Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the Six Months Ended
June 30, 2012 and 2011
With Independent Auditors' Review Report

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

Board of Directors
Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with auditing standards No. 36 "Review of Financial Statements" generally accepted in the Republic of China ("R.O.C."). A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquires 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.

Based 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 six-month periods ended June 30, 2012 and 2011 in order for them to be in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and accounting principles generally accepted in the R.O.C..

Effective from January 1, 2011, the Company and its subsidiaries adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement", the new SFAS No.40 "Insurance Contract" and Regulations Governing the Preparation of Financial Reports by Insurance Enterprises.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C.
August 24, 2012

<u>Notice to Readers:</u>

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated balance sheets
As of June 30, 2012 and 2011
(Expressed in thousands of dollars)

		June 30, 2012		June 30, 2011	
Assets	Notes	NT$	US$	NT$	US$
Cash and cash equivalents	2,4,30,31	$386,059,124	$12,955,004	$403,073,800	$14,000,479
Receivables	30				
Notes receivables - Net		2,957,330	99,239	4,816,673	167,304
Premiums receivables - Net		72,500	2,433	33,797	1,174
Due from reinsurers and ceding companies - Net		220,203	7,389	279,105	9,695
Other receivables - Net	31	51,424,102	1,725,641	44,169,047	1,534,180
Subtotal		54,674,135	1,834,702	49,298,622	1,712,353
Investments	30				
Financial assets at fair value through profit or loss	2,5,12,31,32	55,576,993	1,865,000	42,325,079	1,470,131
Available-for-sale financial assets	2,6,12	1,233,710,135	41,399,669	660,250,655	22,933,333
Derivative financial assets for hedging	2,7	1,561,602	52,403	1,777,657	61,745
Financial assets carried at cost	2,8	9,691,980	325,234	8,965,059	311,395
Investments under the equity method - Net	2,9	1,225,696	41,131	1,496,603	51,983
Investments in debt securities with no active market	2,10,12	700,181,175	23,496,012	443,856,929	15,417,052
Held-to-maturity financial assets	2,11,12	-	-	568,918,837	19,760,988
Other financial assets		24,500,000	822,147	33,100,000	1,149,705
Investments in real estate - Net	2,13	150,021,745	5,034,287	130,828,974	4,544,251
Loans	2,14,31	498,362,444	16,723,572	481,735,608	16,732,741
Subtotal		2,674,831,770	89,759,455	2,373,255,401	82,433,324
Reinsurance reserve assets - Net	30				
Ceded unearned premium reserve - Net	19	8,045,660	269,988	7,582,153	263,360
Ceded reserve for claims - Net	19	743,205	24,940	580,630	20,168
Subtotal		8,788,865	294,928	8,162,783	283,528
Property and equipment - Net	2,15,30,31				
Land		6,661,628	223,545	4,881,851	169,568
Buildings and construction		12,544,396	420,953	10,916,620	379,181
Computer equipment		2,531,183	84,939	2,475,217	85,975
Communication and transportation equipment		13,074	439	13,214	459
Other equipment		3,885,758	130,394	3,737,041	129,803
Leasehold improvements		117,225	3,933	96,849	3,364
Revaluation increments		620	21	620	21
Subtotal of cost and revaluation		25,753,884	864,224	22,121,412	768,371
Less: Accumulated depreciation		(10,635,243)	(356,887)	(9,604,138)	(333,592)
Less: Accumulated impairment		(140,412)	(4,712)	(140,412)	(4,877)
Construction in progress and prepayment for real estate equipment		83,415	2,799	15,129	525
Subtotal		15,061,644	505,424	12,391,991	430,427
Intangible assets	2,30				
Computer software cost	16	356,606	11,967	475,078	16,501
Subtotal		356,606	11,967	475,078	16,501
Other assets	30				
Prepayment		82,365	2,764	94,953	3,298
Guarantee deposits paid	2,31,32	15,498,211	520,074	12,722,331	441,901
Deferred income tax assets	2,25	15,500,363	520,147	16,552,039	574,923
Other assets - Other		4,496,134	150,877	2,303,527	80,012
Subtotal		35,577,073	1,193,862	31,672,850	1,100,134
Separate account product assets	2,30,36	294,782,839	9,892,042	303,095,072	10,527,790
Total assets		$3,470,132,056	116,447,384	$3,181,425,597	$110,504,536

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.80 and NT$28.79 to US$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated balance sheets - (continued)
As of June 30, 2012 and 2011
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2012 NT$	June 30, 2012 US$	June 30,2011 NT$	June 30,2011 US$
Payables	30				
Notes payable		$1,123	$38	$1,179	$41
Life insurance proceeds payable		179,723	6,031	93,260	3,239
Commissions payable		1,286,757	43,180	1,367,820	47,510
Due to reinsurers and ceding companies		6,901,704	231,601	5,340,762	185,508
Others payable	31	22,059,232	740,242	22,117,788	768,246
Subtotal		30,428,539	1,021,092	28,920,809	1,004,544
Financial liabilities	30				
Short-term debts		341,620	11,463	105,155	3,653
Financial liabilities at fair value through profit or loss	2,17	9,017,899	302,614	2,368,351	82,263
Preferred stock liability	2,18,31	30,000,000	1,006,712	25,000,000	868,357
Subtotal		39,359,519	1,320,789	27,473,506	954,273
Reserve for liabilities	2,19,30				
Unearned premium reserve		11,540,377	387,261	11,223,382	389,836
Reserve for claims		4,528,828	151,974	3,841,447	133,430
Reserve for life insurance liabilities		2,876,701,183	96,533,596	2,591,391,006	90,010,107
Special reserve		4,423,903	148,453	9,604,871	333,618
Premium deficiency reserve		15,132,489	507,802	11,768,962	408,787
Reserve for insurance contract with feature of financial instruments		64,272,133	2,156,783	67,921,884	2,359,218
Foreign exchange volatility reserve	38	5,066,425	170,015	-	-
Subtotal		2,981,665,338	100,055,884	2,695,751,552	93,634,996
Other liabilities	30				
Accounts collected in advance		340,756	11,434	352,537	12,245
Guarantee deposits received	31	2,003,034	67,216	1,799,683	62,511
Reserve for land revaluation increment tax		3,487	117	3,487	121
Accrued pension liability	2,36	2,003,143	67,220	1,329,654	46,185
Other liabilities - Other		4,071,491	136,627	16,847,752	585,194
Subtotal		8,421,911	282,614	20,333,113	706,256
Separate account product liabilities	2,30,36	294,782,839	9,892,042	303,095,072	10,527,790
Total liabilities		3,354,658,146	112,572,421	3,075,574,052	106,827,859
Capital stock					
Common stock	2,20	53,065,274	1,780,714	53,065,274	1,843,184
Capital surplus	2				
Capital surplus - Common stock		13,000,000	436,242	13,000,000	451,546
Capital surplus - Others		9,649	324	9,649	335
Retained earnings	2,21				
Legal reserve		9,241,230	310,108	9,150,054	317,821
Special reserve		27,247,725	914,353	26,883,021	933,762
Unappropriated retained earnings		(1,522,884)	(51,103)	1,176,925	40,880
Equity adjustments					
Unrealized revaluation increments		1,462	49	1,462	51
Unrealized gains on financial instruments	2	14,135,071	474,331	1,749,486	60,767
Cumulative conversion adjustments	2	(351,300)	(11,789)	(480,500)	(16,690)
Net loss not recognized as pension cost		(509,674)	(17,103)	-	-
Minority interests		1,157,357	38,837	1,296,174	45,021
Total stockholders' equity		115,473,910	3,874,963	105,851,545	3,676,677
Total liabilities and stockholders' equity		$3,470,132,056	116,447,384	$3,181,425,597	$110,504,536

