NT(\$)	US(\$)	NT(\$)	US(\$)	NT(\$)	US(\$)	NT(\$)	US(\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss:								
Financial assets for trading								
Stocks	\$7,375,556	\$250,869	\$7,139,810	\$242,851	\$235,746	\$8,018	\$-	\$-
Bonds	5,141,056	174,866	3,964,531	134,848	1,176,525	40,018	-	-
Others	45,154,099	1,535,853	20,243,524	688,555	24,910,575	847,298	-	-
Financial assets designated at fair value through profit or loss								
or loss	2,811	96	-	-	2,811	96	-	-
Available-for-sale financial assets:								
Stocks	217,730,446	7,405,797	217,699,928	7,404,759	30,518	1,038	-	-
Bonds	393,735,451	13,392,362	49,023,945	1,667,481	344,711,506	11,724,881	-	-
Others	54,923,150	1,868,135	41,873,328	1,424,263	6,909,085	235,003	6,140,737	208,869
Other financial assets:								
Investments in debt securities with no active market	446,298,992	15,180,238	40,490,443	1,377,226	404,700,549	13,765,325	1,108,000	37,687
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	5,474,939	186,222	401,237	13,647	5,073,702	172,575	-	-
<u>Derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss	39,416,390	1,340,694	246,200	8,374	39,170,190	1,332,320	-	-
Other financial assets:								
Derivatives financial assets for hedging	3,103,131	105,549	-	-	3,103,131	105,549	-	-
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	8,780,069	298,642	12,767	434	8,767,302	298,208	-	-
Other financial liability:								
Derivatives financial liability for hedging	580	20	-	-	580	20	-	-

b. Statements of change in financial assets measure at fair value classified as 3rd level are summarized as following:

Item	For the three months ended March 31, 2012 (NT\$)						
	Beginning Balance	Gain or loss recognized	Increase		Decrease		Ending Balance
		as net income or stockholder's equity	Buy in or issue	Transfer to 3 rd level	Sell, dispose or transact	Transfer from 3 rd level	
Financial assets measure at fair value							
Available for sale financial assets	\$2,810,341	\$222,185	\$-	\$-	\$(836,554)	\$-	\$1,973,787
Other financial assets							
Investments in debt securities with no active market	2,108,000	-	1,000,000	-	-	-	3,108,000
Total	\$4,918,341	\$222,185	\$1,000,000	\$-	\$(836,554)	\$-	\$5,081,787

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Item	Beginning Balance	Gain or loss recognized as net income or stockholder's equity	Increase		Decrease		Ending Balance
			Buy in or issue	Transfer to 3 rd level	Sell, dispose or transact	Transfer from 3 rd level	
Financial assets measure at fair value							
Available for sale financial assets	\$95,266	\$7,532	\$-	\$-	\$(28,358)	\$-	\$66,908
Other financial assets							
Investments in debt securities with no active market	71,458	-	33,898	-	-	-	105,356
Total	\$166,724	\$7,532	\$33,898	\$-	\$(28,358)	\$-	\$172,264

For the three months ended March 31, 2011 (NT\$)

Item	Beginning Balance	Gain or loss recognized as net income or stockholder's equity	Increase		Decrease		Ending Balance
			Buy in or issue	Transfer to 3 rd level	Sell, dispose or transact	Transfer from 3 rd level	
Financial assets measure at fair value							
Available for sale financial assets	\$1,627,674	\$196,844	\$4,513,063	\$-	\$-	\$-	\$6,140,737
Other financial assets							
Investments in debt securities with no active market	1,108,000	-	-	-	-	-	1,108,000
Total	\$2,735,674	\$196,844	\$4,513,063	\$-	\$-	\$-	\$7,248,737

For the three months ended March 31, 2011 (US\$)

Item	Beginning Balance	Gain or loss recognized as net income or stockholder's equity	Increase		Decrease		Ending Balance
			Buy in or issue	Transfer to 3 rd level	Sell, dispose or transact	Transfer from 3 rd level	
Financial assets measure at fair value							
Available for sale financial assets	\$55,363	\$6,695	\$153,506	\$-	\$-	\$-	\$208,869
Other financial assets							
Investments in debt securities with no active market	37,687	-	-	-	-	-	37,687
Total	\$93,050	\$6,695	\$153,506	\$-	\$-	\$-	\$246,556

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B. The Company

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,016,797	\$4,016,797	\$136,163	\$136,163
Receivables	5,680,402	5,680,402	192,556	192,556
Held-to-maturity financial assets	31,000,000	31,000,000	1,050,847	1,050,847
Investments under equity method	246,311,672	246,311,672	8,349,548	8,349,548
Other financial assets	538,407	538,407	18,251	18,251
<u>Liabilities</u>				
Payables	6,689,405	6,689,405	226,760	226,760
Bond payables	40,000,000	40,000,000	1,355,932	1,355,932

Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$14,466,447	\$14,466,447	\$492,056	\$492,056
Receivables	5,778,450	5,778,450	196,546	196,546
Held-to-maturity financial assets	25,000,000	25,000,000	850,340	850,340
Investments under equity method	213,220,461	213,220,461	7,252,397	7,252,397
Other financial assets	31,720	31,720	1,079	1,079
<u>Liabilities</u>				
Payables	7,605,166	7,605,166	258,679	258,679
Bond payables	40,000,000	40,000,000	1,360,544	1,360,544

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.

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- (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	March 31, 2012			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$2,419,458	\$82,016	\$1,597,339	\$54,147
Receivables	-	-	5,680,402	192,556
Held-to-maturity financial assets	-	-	31,000,000	1,050,847
Investments under equity method	-	-	246,311,672	8,349,548
Other financial assets	-	-	538,407	18,251
<u>Liabilities</u>				
Payables	-	-	6,689,405	226,760
Bonds payable	-	-	40,000,000	1,355,932

Financial instruments	March 31, 2011			
	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	\$9,935,475	\$337,941	\$4,530,972	\$154,115
Receivables	-	-	5,778,450	196,546
Held-to-maturity financial assets	-	-	25,000,000	850,340
Investments under equity method	-	-	213,220,461	7,252,397
Other financial assets	-	-	31,720	1,079
<u>Liabilities</u>				
Payables	-	-	7,605,166	258,679
Bonds payables	-	-	40,000,000	1,360,544

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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 and Cathay Century'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.

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.

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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.

B. Cathay Life

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instrument</u>				
<u>Assets</u>				
Cash and cash equivalents	\$422,707,116	\$422,707,116	\$14,329,055	\$14,329,055
Receivables	86,337,330	86,337,330	2,926,689	2,926,689
Financial assets at fair value through profit or loss	77,068,704	77,068,704	2,612,498	2,612,498
Available-for-sale financial assets	1,259,237,175	1,259,237,175	42,686,006	42,686,006
Financial assets carried at cost	9,316,982	(Note)	315,830	(Note)
Investments under equity method	4,074,432	4,074,432	138,116	138,116
Investments in debt securities with no active market	563,256,275	571,796,475	19,093,433	19,382,931
Other financial assets	20,000,000	20,000,000	677,966	677,966
Guarantee deposits paid	13,716,491	13,716,491	464,966	464,966
<u>Liabilities</u>				
Payables	69,139,134	69,139,134	2,343,699	2,343,699
Preferred stock liability	30,000,000	30,846,640	1,016,949	1,045,649
Guarantee deposits received	1,977,320	1,977,320	67,028	67,028

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Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative-financial instrument</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Option	\$10,819	\$10,819	\$367	\$367
Forward, CS and CCS	6,009,789	6,009,789	203,722	203,722
IRS and CDS	216,058	216,058	7,324	7,324
Derivative financial assets for hedging				
IRS and CDS	1,656,849	1,656,849	56,164	56,164
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	5,695,488	5,695,488	193,067	193,067
IRS and CDS	230,148	230,148	7,802	7,802

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

Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$379,776,244	\$379,776,244	\$12,917,559	\$12,917,559
Receivables	69,570,624	69,570,624	2,366,348	2,366,348
Financial assets at fair value through profit or loss	29,493,367	29,493,367	1,003,176	1,003,176
Available-for-sale financial assets	598,161,915	598,161,915	20,345,643	20,345,643
Financial assets carried at cost	8,940,033	(Note)	304,083	(Note)
Investments under equity method	4,923,495	4,923,495	167,466	167,466
Investments in debt securities with no active market	436,394,671	428,551,416	14,845,356	14,576,579
Held-to-maturity financial assets	593,645,448	600,522,977	20,192,022	20,425,952
Other financial assets	40,600,000	40,600,000	1,380,952	1,380,952
Guarantee deposits paid	10,719,923	10,719,923	364,623	364,623
<u>Liabilities</u>				
Payables	50,417,817	50,417,817	1,714,892	1,714,892
Preferred stock liability	25,000,000	27,146,879	850,340	923,363
Guarantee deposits received	1,678,136	1,678,136	57,079	57,079

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Item	March 31, 2011			
	(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				
Forward, CS and CCS	\$34,046,581	\$34,046,581	\$1,158,047	\$1,158,047
IRS and CDS	9,255	9,255	315	315
Derivative financial assets for hedging				
IRS and CDS	1,838,580	1,838,580	62,537	62,537
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	3,832,783	3,832,783	130,367	130,367
IRS and CDS	393,055	393,055	13,369	13,369
Derivative financial liabilities for hedging				
IRS and CDS	580	580	20	20

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

b. 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.

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- (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 March 31, 2012 and 2011, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	March 31, 2012			
	Based on the quoted market price		Based on valuation techniques	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instrument</u>				
<u>Assets</u>				
Cash and cash equivalents	\$397,729,444	\$13,482,354	\$24,977,672	\$846,701
Receivables	-	-	86,337,330	2,926,689
Financial assets at fair value through profit or loss	76,797,045	2,603,289	271,659	9,209
Available-for-sale financial assets	397,651,126	13,479,699	861,586,049	29,206,307
Investments under the equity method	-	-	4,074,432	138,116
Investment in debt securities with no active market	48,300,100	1,637,291	523,496,375	17,745,640
Other financial assets	-	-	20,000,000	677,966
<u>Liabilities</u>				
Payables	-	-	69,139,134	2,343,699
Preferred stock liability	-	-	30,846,640	1,045,649
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Option	10,819	367	-	-
Forward, CS and CCS	-	-	6,009,789	203,722
IRS and CDS	-	-	216,058	7,324
Derivative financial assets for hedging				
IRS and CDS	-	-	1,656,849	56,164
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	5,695,488	193,067
IRS and CDS	-	-	230,148	7,802

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Financial instruments	March 31, 2011			
	Based on the quoted market price		Based on valuation techniques	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instrument</u>				
<u>Assets</u>				
Cash and cash equivalents	\$335,087,675	\$11,397,540	\$44,688,569	\$1,520,019
Receivables	-	-	69,570,624	2,366,348
Financial assets at fair value through profit or loss	29,195,903	993,058	297,464	10,118
Available-for-sale financial assets	574,366,865	19,536,288	23,795,050	809,355
Investments under the equity method	-	-	4,923,495	167,466
Investment in debt securities with no active market	-	-	428,551,416	14,576,579
Held-to-maturity financial assets	41,300,547	1,404,781	559,222,430	19,021,171
Other financial assets	-	-	40,600,000	1,380,952
<u>Liabilities</u>				
Payables	-	-	50,417,817	1,714,892
Preferred stock liability	-	-	27,146,879	923,363
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	-	-	34,046,581	1,158,047
IRS and CDS	-	-	9,255	315
Derivative financial assets for hedging				
IRS and CDS	-	-	1,838,580	62,537
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	3,832,783	130,367
IRS and CDS	-	-	393,055	13,369
Derivative financial liabilities for hedging				
IRS and CDS	-	-	580	20

d. Information on financial risk

(a) Risk of interest rate

The following table summarizes the maturities of Cathay Life's financial instruments at March 31, 2012 and 2011:

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Ⓐ March 31, 2012

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	\$2,902,272	\$98,382	\$668,701	\$22,668	\$111,416	\$3,777	\$1,454,176	\$49,294
Available-for-sale financial assets	44,466,846	1,507,351	33,190,408	1,125,098	35,697,476	1,210,084	50,069,086	1,697,257
Investments in debt securities with								
no active market	10,540,973	357,321	9,799,195	332,176	22,124,081	749,969	5,130,414	173,913
Preferred stock liability	-	-	-	-	-	-	15,000,000	508,475

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	\$8,835,673	\$299,514	\$-	\$-	\$13,972,238	\$473,635
Available-for-sale financial assets	41,499,291	1,406,756	536,736,351	18,194,453	741,659,458	25,140,999
Investments in debt securities with						
no active market	9,507,850	322,300	476,298,598	16,145,715	533,401,111	18,081,394
Preferred stock liability	10,000,000	338,983	5,000,000	169,491	30,000,000	1,016,949

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	\$268	\$9	\$20,903	\$709	\$186	\$6	\$2	\$-
Available-for-sale financial assets	143,593,454	4,867,575	690,222	23,397	-	-	-	-
Investments in debt securities with								
no active market	6,428,623	217,919	-	-	344,910	11,692	-	-

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	\$8	\$-	\$2	\$-	\$21,369	\$724
Available-for-sale financial assets	1,663,026	56,374	23,677,633	802,631	169,624,335	5,749,977
Investments in debt securities with						
no active market	-	-	23,081,631	782,428	29,855,164	1,012,039

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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	\$-	\$-	\$6,122	\$208	\$-	\$-	\$38,386	\$1,301
Derivative financial assets for								
hedging	47,747	1,618	385,511	13,068	970,806	32,909	25,063	850
Financial liabilities at fair value								
through profit or loss	-	-	-	-	133,800	4,535	53,659	1,819
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	\$-	\$-	\$116,655	\$3,954	\$161,163	\$5,463		
Derivative financial assets for								
hedging	142,703	4,837	85,019	2,882	1,656,849	56,164		
Financial liabilities at fair value								
through profit or loss	17,012	577	-	-	204,471	6,931		

(b) March 31, 2011

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	\$1,418,773	\$48,258	\$1,549,464	\$52,703	\$893,961	\$30,407	\$207,522	\$7,058
Available-for-sale financial assets	18,033,704	613,391	24,587,766	836,318	12,035,362	409,366	14,028,675	477,166
Held-to-maturity financial assets	16,077,485	546,853	21,006,240	714,498	25,383,752	863,393	24,875,468	846,104
Investments in debt securities with								
no active market	10,156,854	345,471	7,868,202	267,626	7,103,492	241,615	19,494,345	663,073
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	\$385,559	\$13,114	\$4	\$-	\$4,455,283	\$151,540		
Available-for-sale financial assets	34,544,728	1,174,991	99,506,357	3,384,570	202,736,592	6,895,802		
Held-to-maturity financial assets	19,627,705	667,609	463,741,790	15,773,530	570,712,440	19,411,987		
Investments in debt securities with								
no active market	4,641,601	157,878	362,997,761	12,346,863	412,262,255	14,022,526		
Preferred stock liability	15,000,000	510,204	10,000,000	340,136	25,000,000	850,340		

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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	\$72,343	\$2,461	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	128,575,095	4,373,303	-	-	-	-	-	-
Held-to-maturity financial assets	22,933,013	780,034	-	-	-	-	-	-
Investments in debt securities with								
no active market	24,132,416	820,830	-	-	-	-	-	-
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	\$-	\$-	\$-	\$-	\$72,343	\$2,461		
Available-for-sale financial assets	-	-	-	-	128,575,095	4,373,303		
Held-to-maturity financial assets	-	-	-	-	22,933,013	780,034		
Investments in debt securities with								
no active market	-	-	-	-	24,132,416	820,830		

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	\$-	\$-	\$-	\$-	\$2,147	\$73	\$-	\$-
Derivative financial assets for								
hedging	6,269	213	105,873	3,601	547,845	18,634	1,071,306	36,439
Financial liabilities at fair value								
through profit or loss	-	-	-	-	-	-	182,114	6,194
Derivative financial liabilities for								
hedging	-	-	-	-	-	-	-	-
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	\$1,236	\$42	\$-	\$-	\$3,383	\$115		
Derivative financial assets for								
hedging	11,532	392	95,755	3,257	1,838,580	62,536		
Financial liabilities at fair value								
through profit or loss	58,451	1,988	-	-	240,565	8,182		
Derivative financial liabilities for								
hedging	-	-	580	20	580	20		

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(b) Credit risk

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

e. Hedge Accounting Disclosures

Cash flow hedges

(a) March 31, 2012

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$1,000,000	\$33,898	90DCP	Each quarter	2012.6.26
2,000,000	67,797	90DCP	Each quarter	2012.9.9
2,000,000	67,797	90DCP	Each quarter	2012.10.11
700,000	23,729	90DCP	Each quarter	2012.11.24
2,000,000	67,797	90DCP	Yearly	2013.3.26
2,425,000	82,203	90DCP	Each quarter	2013.4.24
3,600,000	122,034	90DCP	Each quarter	2013.6.8
2,700,000	91,525	90DCP+25bps	Each quarter	2013.8.24
3,000,000	101,695	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	67,797	90DCP	Yearly	2013.11.3
1,000,000	33,898	90DCP+26.5bps	Yearly	2013.12.14
500,000	16,949	90DCP+23bps	Yearly	2013.12.14
1,500,000	50,847	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,898	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,508	90DCP	Yearly	2014.3.12
1,000,000	33,898	90DCP	Yearly	2014.6.12
3,000,000	101,695	90DCP	Each quarter	2014.6.25
1,810,000	61,356	90DCP	Each quarter	2014.6.26
2,000,000	67,797	90DCP	Yearly	2014.6.29
5,000,000	169,492	90DCP	Yearly	2014.8.23
1,000,000	33,898	90DCP	Yearly	2014.9.20
3,200,000	108,475	90DCP	Yearly	2014.9.27
2,000,000	67,797	90DCP	Each quarter	2014.9.28
1,500,000	50,847	90DCP	Yearly	2014.9.29
2,500,000	84,746	90DCP	Yearly	2014.12.20
2,000,000	67,797	90DCP	Yearly	2014.12.24
2,300,000	77,966	90DCP	Each quarter	2015.3.25
1,500,000	50,847	90DCP	Each quarter	2015.5.9
2,543,500	86,220	90DCP	Each quarter	2016.10.23
900,000	30,508	90DCP	Each quarter	2016.10.24
1,200,000	40,678	90DCP	Each quarter	2017.10.25
1,400,000	47,458	90DCP	Each quarter	2017.12.9
600,000	20,339	90DCP	Each quarter	2020.9.23

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(b) March 31, 2011

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$500,000	\$17,007	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	68,027	90DCP	Each quarter	2011.9.9
1,000,000	34,014	90DCP	Each quarter	2012.6.26
2,000,000	68,027	90DCP	Each quarter	2012.9.9
2,000,000	68,027	90DCP	Each quarter	2012.10.11
700,000	23,810	90DCP	Each quarter	2012.11.24
2,000,000	68,027	90DCP	Yearly	2013.3.26
2,425,000	82,483	90DCP	Each quarter	2013.4.24
3,600,000	122,449	90DCP	Each quarter	2013.6.8
2,700,000	91,837	90DCP+25bps	Each quarter	2013.8.24
3,000,000	102,041	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,027	90DCP	Yearly	2013.11.3
1,000,000	34,014	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,007	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,020	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,014	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,612	90DCP	Yearly	2014.3.12
1,000,000	34,014	90DCP	Yearly	2014.6.12
1,810,000	61,565	90DCP	Each quarter	2014.6.26
2,000,000	68,027	90DCP	Yearly	2014.6.29
5,000,000	170,068	90DCP	Yearly	2014.8.23
1,000,000	34,014	90DCP	Yearly	2014.9.20
3,200,000	108,844	90DCP	Yearly	2014.9.27
2,000,000	68,027	90DCP	Each quarter	2014.9.28
1,500,000	51,020	90DCP	Yearly	2014.9.29
2,500,000	85,034	90DCP	Yearly	2014.12.20
2,000,000	68,027	90DCP	Yearly	2014.12.24
500,000	17,007	90DCP	Each quarter	2015.3.25
1,500,000	51,020	90DCP	Each quarter	2015.5.9
2,543,500	86,514	90DCP	Each quarter	2016.10.23
900,000	30,612	90DCP	Each quarter	2016.10.24
1,200,000	40,816	90DCP	Each quarter	2017.10.25
1,400,000	47,619	90DCP	Each quarter	2017.12.9

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

Cathay Life's interest rate swap agreements are considered to be highly effective cash flow hedges. As of March 31, 2012 and 2011, unrealized gains on these financial instruments recognized in equity were NT\$1,658,855 (US\$56,232) thousands and NT\$1,850,585 (US\$62,945) thousands, respectively.