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.80 and NT$28.79 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of income
For the six months ended June 30, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-June 30, 2012 NT$	January 1-June 30, 2012 US$	January 1-June 30, 2011 NT$	January 1-June 30, 2011 US$
Operating revenues	2,31				
Direct premium income	22	$257,905,947	$8,654,562	$204,628,760	$7,107,633
Reinsurance premium income	22	92,309	3,098	98,896	$3,435
Premiums income	22	257,998,256	8,657,660	204,727,656	7,111,068
Deduct: Reinsurance premiums ceded	22	(13,829,928)	(464,092)	(10,210,861)	(354,667)
Changes in unearned premium reserve	22	140,850	4,727	2,046,346	71,078
Retained earned premium	22	244,309,178	8,198,295	196,563,141	6,827,479
Reinsurance commission earned		7,480,342	251,018	5,352,981	185,932
Handling fees earned	36	1,054,398	35,382	1,487,963	51,683
Net investment profit and loss					
Interest income		45,453,690	1,525,291	42,578,643	1,478,939
Losses from valuation on financial assets		(218,121)	(7,319)	(44,728,803)	(1,553,623)
Gains from valuation on financial liabilities		8,699,569	291,932	272,142	9,453
(Losses) gains on equity investments		(93,234)	(3,129)	58,412	2,029
Losses on foreign exchange		(13,076,656)	(438,814)	(6,748,726)	(234,412)
Gains on disposal of investments		12,790,809	429,222	50,494,646	1,753,895
Changes in provision for foreign exchange volatility reserve	38	(555,019)	(18,625)	-	-
Gains on investments - Real estate		3,473,723	116,568	3,147,315	109,320
Other operating income		812,337	27,260	636,519	22,109
Separate account product revenues	36	27,691,345	929,240	64,316,990	2,234,005
Subtotal		337,822,361	11,336,321	313,431,223	10,886,809
Operating costs	2,31				
Insurance claim payments	23	(108,973,437)	(3,656,827)	(134,790,907)	(4,681,866)
Deduct: Claims recovered from reinsures	23	5,488,504	184,178	3,743,757	130,037
Retained claim payment	23	(103,484,933)	(3,472,649)	(131,047,150)	(4,551,829)
Changes in liability reserves					
Changes in provision claim reserve		(56,900)	(1,909)	(102,478)	(3,559)
Changes in provision for life insurance		(180,178,914)	(6,046,272)	(92,322,406)	(3,206,753)
Changes in provision for special reserve		88,259	2,962	952,589	33,087
Changes in provision for premium deficiency reserve		(1,583,951)	(53,153)	(1,757,154)	(61,033)
Changes in reserve for insurance contract with feature of financial instruments		(545,603)	(18,309)	(767,633)	(26,663)
Brokerage expenses	24	(7,912,224)	(265,511)	(8,597,185)	(298,617)
Commissions expenses		(8,397,210)	(281,785)	(8,350,881)	(290,062)
Other operating cost		(2,322,518)	(77,937)	(1,983,867)	(68,908)
Separate account product expenses	36	(27,691,345)	(929,240)	(64,316,990)	(2,234,005)
Subtotal		(332,085,339)	(11,143,803)	(308,293,155)	(10,708,342)
Operating expenses	2,16,21,24,31				
Business expenses		(3,719,594)	(124,819)	(2,620,252)	(91,012)
Administrative and general expenses		(4,495,584)	(150,858)	(4,308,821)	(149,664)
Employee training expenses		(17,188)	(577)	(16,008)	(556)
Subtotal		(8,232,366)	(276,254)	(6,945,081)	(241,232)
Operating loss		(2,495,344)	(83,736)	(1,807,013)	(62,765)
Non-operating revenues and gains	2,31				
Gains on disposal of property and equipment		79	3	208	7
Other non-operating revenues and gains		935,595	31,395	864,843	30,040
Subtotal		935,674	31,398	865,051	30,047
Non-operating expenses and losses	2,31				
Losses on disposal of property and equipment		(1,299)	(43)	(88)	(3)
Dividend on preferred stock liabilities		(451,519)	(15,152)	(404,151)	(14,038)
Losses on obsolescence of property and equipment		-	-	(30)	(1)
Miscellaneous expenses		(3,264)	(109)	(3,850)	(134)
Subtotal		(456,082)	(15,304)	(408,119)	(14,176)
Loss from continuing operations before income taxes		(2,015,752)	(67,642)	(1,350,081)	(46,894)
Income taxes benefit	2,25	516,058	17,317	2,465,485	85,637
Consolidated (loss) income		$(1,499,694)	$(50,325)	$1,115,404	$38,743
Include					
Parent company		(1,522,884)	(51,103)	1,176,925	40,880
Minority interests		23,190	778	(61,521)	(2,137)
Consolidated (loss) income		$(1,499,694)	$(50,325)	$1,115,404	$38,743
Earnings per share (In dollars)	2,26				
Consolidated (loss) income		$(0.28)	$(0.01)	$0.21	$0.01

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.80 and NT$28.79 to US$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of changes in stockholders' equity
For the six months ended June 30, 2012 and 2011
(Expressed in thousands of dollars)

					Retained earnings						Equity adjustment											
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized revaluation increments		Unrealized gains on financial instruments		Cumulative conversion adjustments		Net loss not recognized as pension cost		Minority interests		Total	
Summary	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	$53,065,274	$1,843,184	$13,009,649	$451,881	$20,861,134	$724,597	$21,687,527	$753,300	$(6,515,586)	$(226,314)	$1,462	$51	$12,057,721	$418,816	$(401,935)	$(13,961)	$-	$-	$1,424,331	$49,473	$115,189,577	$4,001,027
Covering losses and appropriations for 2010																						
Special reserve	-	-	-	-	-	-	5,195,494	180,462	(5,195,494)	(180,462)	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve used to cover accumulated deficits	-	-	-	-	(11,711,080)	(406,776)	-	-	11,711,080	406,776	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	(10,308,235)	(358,049)	-	-	-	-	-	-	(10,308,235)	(358,049)
Changes in cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(78,565)	(2,729)	-	-	-	-	(78,565)	(2,729)
Consolidated income (loss) for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	1,176,925	40,880	-	-	-	-	-	-	-	-	(61,521)	(2,137)	1,115,404	38,743
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(66,636)	(2,315)	(66,636)	(2,315)
Balance on June 30, 2011	$53,065,274	$1,843,184	$13,009,649	$451,881	$9,150,054	$317,821	$26,883,021	$933,762	$1,176,925	$40,880	$1,462	$51	$1,749,486	$60,767	$(480,500)	$(16,690)	$-	$-	$1,296,174	$45,021	$105,851,545	$3,676,677
Balance on January 1, 2012	$53,065,274	$1,780,714	$13,009,649	$436,566	$9,150,054	$307,049	$27,624,972	$927,012	$(286,071)	$(9,600)	$1,462	$49	$10,673,438	$358,169	$(304,530)	$(10,219)	$(509,674)	$(17,103)	$1,133,769	$38,046	$113,558,343	$3,810,683
Appropriations and distributions for 2011																						
Legal reserve	-	-	-	-	91,176	3,059	-	-	(91,176)	(3,059)	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	742,961	24,932	(742,961)	(24,932)	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve used to cover accumulated deficits	-	-	-	-	-	-	(1,120,208)	(37,591)	1,120,208	37,591	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	3,461,633	116,162	-	-	-	-	-	-	3,461,633	116,162
Changes in cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(46,770)	(1,570)	-	-	-	-	(46,770)	(1,570)
Consolidated (loss) income for the six months ended June 30, 2012	-	-	-	-	-	-	-	-	(1,522,884)	(51,103)	-	-	-	-	-	-	-	-	23,190	778	(1,499,694)	(50,325)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	398	13	398	13
Balance on June 30, 2012	$53,065,274	$1,780,714	$13,009,649	$436,566	$9,241,230	$310,108	$27,247,725	$914,353	$(1,522,884)	$(51,103)	$1,462	$49	$14,135,071	$474,331	$(351,300)	$(11,789)	$(509,674)	$(17,103)	$1,157,357	$38,837	$115,473,910	$3,874,963

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.80 and NT$28.79 to US$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of cash flows
For the six months ended June 30, 2012 and 2011
(Expressed in thousands of dollars)