Fair value hedges

a. The following table summarizes the terms of Cathay Life's credit default swap for bonds used as hedging instruments at March 31, 2012 and 2011:

① March 31, 2012: None.

② March 31, 2011: None.

b. The following table summarizes the terms of Cathay Life's interest rate swap for bonds used hedging instruments at March 31, 2012 and 2011:

① March 31, 2012: None.

② March 31, 2011: None.

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:

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Market Risk

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

Credit Risk

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

Cathay Life has taken the credit concentration index of each conglomerate into consideration when 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.

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.

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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.

Sovereign Risk

Sovereign risk is the risk of market price fluctuation or default of the issuers due to the political or economical issues in the country where investments are located. 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 sovereign risk.

D. Cathay United Bank

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carry amount	Fair value	Carry amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$15,600,852	\$15,600,852	\$528,843	\$528,843
Available-for-sale financial assets	51,851,961	51,851,961	1,757,694	1,757,694
Held-to-maturity financial assets and investments in debt securities with no active market	456,307,646	456,387,826	15,468,056	15,470,774
Other financial assets-financial assets carried at cost	3,384,865	(Note)	114,741	(Note)
Others	1,180,022,497	1,180,022,497	40,000,763	40,000,763
<u>Liabilities</u>				
Financial debentures payable	32,810,946	32,810,946	1,112,235	1,112,235
Others	1,612,972,214	1,612,972,214	54,677,024	54,677,024
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	271,382	271,382	9,199	9,199
Non-delivery forward	43,746	43,746	1,483	1,483
Currency swap	972,947	972,947	32,981	32,981
Interest rate swap	3,181,009	3,181,009	107,831	107,831
Cross currency swap	195,192	195,192	6,616	6,616
Options	565,312	565,312	19,163	19,163

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Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carry amount	Fair value	Carry amount	Fair value
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Forward	200,954	200,954	6,812	6,812
Non-delivery forward	51,335	51,335	1,740	1,740
Currency swap	1,586,473	1,586,473	53,779	53,779
Interest rate swap	1,511,473	1,511,473	51,236	51,236
Cross currency swap	193,131	193,131	6,547	6,547
Options	456,054	456,054	15,460	15,460
Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carry amount	Fair value	Carry amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$24,470,864	\$24,470,864	\$832,342	\$832,342
Available-for-sale financial assets	55,294,306	55,294,306	1,880,759	1,880,759
Held-to-maturity financial assets and investment in debt securities with no active market	374,505,454	374,571,999	12,738,280	12,740,544
Other financial assets - financial assets carried at cost	3,497,364	(Note)	118,958	(Note)
Others	1,070,584,715	1,070,584,715	36,414,446	36,414,446
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	5,073,703	5,073,703	172,575	172,575
Financial debentures payable	26,133,631	26,133,631	888,899	888,899
Others	1,440,025,944	1,440,025,944	48,980,474	48,980,474
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	1,053,740	1,053,740	35,841	35,841
Non-delivery forward	42,407	42,407	1,442	1,442
Currency swap	5,488,269	5,488,269	186,676	186,676
Interest rate swap	3,493,034	3,493,034	118,811	118,811
Cross currency swap	256,127	256,127	8,712	8,712
Options	299,012	299,012	10,170	10,170
Futures	349	349	12	12
<u>Liabilities</u>				
Forward	5,677,065	5,677,065	193,098	193,098
Non-delivery forward	46,304	46,304	1,575	1,575
Currency swap	629,129	629,129	21,399	21,399
Interest rate swap	1,976,954	1,976,954	67,243	67,243
Cross currency swap	248,636	248,636	8,457	8,457
Options	298,355	298,355	10,148	10,148
Futures	423	423	14	14

Note: Fair value cannot be reliably estimated.

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- 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 and loans, deposits and principals received from the sale of structured products are classified as interest-bearing financial assets. Thus, their face values are equivalent to their fair values.

The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted fair values.
 - (d) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments.
 - (e) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, Cathay United Bank assesses fair value by using pricing models.
- c. The fair values of Cathay United Bank's financial assets or liabilities determined by quoted market price are classified as level 1 or pricing models are classified as level 2 and 3 are summarized as following:

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		March 31, 2012							
		Total		1 st Level		2 nd Level		3 rd Level	
Financial instruments Measured at fair value item		(NT)	(US)	(NT)	(US)	(NT)	(US)	(NT)	(US)
<u>Non-derivative financial instruments</u>									
<u>Assets</u>									
Financial assets at fair value through profit or loss:									
Financial assets for trading									
Bonds		\$740,084	\$25,088	\$596,288	\$20,213	\$143,796	\$4,875	\$-	\$-
Others		14,860,768	503,755	-	-	14,860,768	503,755	-	-
Available-for-sale financial assets:									
Stocks		6,191,620	209,885	6,191,620	209,885	-	-	-	-
Bonds		44,462,588	1,507,207	13,055,273	442,552	31,407,315	1,064,655	-	-
Others		1,197,753	40,602	1,197,753	40,602	-	-	-	-
Other financial assets:									
Investments in debt securities with no active market		436,762,523	14,805,509	-	-	436,762,523	14,805,509	-	-
<u>Derivative financial instruments</u>									
<u>Assets</u>									
Financial assets at fair value through profit or loss		3,753,215	127,227	103,600	3,512	3,649,615	123,715	-	-
Other financial assets:									
Derivatives financial assets for hedging		1,476,373	50,046	-	-	1,476,373	50,046	-	-
<u>Liabilities</u>									
Financial liabilities at fair value through profit or loss		3,999,420	135,574	-	-	3,999,420	135,574	-	-
		March 31, 2011							
		Total		1 st Level		2 nd Level		3 rd Level	
Financial instruments Measured at fair value item		(NT)	(US)	(NT)	(US)	(NT)	(US)	(NT)	(US)
<u>Non-derivative financial instruments</u>									
<u>Assets</u>									
Financial assets at fair value through profit or loss:									
Financial assets for trading									
Bonds		\$729,115	\$24,800	\$468,722	\$15,943	\$260,393	\$8,857	\$-	\$-
Others		23,738,938	807,447	-	-	23,738,938	807,447	-	-
Financial assets designated at fair value through profit		2,811	95	-	-	2,811	95	-	-
Available-for-sale financial assets:									
Stocks		8,885,644	302,233	8,885,644	302,233	-	-	-	-
Bonds		45,758,227	1,556,402	10,008,364	340,420	35,749,863	1,215,982	-	-
Others		650,435	22,124	650,435	22,124	-	-	-	-
Other financial assets									
Investments in debts securities with no active market		369,539,219	12,569,361	-	-	369,539,219	12,569,361	-	-
<u>Liabilities</u>									
Financial liabilities at fair value through profit or loss		5,073,703	172,575	-	-	5,073,703	172,575	-	-
<u>Derivative financial instruments</u>									
<u>Assets</u>									
Financial assets at fair value through profit or loss		9,399,941	319,726	349	12	9,399,592	319,714	-	-
Other financial assets									
Derivatives financial assets for hedging		1,232,997	41,938	-	-	1,232,997	41,938	-	-
<u>Liabilities</u>									
Financial liabilities at fair value through profit or loss		8,876,866	301,934	423	14	8,876,443	301,920	-	-

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- d. Gains or recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT\$154,420 (US\$5,235) thousands and NT\$ 61,432 (US\$2,090) thousands for the three months ended March 31, 2012 and 2011, respectively.
- e. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the three months ended March 31, 2012 and 2011 were NT\$7,782,204 (US\$263,804) thousands and NT\$6,172,370 (US\$209,945) thousands, and expenses were NT\$2,843,553 (US\$96,392) thousands and NT\$1,963,679 (US\$66,792) thousands, respectively.
- f. Cathay United Bank recognized an unrealized gains or losses of NT\$549,634 (US\$18,632) thousands and NT\$ 119,443 (US\$4,063) thousands in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$143,864 (US\$4,877) thousands and NT\$831,981 (US\$28,299) thousands in income statements, for the three months ended March 31, 2012 and 2011, 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.

Ⓒ 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.

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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.

March 31, 2012						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$425,818	\$14,435	\$628,526	\$21,306	\$258,043	\$8,747
Foreign exchange	149,576	5,070	177,844	6,029	92,593	3,139
Equity Securities price	127,989	4,339	207,076	7,020	60,704	2,058

March 31, 2011						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$417,601	\$14,204	\$541,071	\$18,404	\$258,043	\$8,777
Foreign exchange	108,835	3,702	122,457	4,165	92,593	3,149
Equity Securities price	123,015	4,184	167,303	5,691	93,439	3,178

Cathay United Bank enters into a variety of derivatives transactions for both trading and non-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.

④ Market risk factor sensitivity

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.

	March 31, 2012	
	(NT\$)	(US\$)
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	\$480,943	\$16,303
HKD+1%	6,907	234
JPY+1%	5,435	184
NTD+1%	(516,703)	(17,515)
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(19,999)	(678)
Yield curves (HKD) parallel shift+1bp	(53)	(2)
Yield curves (JPY) parallel shift+1bp	(8)	-
Yield curves (NTD) parallel shift+1bp	(6,615)	(224)
Equity securities price factor sensitivity (Equity Delta)	42,380	1,437

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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 of caused by the 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	March 31, 2012	
		(NT\$)	(US\$)
Stock Market	Major Stock Exchanges +15%	\$635,695	\$21,549
	Major Stock Exchanges -15%	(635,695)	(21,549)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,681,169)	(90,887)
	Major Interest Rate - 100bp	2,479,785	84,061
Foreign Exchange Market	Major Currencies +3%	1,611,429	54,625
	Major Currencies -3%	(1,522,797)	(51,620)
Composite	Major Stock Exchanges -15%	(1,705,435)	(57,811)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

(b) Credit risk

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

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

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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	March 31, 2012			
	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	\$15,600,852	\$528,843	\$15,600,852	\$528,843
Available-for-sale financial assets	51,851,961	1,757,694	51,851,961	1,757,694
Held-to-maturity financial assets and investments in debt securities with no active market	456,307,646	15,468,056	456,307,646	15,468,056
Other financial assets – financial assets carried at cost	3,384,865	114,741	3,384,865	114,741
Other assets	1,180,022,497	40,000,763	1,180,022,497	40,000,763
Guarantees on duties and contracts	-	-	13,684,917	463,895
Unused commercial letters of credit	-	-	5,178,705	175,549
Irrevocable loan commitments	-	-	52,057,334	1,764,655
Credit card line commitments	-	-	286,428,584	9,709,444
<u>Derivative financial instruments</u>				
Forward	271,382	9,199	271,382	9,199
Non-delivery forward	43,746	1,483	43,746	1,483
Currency swap	972,947	32,981	972,947	32,981
Interest rate swap	3,181,009	107,831	3,181,009	107,831
Cross currency swap	195,192	6,616	195,192	6,616
Options	565,312	19,163	565,312	19,163
Financial assets	March 31, 2011			
	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	\$24,470,864	\$832,342	\$24,470,864	\$832,342
Available-for-sale financial assets	55,294,306	1,880,759	55,294,306	1,880,759
Held-to-maturity financial assets and investments in debt securities with no active market	374,505,454	12,738,280	374,505,454	12,738,280
Other financial assets – financial assets carried at cost	3,497,364	118,958	3,497,364	118,958
Other assets	1,070,584,715	36,414,446	1,070,584,715	36,414,446
Guarantees on duties and contracts	-	-	14,682,851	499,417
Unused commercial letters of credit	-	-	6,992,098	237,826
Irrevocable loan commitments	-	-	56,293,364	1,914,740
Credit card line commitments	-	-	271,845,378	9,246,441

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Financial assets	March 31, 2011			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
Forward	\$1,053,740	\$35,841	\$1,053,740	\$35,841
Non-delivery forward	42,407	1,442	42,407	1,442
Currency swap	5,488,269	186,676	5,488,269	186,676
Interest rate swap	3,493,034	118,811	3,493,034	118,811
Cross currency swap	256,127	8,712	256,127	8,712
Options	299,012	10,170	299,012	10,170
Futures	349	12	349	12

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

	March 31,			
	2012		2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans, customers' liabilities under acceptances, bills purchased and guarantees account				
Industry type				
Manufacturing	\$56,334,747	\$1,909,652	\$121,486,637	\$4,132,199
Financial institutions and insurance	35,970,404	1,219,336	34,604,928	1,177,038
Leasing and real estate	92,845,937	3,147,320	96,392,197	3,278,646
Individuals	480,197,571	16,277,884	464,163,846	15,787,886
Others	351,413,425	11,912,319	216,518,047	7,364,559
Total	1,016,762,084	34,466,511	933,165,655	31,740,328
Valuation allowance	(10,389,270)	(352,178)	(7,211,359)	(245,284)
Maximum credit risk exposed	<u>\$1,006,372,814</u>	<u>\$34,114,333</u>	<u>\$925,954,296</u>	<u>\$31,495,044</u>
Geographic Region				
Domestic	\$887,896,376	\$30,098,182	\$829,609,654	\$28,218,015
South East Asia	43,658,647	1,479,954	30,648,946	1,042,482
North East Asia	748,510	25,373	1,207,376	41,067
America	22,533,783	763,857	13,405,672	455,975
Others	61,924,768	2,099,145	58,294,007	1,982,789
Total	1,016,762,084	34,466,511	933,165,655	31,740,328
Valuation allowance	(10,389,270)	(352,178)	(7,211,359)	(245,284)
Maximum credit risk exposed	<u>\$1,006,372,814</u>	<u>\$34,114,333</u>	<u>\$925,954,296</u>	<u>\$31,495,044</u>

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(c) Liquidity risk

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

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

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 32.90%. 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 March 31, 2012, there is no significant change in these dates.

As of March 31, 2012 and 2011, the effective interest rates of financial instruments held and issued by Cathay United Bank are classified as follows:

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Financial instruments	Effective interest rate (%)	
	March 31, 2012	March 31, 2011
Available-for-sale financial assets		
Bonds	0.85~5.9295	0.35~5.9295
Overseas financial instruments	0~9.3714	0~6.3574
Held-to-maturity financial assets		
Bonds	2.2292~6.9559	2.2292~6.9559
Overseas financial instruments	0~7.853	0~7.2864
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	0.87~1.065	0.678~0.9
Overseas financial instruments	0~5.15	0~5.15
Financial debentures payable	1.65~5.593	1.65~5.593

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			
		March 31, 2012		March 31, 2011	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Financial debentures payable	Interest rate swap	\$1,476,373	\$50,046	\$1,232,997	\$41,938

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.

i. Risk control and hedging strategy

To provide customer-oriented service and fulfill the requirement of government regulation, Cathay United Bank adopted multiple risk management mechanism to identify its risks. Meanwhile, under the regulation and the spirit of “Basel Accord”, Cathay United Bank set its business objectives as maintain steady capital and asset management, and higher capital adequacy ratio.

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Cathay United Bank established risk management Committee and its missions are as follow:

- (a) Revise the risk management policies, risk appetite and risk tolerance for Cathay United Bank, and report to Board of Directors.
- (b) Decision making for Cathay United Bank's credit, market and operational risk management.
- (c) Examine the significant risk management reports for Cathay United Bank (such as credit rating, market evaluation, risk index...) and other items related to the project.
- (d) Any significant item mention by any risk management unit of Cathay United Bank that needs to be investigated.
- (e) Other related items.

Cathay United Bank establish risk management department to supervise, lead, develop and settle the framework of integrated risk management.

The objective for Cathay United Bank's market risk management is to maintain moderate liquidity and centralize all the market risks in the consideration of economic environment, competition, market value and the effect to net interest income. To achieve the objectives, Cathay United Bank adopted fair value hedge which transfer the fixed income transaction to variable income.

According to the principle of Funds Transfer Pricing, Cathay United Bank develop fair value hedge strategies for debentures with fixed rate. Cathay United Bank use interest rate swap as its main financial instrument.

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E. Cathay Century

a. Information of fair value

Items	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Asset</u>				
Cash and cash equivalents	\$6,033,173	\$6,033,173	\$204,514	\$204,514
Notes receivable	270,050	270,050	9,154	9,154
Premiums receivable	2,302,961	2,302,961	78,066	78,066
Claims recoverable from reinsurers	256,675	256,675	8,701	8,701
Due from reinsurers and ceding companies	611,114	611,114	20,716	20,716
Other accounts receivable	104,968	104,968	3,558	3,558
Financial assets at fair value through profit or loss	144,774	144,774	4,908	4,908
Available-for-sale financial assets	5,651,438	5,651,438	191,574	191,574
Investments under equity method	989,375	989,375	33,538	33,538
Investments in debt securities with no active market	1,477,115	1,477,115	50,072	50,072
Held-to-maturity financial assets	2,450,987	2,450,987	83,084	83,084
Secured loans	524,186	524,186	17,769	17,769
Reinsurance Reserve Assets	4,204,951	4,204,951	142,541	142,541
Guarantee deposits paid	533,432	533,432	18,082	18,082
<u>Liabilities</u>				
Claims outstanding	38,502	38,502	1,305	1,305
Due to reinsurers and ceding companies	1,265,342	1,265,342	42,893	42,893
Preferred stock liability	1,000,000	1,000,000	33,898	33,898
Liabilities reserve	18,570,415	18,570,415	629,506	629,506
<u>Derivative financial instruments</u>				
<u>Asset</u>				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	4,239	4,239	144	144
Derivative financial for hedging				
IRS	26,011	26,011	882	882

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Items	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Asset</u>				
Cash and Cash equivalents	\$6,018,461	\$6,018,461	\$204,709	\$204,709
Notes receivable	225,787	225,787	7,680	7,680
Premiums receivable	2,213,290	2,213,290	75,282	75,282
Claims recoverable from reinsurers	279,995	279,995	9,524	9,524
Due from reinsurers and ceding companies	132,798	132,798	4,517	4,517
Other accounts receivable	70,985	70,985	2,414	2,414
Financial assets at fair value through profit or loss	844,728	844,728	28,732	28,732
Available-for-sale financial assets	3,809,343	3,809,343	129,570	129,570
Financial assets carried at cost	31,188	-	1,061	-
Investments under equity method	1,120,514	1,120,514	38,113	38,113
Investments in debt securities with no active market	500,000	500,000	17,007	17,007
Held-to-maturity financial assets	2,471,162	2,471,162	84,053	84,053
Secured loans	710,448	710,448	24,165	24,165
Reinsurance reserve assets	4,086,248	4,086,248	138,988	138,988
Guarantee deposits paid	523,351	523,351	17,801	17,801
<u>Liabilities</u>				
Claims outstanding	37,944	37,944	1,290	1,290
Due to reinsurers and ceding companies	1,212,865	1,212,865	41,254	41,254
Operating and liability reserves	17,918,616	17,918,616	609,477	609,477
<u>Derivative financial instruments:</u>				
<u>Asset</u>				
Financial assets at fair value through profit or loss				
Forward and SWAP	24,552	24,552	835	835
Derivative financial assets for hedging				
IRS	31,554	31,554	1,073	1,073

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- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:
- (a) The fair value of 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, 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 and guarantee deposits received is based on the carrying amount.
 - (c) Quoted market prices, if available, are utilized as estimating of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price. Cathay Century uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
 - (d) The fair value of Cathay Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, their fair value was based on relevant financial or any other information.
 - (e) If no quoted market prices exist for Cathay Century's investments accounted for equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.

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

Item	March 31, 2012			
	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	\$5,872,987	\$199,084	\$160,186	\$5,430
Financial assets at fair value through profit or loss	144,774	4,908	-	-
Available-for-sale financial assets	5,651,438	191,574	-	-
Investments under equity method	-	-	989,375	33,538
Investment in debt securities with no active market	-	-	1,477,115	50,072
Held-to-maturity financial assets	-	-	2,450,987	83,084
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and loss				
Forward and SWAP	-	-	4,239	144
Derivative financial assets for hedging-current				
IRS	-	-	26,011	882
Item	March 31, 2011			
	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	\$5,239,847	\$178,226	\$778,614	\$26,483
Financial assets at fair value through profit or loss	844,728	28,732	-	-
Available-for-sale financial assets	3,809,343	129,570	-	-
Investments under equity method	-	-	1,120,514	38,113
Investment in debt securities with no active market	-	-	500,000	17,007
Held-to-maturity financial assets	-	-	2,471,162	84,053
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and loss				
Forward and SWAP	-	-	24,552	835
Derivative financial assets for hedging-current				
IRS	-	-	31,554	1,073

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d. Information on financial risk

(a) Risk of interest rate

The following table summarizes the maturities of the Cathay Century's financial instruments at March 31, 2012 and 2011:

① March 31, 2012

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\$)
Available-for-sale financial assets	\$-	\$-	\$608,544	\$20,629	\$-	\$-	\$213,003	\$7,220
Held-to-maturity financial assets	505,748	17,144	674,650	22,869	269,068	9,121	92,883	3,149
Investments in debt securities with no active market	300,000	10,170	200,000	6,780	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Available-for-sale financial assets	\$-	\$-	\$1,540,164	\$52,209	\$2,361,711	\$80,058
Held-to-maturity financial assets	-	-	908,638	30,801	2,450,987	83,084
Investments in debt securities with no active market	300,000	10,169	677,115	22,953	1,477,115	50,072

Floating 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\$)
Available-for-sale financial assets	\$200,000	\$6,780	\$-	\$-	\$200,000	\$6,780	\$200,000	\$6,780

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Available-for-sale financial assets	\$-	\$-	\$-	\$-	\$600,000	\$20,340

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Ⓢ March 31, 2011

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\$
Available-for-sale financial assets	\$202,531	\$6,889	\$-	\$-	\$615,164	\$20,924	\$-	\$-
Held-to-maturity financial assets	101,050	3,437	176,327	5,997	381,149	12,964	653,493	22,228
Investments in debt securities with no active market	-	-	300,000	10,204	200,000	6,803	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available – for –sale financial assets	\$216,362	\$7,359	\$-	\$-	\$1,034,057	\$35,172
Held-to-maturity financial assets	123,891	4,214	1,035,252	35,213	2,471,162	84,053
Investments in debt securities with no active market	-	-	-	-	500,000	17,007

Floating 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\$
Available – for –sale financial assets	\$-	\$-	\$200,000	\$6,803	\$-	\$-	\$200,000	\$6,803

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available – for –sale financial assets	\$200,000	\$6,803	\$-	\$-	\$600,000	\$20,409

(b) Credit risk

Cathay Century's exposure to credit risk is minimal.

e. Hedged of derivative financial instruments related information

The following table summarizes the terms of Cathay Century's interest rate swap for bonds hedging at March 31, 2012:

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Cash flow hedges-IRS

March 31, 2012

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,780	2.65%	Each quarter	2014.09.30
\$200,000	\$6,780	2.40%	Each quarter	2012.09.28
\$200,000	\$6,780	2.785%	Each quarter	2015.04.30

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

Cathay Century's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$26,011 (US\$882) thousands and NT\$ 31,554 (US\$1,073) thousands as of March 31, 2012 and 2011, respectively.

f. Risk management policies and hedge strategies

Cathay Century's primary financial instruments other than derivatives consist of cash and cash equivalents and 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, premiums receivable, claims outstanding 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) Foreign Exchange Risk

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

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

To maximum the hedging effect, Cathay Century adopts an equivalent hedging strategy for foreign currency risks.

(b) Credit risk

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

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

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

(c) Operational Risk

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

(d) Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

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F. Cathay Securities

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$244,548	\$244,548	\$8,290	\$8,290
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	132,602	132,602	4,495	4,495
Operating securities – net	3,266,941	3,266,941	110,744	110,744
Receivable amount for margin loans	1,628,925	1,628,925	55,218	55,218
Refinancing margin	10,182	10,182	345	345
Receivables from refinance guaranty	8,685	8,685	294	294
Securities refinancing margin deposits	43,256	43,256	1,466	1,466
Security lending deposits	1,219,153	1,219,153	41,327	41,327
Receivables - net	242,923	242,923	8,235	8,235
Available-for-sale financial assets – current	455,690	455,690	15,447	15,447
Investments under equity method	777,925	777,925	26,370	26,370
Available-for-sale financial assets – noncurrent	18	-	1	-
Operating deposits	245,000	245,000	8,305	8,305
Settlement and clearance funds	119,354	119,354	4,046	4,046
Guarantee deposits paid	8,992	8,992	305	305
<u>Liabilities</u>				
Commercial paper payable	3,010,000	3,010,000	102,034	102,034
Bonds sold under repurchase agreements	1,100,000	1,100,000	37,288	37,288
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	68,300	68,300	2,315	2,315
Security lending payable-non-hedging	649,946	649,946	22,032	22,032
Securities financing guarantee deposits-in	93,643	93,643	3,174	3,174
Deposit payable for securities financing	104,079	104,079	3,528	3,528
Payables	263,628	263,628	8,937	8,937
Guarantee deposits-in	106	106	4	4
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options – futures	5,225	5,225	177	177
Margin for futures trading – own funds	566,885	566,885	19,216	19,216
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,208,896	1,208,896	40,980	40,980
Repurchase of issued call (put) warrants	(1,073,381)	(1,073,381)	(36,386)	(36,386)
Put options-futures	11,691	11,691	396	396

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Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$317,296	\$317,296	\$10,792	\$10,792
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	90,783	90,783	3,088	3,088
Operating securities – net	2,064,128	2,064,128	70,208	70,208
Receivable amount for margin loans	2,013,532	2,013,532	68,487	68,487
Securities refinancing margin deposits	56,112	56,112	1,909	1,909
Security lending deposits	159,080	159,080	5,411	5,411
Receivables	89,697	89,697	3,051	3,051
Available-for-sale financial assets – current	790,183	790,183	26,877	26,877
Investments under equity method	753,965	753,965	25,645	25,645
Available-for-sale financial assets – noncurrent	18	-	1	-
Operating deposits	245,098	245,098	8,337	8,337
Settlement and clearance funds	84,284	84,284	2,867	2,867
Guarantee deposits paid	8,668	8,668	295	295
<u>Liabilities</u>				
Commercial paper payable	1,560,000	1,560,000	53,061	53,061
Bonds sold under repurchase agreements	460,345	460,345	15,658	15,658
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	62,620	62,620	2,130	2,130
Security lending payable-non-hedging	133,111	133,111	4,528	4,528
Securities financing guarantee deposits-in	39,334	39,334	1,338	1,338
Deposit payable for securities financing	43,388	43,388	1,476	1,476
Payables	74,720	74,720	2,541	2,541
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options – futures	2,330	2,330	79	79
Margin for futures trading – own funds	243,521	243,521	8,283	8,283
Derivative financial instrument assets – GreTai (over-the-counter)	25,190	25,190	857	857
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,423,993	1,423,993	48,435	48,435
Repurchase of issued call (put) warrants	(1,218,488)	(1,218,488)	(41,445)	(41,445)
Put options-futures	12,344	12,344	420	420

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

(a) Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, refinancing margin, securities refinancing margin deposits, receivable from refinance guaranty, security lending deposits, receivables, operating deposits, settlement and clearance funds, guarantee deposits paid, commercial paper payable, bonds sold under repurchase agreement, securities financing guarantee deposits-in, deposit payable for securities financing, payables and guarantee deposits-in.

(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.

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The following table summarizes the fair value information of financial assets and liabilities as of March 31, 2012 and 2011:

Item	March 31, 2012			
	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				
Open-end funds and currency market instruments	\$132,602	\$4,495	\$-	\$-
Operating securities - net	3,266,941	110,744	-	-
Available-for-sale financial assets- current	455,690	15,447	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Security lending payable-hedging	68,300	2,315	-	-
Security lending payable-non-hedging	649,949	22,032	-	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options-futures	5,225	177	-	-
Margin for futures trading – own funds	566,885	19,216	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,208,896	40,980	-	-
Repurchase of issued call (put) warrants	(1,073,381)	(36,386)	-	-
Put options-futures	11,691	396	-	-

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Item	March 31, 2011			
	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				
Open-end funds and currency market instruments	\$90,783	\$3,088	\$-	\$-
Operating securities - net	2,064,128	70,208	-	-
Available-for-sale financial assets- current	790,183	26,877	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Security lending payable-hedging	62,620	2,130	-	-
Security lending payable-non-hedging	133,111	4,528	-	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options-futures	2,330	79	-	-
Margin for futures trading – own funds	243,521	8,283	-	-
Derivative financial instrument assets-GreTai (over-the-counter)	-	-	25,190	857
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,423,993	48,435	-	-
Repurchase of issued call (put) warrants	(1,218,488)	(41,445)	-	-
Put options-futures	12,344	420	-	-

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

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c. Financial risk management objectives and policies

(a) Market risk

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

(b) Credit risk

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

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

(c) Liquidity risk

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

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

(d) Cash flow risk from interest rate fluctuations

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

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d. Financial derivatives

(a) Issuance of call (put) warrants

① Nominal principal or contract amount and credit risk

Financial instruments	March 31, 2012		March 31, 2011	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call (put) warrants	NT\$1,502,528 <u>(US\$50,933)</u>	NT\$- <u>(US\$-)</u>	NT\$2,058,724 <u>(US\$70,025)</u>	NT\$- <u>(US\$-)</u>

② 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.

③ 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.

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.

④ Types, 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.

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⑨ Financial statement presentation of derivative financial instruments

As of March 31, 2012 and 2011, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

Balance sheet

	March 31, 2012		March 31, 2011	
	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	\$1,208,896	\$40,980	\$1,423,993	\$48,435
Repurchase of issued call (put) warrants	(1,073,381)	(36,386)	(1,218,488)	(41,445)
Total	\$135,515	\$4,594	\$205,505	\$6,990

Statement of income

	For the three months ended March 31, 2012		For the three months ended March 31, 2011		Comments
	Profits or losses from issuing call (put) warrants				
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Liabilities for issuance of call (put) warrants	\$(607,385)	\$(20,589)	\$329,853	\$11,220	Fair value method
Repurchase of issued call (put) warrants					
- Loss on disposal	(1,765,815)	(59,858)	(451,022)	(15,341)	
- Gain (loss) from valuation	351,666	11,921	(364,761)	(12,407)	Fair value method
Gain from expiration of warrants issued	2,014,698	68,295	607,944	20,678	
Trading securities-hedging					
- Gain (loss) on disposal	122,213	4,143	(53,183)	(1,809)	
- Loss from valuation	(13,173)	(447)	(22,944)	(780)	Fair value method
Security lending payable-hedging					
- (Loss) gain on disposal	(15,297)	(519)	186	6	
- (Loss) gain from valuation	(24,691)	(837)	890	30	Fair value method
Futures transaction-hedging					
- Loss on disposal	(198)	(7)	(478)	(16)	
- Loss from valuation	(2)	-	(225)	(8)	Fair value method
Total	\$62,016	\$2,102	\$46,260	\$1,573	

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e. Futures and options transactions

As of March 31, 2012 and 2011, Cathay Securities' unexercised futures and options were as follows:

March 31, 2012

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	29	\$(23,993)	\$(813)	\$24,192	\$820
Futures	FITF	Buy	112	\$93,944	\$3,185	\$91,601	\$3,105
Futures	FITF	Sell	1	\$(767)	\$(26)	\$822	\$28
Futures	Single stock Futures	Buy	506	\$91,677	\$3,108	\$91,909	\$3,116
Futures	Single stock Futures	Sell	181	\$(16,491)	\$(559)	\$16,391	\$556
Futures	FITX	Sell	1,382	\$(2,206,764)	\$(74,806)	\$2,179,683	\$73,888
Futures	FITE	Buy	851	\$1,030,935	\$34,947	\$1,025,795	\$34,773
Futures	FITE	Sell	1	\$(1,209)	\$(41)	\$1,205	\$41
Futures	FIMTX	Sell	283	\$(112,712)	\$(3,821)	\$111,586	\$3,783
Futures	FIXI	Buy	53	\$57,617	\$1,953	\$57,077	\$1,935
Options	TXO- Put	Buy	182	\$1,929	\$65	\$2,111	\$72
Options	TXO- Call	Buy	455	\$3,788	\$128	\$3,114	\$106
Options	TXO- Put	Sell	374	\$(4,771)	\$(162)	\$5,020	\$170
Options	TXO- Call	Sell	1,315	\$(8,653)	\$(293)	\$6,671	\$226

March 31, 2011

Item	Nature of Transaction	Unexercised Futures/options		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Futures	STW	Buy	7	\$6,300	\$214	\$6,337	\$216
Futures	FITF	Buy	3	\$2,915	\$99	\$2,993	\$102
Futures	FITX	Buy	109	\$184,208	\$6,266	\$188,071	\$6,397
Futures	FITX	Sell	6	\$(9,946)	\$(338)	\$10,368	\$353
Options	TXO- Put	Buy	897	\$3,166	\$108	\$1,005	\$34
Options	TXO- Call	Buy	379	\$1,296	\$44	\$1,325	\$45
Options	TXO- Put	Sell	855	\$(4,871)	\$(166)	\$3,096	\$105
Options	TXO- Call	Sell	1,705	\$(12,023)	\$(409)	\$9,248	\$315

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(a) Nominal principal or contract amount and credit risk

Financial instruments	March 31, 2012	
	Nominal principal/ amount	contract Credit risk
STW future	NT\$23,993(US\$813)	NT\$- (US\$-)
FITF	NT\$94,711(US\$3,211)	NT\$- (US\$-)
Single stock futures	NT\$108,168(US\$3,667)	NT\$- (US\$-)
FITX	NT\$2,206,764(US\$74,806)	NT\$- (US\$-)
FITE	NT\$1,032,144(US\$34,988)	NT\$- (US\$-)
FIMIX	NT\$112,712(US\$3,821)	NT\$- (US\$-)
FIXI	NT\$57,617(US\$1,953)	NT\$- (US\$-)
TXO	NT\$19,141(US\$649)	NT\$- (US\$-)

Financial instruments	March 31, 2011	
	Nominal principal/ amount	contract Credit risk
STW	NT\$6,300(US\$214)	NT\$- (US\$-)
FITF	NT\$2,915(US\$99)	NT\$- (US\$-)
FITX	NT\$194,154(US\$6,604)	NT\$- (US\$-)
TXO	NT\$21,356(US\$726)	NT\$- (US\$-)

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

(b) Market risk

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

(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.

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

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

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

(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current (margin for futures trading – own funds) on the balance sheet. For the three months ended March 31, 2012 and 2011, the related gain (loss) of futures and options on the statement of income were as follows:

	For the three months ended March 31, 2012		For the three months ended March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain from derivative financial instruments - futures				
Non-hedging				
Gain on futures contracts - realized	\$48,116	\$1,631	\$1,028	\$35
Gain on futures contracts - unrealized	34,219	1,160	17,993	612
Gain from options transactions - realized	3,851	131	10,221	348
Gain from options transactions - unrealized	1,982	67	14,008	476
Subtotal	88,168	2,989	43,250	1,471
Hedging				
Gain on futures contracts - unrealized	-	-	238	8
Total	\$88,168	\$2,989	\$43,488	\$1,479

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	For the three months ended March 31, 2012		For the three months ended March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loss from derivative financial instruments-futures				
Non-hedging				
Loss on futures contracts - realized	\$6,218	\$211	\$21,133	\$719
Loss on futures contracts - unrealized	17,669	599	9,040	307
Loss from options transactions - realized	974	33	3,767	128
Loss from options transactions - unrealized	723	24	3,285	112
Subtotal	25,584	867	37,225	1,266
Hedging				
Loss on futures contracts - realized	198	7	478	16
Loss on futures contracts - unrealized	2	-	463	16
Subtotal	200	7	941	32
Total	\$25,784	\$874	\$38,166	\$1,298

G. Cathay Venture

Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$6,738	\$6,738	\$228	\$228
Financial assets at fair value through profit or loss	10,250	10,250	347	347
Available-for-sale financial assets-current	538,374	538,374	18,250	18,250
Other receivables (include transactions with related parties)	6,466	6,466	219	219
Investment under equity method	237,662	237,662	8,056	8,056
Available-for-sale financial assets-noncurrent	227,206	227,206	7,702	7,702
Financial assets carried at cost-noncurrent	1,167,804	(Note)	39,587	(Note)
Investment in debt securities with no active market-noncurrent	34,000	-	1,153	-
<u>Liabilities</u>				
Accrued expenses	4,715	4,715	160	160
Other payables	276	276	9	9

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share data and unless otherwise stated)**

Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$19,318	\$19,318	\$657	\$657
Financial assets at fair value through profit or loss	10,150	10,150	345	345
Available-for-sale financial assets-current	169,349	169,349	5,760	5,760
Other receivables (include transactions with related parties)	8,061	8,061	274	274
Investment under equity method	285,880	285,880	9,724	9,724
Available-for-sale financial assets-noncurrent	582,904	582,904	19,827	19,827
Financial assets carried at cost-noncurrent	1,223,807	(Note)	41,626	(Note)
Investment in debt securities with no active market-noncurrent	34,000	-	1,156	-
<u>Liabilities</u>				
Accrued expenses	179	179	6	6
Other payables	274	274	9	9

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

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

- (a) The fair value of Cathay 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 Venture's investment under equity method, then their fair value is taken as approximating their carry amounts when no permanent market value decline exists.
- (d) Financial assets carried at cost are unlisted stock. Since these stocks have no quoted market prices in an active market and their fair value cannot be reliably measured, their fair values are not disclosed.