	January 1-June 30, 2012		January 1-June 30, 2011	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Consolidated (loss) income	$(1,499,694)	($50,325)	$1,115,404	$38,743
Adjustments:				
Losses from valuation of financial assets	218,121	7,319	44,728,803	1,553,623
Gains from valuation of financial liabilities	(8,699,569)	(291,932)	(272,142)	(9,453)
Provision bad debt	709,922	23,823	99,945	3,472
Depreciation	1,187,153	39,837	1,214,269	42,177
Amortization	51,029	1,712	81,395	2,827
Provision or recovered for each reserve	178,128,648	5,977,471	98,779,660	3,431,041
Gains on disposal of investments under the equity method	-	-	(632,746)	(21,978)
Losses (gains) on disposal of property and equipment	1,220	41	(90)	(3)
Gains on disposal of investments in real estate	(89,808)	(3,014)	(74,178)	(2,577)
Gains on equity investments less than cash dividends received	147,299	4,943	8,812	306
Decrease in notes receivable	461,765	15,496	697,255	24,219
Decrease in premiums receivable	6,440	216	16,121	560
Decrease in claims recoverable from reinsurers	2,940	99	3,003	104
Increase in due from reinsurers and ceding companies	(217,449)	(7,297)	(269,493)	(9,361)
(Increase) decrease in other accounts receivable	(8,788,983)	(294,932)	7,699,605	267,440
Decrease in financial assets at fair value through profit or loss	4,364,245	146,451	22,174,433	770,213
Decrease (increase) in derivative financial assets for hedging	230,994	7,751	(6,551)	(228)
(Increase) decrease in other financial assets	(11,200,000)	(375,839)	1,500,000	52,101
Decrease (increase) in ceded unearned premium reserve	572,004	19,195	(1,311,495)	(45,554)
Increase in ceded reserve for claims	(192,436)	(6,457)	(81,841)	(2,842)
Decrease (increase) in prepayments	252,634	8,478	(32,358)	(1,124)
Decrease (increase) in guarantee deposits paid	204,014	6,846	(859,718)	(29,862)
Increase in deferred income tax assets	(477,177)	(16,012)	(8,415,295)	(292,299)
Increase in other assets - Other	(2,235,686)	(75,023)	(551,853)	(19,168)
Decrease in notes payable	(1,304)	(43)	(189)	(7)
Increase in life insurance proceeds payable	26,234	880	12,695	441
Increase in commissions payable	35,860	1,203	208,818	7,253
Increase in due to reinsurers and ceding companies	686,975	23,053	961,264	33,389
Increase (decrease) in others payable	7,069,524	237,232	(14,893,676)	(517,321)
Decrease in financial liabilities at fair value through profit or loss	-	-	(2,165)	(75)
Increase in derivative financial liabilities for hedging	-	-	28,373	986
(Decrease) increase in accounts collected in advance	(56,799)	(1,906)	84,632	2,940
Increase in guarantee deposits received	42,120	1,413	133,746	4,645
Increase in accrued pension liability	118,160	3,965	45,647	1,586
(Decrease) increase in other liabilities - Other	(50,755)	(1,703)	11,818,189	410,496
Net cash provided by operating activities	161,007,641	5,402,941	164,008,279	5,696,710
Cash flows from investing activities				
Increase in loans	(9,278,559)	(311,361)	(237,027)	(8,233)
Decrease (increase) in available-for-sale financial assets	51,639,915	1,732,883	(89,176,770)	(3,097,491)
Decrease in held-to-maturity financial assets	-	-	54,234,456	1,883,795
Decrease in financial assets carried at cost	499,853	16,773	150,491	5,227
Increase in investments in debt securities with no active market	(190,153,534)	(6,380,991)	(84,395,142)	(2,931,405)
Disinvestment of equity investments	10,450	351	-	-
Disposal of investments under the equity method	-	-	1,106,232	38,424
Disposal of investments in real estate	112,580	3,778	132,485	4,602
Acquisition of investments in real estate	(6,725,320)	(225,682)	(6,004,591)	(208,565)
Disposal of property and equipment	88	3	729	25
Acquisition of property and equipment	(160,041)	(5,371)	(117,628)	(4,086)
Acquisition of intangible assets	(13,072)	(438)	(26,702)	(927)
Net cash used in investing activities	(154,067,640)	(5,170,055)	(124,333,467)	(4,318,634)
Cash flows from financing activities				
Increase in short-term debts	140,462	4,713	105,155	3,652
Cash dividends	(24,044)	(807)	(31,089)	(1,079)
Net cash provided by financing activities	116,418	3,906	74,066	2,573
Effects of exchange rate changes	(45,875)	(1,539)	(81,968)	(2,847)
Increase in cash and cash equivalents	7,010,544	235,253	39,666,910	1,377,802
Cash and cash equivalents at the beginning of the periods	379,048,580	12,719,751	363,406,890	12,622,677
Cash and cash equivalents at the end of the periods	$386,059,124	$12,955,004	$403,073,800	$14,000,479
Supplemental disclosure of cash flows information				
Interest paid during the period	$39,648	$1,330	$16,797	$583
Interest paid (excluding capitalized interest)	$39,648	$1,330	$16,797	$583
Income tax paid	$706,988	$23,724	$573,496	$19,920

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.80 and NT$28.79 to US$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to unaudited consolidated financial statements

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

For the six-month periods ended June 30, 2012 and 2011

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the "Company") was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act of the Republic of China ("R.O.C."). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holding") by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C. in order to gain benefit of synergistic operation and enhance the Company's competitiveness in the financial market.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of June 30, 2012 and 2011, total numbers of employees in the Company were 31,123 and 31,182, respectively.

2. Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies is as follows:

(1) Principles of consolidation

A. According to the Statements of Financial Accounting Standards of the R.O.C. ("R.O.C. SFAS") No.7 "Consolidated Financial Statements", the consolidated financial statements include the Company and its subsidiaries ("Subsidiaries") over which the Company holds more than 50% of the Subsidiaries' voting rights or has a controlling interest. As of and for the six-month ended June 30, 2012 and 2011, the consolidated financial statements included the following entities:

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

			Ownership interest		
Investors	Investees	Business	2012.6.30	2011.6.30	Notes
The Company	Symphox Information Co., Ltd. ("Symphox Information")	Type II telecom service, data processing service, information supply service	60.12%	60.12%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Act. As of June 30 2012 and 2011, the Company owns 60.12% of interest in Symphox Information. As of June 30 2012 and 2011, the total numbers of employees were 196 and 169, respectively.
The Company	Cathay Life Insurance Ltd. (China) ("Cathay Life (China)")	Life insurance	50.00%	50.00%	Cathay Life (China) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Air Holding Group each owns 50% interest in Cathay Life (China). As of June 30 2012 and 2011, the total numbers of employees were 2,378 and 2,366, respectively.
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) acquired an operation license of an enterprise as a juristic person on November 21, 2007. As of June 30 2012 and 2011, the total numbers of employees were 260 and 228, respectively.

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

As of six-month ended June 30, 2012 and 2011, the consolidated financial statements exclude the followings:

Investors	Investees	Business	Ownership interest		Notes
			2012.6.30	2011.6.30	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class3 general business insurers and a Long-term insurer	100.00%	100.00%	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00%	100.00%	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Insurance Company Limited (China)	Properties insurance	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on August 26, 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements.

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

(2) Cash equivalents

Cash equivalents refer to short-term and highly liquid investments that are both:

A. readily convertible to known amounts of cash; and

B. near maturity and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Common examples of cash equivalents are treasury bills, commercial papers and bank acceptances with maturity of three months or less from the original acquisition date.

(3) Recognition of financial assets and liabilities

According to the Statements of Financial Accounting Standards of the R.O.C. ("R.O.C. SFAS") No.34 "Financial Instruments: Recognition and Measurement" and "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises", financial assets are categorized as the "financial assets at fair value through profit or loss", "held-to-maturity financial assets", "investments in debt securities with no active market", "available-for-sale financial assets", "financial assets carried at cost" and "derivative financial assets for hedging". Financial liabilities are categorized as either "financial liabilities at fair value through profit or loss" or "derivative financial liabilities for hedging". Upon their initial recognition, financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets.

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

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets held for trading include products acquired primarily for the purpose of sale in the near term and derivative financial assets, except for those that are designated as hedging instruments and are effective. Such assets are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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

a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

b. Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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

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

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized or impaired. The amortized cost is computed as the cost amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial assets, transactions costs, fees and premiums/discounts are taken into consideration when calculating the effective interest rate.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in equity. When the financial asset is derecognized, those cumulative gains or losses shall be recognized in profit or loss.

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in equity, except for impairment losses and gains or losses arising from the translation of monetary financial assets. When the financial assets are derecognized, the cumulative gains or losses previously recorded in equity are recognized in profit or loss.