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c. The following table summarizes the basis of determining fair value of financial assets and liabilities as of March 31, 2012 and 2011:

Item	March 31, 2012			
	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	\$6,738	\$228	\$-	\$-
Financial assets at fair value through profit or loss	10,250	347	-	-
Available-for-sale financial assets-current	538,374	18,250	-	-
Other receivable (include transactions with related parties)	-	-	6,466	219
Investment under equity method	-	-	237,662	8,056
Available-for-sale financial assets-noncurrent	227,206	7,702	-	-
Financial assets carried at cost-noncurrent	-	-	1,167,804	39,587
Investment in debt securities with no active market	-	-	34,000	1,153
<u>Liabilities</u>				
Accrued expense	-	-	4,715	160
Other payables	-	-	276	9
Item	March 31, 2011			
	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	\$19,318	\$657	\$-	\$-
Financial assets at fair value through profit or loss	10,150	345	-	-
Available-for-sale financial assets-current	169,349	5,760	-	-
Other receivable (include transactions with related parties)	-	-	8,061	274
Investment under equity method	-	-	285,880	9,724
Available-for-sale financial assets-noncurrent	582,904	19,827	-	-
Financial assets carried at cost-noncurrent	-	-	1,223,807	41,626
Investment in debt securities with no active market	-	-	34,000	1,156
<u>Liabilities</u>				
Accrued expense	-	-	179	6
Other payables	-	-	274	9

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d. Information on financial risk

(a) Market risk

Market risk is the exposure to potential loss arising from adverse movements of market price, such as interest rates or foreign exchange rates. Cathay 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 Venture believes the maximum credit exposure amount of financial instruments is equal to their carrying values.

(c) Liquidity risk and cash flow risk

Cathay 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 held are able to be disposed rapidly at prices close to fair values.

G. Cathay Securities Investment Trust

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,614,344	\$1,614,344	\$54,724	\$54,724
Accounts receivable-related parties	86,337	86,337	2,927	2,927
Available-for-sale financial assets-noncurrent	136,621	136,621	4,631	4,631
Held-to-maturity financial asset - noncurrent	200,000	200,000	6,780	6,780
Operating deposits	50,000	50,000	1,695	1,695
Guarantee deposits paid	154,172	154,172	5,226	5,226
<u>Liabilities</u>				
Income tax payable	46,280	46,280	1,569	1,569
Accrued payable and other current liabilities	99,644	99,644	3,378	3,378

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Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$744,459	\$744,459	\$25,322	\$25,322
Financial assets at fair value through profit or loss - current	20,153	20,153	685	685
Accounts receivable-related parties	81,735	81,735	2,780	2,780
Held-to-maturity financial asset - noncurrent	200,000	200,000	6,803	6,803
Operating deposits	54,700	54,700	1,861	1,861
Guarantee deposits paid	138,108	138,108	4,698	4,698
<u>Liabilities</u>				
Income tax payable	65,424	65,424	2,225	2,225
Accrued payable and other current liabilities	104,670	104,670	3,560	3,560

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

(a) The fair value of Cathay Securities Investment Trust financial assets and liabilities 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, accounts receivable-related parties, operating deposit, guarantee deposit paid, income tax payable, accrued payable and other current liabilities.

(b) When financial assets 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 Securities Investment Trust.

(c) Quoted market prices, if available, are used to determine the collateral for operating deposit and for guarantee deposit paid. If no quoted market prices exist, then their fair value is taken as approximating their carry amounts when no permanent market value decline exists.

c. The fair value of Cathay Securities Investment Trust financial assets determined by quoted market price or pricing models is summarized as following:

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Item	March 31, 2012			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-noncurrent	\$136,621	\$4,631	\$-	\$-
Held-to-maturity financial asset - noncurrent	-	-	200,000	6,780

Item	March 31, 2011			
	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	\$20,153	\$685	\$-	\$-
Held-to-maturity financial asset - noncurrent	-	-	200,000	6,803

d. The interest income arising from other than financial assets at fair value through profit or loss for the three months ended March 31, 2012 and 2011 were NT\$1,459 (US\$49) thousands and NT\$261 (US\$9) thousands, respectively.

e. Information on financial risk

(a) Market risk

Cathay Securities Investment Trust invests in equity securities that have measured by fair market price; therefore, Cathay Securities Investment Trust is exposed to certain risk once the market price of equity securities is fluctuated.

Cathay Securities Investment Trust invests in inverse floating rate bond which was measured by allocated cost. Besides, in order to manage the market risk, Cathay Securities Investment Trust only chooses creditworthy banks when invests in held-to-maturity financial asset.

(b) Credit risk

Cathay Securities Investment Trust purchases funds and bonds issued by creditworthy companies as its financial instruments, and control credit risk that might expose to every financial institution. Thus Cathay Securities Investment Trust's exposure in credit risk is minimal.

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(c) Liquidity risk

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

(d) Cash flow risk from interest rate fluctuations

Cathay Securities Investment Trust's bond investment is measured by inverse floating rate. Therefore, when market rate fluctuate, it would be affected the real interest rate for bond investment as well as the future cash flow. When LIBOR is lower than 4.95% and at the resettlement date LIBOR is used 4.95% as base rate, every 10 basis points decrease in the LIBOR will increase NT\$1,000 (US\$34) thousands for Cathay Security Investment Trust every half year. If the requirement remain the same, the cash flow will be increased NT\$2,000 (US\$68) annually.

H. Cathay Futures

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$310,979	\$310,979	\$10,542	\$10,542
Customers' margin accounts	1,729,993	1,729,993	58,644	58,644
Futures trading deposits receivable	37	37	1	1
Accounts receivable-related parties	230	230	8	8
Other receivable (include transactions with related parties)	1,774	1,774	60	60
Available-for-sale financial assets-noncurrent	30,500	30,500	1,034	1,034
Operating deposits	60,000	60,000	2,034	2,034
Settlement and clearance funds	75,000	75,000	2,542	2,542
Guarantee deposits paid	1,466	1,466	50	50
<u>Liabilities</u>				
Futures customers' equity	1,729,555	1,729,555	58,629	58,629
Payables (include transactions with related parties)	4,432	4,432	150	150
Other payable (include transactions with related parties)	7,136	7,136	242	242
Guarantee deposits in	1,439	1,439	49	49

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Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$285,329	\$285,329	\$9,705	\$9,705
Customers' margin accounts	1,370,161	1,370,161	46,604	46,604
Futures trading deposits receivable	107	107	4	4
Accounts receivable-related parties	62	62	2	2
Other receivable (include transactions with related parties)	1,140	1,140	39	39
Available-for-sale financial assets-noncurrent	30,500	30,500	1,037	1,037
Operating deposits	60,000	60,000	2,041	2,041
Settlement and clearance funds	74,000	74,000	2,517	2,517
Guarantee deposits paid	1,286	1,286	44	44
<u>Liabilities</u>				
Futures customers' equity	1,369,716	1,369,716	46,589	46,589
Payables (include transactions with related parties)	6,060	6,060	206	206
Other payable (include transactions with related parties)	4,559	4,559	155	155
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.
- (c) The fair value of financial assets and financial liabilities is determined using pricing models.

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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.

I. Symphox Information

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$522,236	\$522,236	\$17,703	\$17,703
Financial assets at fair value through profit or loss-current	192,559	192,559	6,527	6,527
Receivables (include transactions with related parties)	141,677	141,677	4,803	4,803
Guarantee deposits paid	8,105	8,105	275	275
<u>Liabilities</u>				
Payables (include transactions with related parties)	194,716	194,716	6,601	6,601
Guarantee deposits in	62	62	2	2

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Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$505,699	\$505,699	\$17,201	\$17,201
Financial assets at fair value through profit or loss-current	234,760	234,760	7,985	7,985
Receivables (include transactions with related parties)	141,203	141,203	4,803	4,803
Guarantee deposits paid	8,435	8,435	287	287
<u>Liabilities</u>				
Payables (include transactions with related parties)	149,670	149,670	5,091	5,091
Guarantee deposits in	63	63	2	2

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

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

Item	March 31, 2012			
	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	\$192,559	\$6,527	\$-	\$-

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Item	March 31, 2011			
	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	\$234,760	\$7,985	\$-	\$-

J. Cathay Life (China)

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,196,205	\$3,196,205	\$108,346	\$108,346
Premiums receivables	72,081	72,081	2,443	2,443
Financial assets at fair value through profit or loss	766,991	766,991	26,000	26,000
Available-for-sale financial assets	4,998,519	4,998,519	169,441	169,441
Investment in debt securities with no active market	515,768	515,768	17,484	17,484
Guarantee deposits paid	1,190,383	1,190,383	40,352	40,352
<u>Liabilities</u>				
Payables	409,282	409,282	13,874	13,874
Bills and bonds sold under repurchase agreements	62,829	62,829	2,130	2,130
Guarantee deposits in	8,595	8,595	291	291

Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,761,398	\$3,761,398	\$127,939	\$127,939
Premiums receivables	50,071	50,071	1,703	1,703
Financial assets at fair value through profit or loss	422,559	422,559	14,373	14,373
Available-for-sale financial assets	5,734,274	5,734,274	195,043	195,043
Investment in debt securities with no active market-noncurrent	206,102	206,102	7,010	7,010
Guarantee deposits paid	1,149,078	1,149,078	39,084	39,084
<u>Liabilities</u>				
Payables	348,020	348,020	11,837	11,837
Bills and bonds sold under repurchase agreements	44,922	44,922	1,528	1,528
Guarantee deposits in	7,735	7,735	263	263

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- b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:
- (a) The fair value of Cathay 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, 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.
 - (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	March 31, 2012			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,196,205	\$108,346	\$-	\$-
Financial assets at fair value through profit or loss	766,991	26,000	-	-
Available-for-sale financial assets	1,280,063	43,392	3,718,456	126,049
Investment in debt securities with no active market	-	-	515,768	17,484
Item	March 31, 2011			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$3,761,398	\$127,939	\$-	\$-
Financial assets at fair value through profit or loss	422,559	14,373	-	-
Available-for-sale financial assets	1,404,637	47,777	4,329,637	147,266
Investment in debt securities with no active market	-	-	206,102	7,010

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K. Cathay Life (Vietnam)

a. Information of fair value

Item	March 31, 2012			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$449,727	\$449,727	\$15,245	\$15,245
Receivables	89,523	89,523	3,035	3,035
Available-for-sale financial assets	980,970	980,970	33,253	33,253
Guarantee deposits paid	40,535	40,535	1,374	1,374
<u>Liabilities</u>				
Payables	22,701	22,701	770	770

Item	March 31, 2011			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$275,876	\$275,876	\$9,384	\$9,384
Receivables	78,252	78,252	2,662	2,662
Available-for-sale financial assets	1,115,064	1,115,064	37,927	37,927
Guarantee deposits paid	39,724	39,724	1,351	1,351
<u>Liabilities</u>				
Payables	21,704	21,704	738	738

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 (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.

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(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:

Item	March 31, 2012			
	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	\$449,727	\$15,245	\$-	\$-
Receivables	-	-	89,523	3,035
Available-for-sale financial assets	980,970	33,253	-	-
<u>Liabilities</u>				
Payables	-	-	22,701	770
Item	March 31, 2011			
	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	\$275,876	\$9,384	\$-	\$-
Receivables	-	-	78,252	2,662
Available-for-sale financial assets	1,115,064	37,927	-	-
<u>Liabilities</u>				
Payables	-	-	21,704	738

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L. Cathay Century (China)

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$404,635	\$404,635	\$13,716	\$13,716
Premiums receivable	78,832	78,832	2,672	2,672
Financial assets at fair value through profit or loss	138,730	138,730	4,703	4,703
Available-for-sale financial assets	702,717	702,717	23,821	23,821
Other accounts receivable	23,312	23,312	790	790
Due from reinsurers and ceding companies	3,854	3,854	131	131
Guarantee deposits paid	391,231	391,231	13,262	13,262
<u>Liabilities</u>				
Claims outstanding	2,478	2,478	84	84
Due to reinsurers and ceding companies	57,964	57,964	1,965	1,965
Liabilities reserve	727,482	727,482	24,660	24,660
Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$704,079	\$704,079	\$23,948	\$23,948
Premiums receivable	46,013	46,013	1,565	1,565
Financial assets at fair value through profit or loss	105,625	105,625	3,593	3,593
Available-for-sale financial assets	399,908	399,908	13,602	13,602
Other accounts receivable	24,194	24,194	823	823
Due from reinsurers and ceding companies	3,311	3,311	113	113
Guarantee deposits paid	371,318	371,318	12,630	12,630
<u>Liabilities</u>				
Claims outstanding	2,091	2,091	71	71
Due to reinsurers and ceding companies	36,051	36,051	1,226	1,226
Liabilities reserve	349,157	349,157	11,876	11,876

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- b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:
- (a) The fair value of Cathay Century (China) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables, due from reinsurers and ceding companies, due to reinsurers and ceding companies, Claims and outstanding liabilities reserve.
- (b) Quoted market price, if available, is utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century (China) held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Century (China) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.
- (d) The fair value of the Cathay Century (China) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	March 31, 2012			
	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	\$404,635	\$13,716	\$-	\$-
Financial assets at fair value through profit or loss	138,730	4,703	-	-
Available-for-sale financial assets	702,717	23,821	-	-
Item	March 31, 2011			
	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	\$704,079	\$23,948	\$-	\$-
Financial assets at fair value through profit or loss	105,625	3,593	-	-
Available-for-sale financial assets	399,908	13,602	-	-

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M. Cathay Century (Vietnam)

a. Information of fair value

Item	March 31, 2012			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$333,465	\$333,465	\$11,304	\$11,304
Premiums receivable	27,945	27,945	947	947
Guarantee deposits paid	8,384	8,384	284	284
<u>Liabilities</u>				
Operating and liabilities reserve	11,727	11,727	398	398

Item	March 31, 2011			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$413,997	\$413,997	\$14,082	\$14,082
Premiums receivable	1,060	1,060	36	36
Guarantee deposits paid	8,363	8,363	284	284
<u>Liabilities</u>				
Operating and liabilities reserve	1,151	1,151	39	39

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, premiums receivables and Liabilities reserve.

(b) The fair value of the guarantee deposits paid approximates their carrying amount.

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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	March 31, 2012			
	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	\$333,465	\$11,304	\$-	\$-

Item	March 31, 2011			
	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	\$413,997	\$14,082	\$-	\$-

(3) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	March 31, 2012			March 31, 2011		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$39,582,638	29.53	\$1,168,875,300	\$35,987,836	29.418	\$1,058,690,159
AUD	1,146,311	30.7186	35,213,069	1,721,037	30.39909	52,317,959
<u>Non-Monetary Items</u>						
USD	2,579,905	29.53	76,184,595	1,861,834	29.418	54,771,433
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	5,383,066	29.53	158,961,939	4,184,011	29.418	123,085,236

(4) Assessment for loans and allowance for bad debt receivables are showed as followed:

Loans

Item		March 31, 2012			
		Total loans (Note)		Allowance for bad debts	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Objective evidence of impairment exists individually	Individual assessment of impairment	\$48,075,522	\$1,629,679	\$4,072,827	\$138,062
	Collective assessment of impairment	6,389,251	216,585	814,125	27,597
Objective evidence of impairment does not exist individually	Individual assessment of impairment	1,453,876,402	49,283,946	7,639,985	258,983

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Loans

Item		March 31, 2011			
		Total loans (Note)		Allowance for bad debts	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Objective evidence of impairment exists individually	Individual assessment of impairment	\$17,319,045	\$589,083	\$2,345,582	\$79,782
	Collective assessment of impairment	5,099,268	173,444	1,164,039	39,593
Objective evidence of impairment does not exist individually	Individual assessment of impairment	1,394,991,562	47,448,693	4,801,906	163,330

Note: Total loans equal the original amount before subtract (add) the allowance for bad debts and adjustment for discount (premium).

Receivables

Item		March 31, 2012			
		Total receivables (Note)		Allowance for bad debts	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Objective evidence of impairment exists individually	Individual assessment of impairment	\$86,409,938	\$2,929,150	\$39,041	\$1,323
	Collective assessment of impairment	143,932	4,879	113,784	3,857
Objective evidence of impairment does not exist individually	Individual assessment of impairment	42,607,435	1,444,320	1,983,900	67,251

Receivables

Item		March 30, 2011			
		Total receivables (Note)		Allowance for bad debts	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Objective evidence of impairment exists individually	Individual assessment of impairment	\$42,082	\$1,431	\$6,193	\$211
	Collective assessment of impairment	164,798	5,605	134,691	4,581
Objective evidence of impairment does not exist individually	Individual assessment of impairment	120,463,478	4,097,397	2,764,464	94,029

Note: Total receivables equal the original amount before subtract (add) the allowance for bad debts and adjustment for discount (premium).

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(5) Information on bad and doubtful accounts is as follows:

A. Loans

	For the three months ended March 31, 2012	
	(NT\$)	(US\$)
Balance, beginning of the period	\$11,017,947	\$373,490
Reversal of doubtful accounts	946,333	32,079
Write-offs	(36,963)	(1,253)
Recoveries	592,311	20,078
Effects on exchange rates and other changes	7,309	248
Balance, end of the period	<u>\$12,526,937</u>	<u>\$424,642</u>

	For the three months ended March 31, 2011	
	(NT\$)	(US\$)
Balance, beginning of the period	\$7,975,009	\$271,259
Reversal of doubtful accounts	(38,348)	(1,304)
Write-offs	(98,190)	(3,340)
Recoveries	957,336	32,562
Effects on exchange rates and other changes	(484,280)	(16,472)
Balance, end of the period	<u>\$8,311,527</u>	<u>\$282,705</u>

B. Receivables

	For the three months ended March 31, 2012	
	(NT\$)	(US\$)
Balance, beginning of the period	\$2,925,530	\$99,170
Reversal of doubtful accounts	(810,639)	(27,479)
Write-offs	(122,307)	(4,146)
Recoveries	181,109	6,139
Effects on exchange rates and other changes	(36,968)	(1,253)
Balance, end of the period	<u>\$2,136,725</u>	<u>\$72,431</u>

	For the three months ended March 31, 2011	
	(NT\$)	(US\$)
Balance, beginning of the period	\$2,343,133	\$79,699
Reversal of doubtful accounts	11,278	384
Write-offs	(108,039)	(3,675)
Recoveries	169,526	5,766
Effects on exchange rates and other changes	489,632	16,654
Balance, end of the period	<u>\$2,905,530</u>	<u>\$98,828</u>

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

Item	March 31, 2012			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$101,370,089	\$3,436,274	\$101,370,089	\$3,436,274
Overseas stocks	36,091,563	1,223,443	36,091,563	1,223,443
Resale bonds and bond investment notes	2,887,674	97,887	2,887,674	97,887
Cash in banks	56,088,117	1,901,292	56,088,117	1,901,292
Beneficiary certificate	30,612,778	1,037,721	30,612,778	1,037,721
Futures and options	1,416,878	48,030	1,416,878	48,030
Total	<u>\$228,467,099</u>	<u>\$7,744,647</u>	<u>\$228,467,099</u>	<u>\$7,744,647</u>

Item	March 31, 2011			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$4,957,798	\$168,633	\$4,957,798	\$168,633
Resale bonds and bond investment notes	4,434,744	150,842	4,434,744	150,842
Cash in banks	527,651	17,947	527,651	17,947
Beneficiary certificate	81,414	2,769	81,414	2,769
Net other assets less liabilities	(149)	(5)	(149)	(5)
Total	<u>\$10,001,458</u>	<u>\$340,186</u>	<u>\$10,001,458</u>	<u>\$340,186</u>

As of March 31, 2012, Cathay Life and Cathay Century entered into discretionary account management contracts in the amounts of NT\$139,500,000 (US\$4,728,814) thousands, US\$2,340,000 thousands, and HK\$6,350,000 (US\$817,888) thousands. As of March 31, 2012, the amount is NT\$7,600,000 (US\$258,503) thousands.

(7) Foreign exchange volatility reserve

A. The hedge strategy and risk exposure:

Based on the principle of risk control and to maintain the consistent level of foreign exchange volatility reserve, Cathay Life consistently adjusts the hedge ratios and risk exposure position under the risk control.

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B. Adjustment in foreign exchange volatility reserve:

	For the three months ended	
	March 31, 2012	
	NT\$	US\$
Beginning balance (The first money)	\$4,511,406	\$152,929
Reserve:		
Compulsory reserve	149,631	5,072
Extra reserve	2,697	92
Subtotal	152,328	5,164
Recover	-	-
Total	\$4,663,734	\$158,093

C. Effects due to foreign exchange volatility reserve for the Company:

Item	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net gains	\$2,212,053	\$74,985	\$2,085,621	\$70,699	\$(126,432)	\$(4,286)
Earnings per share	0.22	0.01	0.21	0.01	(0.01)	-
Foreign exchange volatility reserve	-	-	4,663,734	158,093	4,663,734	158,093
Stockholders' equity	240,670,793	8,158,332	240,544,361	8,154,046	(126,432)	(4,286)

(8) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please refer Note 28 (business with stakeholders) for further details.

B. Integrate business activities:

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

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C. Cross utilization of information:

In compliance with “Financial Holding Companies Act”, “Personal Data Protection Act”, “Financial Holding Subsidiaries Cross-selling Activities Acts”, “Self-disciplinary Rules Governing the Activities of the FHC” and other related regulations from Financial Supervisory Commission, Executive Yuan, the Company has regulated “Cathay Financial Holding Subsidiaries Cross-selling Activities Acts” and “Non-disclosure Confidential Agreement of Cathay Financial Holding Subsidiaries Cross-utilization of Customer’s Personal Data” to cross-utilized customer’s personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

D. Locations and business utilities:

In order to provide more comprehensive financial service and comply with the regulation of “Financial Holding Subsidiaries Cross-selling Activities Acts”, the Company has applied and been approval by Competent Authority. From September 13, 2010, all the business units of Cathay United Bank (162 branches) may engage in cross-selling activities for insurance business and securities business (except for 3 mini-branches). On September 2, 2011, Cathay Life has been approved by competent authorities to engage in cross-selling activities for banking, and property and casualty insurance businesses in all its business and service units (184 places). In the future, the Company and its subsidiaries will continuously applying for the admission to expand the cross-selling businesses.

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.

(9) Presentation of financial statements:

A. In compliance with the Explanatory Letter No. Financial Supervisory Examination Firms 10001522370 issued by Financial Examination Bureau of the FSC dated January 5, 2012. Cathay United Bank changed its accounting treatments of rental expenses, financial liabilities and fee and commission of syndication loans and re-measured them to comply with this explanatory. This change increased the consolidated net income by

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NT\$10,496 (US\$357) thousands for the three-month period ended March 31, 2011, and the increment of retained earnings were made by NT\$32,257 (US\$1,097) thousands and NT\$42,753 (US\$1,454) thousands as of January 1, 2011 and March 31, 2011, respectively. Accordingly, the relevant accounts of assets, liabilities, profit or loss has been adjusted while preparing the comparative financial statements.

B. Certain accounts in the consolidated financial statements for the three months ended March 31, 2011 has been reclassified in order to be comparable with those in the consolidated financial statements for the three months ended March 31, 2012.

34. Pre-disclosures on the adoption of IFRSs

The Financial Supervisory Commission (“FSC”) requires companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “IFRSs”), and the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, starting 2013. According to Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company and its subsidiaries make the following pre-disclosures on the adoption of IFRSs as follows:

(1) The main contents of the plan to adopt IFRSs and the current status:

The Company and its subsidiaries have set up a special project to adopt IFRSs. Chief Financial Officer is responsible for the coordination of this project. The key activities, estimated completion schedule and project progress as of March 31, 2012, were as follows:

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Key Activity	Responsible Department	Project Progress
A. Assess stage: 2010/1/1~2011/12/31		
1. Make a plan to adopt IFRSs and establish a project team	Accounting department	Completed
2. Proceed initial internal training	Accounting department and other authorized departments	Completed
3. Identify differences between the existing accounting policies and IFRSs	Accounting department	Completed
4. Identify the adjustment required for existing accounting policies	Accounting department	Completed
5. Select voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” and assess the impact of these exemptions	Accounting department	Completed
6. Identify the adjustments required for IT system and internal controls	Risk management department、information department and audit department	Completed
B. Prepare stage:2011/1/1~2012/12/31		
7. Finalize the accounting policies under IFRSs	Accounting department	Completed
8. Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards	Accounting department	Completed
9. Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Risk management department、information department and audit department	In progress
10. Proceed advanced internal training	Accounting department and other authorized departments	In progress
C. Practice stage:2012/1/1~2013/12/31		
11. Test the operation of information system	Information department	In progress
12. Prepare opening IFRS balance sheet and comparative financial statements	Accounting department	In progress
13. Prepare IFRS financial statements	Accounting department	In progress

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- (2) The material differences assessed by the Company between the existing accounting policies under R.O.C SFAS and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies are described in the table below. The Company and its subsidiaries assess the material differences in accounting polices based on the IFRSs as recognized by the FSC and the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies expected to become effective in 2013. However these assessments may be changed as the FSC may issue new rules governing different versions of IFRSs or amend the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies in the future. Furthermore, the Company and its subsidiaries have decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

Accounting Issues	Description of differences
Business combinations	<p>Under the requirements of ROC GAAP, if the equity stock issued in a business combination is traded in an open market, the market price fluctuations for a reasonable period of time before and after the announcement of the combination agreement should be considered (along with other factors) to determine the acquisition cost. If the quoted market price of the equity stock issued in a business combination mentioned above cannot represent its fair value, the fair value of the net assets acquired (including goodwill) should be calculated (after adjusting for other factors) to determine the acquisition cost. However under the requirements of IFRS 3 “Business Combinations”, the acquisition-date fair value of the equity interests issued in a business combination shall be used to determine the acquisition cost. If the acquisition-date fair value of the acquiree’s equity interests is more reliably measurable than the acquisition-date fair value of the acquirer’s equity interest, then the acquirer shall determine the acquisition cost by using the acquisition-date fair value of the acquiree’s equity interests.</p>
	<p>Under the requirements of ROC GAAP, the purchase cost of the acquiring corporation in a business combination includes all direct costs of an acquisition, except for the costs of issuing securities, indirect costs and general administrative expenses.</p> <p>However under the requirements of IFRS 3, the acquirer shall account for acquisition-related costs as expenses in the periods in which the cots are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IAS 32 “Financial Instruments: Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”.</p>

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Accounting Issues	Description of differences
Business combinations	<p>Under the requirements of ROC GAAP, the minority interests should be measured based on the book value of the acquired corporation. However under the requirements of IFRS 3, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.</p>
	<p>Under the requirements of ROC GAAP, where the distribution of additional consideration may be contingent on maintaining or achieving specified future earnings level for the acquired corporation and it is reasonably certain that the event is likely to occur and the amount can be reasonably estimated, then such contingent consideration should be included in the acquisition cost. Additional consideration contingent on the market price of a particular stock issued as a result of a business combination will not affect the acquisition costs. However under the requirements of IFRS 3, contingent consideration is recognized at the acquisition-date fair value.</p>
	<p>Under the requirements of ROC GAAP, goodwill is separately calculated on each portion of investment acquired, the previously held equity interest in the acquiree is not required to be remeasured. However under the requirements of IFRS 3, in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interests in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss</p>
Fixed assets	<p>For fixed assets acquired prior to the issuance of Accounting Research and Development Foundation Interpretation No 97-340, even if the cost of a component of the asset is significant relative to the total cost of such asset, that component is not depreciated separately. Furthermore, for fixed assets acquired prior to the issuance of Accounting Research and Development Foundation Interpretation No 97-340, the cost of such assets does not include the costs of dismantling and removing the asset and restoring the site on which it is located, and related provision is not recognized. However under the requirements of IAS 16 "Property, Plant and Equipment", each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The cost of an item of property, plant and equipment comprises the costs of dismantling and removing the asset and restoring the site on which it is located.</p>
	<p>The cost of regular major inspections is expensed as incurred under ROC GAAP. However under the requirements of IAS 16, when each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection is derecognized.</p>

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Accounting Issues	Description of differences
Fixed assets	Properties held to be leased out or for long-term capital appreciation are currently classified under fixed assets, as there is no clear guidance under ROC GAAP. However under the requirements of IAS 40 “Investment Property”, properties which meet the definition of investment property should be classified as such.
Lease accounting	The Company and its subsidiaries recognize rental income and expense based on the regulation of leasing contracts. However, under the requirement of IAS No.17 “Leases”, operating leases should be calculated under straight line basis and recognized as revenue or expense during the lease.
Employee benefits	There is no guidance under ROC GAAP for short-term compensated absences. The Company and its subsidiaries recognize the cost as expense as employees take these absences. However under the requirements of IAS 19 “Employee Benefits”, the Company and its subsidiaries shall recognize and accrue for the accumulating compensated absences.
	The Company and its subsidiaries have selected a rate of return on relatively high-safety fixed-income investment as the discount rate under ROC GAAP. However under the requirements of IAS 19, the rate used to discount post-employment benefits obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used.
	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.
Other employee benefits (employee preferential interest deposits)	According to internal regulation of Cathay United Bank or hiring agreement, the excess interest of employee preferential retiring deposits is adapted to IAS No.19 “Employee Benefit” once the employee is retired.
Customer loyalty Programmes	The Company and its subsidiaries recognize the fair value of all considerations received or receivable as revenue at the time of sale, and estimate the cost and related liabilities resulting from the awards given. However under the requirements of IFRIC 13 “Customer Loyalty Programmes”, the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale; the consideration allocated to the award credits should be deferred and only recognized as revenue when award credit are redeemed and the Company and its subsidiaries fulfill its obligations to supply awards.

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Accounting Issues	Description of differences
Financial assets measured at cost	Under the requirements of the existing Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, equity investments in unlisted entities or entities traded on Emerging Stock market should be measured at cost. However under the requirements of IAS 39, only investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured could be measured at cost. The fair value of investments in equity instruments that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.
Insurance contracts	Under the requirements of ROC GAAP, catastrophic reserve and stability reserve (special reserve) that Cathay Century reserved prior to Statement of Financial Accounting Standard No.40 are recognized as liabilities. However, according to the regulation of IFRS 4 “Insurance Contracts”, potential claims should not be recognized as liabilities if it results from insurance contracts that do not exist at the balance sheet date (ex. Catastrophic reserve and stability reserve).
Income taxes	Under the requirements of ROC GAAP, deferred tax assets are recognized in full, however, if there is over 50% possibility that the economic benefits of a deferred tax asset become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset. However under the requirements of IAS 12 “Income Taxes”, a deferred tax asset shall be recognized to the extent that it is probable that it would be utilized.
	Under the requirements of ROC GAAP, a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. If a deferred tax asset or liability is not related to an asset or liability for financial reporting, it should be classified as current or noncurrent according to the expected reversal date of the temporary difference. However under the requirements of IAS 1 “Presentation of Financial Statements”, deferred tax assets or liabilities are classified as noncurrent.
	Under the requirements of ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However under the requirements of IAS 12, an entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a legally enforceable right to set off the recognized amounts; and an entity shall offset deferred tax assets and current tax liabilities if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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Accounting Issues	Description of differences
Liquidating dividends	Under the requirements of ROC GAAP, if equity security does not belong to “financial assets measure at fair value and financial assets at fair value through profit or loss”, the dividends on an equity investment are declared from the pre-acquisition net income, such dividends should be deducted from the cost of the equity investment. However, there is no similar regulation under IAS 18.
Regular way purchases or sales	The bond trading of Cathay United Bank is recognized on the settlement date under regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. For this purpose, Cathay United Bank changes the regular way purchases and sales of bond trading are recognized on the trade date.

(3) The preliminary assessment on the monetary impacts of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies is as follows :

① Reconciliation of the balance sheet as at January 1, 2012:

	ROC GAAP		Notes	Adjustments		IFRSs	
	NT	US		NT	US	NT	US
Investment Property-Net	\$146,173,482	\$4,955,033	A	\$6,263,342	\$212,317	\$152,436,824	\$5,167,350
Property and Equipment-Net	38,605,554	1,308,663	B	6,977,893	236,539	45,583,447	1,545,202
Financial assets	2,004,797,982	67,959,254	C	235,161	7,971	2,005,033,143	67,967,225
Other assets	2,815,825,762	95,451,721	D	(4,387,875)	(148,742)	2,811,437,887	95,302,979
Total assets	\$5,005,402,780	\$169,674,671		\$9,088,521	\$308,085	\$5,014,491,301	\$169,982,756
Reserve for liabilities	\$2,822,611,555	\$95,681,748	E	\$483,576	\$16,392	\$2,823,095,131	\$95,698,140
Other liabilities	1,965,079,652	66,612,870	F	4,860,782	164,772	1,969,940,434	66,777,642
Total liabilities	\$4,787,691,207	\$162,294,618		\$5,344,358	\$181,164	\$4,793,035,565	\$162,475,782
Common Stock	\$103,575,097	\$3,511,021		\$-	\$-	\$103,575,097	\$3,511,021
Capital surplus	78,508,148	2,661,293		-	-	78,508,148	2,661,293
Retained Earnings	28,743,040	974,340	G	5,997,783	203,315	34,740,823	1,177,655
Other Stockholders' Equity	2,834,650	96,090	H	(2,253,620)	(76,394)	581,030	19,696
Minority Equity	4,050,638	137,309		-	-	4,050,638	137,309
Stockholders' Equity	\$217,711,573	\$7,380,053		\$3,744,163	\$126,921	\$221,455,736	\$7,506,974

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- A. The Company and its subsidiaries adopt the requirements of IAS 40 “Investment Property”, properties which meet the definition of investment property should be classified as such. The properties which do not meet such definition would be transferred to property and equipment, so decrease the investment property by NT\$13,606,492 (US\$461,237) thousands. And according to IFRS 1, the Company and its subsidiaries identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions, which increase the investment property by NT\$19,869,834 (US\$673,554) thousands. Total increase of the investment property amounted to NT\$6,263,342 (US\$212,317) thousands.
- B. The Company and its subsidiaries adopt IAS 16 “Property, Plant and Equipment”, significant items of property, plant and equipment shall be recorded and depreciated separately. The reclassification cause the decrease of the property and equipment by NT\$8,340,750 (US\$282,737) thousands. And according to IAS 16 “Property, Plant and Equipment”, properties which meet the definition of property and equipment should be classified as such. The increase of the property and equipment amounted by NT\$15,318,643 (US\$519,276) thousands. Total increase of the property and equipment amounted to NT\$6,977,893 (US\$236,539) thousands.
- C. Financial assets include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, other financial assets and investments in debt securities with no active market. The Company and its subsidiaries reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value on each balance sheet date. As of January 1, 2012, the reclassification adjustment resulted in the increases of financial assets by NT\$235,161 (US\$7,971) thousands.
- D. Apply to assets other than assets described in above section A, B and C. The Company and its subsidiaries reclassified idled assets to investment property which decrease the other assets by NT\$1,712,151 (US\$58,039) thousands. In addition, according to IAS 12 “Income taxes”, IAS17 “Leases” and other classification decreases the other assets by NT\$2,675,724 (US\$90,703) thousands. Total decrease of the property and equipment amounted to NT\$4,387,875 (US\$148,742) thousands.
- E. The Company and its subsidiaries adopt the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, IFRS4 “Insurance Contracts” and IAS19 “Employee benefits”, and recognized reserve for liabilities which decrease the special reserve for life insurance by NT\$3,760,503 (US\$127,475) thousands and the special reserve for property & casualty insurance by NT\$2,326,210 (US\$78,855) thousands. The Company and its subsidiaries also adopt IAS19 to measure pension liability, employee preferential interest benefit, unrecognized transitional net benefit obligation and recognize all cumulative actuarial gains and losses according to the IFRS 1. As of January 1, 2012, the IFRSs adjustments resulted in an increase of reserve for liabilities by NT\$3,764,193 (US\$127,600) thousands. Therefore, the Company and its subsidiaries reclassified accrued pension liabilities which reserve for liabilities which increase the reserve for liabilities by NT\$2,806,096 (US\$95,122) thousands. Total increase of the reserve for liabilities amounted to NT\$483,576 (US\$16,392) thousands.