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

E. Financial assets carried at cost

Financial assets carried at cost are investments in equity instruments to non-listed companies which the Company has no significant influence over. They are recorded at initial cost as the fair values cannot be reliably measured. If there is objective evidence that an impairment loss has been incurred, the impairment loss is recognized. Such impairment loss shall not be reversed.

F. Derivative financial assets for hedging

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

The fair value, as mentioned above, for a listed stock or a depositary receipt is based on the closing price on the balance sheet date, while for an open-end fund, the fair value is determined based on its net asset value as at the balance sheet date.

Financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging are measured at fair value.

(4) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset or a portion of a financial asset is derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. A transfer of a financial asset or a portion of the asset in which the Company surrenders control over the asset in exchange of consideration received is deemed a sale.

If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the Company accounts for the transaction as a secured borrowing. In that case, the Company’s right to reacquire the asset is not a derivative financial instrument.

B. Financial liabilities

An entire or a part of a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Where an existing financial liability is replaced by another one from the same creditor with substantially different terms of agreement, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognization of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized as a gain or loss for the period.

(5) Accounting for impairment of financial assets

The Company and Subsidiaries assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Applying to different financial assets valued in different ways, the adopted impairment methods are as follows:

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 recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset exceeding 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.

B. Financial assets measured 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 equity instrument has been incurred, the amount of the loss is recorded and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

C. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss that had been recognized in equity shall be reclassified from equity to profit or loss. The amount of the impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value or recoverable amount, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall be reversed through equity, rather than through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed through profit or loss.

(6) Derivative financial instruments

The Company engages in derivative financial instrument transactions, such as forward currency contracts and interest rate swaps, to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day 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 of derivatives that no longer meets the criteria for hedge accounting are taken directly to profit or loss for the period.

Hedging relationships consist of three types:

A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss.

B. Cash flow hedges: a hedge of the exposure to variability in cash flows that is either 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 with a highly probable forecast transaction and could affect profit or loss.

C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company assesses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, 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 for the hedge.

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

Fair value hedges

The carrying amount of the hedged item is adjusted and gain or loss attributable to the hedged risk is recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the R.O.C. SFAS No. 14 "The Effects of Changes in Foreign Exchange Rates" (for a non-derivative hedging instrument) is recognized in profit or loss.

For a hedged interest-bearing financial instrument, the adjustment arising from above paragraph to its carrying amount is amortized to profit or loss based on an effective interest rate over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be subject to hedge accounting.

The Company and Subsidiaries discontinue fair value hedge accounting when any of the below situation occurs:

A. the hedging instrument expires or is sold, terminated or exercised,
B. the hedge no longer meets the conditions for hedge accounting,
C. the Company revokes the designation.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in equity, while the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in equity shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses initially recognized in equity shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is 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, the cumulative gain or loss that was previously recognized in equity remains in equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from equity to profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized 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 gains or losses recognized in equity is transferred to profit or loss.

(7) Allowance for bad and doubtful debts

A. In accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts: 0.5 percent of the ending balance for the first category of loan assets excluding life insurance loan, automatic premium loans, and holding government debt to be reserved within three years starting on January 1, 2011, 2 percent of the ending balance for the second category of loan assets, 10 percent of the ending balance for the third category of loan assets, as well as 50 and 100 percent of the ending balance for the fourth and fifth category of loan assets, respectively.

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

If the objective evidence indicating the occurrence of the impairment loss does exist, the assessment of impairment loss is based upon the difference between the carrying amount of loans and receivables and the present value of the estimated future cash flows, excluding forecasted loss on credit risks. Present value of the future cash flow on loans and receivables is discounted by using the original effective interest rate. However, if floating rate is stipulated, then the present value of the future cash flows for loans and receivables shall be calculated using the current effective interest rate determined under the contract as the discount rate.

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 loan and receivable that exceeds what the amortized cost would have been had the impairment not being recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in current period as profit or loss.

B. Before January 1, 2011, allowance for bad debts on account receivable of Symphox Information is determined based on the aging analysis of outstanding balances of such accounts and past experience. Since January 1, 2011, Symphox Information first assesses whether objective evidence of impairment exists individually for receivables that is individually significant. If there is objective evidence that an impairment loss on individual receivables has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on receivables that is not individually significant has been incurred, Symphox Information shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for receivables with no objective evidence that an impairment loss has been incurred, those receivables shall be collectively assessed for impairment.

C. Allowance for bad debts on account receivable of Cathay Life (Vietnam) is determined based on the aging analysis of outstanding balances of such accounts and past experience.

D. According to the R.O.C. SFAS No. 34 "Financial Instruments: Recognition and Measurement" effective on January 1, 2011, Cathay Life (China) first assesses whether objective evidence of impairment exists individually for receivables, such as premiums receivable, interest receivable and account receivable that are individually significant. If there is objective evidence that an impairment loss on individual receivables, such as premiums receivable, interest receivable and account receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on receivables, such as premiums receivable, interest receivable and account receivable that are not individually significant has been incurred, Cathay Life (China) shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for receivables, such as premiums receivable, interest receivable and account receivable with no objective evidence that an impairment loss has been incurred, those receivables shall be collectively assessed for impairment.

(8) Investments under the equity method

Investments in equity securities are accounted for under the equity method where the Company holds more than 20% of the investee's voting rights or 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 at the acquisition date is analyzed and accounted for in conformity with the acquisition cost allocation as provided in R.O.C. SFAS No.25 "Business Combination - Accounting Treatment under Purchase Method". Goodwill is no longer amortized.

Adjustment to additional paid-in capital is required when the holding percentage changes due to disproportional subscription to new issue of investee's shares. If the balance of additional paid-in capital is insufficient, retained earnings are adjusted.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses arising from sales of depreciable assets between the investees are amortized over the economic service life of the assets. Gains or losses arising 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 as incurred.

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

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 R.O.C. (the "Executive Yuan Depreciation Table").

Real estate investment primarily is for business 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. Upon revaluation, land and depreciable properties shall be reevaluated separately. Property increments shall be recorded in "unrealized reevaluation increments" under stockholders' 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. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

Fixed assets with unit value above CNY$2,000 thousands of Cathay Life (China) are assets with useful life over a year, such as houses, buildings, machines, equipments and vehicles. These assets are recorded at cost and depreciated using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of those fixed assets are 10% of their costs estimated based on their nature and conditions of usage.

(11) Intangible assets

According to the R.O.C. SFAS No. 37 "Accounting for Intangible Assets" effective on January 1, 2007, intangible assets are initially recognized at cost. After the initial recognition, the intangible assets shall be carried at cost plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

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

The intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets. The Company and Subsidiaries will reassess the useful lives and amortization methods for its intangible assets with finite useful lives at each balance sheet date. If there is any change to be made, it will be treated as changes in accounting estimates.

(12) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the "MOF") in the year of 1993, the Company created a "stabilization fund" and an offsetting account "stabilization fund reserve", both of which are off balance sheet accounts. From January 1, 1993 to December 31, 2002, an amount of NT$1,603,526 (US$53,810) thousands was appropriated to this fund. From July 1, 2002 to June 30, 2012, an amount of NT$3,524,004 (US$118,255) thousands was appropriated to this fund under Regulations Governing Management of Insurance Stabilization Funds, which was established by the "MOF" in the year of 2002.

(13) Accounting for assets impairment

Pursuant to R.O.C. SFAS No. 35, the Company evaluates whether indicators of impairment exist at each balance sheet date for all assets subject to guidelines set forth under the Statement. If impairment indicators exist, the Company shall perform impairment testing by comparing the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU"). Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount which is defined as the higher of fair values less costs to sell and the values in use. Conversely, if there is any evidence that the impairment loss may no longer exist or may have decreased, the recoverable amount of the asset shall be subsequently re-evaluated. The impairment loss may be reversed to reflect the asset's estimated increase in future service potential since the date of its last recognition of impairment loss. However, the carrying amount of the asset after the reversal of impairment loss should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset 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. If the recoverable amount of the CGU assets or the group of CGUs assets is smaller than their carrying amount, impairment loss should be recognized to reduce the carrying amount of the assets. First, the carrying amount of the goodwill allocated to the CGU or group of CGUs shall be reduced. Then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the CGU or group of CGUs. Recognized impairment loss for goodwill should not be reversed.

Impairment loss (reversal) is classified as non-operating losses (income).

(14) Guaranteed depository insurance payment

A. The Company

According to Article 141 of the R.O.C. Insurance Act (the "Insurance Act"), an amount equal to 15% of the Company's capital stock must be deposited in the form of a bond with the Central Bank of China (the "Central Bank") as the "Guaranteed Depository Insurance".

B. Cathay life (China)

According to the requirement of the China Insurance Regulatory Commission, an amount equal to 20% of the capital must be deposited in the form of time deposits.

(15) Reserve for liabilities

A. The Company

Business reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." Furthermore, they have been validated by the certified actuarial professionals approved by Financial Supervisory Commission. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

Moreover, an insurance contract with discretionary participation feature is classified as liability.

a. Unearned premium reserve:

For the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the amount of reserve required is based upon the risk calculation.

b. Reserve for claims:

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon a based that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited by the following methods:

(A) Health or life insurance with a policy period within 1 year: Before December 31, 2009, 1 percent of earned premium by each type of insurance is reserved and deposited. At the beginning of January 2010, the dollar amount of indemnity reserve by each type of insurance is calculated and deposited based upon the past indemnity experiences and expenses occurred and in accordance with the actuarial principles.

(B) Injury insurance: The dollar amount of reserve required and deposited is based upon the past experiences and expenses occurred and in accordance with the actuarial principle.

c. Reserve for life insurance liabilities:

Based upon the life table and projected interest rates in the manual provided by the authority for each type of insurance, the dollar amount of life insurance reserve is calculated and deposited according to the calculation method listing on the section 12 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and the manual published by each authority of insurance products.

Starting from policy year of 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the authorities, the downward adjustments of bonus due to the offset between mortality saving (loss) and gain (loss) from difference of interest rate should be recognized and recorded as the increase of reserve for long-term valid contract.

d. Special reserve:

(A) For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 1 year, the special reserve is classified into 2 categories, "Special Reserves for Major Incidents" and "Special Reserve for Fluctuation of Risks." The dollar amount of reserve required is addressed as follows:

① Special reserves for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of NT$30,000 thousands can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. Effected on January 1, 2011, the recovery of special reserves for major incidents can be charged against the special reserve for life insurance proceeds if sufficient. If the recovery amount exceeds the balance of the special reserve for life insurance proceeds, according to SFAS No22, the post-tax excess amount can be placed in the special reserve under stock holder's equity.

② Special reserves for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15 percent of this difference should be reserved in special reserve for fluctuation of risks.

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30 percent of self-retention earned premium, the exceeded amount will be recalled and recognized as profit in current period. Since January of 2011, the amounts of written-down and recallable can be recognized and recorded in special reserve for major incidents under liability. However, these amounts are able to be recognized and recorded in special reserve for major incidents under equity in accordance with SFAS No. 22 if the amounts reserved under liability are unrecoverable.

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in special reserve under equity since January of 2011 according to SFAS No. 22.

In addition, the full amount of special reserves for fluctuation of risks in liability should be recognized and recorded in special reserve next year after approved by shareholders; it should not be used for other purposes and distributed if not been approved by the authority.

(B) The Company sells participating life insurance policy. According to the "Rule Governing application of revenues and expenses related to participating / non-participating policy", the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.

e. Premium deficiency reserve：

For the contracts over 1 year of life insurance, health insurance, or annuities contracts commencing on January 1, 2001, the following rules applied: If the written premiums are lower than those of providing policy reserves, the special premium deficiency reserve will be set aside based on the premium deficiencies.

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules applied: If the probable indemnities and expenses are greater than the aggregate of unearned premium serves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

f. Liability adequacy reserve：

This is the reserve that is set aside based on the adequacy test of liability required by SFAS No.40.

g. Reserves for insurance contract with feature of financial instruments

Reserve for non-separate account insurance product that is also classified as financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

h. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is NT$4,511,406 (US$151,390) 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”. As of June 30, 2012, the amount set aside was NT$5,066,425 (US$170,015) thousands.

i. Liability adequacy test

Liability adequacy test is base on integrated insurance contract and related regulations following ASP No. 40 - Contract classification and liability adequacy test. This test compares reserve for insurance contract net with deferred acquisition cost and related intangible assets and anticipated present value of insurance contract cash flow on balance sheet date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

B. Cathay life (China)

In accordance with the Insurance Act of the People’s Republic of China, the liability reserves (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

(16) Insurance premium income and expenses

A. The Company

For the Company’s insurance contract and financial instruments with discretionary participation features, the initial and renewal premium is only recognized as revenue after collection and underwriting procedures finished, subsequent session of collection, respectively. In terms of the acquisition cost such as commission expenses and brokerage expenses, the relative expenses will be recognized in that period after commencement of the insurance contract.

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as “reserves for insurance contract with feature of financial instruments.”

For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc. is totally recognized on the balance sheet as “separate account product liabilities.

B. Cathay life (China)

In accordance with “The General Accounting System for Insurance Companies” issued by local government, Cathay Life (China) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(17) Product categories

Insurance contract refers to the insuree accepting the insurance policyholder’s transfer of significant insurance risk, and agrees to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages occurred. The Company’s definition of a significant insurance risk refers to any insured event that occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments are contracts that transfer the financial risk. The definition of a financial risk refers to one or more specific interest rate, prices of financial instruments, product prices, exchange rates, price index, rate index, credit ratings and index, and other variables that faces risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meet the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or disappeared, the policy will still be considered as an insurance contract; even if the exposure to insurance risk during the policy period has been significantly reduced. However, if insurance risk following the renewal of an insurance contract with features of financial instruments is transferred to the Company, the Company will reclassify the contract as an insurance contract.

Insurance contracts and insurance contracts with features of financial instruments can be further broken down into separate categories depending on whether the contracts have discretionary participation feature or not. To have discretionary participation feature means a guaranteed payment from the contract plus contractual rights to receive additional payments. These contractual rights have the following characteristics:

A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.

B. In accordance with the contract, the amount and date of payment for additional payments are at the Company's discretion.

C. In accordance with the contract, additional payments are handed out based on one of the following matters:

   a. Special combination of contracts or specific type of contractual performance.
   b. The Company holds return on investment from a portfolio of specific assets.
   c. Profit and loss from the Company, funds, or other entities.

When embedded derivative products' economic characteristics and risks are no longer closely related to the economic characteristics and risks of the primary contracts, it should be listed separately from the primary contracts and use fair value method to determine its fair value. Also the profit or loss determined by the fair value method should be recognized in the current period. However, if the embedded derivative product meets the definition of an insurance contract or the whole contract is measured by the fair value method and the profit or loss is recognized in the current period, the Company will not need to separately list the embedded derivative product and the insurance contract.

(18) Reinsurance

The Company limits exposure to some events that may cause a certain amount of loss and this is done in accordance to sale's needs and the insurance laws and regulations for reinsurance. For reinsurance ceded, the Company can't refuse to fulfill its obligations to the insured because the re-insurees failed to fulfill their responsibility.

The Company holds the right over re-insurees for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. When objective evidences demonstrate that such rights after initial recognition may lead to the Company not recovering all contractual terms of the amount due; and the above events can be recovered from reinsurers at the impacted amount, then the Company can retrieve an amount that is less than the carrying value of the aforementioned rights, and recognize impairment losses.

For the Classification of reinsurance contracts, the Company assess whether the transfer of significant insurance risk to the re-insurees has occurred. If the transfer of significant insurance risk was not apparent, then the contract is recognized and evaluated with deposit accounting.

Reinsurance contracts that have their significant insurance risk transferred; if the Company can separate the individual elements and measure their savings, then the reinsurance contracts need to be recognized separately as the insurance's element and the saving's element. That is, the Company receive (or pay) the contract's value minus the insurance element, recognizing it as either financial liabilities (or assets), and not as incomes (or expenses). The financial liabilities (or assets) are recognized with the fair value method and uses the present value of future cash flow as the basis for the fair value method.

(19) Pension plan

The Company and Subsidiaries have established a pension plan for all employees according to related laws and regulations. Pension funds are separated from the Company and Subsidiaries and therefore are not included in the consolidated financial statements.