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- F. This amendment applies to all liabilities except for liability E. According to IFRIC13 “Customer Loyalty Programmes”, increase of the deferred revenue debt amounted by NT\$1,105,371 (US\$37,470) thousands. In addition, according to IAS 12 “Income taxes” and other classification increases the other liabilities by NT\$3,755,411 (US\$127,302) thousands. Total increase of the other liabilities amounted to NT\$4,860,782 (US\$164,772) thousands.
- G. Retained Earnings include legal reserve, special reserve and unappropriated retained earnings. The Company and its subsidiaries have assessed and calculated income tax effects resulted in the relevant amounts and explanations below with adjustment items above. Special reserve, according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, recognized as special reserve which increase the special reserve by NT\$6,442,160 (US\$218,378) thousands. And according to investment property classification, the unappropriated retained earnings increased by NT\$15,578,528 (US\$528,086) thousands. According to the significant component of property and equipment adjusted, the unappropriated retained earnings decreased by NT\$6,922,823 (US\$234,672) thousands. According to Reserve for Liabilities classification, the unappropriated retained earnings decreased by NT\$2,611,705 (US\$88,532) thousands. In addition, the Company and its subsidiaries assessed that unused tax loss carryforward would not probably realize and decreased the deferred tax assets which decreased unappropriated retained earnings by NT\$4,151,952 (US\$140,744) thousands. And other classification decreased the unappropriated retained earnings by NT\$2,336,425 (US\$79,201) thousands. The decrease of the unappropriated retained earnings amounted to NT\$444,377 (US\$15,063) thousands. The total increase of the retained earnings amounted to NT\$5,997,783 (US\$203,315) thousands.
- H. Other stockholders’ equity include land revaluation increment, unrealized gains or losses on financial instruments, net loss not yet recognized as net pension cost, treasury stock and other items. According to IAS39, the Company and its subsidiaries reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value which decreased the unrealized gains or losses on financial instruments by NT\$3,687,203 (US\$124,990) thousands. According to IAS19 “Employee benefits”, the net loss not yet recognized as net pension cost were reversed by NT\$1,425,167 (US\$48,311) thousands. And other classification increased the other items by NT\$8,416(US\$285) thousands. The other item total increased NT\$1,433,583 (US\$48,596) thousands. Total decrease of the other stockholders’ equity amounted to NT\$2,253,620 (US\$76,394) thousands.

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② Reconciliation of the balance sheet as at March 31, 2012:

	ROC GAAP		Notes	Adjustments		IFRSs	
	NT	US		NT	US	NT	US
Investment Property-Net	\$147,162,599	\$4,988,563	A	\$6,550,148	\$222,039	\$153,712,747	\$5,210,602
Property and Equipment-Net	38,809,491	1,315,576	B	6,646,626	225,309	45,456,117	1,540,885
Financial assets	2,080,725,133	70,533,055	C	15,229,230	516,245	2,095,954,363	71,049,300
Other assets	2,936,684,370	99,548,623	D	(4,491,164)	(152,243)	2,932,193,206	99,396,380
Total assets	\$5,203,381,593	\$176,385,817		\$23,934,840	\$811,350	\$5,227,316,433	\$177,197,167
Reserve for liabilities	\$2,921,273,799	\$99,026,231	E	\$494,195	\$16,752	\$2,921,767,994	\$99,042,983
Other liabilities	2,041,563,433	69,205,540	F	19,665,402	666,624	2,061,228,835	69,872,164
Total liabilities	\$4,962,837,232	\$168,231,771		\$20,159,597	\$683,376	\$4,982,996,829	\$168,915,147
Common Stock	\$103,575,097	\$3,511,021		\$-	\$-	\$103,575,097	\$3,511,021
Capital surplus	78,508,148	2,661,293		-	-	78,508,148	2,661,293
Retained Earnings	30,713,214	1,041,125	G	6,408,025	217,221	37,121,239	1,258,346
Other Stockholders' Equity	23,645,197	801,532	H	(2,632,782)	(89,247)	21,012,415	712,285
Minority Equity	4,102,705	139,075		-	-	4,102,705	139,075
Stockholders' Equity	\$240,544,361	\$8,154,046		\$3,775,243	\$127,974	\$244,319,604	\$8,282,020

A. The Company and its subsidiaries adopt the requirements of IAS 40 “Investment Property”, properties which meet the definition of investment property should be classified as such. The properties which do not meet such definition would be transferred to property and equipment, therefore, decrease the investment property by NT\$13,251,799 (US\$449,213) thousands. And according to IFRS 1, the Company and its subsidiaries identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions, which increase the investment property by NT\$19,801,947 (US\$671,252) thousands. Total increase of the investment property amounted to NT\$6,550,148(US\$222,039) thousands.

B. The Company and its subsidiaries adopt IAS 16 “Property, Plant and Equipment”, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Decrease the Property and Equipment by NT\$8,340,750 (US\$282,737) thousands. And according to IAS 16 “Property, Plant and Equipment”, properties which meet the definition of property and equipment should be classified as such. Increase the Property and Equipment by NT\$14,987,376 (US\$508,046) thousands. Total increase of the property and equipment amounted to NT\$6,646,626 (US\$225,309) thousands.

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- C. Financial assets include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, other financial assets and Investments in debt securities with no active market. The Company and its subsidiaries reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value on each balance sheet date. As of January 1, 2012, the reclassification adjustment resulted in increases of financial assets by NT\$789,502 (US\$26,763) thousands. The bond trading of Cathay United Bank is recognized on the settlement date under the Bank's regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. For this purpose, Cathay United Bank changes the regular way purchases and sales of bond trading are recognized on the trade date. As such, increase the Financial Assets by NT\$14,439,728 (US\$489,482) thousands. Total increase of the financial assets amounted to NT\$15,229,230 (US\$516,245) thousands.
- D. Apply to assets other than assets describe in above section A, B and C. The Company and its subsidiaries reclassified idled assets to investment property, therefore, decrease the other assets by NT\$1,735,577 (US\$58,833) thousands. And according to IAS 12 "Income taxes", IAS17 "Leases" and other classification which decrease the other assets by NT\$2,755,587 (US\$93,410) thousands. Total decrease of the property and equipment amounted to NT\$4,491,164 (US\$152,243) thousands.
- E. The Company and its subsidiaries adopt the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, IFRS4 "Insurance Contracts" and IAS19 "Employee benefits", recognized reserve for liabilities. Decrease the special reserve for life insurance by NT\$3,760,503 (US\$127,475) thousands and the special reserve for property & casualty insurance by NT\$2,320,984 (US\$78,678) thousands. And the Company and its subsidiaries adopt IAS19 to measure pension liability, employee preferential interest benefit, unrecognized transitional net benefit obligation and recognize all cumulative actuarial gains and losses according to the IFRS 1. As of January 1, 2012, the IFRSs adjustments resulted in an increase of reserve for liabilities by NT\$3,764,193 (US\$127,600) thousands. Therefore, the Company and its subsidiaries reclassified accrued pension liabilities to reserve for liabilities which increase the reserve for liabilities by NT\$2,811,489 (US\$95,305) thousands. Total increase of the reserve for liabilities amounted to NT\$494,195 (US\$16,752) thousands.

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- F. Apply to all liabilities except for liability E. According to IFRIC13 “Customer Loyalty Programmes”, increase the deferred revenue debt by NT\$1,232,585 (US\$41,783) thousands. The bonds recognized method changes the regular way purchases and sales of bond trading are recognized on the trade date. Increase the other liabilities by NT\$15,776,083 (US\$534,782) thousands and according to IAS 12 “Income taxes” and other classification which increase the other liabilities by NT\$2,656,734 (US\$90,059) thousands. Total increase of the other liabilities amounted to NT\$19,665,402 (US\$666,624) thousands.
- G. Retained Earnings include Legal reserve, Special reserve and Unappropriated retained earnings. The Company and its subsidiaries have assessed and calculated income tax effects resulted in the relevant amounts and explanations below with adjustment items above. Special reserve, according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, recognized special reserve. Increase the special reserve by NT\$6,442,160 (US\$218,378) thousands. And according to investment property classification, increase the unappropriated retained earnings by NT\$15,578,528 (US\$528,086) thousands. According to the significant component of property and equipment classification which decrease the unappropriated retained earnings by NT\$6,922,823 (US\$234,672) thousands. According to reserve for liabilities classification which decrease the unappropriated retained earnings by NT\$2,611,705 (US\$88,532) thousands. In addition, the Company and its subsidiaries assessed that unused tax loss carryforward would not probably realize and decreased in recognition of deferred tax assets and the amount of unappropriated retained earnings by NT\$4,151,952 (US\$140,744) thousands. And other classification decrease the unappropriated retained earnings by NT\$2,336,425 (US\$79,201) thousands. Decrease the unappropriated retained earnings total NT\$444,377 (US\$15,064) thousands. In addition, consolidated net income increase by NT\$410,242 (US\$13,906) thousands. Total increase of the retained earnings amounted to NT\$6,408,025 (US\$217,221) thousands.
- H. Other stockholders’ equity include land revaluation increment, unrealized gains or losses on financial instruments, net loss not yet recognized as net pension cost, treasury stock and other items. According to IAS39, the Company and its subsidiaries reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. Decrease the unrealized gains or losses on financial instruments by NT\$4,066,409 (US\$137,844) thousands. According to IAS19 “Employee benefits”, reverse the net loss not yet recognized as net pension cost by NT\$1,425,167 (US\$48,310) thousands. And other classification increase the other items by NT\$8,460 (US\$287) thousands. Increase the other items total NT\$1,433,627 (US\$48,597) thousands. Total decrease of the other stockholders’ equity amounted to NT\$2,632,782 (US\$89,247) thousands.

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③ Reconciliation of the income statement for the three-month period ended March 31, 2012:

	ROC GAAP		Notes	Adjustments		IFRSs	
	NT	US		NT	US	NT	US
Net Income	\$117,480,441	\$3,982,388	A	\$205,431	\$6,964	\$117,685,872	\$3,989,352
Bad Debt Expenses	(357,988)	(12,135)		-	-	(357,988)	(12,135)
Provision for Premiums Reserve	(103,205,002)	(3,498,475)		-	-	(103,205,002)	(3,498,475)
Operating Expenses	(11,726,518)	(397,509)	B	(60,193)	(2,040)	(11,786,711)	(399,549)
Net Income before Income Tax	2,190,933	74,269		145,238	4,924	2,336,171	79,193
Income Tax Expense	(105,312)	(3,570)	C	265,004	8,983	159,692	5,413
Consolidated Net Income	\$2,085,621	\$70,699		\$410,242	\$13,907	\$2,495,863	\$84,606

- A. The Company and its subsidiaries adopt IFRIC 13 “Customer Loyalty Programmes”, which decrease the handling fee income by NT\$3,349 (US\$113) thousands and interest expense by NT\$32,850 (US\$1,114) thousands, respectively. The Company and its subsidiaries reclassified it financial asset carried at cost to available for sale financial assets and measure at fair value at the date of transition to IFRS. The bond trading is recognized on the settlement date under the Company and its subsidiaries’ regular way purchase and sales. However, under IFRSs, the method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. For this purpose, the Company and its subsidiaries change the regular way purchases and sales of bond trading are recognized on the trade date and result gain on valuation of financial assets of NT\$113,386 (US\$3,844) thousands. In addition, the Company adopt IAS 17 “Leases”, result in increases of rental income by NT\$51,221 (US\$1,736) thousands and other adjustment by NT\$77,023 (US\$2,611) thousands under straight line basis. Therefore, the adjustment increase the net income by \$205,431 (US\$6,964) thousands.
- B. The Company and its subsidiaries adopt IAS 19 “Employee Benefits”, result in an increase of the administrative expense by NT\$26,635 (US\$903). In addition, the Company and its subsidiaries adopt IAS 16 “Property, Plant and Equipment”, which increase the depreciation expense of NT\$12,860 (US\$436). The Company and its subsidiaries adopts IAS 40 “Investment Property” and according to IFRS 1, the Company and its subsidiaries identified fair value at the transition date as optional exemptions in accordance with the definition of investment property as optional exemptions. The IFRSs adjustment results in increase of depreciation expense by NT\$57,991 (US\$1,965) thousands and decrease of other items by NT\$37,293 (US\$1,264) thousands. In addition, result in an increase of operating expense by NT\$60,193 (US\$2,040) thousands.

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- C. According to the IAS 12, the Company and its subsidiaries assessed income tax effects resulted from adjustment items above, the adjustment increase income tax expense by NT\$6,752 (US\$229) thousands. In addition, the Company and its subsidiaries assessed that unused tax loss carryforward would not probably realize and resulted in decreases of income tax expense by NT\$271,756 (US\$9,212) thousands. Total decrease of the income tax expense amounted to NT\$265,004 (US\$8,983) thousands.
- (4) According to the requirements under IFRS 1, “First-time Adoption of International Financial Reporting Standards”, the Company prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Bank are as follows:
- ① The Company and its subsidiaries have recognized all cumulative actuarial gains and losses directly to retained earnings as at January 1, 2012.
 - ② The Company and its subsidiaries have elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.
 - ③ The Company and its subsidiaries have elected to use the fair value at the date of transition to be the deemed costs for certain investment properties as at that date.
 - ④ The Company and its subsidiaries have elected to regard the revalued amount under previous GAAP as the deemed costs for certain items of land or buildings as at the date of revaluation.
 - ⑤ The Company and its subsidiaries designate financial instruments which were recognized as financial assets carried at cost previously as available-for-sale financial assets at the date of transition.
 - ⑥ The Company IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2012. Applying this exemption would result in the carrying amount of assets acquired and liabilities assumed in the business combination in accordance with previous GAAP to be their deemed costs in accordance with IFRSs as at the date of acquisition. Subsequent to the date of acquisition, the assets and liabilities would be measured in accordance with IFRSs. The carrying amount of goodwill in the opening IFRS Balance Sheet is its carrying amount in accordance with previous GAAP at January 1, 2012, after testing for impairments and adjusting for recognition or de-recognition of intangibles under IFRS 1.

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(5) Special reserve at the date of transition to IFRSs

In accordance with the order VI-1010012865 issued by FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero, and its retained earnings is being increased accordingly. However, if the retained earnings arising from IFRS adjustments at the first-time adoption are insufficient, special reserve shall be appropriated by the amount that retained earnings increase from the IFRS adjustment. While subsequent usage, disposal or reclassification of the related assets, special reserve shall be reversed in proportion. The Company and its subsidiaries' total IFRS adjustments, at the first-time adoption of IFRSs, resulted in a decrease of retain earnings by NT\$444,377 (US\$15,063) thousands. Therefore, no special reserve was appropriated.

35. 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 thousands 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 other US\$29,880 thousands on September 29, 2010. As of March 31, 2012, Cathay Life's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousands.
- (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 March 31, 2012, Cathay Life's remittances to this general insurance company totaled approximately US\$28,140 thousands.

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(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 March 31, 2012, Cathay Century's remittances to this company totaled approximately US\$27,820 thousands.

36. Segment information

For the three months ended March 31, 2012

Items	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other division (NT\$)	Reconciliation (NT\$)	Total (NT\$)
Interest income	\$8,579,050	\$22,775,762	\$91,271	\$27,102	\$250,678	\$(368,094)	\$31,355,769
Less: Interest expenses	(3,365,527)	(38,535)	-	(2,606)	(311,992)	137,710	(3,580,950)
Net interest income	5,213,523	22,737,227	91,271	24,496	(61,314)	(230,384)	27,774,819
External customer	5,344,643	22,398,150	76,374	24,496	(68,844)	-	27,774,819
Inter-segment	(131,121)	339,077	14,897	-	7,531	(230,384)	-
Non income other than interest	3,229,676	85,620,981	1,328,547	219,218	2,700,356	(3,393,156)	89,705,622
Gains on investments under equity method	81,276	19,722	(47,707)	4,111	2,193,649	(2,228,349)	22,702
External customer	(179,321)	86,338,990	1,025,255	154,182	2,366,516	-	89,705,622
Inter-segment	3,408,997	(718,009)	303,292	65,036	333,840	(3,393,156)	-
Total income	8,443,199	108,358,208	1,419,818	243,714	2,639,042	(3,623,540)	117,480,441
Bad debt expenses	(15,450)	(342,538)	-	-	-	-	(357,988)
Provision for premiums reserve	-	(102,983,599)	(221,403)	-	-	-	(103,205,002)
Operating expenses	(4,343,606)	(7,220,594)	(969,731)	(179,000)	(408,778)	1,395,191	(11,726,518)
Depreciation and amortizations expenses	(304,158)	(607,149)	(24,606)	(5,337)	(15,297)	-	(956,547)
Income (loss) from continuing operations before income taxes	4,084,143	(2,188,523)	228,684	64,714	2,230,264	(2,228,349)	2,190,933
Income taxes (expense) benefit	(510,632)	556,311	(45,153)	(5,783)	(100,055)	-	(105,312)
Consolidated net income	\$3,573,511	\$(1,632,212)	\$183,531	\$58,931	\$2,130,209	\$(2,228,349)	\$2,085,621
Operating assets	\$1,780,004,992	\$3,453,312,111	\$28,323,516	\$9,810,629	\$297,798,864	\$(365,868,519)	\$5,203,381,593
Investments under equity method	4,698,796	4,074,432	989,375	777,924	246,549,334	(255,705,049)	1,384,812
Operating liabilities	\$1,672,930,447	\$3,317,692,305	\$22,688,324	\$5,489,582	\$55,603,010	\$(111,566,436)	\$4,962,837,232

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For the three months ended March 31, 2012

Items	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Other division (US\$)	Reconciliation (US\$)	Total (US\$)
Net interest income	\$290,815	\$772,060	\$3,094	\$918	\$8,498	\$(12,478)	\$1,062,907
Less: Interest expenses	(114,086)	(1,306)	-	(88)	(10,576)	4,668	(121,388)
Net interest income	176,729	770,754	3,094	830	(2,078)	(7,810)	941,519
External customer	181,174	759,260	2,589	830	(2,334)	-	941,519
Inter-segment	(4,445)	11,494	505	-	256	(7,810)	-
Non income other than interest	109,481	2,902,406	45,035	7,432	91,537	(115,022)	3,040,869
Gains on investments under equity method	2,755	669	(1,617)	139	74,361	(75,537)	770
External customer	(6,078)	2,926,745	34,754	5,227	80,221	-	3,040,869
Inter-segment	115,559	(24,339)	10,281	2,205	11,316	(115,022)	-
Total income	286,210	3,673,160	48,129	8,262	89,459	(122,832)	3,982,388
Bad debt expenses	(524)	(11,611)	-	-	-	-	(12,135)
Provision for premiums reserve	-	(3,490,970)	(7,505)	-	-	-	(3,498,475)
Operating expenses	(147,241)	(244,766)	(32,872)	(6,068)	(13,857)	47,295	(397,509)
Depreciation and amortizations expenses	(10,310)	(20,581)	(834)	(181)	(519)	-	(32,425)
Income from continuing operations before income taxes	138,445	(74,187)	7,752	2,194	75,602	(75,537)	74,269
Income (loss) taxes (expense) benefit	(17,309)	18,858	(1,531)	(196)	(3,392)	-	(3,570)
Consolidated net income	\$121,136	\$(55,329)	\$6,221	\$1,998	\$72,210	\$(75,537)	\$70,699
Operating assets	\$60,339,152	\$117,061,428	\$960,119	\$332,564	\$10,094,877	\$(12,402,323)	\$176,385,817
Investments under equity method	159,281	138,117	33,538	26,370	8,357,605	(8,667,968)	46,943
Operating liabilities	\$56,709,507	\$112,464,146	\$769,096	\$186,087	\$1,884,848	\$(3,781,913)	\$168,231,771