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

The Company adopted the R.O.C. SFAS No. 18, "Accounting for Pensions" to account for its pension plan. 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 as incurred.

According to the R.O.C. SFAS No. 23, "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS No. 18, "Accounting for Pensions".

(20) Research and development expenses

The research and develop projects of Symphox Information were divided into the research phase and develop phase. All expenditures occurred during the research and develop phases were recognized as expenses except for those expenditures being capitalized during develop phase when Symphox Information could demonstrate all of the following:

A. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
B. Its intention to complete the intangible asset and use or sell it.
C. Its ability to use or sell the intangible asset.
D. The intangible asset is likely to generate future economic benefit
E. The availability of adequate technical, financial and other resources to complete the development project.
F. Its ability to measure reliably the expenditures attributable to the intangible asset during its development.

An impairment test is performed annually in December for the intangible asset arising from the develop phase.

(21) Foreign currency transactions

A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate as at the balance sheet date and the resulting 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 is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary asset or liability 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 at historical cost shall be translated using the exchange rate at the date of the initial transaction.

B. Translation of subsidiaries' financial statements in foreign currencies

Financial statements of foreign subsidiaries accounted for under the equity method are translated into NT dollars as follows: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate on the balance sheet date. Stockholders' equity items are translated at the historical rates except for the opening balance of retained earnings, which is carried forward directly from the yearend balance of previous year. Revenue and expense items are translated by the weighted-average exchange rate for the fiscal year. Translation differences arising from above conversion are reported as "cumulative conversion adjustments" under stockholders' equity.

(22) Income taxes

The Company and Subsidiaries adopted 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, loss carry-forward and investment tax credits. A valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

The Company and Subsidiaries have adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with income tax credits. Accordingly, the income tax credits resulting from expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for using the flow-through method.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders' meeting in which the shareholders have resolved that the earnings shall be retained.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

Effective from January 1, 2006, the Company adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate and file joint income basic tax.

(23) Capital expenditure expenses

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.

(24) Separate account products

The Company sells Separate account products, of which the insured pays the insurance fees according to the agreement amount less the expenses incurred by the insured. In addition, the investment distribution is approved by the insured and then transferred to specific accounts as requested by the insured. The value of these specific accounts is determined based on the market value on the applicable date, and its fair value is determined based on the accounting principles and practices generally accepted in the R.O.C..

In accordance with guidelines for the preparation of financial statements in the insurance industry, provides a dedicated book for assets and liabilities, regardless if it is produced by an insurance contract or insurance policy with features of financial instruments. All contracts are to be accounted for separately as, “separate account product assets” and “separate account product liabilities”. To record related revenues and expenditures, this method is consistent with SFAS No. 40 insurance contract’s definition for separate account insurance products’ income and expenses, separately recognizing as “separate account product revenues” and “separate account product expenses.”

(25) Employee bonus and remuneration of directors and supervisors

Pursuant to (96) Article 052 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors and supervisors are accounted for as expenses instead of distribution of earnings.

(26) Operating segment Information

An operating segment is a component of an entity that has the following characteristics:

A. engaging in business activities from which it may earn revenues and incur expenses,

B. 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

C. for which discrete financial information is available.

(27) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of June 30, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$29.8 and NT$28.79 provided by Federal Reserve Bank of New York of June 30, 2012 and 2011 are used for the conversion.

3. Reasons and effects for changes in accounting principles

(1) This applied to SFAS No.40 "Insurance Contract" and "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises".

The Company and subsidiaries apply SFAS No.40 "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. Based on SFAS, preparing guidance and related interpretation, the impact of the Company and subsidiaries' insurance policies reclassification, measurement and disclosure are as following:

For investment-linked insurance products which are categorized as non-participating financial instruments, the Company and subsidiaries should recognize the accumulated change in accounting principle of deferred surcharge revenue and deferred acquiring costs on January 1, 2011 under this change in accounting principle. The change in accounting principles does not have significant effect on the consolidated financial statements for the six-month period ended June 30, 2011.

In addition, special reserves for major incidents and special reserves for fluctuation of risks that had been set aside should be accounted for special reserve under retained earnings at the end of 2011. As of June 30, 2011, the amount set aside was NT$389,442 (US$13,527) thousands.

(2) Effected on January 1, 2011, the Company and 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 the consolidated financial statements for the six-month period ended June 30, 2011.

(3) Effected on January 1, 2011, the Company and subsidiaries adopted SFAS No.41, "Operating Segments", to present operating segment information. The new SFAS No.41 replaces SFAS No.20, "Segment Reporting".

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

4. Cash and cash equivalents

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Cash on hand and petty cash	$182,649	$6,129	$216,332	$7,514
Cash in banks	44,180,124	1,482,554	46,524,141	1,615,983
Time deposits	312,318,384	10,480,483	343,507,945	11,931,502
Cash equivalents	29,377,967	985,838	12,825,382	445,480
Total	$386,059,124	$12,955,004	$403,073,800	$14,000,479

As of June 30, 2012 and 2011, the amounts of time deposits with maturities beyond one year were NT$19,377,472 (US$650,251) thousands and NT$2,361,574 (US$82,028) thousands, respectively.

The cash equivalent usually includes commercial paper and repurchase agreement with maturity shorter than three months.

5. Financial assets at fair value through profit or loss

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Listed stocks	$15,240,998	$511,443	$22,112	$768
Overseas stocks	138,919	4,662	312,011	10,838
Beneficiary certificates	21,752,217	729,940	10,632,992	369,329
Exchange traded funds	1,107,378	37,160	202,947	7,049
Overseas bonds	165,364	5,549	486,488	16,898
Corporate bonds	876,008	29,396	2,972,083	103,233
Government bonds	1,572,423	52,766	1,208,770	41,986
Derivative financial instruments	20,093	674	43,866	1,524
Structured time deposits	12,000,000	402,685	1,000,000	34,734
Subtotal	52,873,400	1,774,275	16,881,269	586,359
Add: Adjustment of valuation	2,703,593	90,725	25,443,810	883,772
Total	$55,576,993	$1,865,000	$42,325,079	$1,470,131

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

As of June 30, 2012 and 2011, Symphox Information Co., Ltd. has pledged NT$44,918 (US$1,507) thousands and NT$39,589 (US$1,375) thousands, respectively as collaterals for its e-coupon transaction. Refer to Note 32(2) disclosure for pledged assets.

6. Available-for-sale financial assets

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Listed stocks	$241,479,910	$8,103,353	$197,435,442	$6,857,779
Overseas stocks	58,778,301	1,972,426	30,946,878	1,074,918
Beneficiary certificates	73,370,753	2,462,106	61,666,949	2,141,957
Collateralized loans obligation and collateralized bonds obligation	7,128,355	239,207	1,308,572	45,452
Exchange traded funds	7,067,933	237,179	7,954,566	276,296
Real estate investment trust	7,876,333	264,306	8,719,743	302,874
Financial debentures	195,264,418	6,552,497	172,142,447	5,979,245
Corporate bonds	54,777,501	1,838,171	36,104,334	1,254,058
Government bonds	193,026,853	6,477,411	45,668,720	1,586,270
Overseas bonds	391,811,659	13,148,042	94,014,712	3,265,534
Subtotal	1,230,582,016	41,294,698	655,962,363	22,784,383
Add : Adjustment of valuation	14,440,201	484,571	5,023,292	174,480
Less: Accumulated impairment	(735,000)	(24,664)	(735,000)	(25,530)
Less: Securities serving as deposits paid-bonds	(10,577,082)	(354,936)	-	-
Total	$1,233,710,135	$41,399,669	$660,250,655	$22,933,333

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with collateralized loans obligation held by the Company. As of June 30, 2012 and 2011 the Company recognized impairment losses amounting to NT$735,000 (US$24,664) thousands and NT$735,000 (US$25,530) thousands, respectively. Refer to Note 11 for reclassification of held-to-maturity financial assets information.

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

7. Derivative financial assets for hedging

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	1,561,602	52,403	1,777,657	61,745
Total	$1,561,602	$52,403	$1,777,657	$61,745

8. Financial assets carried at cost

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$6,852,765	$229,958	$8,249,391	$286,537
Beneficiary certificates	3,733,273	125,278	1,691,005	58,736
Subtotal	10,586,038	355,236	9,940,396	345,273
Less: Accumulated impairment	(894,058)	(30,002)	(975,337)	(33,878)
Total	$9,691,980	$325,234	$8,965,059	$311,395

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. As of June 30, 2012 and 2011 the Company recognized impairment losses amounting to NT$894,058 (US$30,002) thousands and NT$975,337 (US$33,878) thousands, respectively.