For the three months ended March 31, 2011

Items	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other division (NT\$)	Reconciliation (NT\$)	Total (NT\$)
Interest income	\$7,019,780	\$21,049,909	\$81,164	\$40,589	\$226,453	\$(213,616)	\$28,204,279
Less: Interest expenses	(2,512,168)	(7,959)	-	(1,622)	(283,707)	12,657	(2,792,799)
Net interest income	4,507,612	21,041,950	81,164	38,967	(57,254)	(200,959)	25,411,480
External customer	4,520,269	21,029,293	81,164	38,967	(258,213)	-	25,411,480
Inter-segment	(12,657)	12,657	-	-	200,959	(200,959)	-
Non income other than interest	3,539,505	35,308,863	1,254,000	180,971	2,282,166	(3,071,162)	39,494,343
Gains on investments under equity method	130,534	(52,921)	(9,286)	4,633	2,054,395	(2,050,568)	76,787
External customer	5,816,425	30,711,320	870,999	117,321	1,978,278	-	39,494,343
Inter-segment	(2,276,920)	4,597,543	383,001	63,650	303,888	(3,071,162)	-
Total income	8,047,117	56,350,813	1,335,164	219,938	2,224,912	(3,272,121)	64,905,823
Bad debt expenses	(48,636)	-	(4,097)	-	-	-	(52,733)
Provision for premiums reserve	-	(51,684,744)	(264,607)	-	-	-	(51,949,351)
Operating expenses	(4,030,182)	(7,781,333)	(841,464)	(154,837)	(212,013)	1,221,553	(11,798,276)
Depreciation and amortizations expenses	(322,633)	(641,662)	(16,752)	(5,015)	(14,036)	-	(1,000,098)
Income from continuing operations before income taxes	3,968,299	(3,115,264)	224,996	65,101	2,012,899	(2,050,568)	1,105,463
Income taxes (expense) benefit	(528,926)	1,414,840	(35,139)	(8,792)	(26,673)	-	815,310
Consolidated net income	\$3,439,373	\$(1,700,424)	\$189,857	\$56,309	\$1,986,226	\$(2,050,568)	\$1,920,773
Operating assets	\$1,609,937,083	\$3,161,372,126	\$25,792,377	\$6,993,807	\$266,088,706	\$(288,933,271)	\$4,781,250,828
Investments under equity method	4,478,109	4,923,495	1,120,514	753,965	213,506,341	(222,208,372)	2,574,052
Operating liabilities	\$1,506,074,072	\$3,051,927,757	\$20,422,557	\$2,614,351	\$49,426,778	\$(66,058,230)	\$4,564,407,285

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 the three months ended March 31, 2011

Items	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Other division (US\$)	Reconciliation (US\$)	Total (US\$)
Net interest income	\$238,768	\$715,983	\$2,761	\$1,381	\$7,702	\$(7,266)	\$959,329
Less: Interest expenses	(85,448)	(271)	-	(55)	(9,649)	430	(94,993)
Net interest income	153,320	715,712	2,761	1,326	(1,947)	(6,836)	864,336
External customer	153,750	715,282	2,761	1,326	(8,783)	-	864,336
Inter-segment	(430)	430	-	-	6,836	(6,836)	-
Non income other than interest	120,392	1,200,982	42,653	6,155	77,624	(104,461)	1,343,345
Gains on investments under equity method	4,440	(1,800)	(316)	158	69,877	(69,747)	2,612
External customer	197,838	1,044,603	29,626	3,990	67,288	-	1,343,345
Inter-segment	(77,446)	156,379	13,027	2,165	10,336	(104,461)	-
Total income	273,712	1,916,694	45,414	7,481	75,677	(111,297)	2,207,681
Bad debt expenses	(1,655)	-	(139)	-	-	-	(1,794)
Provision for premiums reserve	-	(1,757,984)	(9,000)	-	-	-	(1,766,984)
Operating expenses	(137,081)	(264,671)	(28,622)	(5,267)	(7,211)	41,550	(401,302)
Depreciation and amortizations expenses	(10,974)	(21,825)	(570)	(171)	(477)	-	(34,017)
Income (loss) from continuing operations before income taxes	134,976	(105,961)	7,653	2,214	68,466	(69,747)	37,601
Income taxes (expense) benefit	(17,991)	48,123	(1,195)	(299)	(907)	-	27,731
Consolidated net income	\$116,985	\$(57,838)	\$6,458	\$1,915	\$67,559	\$(69,747)	\$65,332
Operating assets	\$54,759,765	\$107,529,664	\$877,292	\$237,884	\$9,050,636	\$(9,827,662)	\$162,627,579
Investments under equity method	152,317	167,466	38,113	25,645	7,262,120	(7,558,108)	87,553
Operating liabilities	\$51,227,009	\$103,807,067	\$694,645	\$88,923	\$1,681,183	\$(2,246,879)	\$155,251,948

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Unaudited Balance sheets

As of March 31, 2012 and 2011

(Expressed in thousands of dollars)

	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Cash and cash equivalents	\$4,016,797	\$136,163	\$14,466,447	\$492,056
Receivables -net	5,680,402	192,556	5,778,450	196,546
Held-to-maturity financial assets	31,000,000	1,050,847	25,000,000	850,340
Investments under equity method	246,311,672	8,349,548	213,220,461	7,252,396
Other financial assets -net	538,407	18,251	31,720	1,079
Property and equipment -net	3,625	123	4,070	138
Goodwill and intangible assets -net	46	2	108	4
Other assets -net	2,110,349	71,537	2,001,542	68,080
Total assets	\$289,661,298	\$9,819,027	\$260,502,798	\$8,860,639
Liabilities & stockholders' equity				
Payables	\$6,689,405	\$226,760	\$7,605,166	\$258,679
Short-term notes and bills payable	6,490,000	220,000	-	-
Bonds payable	40,000,000	1,355,932	40,000,000	1,360,544
Other payable	40,237	1,364	36,376	1,237
Total liabilities	53,219,642	1,804,056	47,641,542	1,620,460
Stockholders' equity				
Capital stock				
Common stock	103,575,097	3,511,021	101,544,213	3,453,885
Capital surplus	78,508,148	2,661,293	78,508,148	2,670,345
Retained earnings				
Legal reserve	14,105,459	478,151	13,645,400	464,129
Special reserve	333,598	11,308	333,598	11,347
Unappropriated retained earnings	16,274,157	551,666	13,661,710	464,684
Equity adjustments				
Reserve for land revaluation increment	1,461	50	1,461	50
Cumulative conversion adjustments	(874,006)	(29,628)	(856,729)	(29,140)
Unrealized gains or losses on financial instruments	33,122,781	1,122,806	6,674,448	227,022
Treasury stock	(7,179,872)	(243,385)	-	-
Net loss not yet recognized as net pension cost	(1,425,167)	(48,311)	(650,993)	(22,143)
Total stockholders' equity	236,441,656	8,014,971	212,861,256	7,240,179
Total liabilities and stockholders' equity	\$289,661,298	\$9,819,027	\$260,502,798	\$8,860,639

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Unaudited Statements of Income

For the three months ended March 31, 2012 and 2011

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

	January 1 ~ March 31, 2012		January 1 ~ March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Income				
Gain on investment-equity method	\$2,188,632	\$74,191	\$2,043,145	\$69,495
Gain on foreign exchange	-	-	25	1
Other operating income	1,496	51	-	-
Total income	2,190,128	74,242	2,043,170	69,496
Expenses and loss				
Interest income	239,130	8,106	221,889	7,547
Less: interest expenses	(311,599)	(10,563)	(283,569)	(9,645)
Net interest loss	(72,469)	(2,457)	(61,680)	(2,098)
Losses on foreign exchange	(536)	(18)	-	-
Operating expenses	(70,475)	(2,389)	(62,423)	(2,123)
Net other non-interest losses	-	-	(170)	(6)
Income from continuing operations before income taxes	2,046,648	69,378	1,918,897	65,269
Income taxes expense	(76,474)	(2,593)	(15,867)	(540)
Net income	\$1,970,174	\$66,785	\$1,903,030	\$64,729

Earnings per share (expressed in dollars)

Primary earnings per share:	January 1 ~ March 31, 2012		January 1 ~ March 31, 2011	
	Before taxes	After taxes	Before taxes	After taxes
Net income	\$0.20	\$0.19	\$0.01	\$0.01

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.
 Unaudited Statements of Changes in Stockholders' Equity
 For the three months ended March 31, 2012 and 2011
 (Expressed in thousands of dollars)

Summary	Capital stock		Retained earnings								Other stockholders' equity						Total					
	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			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Balance on January 1, 2011	\$101,544,213	\$3,453,885	\$78,508,148	\$2,670,345	\$13,645,400	\$464,129	\$-	\$-	\$11,748,433	\$399,606	\$1,461	\$50	\$(893,051)	\$(30,376)	\$14,672,596	\$499,068	\$-	\$-	\$(650,993)	\$(22,143)	\$218,576,207	\$7,434,564
Cumulative translation adjustments													36,322	1,236							36,322	1,236
Unrealized gains or losses of financial instruments															(7,998,148)	(272,046)					(7,998,148)	(272,046)
Adjustments made by subsidiaries							333,598	11,347	10,247	349											343,845	11,696
Net income for the year ended December 31, 2009									1,903,030	64,729											1,903,030	64,729
Balance on December 31, 2011	<u>\$101,544,213</u>	<u>\$3,453,885</u>	<u>\$78,508,148</u>	<u>\$2,670,345</u>	<u>\$13,645,400</u>	<u>\$464,129</u>	<u>\$333,598</u>	<u>\$11,347</u>	<u>\$13,661,710</u>	<u>\$464,684</u>	<u>\$1,461</u>	<u>\$50</u>	<u>\$(856,729)</u>	<u>\$(29,140)</u>	<u>\$6,674,448</u>	<u>\$227,022</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(650,993)</u>	<u>\$(22,143)</u>	<u>\$212,861,256</u>	<u>\$7,240,179</u>
Balance on January 1, 2012	\$103,575,097	\$3,511,021	\$78,508,148	\$2,661,293	\$14,105,459	\$478,151	\$333,598	\$11,308	\$14,303,983	\$484,881	\$1,461	\$50	\$(378,127)	\$(12,818)	\$11,816,355	\$400,554	\$(7,179,872)	\$(243,385)	\$(1,425,167)	\$(48,311)	\$213,660,935	\$7,242,744
Cumulative translation adjustments													(495,879)	(16,810)							(495,879)	(16,810)
Unrealized gains or losses of financial instruments															21,306,426	722,252					21,306,426	722,252
Net income for the three months ended March 31, 2012									1,970,174	66,785											1,970,174	66,785
Balance on December 31, 2012	<u>\$103,575,097</u>	<u>\$3,511,021</u>	<u>\$78,508,148</u>	<u>\$2,661,293</u>	<u>\$14,105,459</u>	<u>\$478,151</u>	<u>\$333,598</u>	<u>\$11,308</u>	<u>\$16,274,157</u>	<u>\$551,666</u>	<u>\$1,461</u>	<u>\$50</u>	<u>\$(874,006)</u>	<u>\$(29,628)</u>	<u>\$33,122,781</u>	<u>\$1,122,806</u>	<u>\$(7,179,872)</u>	<u>\$(243,385)</u>	<u>\$(1,425,167)</u>	<u>\$(48,311)</u>	<u>\$236,441,656</u>	<u>\$8,014,971</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.
Unaudited Statements of cash flows
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars)

	January 1 ~ March 31, 2012		January 1 ~ March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cash flows from operating activities				
Net income	\$1,970,174	\$66,785	\$1,903,030	\$64,729
Adjustments:				
Income and other adjustments with no cash flow effects				
Amortizations	15	-	16	-
Depreciation	264	9	276	9
Investment income recognized by equity method more than cash dividends received	(2,188,632)	(74,191)	(2,043,145)	(69,495)
Effects of exchange rate changes	536	18	(25)	(1)
Changes in operating assets and liabilities				
Increase in accounts receivable	(473,369)	(16,046)	(244,341)	(8,310)
(Increase) decrease in deferred income tax assets	(111)	(4)	45	2
Decrease (increase) in other assets	189	7	(17,937)	(610)
Decrease in accounts payable	(147,904)	(5,014)	(2,747,366)	(93,448)
Increase in income tax payable	732,607	24,834	3,052,992	103,843
Decrease in deferred income tax liabilities	(1)	-	-	-
Increase in other liabilities	1,403	48	1,104	38
Net cash used in operating activities	(104,829)	(3,554)	(95,351)	(3,243)
Cash flows from investing activities				
Acquisition of long-term investments in stocks	(59,120)	(2,004)	-	-
Acquisition of property and equipment	(244)	(8)	-	-
Net cash used in investing activities	(59,364)	(2,012)	-	-
Cash flows from financing activities				
Increase in short-term notes and bills payable	60,000	2,034	-	-
Net cash provided by financing activities	60,000	2,034	-	-
Effects of exchange rate changes	(536)	(18)	25	1
Decrease in cash and cash equivalents	(104,729)	(3,550)	(95,326)	(3,242)
Cash and cash equivalents at the beginning of the period	4,121,526	139,713	14,561,773	495,298
Cash and cash equivalents at the end of the period	\$4,016,797	\$136,163	\$14,466,447	\$492,056
Supplemental disclosure of cash flows information				
Interest paid during the period	\$13,898	\$471	\$7	\$-
Income tax paid during the period	\$749	\$25	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

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

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$509,044,446	\$17,255,744	\$449,346,868	\$15,283,907
Loans	487,683,959	16,531,660	479,925,391	16,323,993
Funds and investments	2,087,922,166	70,777,022	1,877,975,623	63,876,722
Property and equipment	13,285,236	450,347	12,221,717	415,704
Intangible assets	249,919	8,472	370,347	12,597
Other assets	341,702,043	11,583,120	327,558,450	11,141,444
Total assets	\$3,439,887,769	\$116,606,365	\$3,147,398,396	\$107,054,367
Liabilities				
Current liabilities	\$75,064,770	\$2,544,568	\$54,644,235	\$1,858,647
Long-term liabilities	31,947,998	1,082,983	26,310,205	894,905
Other liabilities	3,200,529,398	108,492,522	2,961,276,307	100,723,684
Total liabilities	3,307,542,166	112,120,073	3,042,230,747	103,477,236
Stockholders' equity				
Capital stock	53,065,274	1,798,823	53,065,274	1,804,941
Capital surplus	13,009,649	441,005	13,009,649	442,505
Retained earnings	34,782,602	1,179,071	34,534,150	1,174,631
Others	31,488,078	1,067,393	4,558,576	155,054
Total stockholders' equity	132,345,603	4,486,292	105,167,649	3,577,131
Total liabilities and stockholders' equity	\$3,439,887,769	\$116,606,365	\$3,147,398,396	\$107,054,367

**Cathay Life Insurance Co., Ltd.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$187,124,122	\$6,343,190	\$164,376,275	\$5,591,030
Operating costs	(186,213,779)	(6,312,331)	(164,618,187)	(5,599,258)
Operating gross (loss) profit	910,343	30,859	(241,912)	(8,228)
Operating expenses	(3,437,935)	(116,540)	(2,908,433)	(98,926)
Non-operating revenues	451,239	15,296	405,598	13,796
Non-operating expenses	(226,602)	(7,681)	(203,058)	(6,907)
Loss from continuing operations before income taxes	\$(2,302,955)	\$(78,066)	\$(2,947,805)	\$(100,265)
Net loss	\$(1,706,353)	\$(57,842)	\$(1,498,925)	\$(50,984)
Earnings per share (in dollars)				
Loss from continuing operations before income taxes	\$(0.43)	\$(0.01)	\$(0.56)	\$(0.02)
Net loss	\$(0.32)	\$(0.01)	\$(0.28)	\$(0.01)

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$9,578,941	\$324,710	\$8,941,316	\$304,126
Loans	524,186	17,769	710,448	24,165
Funds and investments	10,743,939	364,201	8,833,041	300,444
Property and equipment	125,773	4,264	92,349	3,141
Intangible assets	28,213	956	23,899	813
Other assets	4,823,993	163,525	4,816,882	163,839
Total assets	\$25,825,045	\$875,425	\$23,417,935	\$796,528
Liabilities				
Current liabilities	\$1,828,098	\$61,969	\$1,664,999	\$56,633
Long-term liabilities	1,119,896	37,963	58,023	1,973
Other liabilities	18,801,581	637,342	18,128,565	616,618
Total liabilities	21,749,575	737,274	19,851,587	675,224
Stockholders' equity				
Capital stock	2,317,006	78,542	2,317,006	78,810
Capital surplus	1,929	65	1,929	66
Retained earnings	1,949,693	66,092	1,296,206	44,088
Others	(193,158)	(6,548)	(48,793)	(1,660)
Total stockholders' equity	4,075,470	138,151	3,566,348	121,304
Total liabilities and stockholders' equity	\$25,825,045	\$875,425	\$23,417,935	\$796,528

**Cathay Century Insurance Co., Ltd.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$2,719,554	\$92,188	\$2,444,641	\$83,151
Operating costs	(1,562,599)	(52,969)	(1,429,540)	(48,624)
Operating gross profit	1,156,955	39,219	1,015,101	34,527
Operating expenses	(839,154)	(28,446)	(764,421)	(26,001)
Non-operating revenues	4,550	154	1,598	55
Non-operating expenses	(4,648)	(157)	(436)	(15)
Income from continuing operations before income taxes	\$317,703	\$10,770	\$251,842	\$8,566
Net income	\$272,550	\$9,239	\$220,845	\$7,512
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$1.37	\$0.05	\$1.09	\$0.04
Net income	\$1.18	\$0.04	\$0.95	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Company (China)
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$3,600,668	\$122,057	\$4,045,720	\$137,610
Loans	22,558	765	19,889	677
Funds and investments	6,281,278	212,925	6,362,935	216,426
Property and equipment	142,114	4,817	168,182	5,720
Intangible assets	106,559	3,612	117,964	4,012
Other assets	1,647,693	55,854	1,664,848	56,628
Total assets	\$11,800,870	\$400,030	\$12,379,538	\$421,073
Liabilities				
Current liabilities	\$472,111	\$16,004	\$392,942	\$13,365
Other liabilities	9,411,847	319,046	9,148,859	311,186
Total liabilities	9,883,958	335,050	9,541,801	324,551
Stockholders' equity				
Capital stock	5,134,155	174,039	5,134,155	174,631
Retained earnings	(3,547,870)	(120,267)	(2,711,091)	(92,214)
Others	330,627	11,208	414,673	14,105
Total stockholders' equity	1,916,912	64,980	2,837,737	96,522
Total liabilities and stockholders' equity	\$11,800,870	\$400,030	\$12,379,538	\$421,073

Cathay Life Insurance Company (China)
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$774,206	\$26,244	\$701,445	\$23,859
Operating costs	(401,586)	(13,613)	(608,903)	(20,711)
Operating gross profit	372,620	12,631	92,542	3,148
Operating expenses	(250,732)	(8,499)	(257,246)	(8,750)
Non-operating revenues	337	11	99	3
Non-operating expenses	(10)	-	(39)	(1)
Income (loss) from continuing operations before income tax	\$122,215	\$4,143	\$(164,644)	\$(5,600)
Net income (loss)	\$81,925	\$2,777	\$(199,389)	\$(6,782)
Earnings per share (in dollars)				
Income (loss) from continuing operations before income tax	Note	Note	Note	Note
Net income (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 March 31, 2012 and 2011
(Expressed in thousands of dollars)

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$553,663	\$18,769	\$372,022	\$12,654
Loans	6,374	216	1,885	64
Funds and investments	980,970	33,253	1,115,064	37,927
Property and equipment	30,714	1,041	35,455	1,206
Intangible assets	11,216	380	17,709	602
Other assets	40,535	1,374	52,057	1,771
Total assets	\$1,623,472	\$55,033	\$1,594,192	\$54,224
Liabilities				
Current liabilities	\$22,701	\$769	\$22,226	\$756
Other liabilities	243,480	8,254	132,982	4,523
Total liabilities	266,181	9,023	155,208	5,279
Stockholders' equity				
Capital stock	1,940,080	65,765	1,940,080	65,989
Retained earnings	(83,154)	(2,819)	14,643	498
Others	(499,635)	(16,936)	(515,739)	(17,542)
Total stockholders' equity	1,357,291	46,010	1,438,984	48,945
Total liabilities and stockholders' equity	\$1,623,472	\$55,033	\$1,594,192	\$54,224

Cathay Life Insurance Co., Ltd. (Vietnam)
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$80,575	\$2,731	\$96,594	\$3,286
Operating costs	(25,928)	(879)	(32,867)	(1,118)
Operating gross profit	54,647	1,852	63,727	2,168
Operating expenses	(63,055)	(2,137)	(66,542)	(2,264)
Non-operating revenues	625	21	-	-
Loss from continuing operations before income taxes	\$(7,783)	\$(264)	\$(2,815)	\$(96)
Net loss	\$(7,783)	\$(264)	\$(2,111)	\$(72)
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 March 31, 2012 and 2011

(Expressed in thousands of dollars)

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$510,634	\$17,310	\$777,598	\$26,449
Funds and investments	841,447	28,524	505,533	17,195
Property and equipment	35,052	1,188	38,209	1,300
Intangible assets	692	23	596	20
Other assets	677,360	22,961	531,114	18,065
Total assets	\$2,065,185	\$70,006	\$1,853,050	\$63,029
Liabilities				
Current liabilities	\$133,312	\$4,519	\$87,205	\$2,966
Other liabilities	780,250	26,449	388,497	13,214
Total liabilities	913,562	30,968	475,702	16,180
Stockholders' equity				
Capital stock	1,745,942	59,185	1,745,942	59,386
Retained earnings	(698,964)	(23,694)	(437,545)	(14,882)
Others	104,645	3,547	68,951	2,345
Total stockholders' equity	1,151,623	39,038	1,377,348	46,849
Total liabilities and stockholders' equity	\$2,065,185	\$70,006	\$1,853,050	\$63,029

Cathay Insurance Company Limited (China)

Condensed Statements of Income

For the three months ended March 31, 2012 and 2011

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

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$164,149	\$5,564	\$320,255	\$10,893
Operating costs	(133,997)	(4,542)	(291,093)	(9,901)
Operating gross profit	30,152	1,022	29,162	992
Operating expenses	(113,203)	(3,837)	(72,660)	(2,472)
Non-operating revenues	497	17	88	3
Non-operating expenses	(74)	(3)	-	-
Loss from continuing operations before income taxes	\$(82,628)	\$(2,801)	\$(43,410)	\$(1,477)
Net loss	\$(82,628)	\$(2,801)	\$(43,410)	\$(1,477)
Earnings per share (in dollars)				
Loss from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

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 March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$361,464	\$12,253	\$423,310	\$14,398
Property and equipment	46,748	1,585	518	18
Intangible assets	10,186	345	-	-
Other assets	14,887	505	97,564	3,318
Total assets	\$433,285	\$14,688	\$521,392	\$17,734
Liabilities				
Current liabilities	\$11,297	\$383	\$94,118	\$3,201
Other liabilities	13,889	471	1,151	39
Total liabilities	25,186	854	95,269	3,240
Stockholders' equity				
Capital stock	517,502	17,542	517,502	17,602
Retained earnings	(11,299)	(383)	10,152	345
Others	(98,104)	(3,325)	(101,531)	(3,453)
Total stockholders' equity	408,099	13,834	426,123	14,494
Total liabilities and stockholders' equity	\$433,285	\$14,688	\$521,392	\$17,734

**Cathay Insurance Co., Ltd. (Vietnam)
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$21,091	\$715	\$26,954	\$917
Operating costs	(10,107)	(343)	(1,910)	(65)
Operating gross profit	10,984	372	25,044	852
Operating expenses	(17,375)	(589)	(8,480)	(288)
(Loss) income from continuing operations before income taxes	\$(6,391)	\$(217)	\$16,564	\$564
Net (loss) income	\$(6,391)	\$(217)	\$12,423	\$423
Earnings per share (in dollars)				
(Loss) income from continuing operations before income taxes	Note	Note	Note	Note
Net (loss) income	Note	Note	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Cash and cash equivalents	\$31,402,392	\$1,064,488	\$25,502,935	\$867,447
Due from the Central Bank and call loans to banks	105,701,170	3,583,091	74,490,911	2,533,704
Financial assets at fair value through profit or loss	19,354,067	656,070	33,870,805	1,152,068
Securities purchased under agreements to resell	8,429,400	285,742	15,097,749	513,529
Receivables-net	40,525,274	1,373,738	43,877,860	1,492,445
Discounts and loans-net	992,915,430	33,658,150	910,474,518	30,968,521
Available-for-sale financial assets -net	51,851,961	1,757,694	55,294,306	1,880,759
Held-to-maturity financial assets-net	19,545,123	662,547	4,966,235	168,919
Investments under equity method-net	4,698,796	159,281	4,478,108	152,317
Other financial assets-net	4,863,143	164,852	4,732,531	160,970
Investments in debt securities with no active market	436,762,523	14,805,509	369,539,219	12,569,361
Property and equipment-net	24,623,542	834,696	25,095,275	853,581
Intangible assets-net	7,242,764	245,518	7,372,257	250,757
Other assets-net	4,692,860	159,080	5,131,246	174,532
Total assets	\$1,752,608,445	\$59,410,456	\$1,579,923,955	\$53,738,910
Liabilities				
Due to the Central Bank and call loans from banks	\$59,285,368	\$2,009,674	\$44,769,529	\$1,522,773
Funds borrowed from the Central and other banks	1,476,500	50,051	1,470,900	50,031
Financial liabilities at fair value through profit or loss	3,999,420	135,574	13,950,569	474,509
Securities sold under agreements to repurchase	16,309,936	552,879	12,893,459	438,553
Payables	18,237,053	618,205	22,286,184	758,034
Deposits and remittances	1,500,305,324	50,857,808	1,347,901,154	45,846,978
Financial debentures payable	32,810,946	1,112,235	26,133,631	888,899
Other financial liabilities	16,408,822	556,231	9,794,620	333,150
Other liabilities	2,988,884	101,318	2,636,292	89,670
Total liabilities	1,651,822,253	55,993,975	1,481,836,338	50,402,597
Shareholders' equity				
Capital stock	52,277,026	1,772,102	52,277,026	1,778,130
Capital surplus	15,213,292	515,705	15,213,292	517,459
Retained earnings	33,876,600	1,148,360	30,339,348	1,031,950
Others	(580,726)	(19,686)	257,951	8,774
Total shareholders' equity	100,786,192	3,416,481	98,087,617	3,336,313
Total liabilities and shareholders' equity	\$1,752,608,445	\$59,410,456	\$1,579,923,955	\$53,738,910

**Cathay United Bank Co., Ltd.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Net interest income	\$4,971,501	\$168,525	\$4,241,761	\$144,278
Non-interest income	3,264,130	110,649	3,449,636	117,334
Net operating income	8,235,631	279,174	7,691,397	261,612
Operating expenses	(4,355,089)	(147,630)	(4,018,025)	(136,667)
Income from continuing operations before income taxes	\$3,880,542	\$131,544	\$3,673,372	\$124,945
Net income	\$3,424,542	\$116,086	\$3,204,500	\$108,997
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.74	\$0.03	\$0.70	\$0.02
Net income	\$0.66	\$0.02	\$0.61	\$0.02

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Cash and cash equivalents	\$8,153,601	\$276,393	\$8,709,779	\$296,251
Due from the Central Bank and call loans to banks	660,180	22,379	344,949	11,733
Financial assets at fair value through profit or loss	135,186	4,583	151,159	5,142
Available-for-sale financial assets-net	503,807	17,078	301,285	10,248
Held-to-maturity financial assets	1,141,331	38,689	1,143,868	38,907
Receivables-net	358,192	12,142	394,189	13,408
Discounts and loans-net	15,854,232	537,432	18,428,784	626,829
Property and equipment-net	228,652	7,751	175,288	5,962
Intangible assets-net	360,190	12,210	363,221	12,354
Other assets-net	1,175	40	606	21
Total assets	\$27,396,546	\$928,697	\$30,013,128	\$1,020,855
Liabilities				
Due to the Central Bank and call loans from banks	\$3,823,595	\$129,613	\$6,936,286	\$235,928
Payables	736,988	24,983	612,987	20,850
Deposits and remittances	13,712,004	464,814	13,844,970	470,917
Bonds payables	2,835,606	96,122	2,841,907	96,664
Other liabilities	-	-	1,584	54
Total liabilities	21,108,193	715,532	24,237,734	824,413
Shareholders' equity				
Capital stock	5,269,493	178,627	5,269,493	179,234
Retained earnings	1,503,647	50,971	1,012,188	34,428
Others	(484,787)	(16,433)	(506,287)	(17,220)
Total shareholders' equity	6,288,353	213,165	5,775,394	196,442
Total liabilities and shareholders' equity	\$27,396,546	\$928,697	\$30,013,128	\$1,020,855

Indovina Bank Limited
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Net interest income	\$242,021	\$8,204	\$265,792	\$9,041
Non-interest income	55,518	1,882	114,788	3,904
Net operating revenue	297,539	10,086	380,580	12,945
Operating expenses	(93,938)	(3,184)	(85,653)	(2,913)
Income from continuing operations before income taxes	\$203,601	\$6,902	\$294,927	\$10,032
Net income	\$148,969	\$5,050	\$234,873	\$7,989
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 March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$8,555,556	\$290,019	\$5,856,903	\$199,214
Funds and investments	777,943	26,371	753,983	25,646
Property and equipment	88,570	3,002	32,262	1,097
Intangible assets	9,969	338	7,596	259
Other assets	378,591	12,834	343,063	11,669
Total assets	\$9,810,629	\$332,564	\$6,993,807	\$237,885
Liabilities				
Current liabilities	\$5,446,254	\$184,619	\$2,598,911	\$88,398
Long-term liabilities	768	26	283	10
Other liabilities	42,560	1,443	15,157	516
Total liabilities	5,489,582	186,088	2,614,351	88,924
Stockholders' equity				
Capital stock	3,700,000	125,424	3,700,000	125,850
Capital surplus	258,434	8,760	258,434	8,790
Retained earnings	356,924	12,099	427,613	14,545
Others	5,689	193	(6,591)	(224)
Total stockholders' equity	4,321,047	146,476	4,379,456	148,961
Total liabilities and stockholders' equity	\$9,810,629	\$332,564	\$6,993,807	\$237,885

**Cathay Securities Corporation
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Revenue	\$453,324	\$15,367	\$348,119	\$11,841
Expenses	(388,662)	(13,175)	(283,018)	(9,626)
Income from continuing operations before income taxes	\$64,662	\$2,192	\$65,101	\$2,215
Net income	\$58,879	\$1,996	\$56,309	\$1,915
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.17	\$0.01	\$0.18	\$0.01
Net income	\$0.16	\$0.01	\$0.15	\$0.01

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Capital Co., Ltd.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$561,844	\$19,046	\$294,388	\$10,013
Funds and investments	1,666,672	56,497	2,126,591	72,333
Property and equipment	461	16	669	23
Other assets	18,411	624	18,401	626
Total assets	\$2,247,388	\$76,183	\$2,440,049	\$82,995
Liabilities				
Current liabilities	\$8,966	\$304	\$5,207	\$177
Long-term liabilities	79	3	-	-
Total liabilities	9,045	307	5,207	177
Stockholders' equity				
Capital stock	1,895,224	64,245	1,895,224	64,464
Retained earnings	241,511	8,187	132,574	4,509
Others	101,608	3,444	407,044	13,845
Total stockholders' equity	2,238,343	75,876	2,434,842	82,818
Total liabilities and stockholders' equity	\$2,247,388	\$76,183	\$2,440,049	\$82,995

**Cathay Venture Capital Co., Ltd.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$65,638	\$2,225	\$70,142	\$2,386
Operating costs	(2,964)	(100)	(2,647)	(90)
Operating gross profit	62,674	2,125	67,495	2,296
Operating expenses	(1,343)	(46)	(1,381)	(47)
Non-operating expenses	-	-	(2)	-
Income from continuing operations before income taxes	\$61,331	\$2,079	\$66,112	\$2,249
Net income	\$59,742	\$2,025	\$60,416	\$2,055
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.32	\$0.01	\$0.35	\$0.01
Net income	\$0.32	\$0.01	\$0.32	\$0.01

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$1,726,806	\$58,536	\$875,399	\$29,776
Funds and investments	336,621	11,411	200,000	6,803
Property and equipment	22,568	765	10,287	350
Intangible assets	9,512	322	6,914	235
Other assets	206,458	6,999	193,873	6,594
Total assets	\$2,301,965	\$78,033	\$1,286,473	\$43,758
Liabilities				
Current liabilities	\$145,924	\$4,946	\$170,188	\$5,789
Other liabilities	13,444	456	6,265	213
Total liabilities	159,368	5,402	176,453	6,002
Stockholders' equity				
Capital stock	1,500,000	50,848	431,400	14,674
Capital surplus	13,908	471	13,908	473
Retained earnings	625,112	21,190	664,712	22,609
Others	3,577	122	-	-
Total stockholders' equity	2,142,597	72,631	1,110,020	37,756
Total liabilities and stockholders' equity	\$2,301,965	\$78,033	\$1,286,473	\$43,758

**Cathay Securities Investment Trust Co., Ltd.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Revenue	\$278,869	\$9,453	\$284,502	\$9,677
Expenses	(178,023)	(6,035)	(155,583)	(5,292)
Income from continuing operations before income taxes	\$100,846	\$3,418	\$128,919	\$4,385
Net income	\$83,653	\$2,836	\$107,006	\$3,640
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.67	\$0.02	\$1.64	\$0.06
Net income	\$0.56	\$0.02	\$1.36	\$0.05

Note : Cathay Securities Investment Trust merged with the Company on June 24, 2011.

English Translation of Financial Statements Originally Issued in Chinese

**Symphox Information Co., Ltd.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$902,047	\$30,578	\$899,494	\$30,595
Property and equipment	124,283	4,213	87,565	2,978
Intangible assets	4,968	168	2,427	83
Other assets	34,168	1,158	19,422	661
Total assets	\$1,065,466	\$36,117	\$1,008,908	\$34,317
Liabilities				
Current liabilities	\$470,141	\$15,937	\$397,050	\$13,505
Other liabilities	62	2	63	2
Total liabilities	470,203	15,939	397,113	13,507
Stockholders' equity				
Capital stock	499,000	16,915	499,000	16,973
Retained earnings	96,263	3,263	112,795	3,837
Total stockholders' equity	595,263	20,178	611,795	20,810
Total liabilities and stockholders' equity	\$1,065,466	\$36,117	\$1,008,908	\$34,317

**Symphox Information Co., Ltd.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$514,274	\$17,433	\$377,060	\$12,825
Operating costs	(461,244)	(15,635)	(321,710)	(10,943)
Operating gross profit	53,030	1,798	55,350	1,882
Operating expenses	(38,312)	(1,299)	(34,438)	(1,171)
Non-operating revenues	1,822	62	1,433	49
Non-operating expenses	(1)	-	(38)	(1)
Income from continuing operations before income taxes	\$16,539	\$561	\$22,307	\$759
Net income	\$12,580	\$426	\$18,146	\$617
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.33	\$0.01	\$0.45	\$0.02
Net income	\$0.25	\$0.01	\$0.36	\$0.01

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Corp.
Condensed Balance Sheets
As of March 31, 2012 and 2011
(Expressed in thousands of dollars)**

Items	March 31, 2012		March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets				
Current assets	\$2,043,345	\$69,266	\$1,657,120	\$56,365
Funds and investments	30,500	1,034	30,500	1,037
Property and equipment	53,154	1,802	54,843	1,865
Intangible assets	1,409	48	1,897	65
Other assets	393,355	13,334	392,592	13,353
Total assets	\$2,521,763	\$85,484	\$2,136,952	\$72,685
Liabilities				
Current liabilities	\$1,742,327	\$59,062	\$1,381,460	\$46,988
Other liabilities	1,439	49	1,456	50
Total liabilities	1,743,766	59,111	1,382,916	47,038
Stockholders' equity				
Capital stock	650,000	22,034	650,000	22,109
Retained earnings	127,997	4,339	104,036	3,538
Total stockholders' equity	777,997	26,373	754,036	25,647
Total liabilities and stockholders' equity	\$2,521,763	\$85,484	\$2,136,952	\$72,685

**Cathay Futures Corp.
Condensed Statements of Income
For the three months ended March 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)**

Items	January 1 ~March 31, 2012		January 1 ~March 31, 2011	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$23,296	\$790	\$27,245	\$927
Operating costs	(13,614)	(462)	(15,926)	(542)
Operating gross profit	9,682	328	11,319	385
Operating expenses	(11,159)	(378)	(10,637)	(362)
Non-operating revenues	7,134	242	5,325	181
Non-operating expenses	(703)	(24)	(424)	(14)
Income from continuing operations before income taxes	\$4,954	\$168	\$5,583	\$190
Net income	\$4,111	\$139	\$4,634	\$158
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.08	\$-	\$0.09	\$-
Net income	\$0.07	\$-	\$0.08	\$-