9. Investments under the equity method

	June 30,			
	2012		2011	
Investee	NT$	US$	NT$	US$
WK Technology Fund VI Co., Ltd.	$295,918	$9,930	$360,065	$12,507
Vista Technology Venture Capital Corp.	16,942	569	28,673	996
Omnitek Venture Capital Corp.	73,949	2,481	64,117	2,227
Wa Tech Venture Capital Co., Ltd.	-	-	41,988	1,458
IBT Venture Capital Corp.	57,371	1,925	91,691	3,185
Cathay Insurance (Bermuda) Co., Ltd.	115,870	3,888	120,007	4,168
Cathay Securities Investment Consulting Co., Ltd.	137,126	4,602	132,927	4,617
Cathay Insurance Company Limited. (China)	528,520	17,736	657,135	22,825
Total	$1,225,696	$41,131	$1,496,603	$51,983

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

Cathay Securities Investment Trust Co., Ltd., an investee of the Company, was sold in accordance with resolution of the Board of Directors' meeting and became a subsidiary of Cathay Financial Holding Co., Ltd. with 100% ownership.

As of June 24, 2011, the Company has disposed all of its equity investment in Cathay Securities Investment Trust Co., Ltd. to Cathay Financial Holding Co., Ltd..

The disinvestment of investments under the equity method amounting to NT$30,351 (US$1,018) thousands and NT$ 31,362 (US$1,052) thousands for November 19, 2010 and November 16, 2011, respectively, and agreement of dissolution on July 1, 2010 were resolved by Wa Tech Venture Capital Co., Ltd.'s stockholders' meeting on June 23, 2010. The investments under the equity method of Wa Tech Venture Capital Co., Ltd. amounting to NT$1,162 (US$39) thousands had been reclassified to other accounts receivable.

As of June 11, 2012, the stockholders' meeting of Vista Technology Venture Capital Corp. resolved to process capital reduction and the record date is June 30, 2012. As of June 30, 2012, the Company has not received the cash of disinvestment, the investments under the equity method amounting to NT$10,450 (US$351) thousands has been reclassified to other accounts receivable.

10. Investments in debt securities with no active market

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$7,847,287	$263,332	$1,108,000	$38,486
Corporate bonds	13,500,000	453,020	15,000,000	521,014
Overseas bonds	679,222,588	22,792,704	428,123,355	14,870,557
Subtotal	700,569,875	23,509,056	444,231,355	15,430,057
Less: Accumulated impairment	(388,700)	(13,044)	(374,426)	(13,005)
Total	$700,181,175	$23,496,012	$443,856,929	$15,417,052

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

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company. As of June 30, 2012 and 2011, the Company recognized impairment losses amounting to NT$388,700 (US$13,044) thousands and NT$374,426 (US$13,005) thousands, respectively.

11. Held-to-maturity financial assets

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Corporate bonds	$-	$-	$11,137,945	$386,868
Government bonds	-	-	116,925,343	4,061,318
Financial debentures	-	-	19,908,273	691,500
Collateralized loans obligation and collateralized bonds obligation	-	-	8,047,339	279,519
Overseas bonds	-	-	422,539,413	14,676,603
Subtotal	-	-	578,558,313	20,095,808
Less: Securities serving as deposits paid - bonds	-	-	(9,639,476)	(334,820)
Total	$-	$-	$568,918,837	$19,760,988

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$19,818,746) thousands are reclassified to available-for-sale financial assets measured at fair value on December 31, 2011.

12. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT$8,640,809 (US$289,960) thousands and NT$12,412,238 (US$431,130) thousands as of June 30, 2012 and 2011, respectively. The details of structured notes are listed below:

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

	June 30, 2012					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$165,364	$5,549	$53,113	$1,782	$218,477	$7,331
Available-for-sale financial assets	8,222,500	275,923	199,832	6,706	8,422,332	282,629
Total	$8,387,864	$281,472	$252,945	$8,488	$8,640,809	$289,960

	June 30, 2011					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$264,563	$9,190	$55,282	$1,920	$319,845	$11,110
Held-to-maturity financial assets	10,800,664	375,153	57,701	2,004	10,858,365	377,157
Investments in debt securities with no active market	1,205,382	41,868	28,646	995	1,234,028	42,863
Total	$12,270,609	$426,211	$141,629	$4,919	$12,412,238	$431,130

13. Investments in real estate

	June 30, 2012									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$160,886,921	$5,398,890	$4,329	$145	$(22,870,828)	$(767,477)	$(140,701)	$(4,722)	$137,879,721	$4,626,836
Construction	6,609,518	221,796	-	-	-	-	-	-	6,609,518	221,796
Prepayments for buildings and land	5,532,506	185,655	-	-	-	-	-	-	5,532,506	185,655
Total	$173,028,945	$5,806,341	$4,329	$145	$(22,870,828)	$(767,477)	$(140,701)	$(4,722)	$150,021,745	$5,034,287

	June 30, 2011									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$147,722,515	$5,131,036	$4,329	$150	$(21,466,726)	$(745,631)	$(140,701)	$(4,887)	$126,119,417	$4,380,668
Construction	4,210,461	146,247	-	-	-	-	-	-	4,210,461	146,247
Prepayments for buildings and land	499,096	17,336	-	-	-	-	-	-	499,096	17,336
Total	$152,432,072	$5,294,619	$4,329	$150	$(21,466,726)	$(745,631)	$(140,701)	$(4,887)	$130,828,974	$4,544,251

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

(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, semi-annually, quarterly, monthly or in lump sum.

(4) As of June 30, 2012 and 2011, no investments in real estate were pledged as collateral.

14. Loans

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Policy loans	$177,813,458	$5,966,894	$181,029,261	$6,287,922
Automatic premium loans	6,184,625	207,538	6,759,436	234,784
Secured loans	314,364,361	10,549,140	293,946,911	10,210,035
Total	$498,362,444	$16,723,572	$481,735,608	$16,732,741

(1) Policy loans were secured by policies issued by the Company and Subsidiaries.

(2) Policyholder may state on the application form or issue a written statement prior within grace period for premium payment to request the insurance enterprise to automatically deduct the due premiums and interest of the premium loan (as well as the principal and interest of the policy loan, if applicable) from the policyholder's policy value reserve after the second installment becomes overdue in order to remain the insurance policy to be constantly effective. Policyholder may also inform the enterprise in written to stop the automatic premium loan option prior to the next due date of premium payment.

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

(3) Secured loans

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Secured loans	$312,553,298	$10,488,366	$290,559,942	$10,092,391
Secured loans - Related parties	3,666,772	123,046	3,852,830	133,825
Less: Allowance for bad debts	(2,062,101)	(69,198)	(836,723)	(29,063)
Subtotal	314,157,969	10,542,214	293,576,049	10,197,153
Overdue receivables	262,578	8,811	523,250	18,175
Less: Allowance for bad debts	(56,186)	(1,885)	(152,388)	(5,293)
Subtotal	206,392	6,926	370,862	12,882
Total	$314,364,361	$10,549,140	$293,946,911	$10,210,035

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

15. Property and equipment

	June 30, 2012									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$6,661,628	$223,545	$620	$21	$-	$-	$(67,146)	$(2,253)	$6,595,102	$221,313
Buildings and construction	12,544,396	420,953	-	-	(5,016,974)	(168,355)	(73,266)	(2,459)	7,454,156	250,139
Computer equipment	2,531,183	84,939	-	-	(2,169,926)	(72,816)	-	-	361,257	12,123
Communication and transportation equipment	13,074	439	-	-	(11,853)	(398)	-	-	1,221	41
Other equipment	3,885,758	130,394	-	-	(3,347,748)	(112,340)	-	-	538,010	18,054
Leasehold improvements	117,225	3,933	-	-	(88,742)	(2,978)	-	-	28,483	955
Subtotal	25,753,264	864,203	620	21	(10,635,243)	(356,887)	(140,412)	(4,712)	14,978,229	502,625
Construction in progress and prepayment for real estate equipment	83,415	2,799	-	-	-	-	-	-	83,415	2,799
Total	$25,836,679	$867,002	$620	$21	$(10,635,243)	$(356,887)	$(140,412)	$(4,712)	$15,061,644	$505,424

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

	June 30, 2011									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$4,881,851	$169,568	$620	$21	$-	$-	$(67,146)	$(2,332)	$4,815,325	$167,257
Buildings and construction	10,916,620	379,181	-	-	(4,308,108)	(149,639)	(73,266)	(2,545)	6,535,246	226,997
Computer equipment	2,475,217	85,975	-	-	(2,024,397)	(70,316)	-	-	450,820	15,659
Communication and transportation equipment	13,214	459	-	-	(11,258)	(391)	-	-	1,956	68
Other equipment	3,737,041	129,803	-	-	(3,196,585)	(111,031)	-	-	540,456	18,772
Leasehold improvements	96,849	3,364	-	-	(63,790)	(2,215)	-	-	33,059	1,149
Subtotal	22,120,792	768,350	620	21	(9,604,138)	(333,592)	(140,412)	(4,877)	12,376,862	429,902
Construction in progress and prepayment for real estate equipment	15,129	525	-	-	-	-	-	-	15,129	525
Total	$22,135,921	$768,875	$620	$21	$(9,604,138)	$(333,592)	$(140,412)	$(4,877)	$12,391,991	$430,427

No properties or equipment was pledged as collaterals as of June 30, 2012 and 2011.

16. Computer software cost

	January 1, 2012		Increase		Decrease		June 30, 2012	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,682,975	$56,475	$8,755	$294	$(339)	$(11)	$1,691,391	$56,758
Amortized and impairment:								
Amortized	(1,286,142)	(43,159)	(48,643)	(1,632)	-	-	(1,334,785)	(44,791)
Book value	$396,833	$13,316	$(39,888)	$(1,338)	$(339)	$(11)	$356,606	$11,967

	January 1, 2011		Increase		Decrease		June 30, 2011	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,598,634	$55,527	$25,344	$880	$-	$-	$1,623,978	$56,407
Amortized and impairment:								
Amortized	(1,069,129)	(37,135)	(79,771)	(2,771)	-	-	(1,148,900)	(39,906)
Book value	$529,505	$18,392	$(54,427)	$(1,891)	$-	$-	$475,078	$16,501

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

17. Financial liabilities at fair value through profit or loss

	June 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$190,093	$6,603
Add: Adjustment of valuation	9,017,899	302,614	2,178,258	75,660
Total	$9,017,899	$302,614	$2,368,351	$82,263

18. Preferred stock liabilities

(1) In accordance with the resolution of the Board of Directors' meeting on November 6, 2008, the Company issued 300,000 thousand shares of Class A preferred stocks at par value of NT$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on November 18, 2008.

Primary terms and conditions of the privately offered Class A preferred stocks are listed as follows:

A. Issuance period covers from December 25, 2008, the issue date, to December 25, 2015, seven years in total.

B. Dividend yield is 3.50% per year based on the actual issue price of NT$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

(2) In accordance with the resolution of the Board of Directors' meeting on October 29, 2009, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of NT$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on December 14, 2009.

Primary terms and conditions of the privately offered Class B preferred stocks are listed as follows:

A. Issuance period covers from December 16, 2009, the issue date, to December 16, 2016, seven years in total.

B. Dividend yield is 2.90% per year based on the actual issue price of NT$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

(3) In accordance with the resolution of the Board of Directors' meeting on October 7, 2011, the Company issued 125,000 thousand shares of Class C preferred stocks at par value of NT$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on October 26, 2011.

Primary terms and conditions of the privately offered Class C preferred stocks are listed as follows:

A. Issuance period covers from November 11, 2011, the issue date, to November 11, 2018, seven years in total.

B. Dividend yield is 1.86% per year based on the actual issue price of NT$40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the SFAS No. 36 "Financial Instruments: Disclosure and Presentation", the above mentioned preferred stocks issued shall be categorized as a financial liability. Thus, the preferred stocks were reported as "preferred stock liabilities" under financial liabilities.

19. Insurance contract and reserve for insurance contract with discretionary participation feature of financial instruments

The details of insurance contract and financial instruments with discretionary participation feature are summarized below:

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

(1) The Company

A. Reserve for life insurance liabilities：

	June 30, 2012 NT$			June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$2,443,119,029	$45,079,250	$2,488,198,279	$2,160,124,324	$44,352,584	$2,204,476,908
Injury insurance	7,759,697	-	7,759,697	7,753,687	-	7,753,687
Health insurance	245,490,002	-	245,490,002	208,792,496	-	208,792,496
Annuity insurance	1,440,136	129,968,895	131,409,031	1,522,887	164,774,944	166,297,831
Investment-linked insurance	1,037,035	-	1,037,035	1,420,091	-	1,420,091
Recover from major incident reserve	31,646	-	31,646	-	-	-
Total	$2,698,877,545	$175,048,145	$2,873,925,690	$2,379,613,485	$209,127,528	$2,588,741,013

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$81,983,860	$1,512,727	$83,496,587	$75,030,369	$1,540,555	$76,570,924
Injury insurance	260,392	-	260,392	269,319	-	269,319
Health insurance	8,237,919	-	8,237,919	7,252,257	-	7,252,257
Annuity insurance	48,327	4,361,372	4,409,699	52,896	5,723,340	5,776,236
Investment-linked insurance	34,800	-	34,800	49,326	-	49,326
Recover from major incident reserve	1,062	-	1,062	-	-	-
Total	$90,566,360	$5,874,099	$96,440,459	$82,654,167	$7,263,895	$89,918,062

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

Reserve for life insurance liabilities is summarized below:

	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
	NT$			NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation 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	253,330,399	668,667	253,999,066	184,789,481	14,081,748	198,871,229
Recover	(54,751,464)	(19,175,142)	(73,926,606)	(59,208,961)	(47,187,745)	(106,396,706)
(Gains) losses on foreign exchange	(825,142)	(77,528)	(902,670)	(948,786)	238,012	(710,774)
Ending balance	$2,698,877,545	$175,048,145	$2,873,925,690	$2,379,613,485	$209,127,528	$2,588,741,013

	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
	US$			US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$83,930,327	$6,497,723	$90,428,050	$78,325,173	$8,405,541	$86,730,714
Reserve	8,501,020	22,439	8,523,459	6,418,530	489,119	6,907,649
Recover	(1,837,298)	(643,461)	(2,480,759)	(2,056,581)	(1,639,032)	(3,695,613)
(Gains) losses on foreign exchange	(27,689)	(2,602)	(30,291)	(32,955)	8,267	(24,688)
Ending balance	$90,566,360	$5,874,099	$96,440,459	$82,654,167	$7,263,895	$89,918,062

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

B. Unearned premium reserve：

	June 30, 2012 NT$			June 30, 2011 NTS		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$220,078	$5	$220,083	$154,228	$3	$154,231
Individual injury insurance	4,305,959	-	4,305,959	4,147,043	-	4,147,043
Individual health insurance	5,621,541	-	5,621,541	5,239,623	-	5,239,623
Group insurance	1,042,461	-	1,042,461	1,336,605	-	1,336,605
Investment-linked insurance	113,725	-	113,725	119,621	-	119,621
Total	11,303,764	5	11,303,769	10,997,120	3	10,997,123
Less ceded unearned premium reserve:						
Individual life insurance	2,252,063	-	2,252,063	1,680,847	-	1,680,847
Individual injury insurance	4,555,818	-	4,555,818	4,590,404	-	4,590,404
Group insurance	89	-	89	(1,952)	-	(1,952)
Investment-linked insurance	1,230,482	-	1,230,482	1,306,052	-	1,306,052
Total	8,038,452	-	8,038,452	7,575,351	-	7,575,351
Net	$3,265,312	$5	$3,265,317	$3,421,769	$3	$3,421,772

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

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$7,385	$-	$7,385	$5,357	$-	$5,357
Individual injury insurance	144,495	-	144,495	144,045	-	144,045
Individual health insurance	188,643	-	188,643	181,994	-	181,994
Group insurance	34,982	-	34,982	46,426	-	46,426
Investment-linked insurance	3,816	-	3,816	4,155	-	4,155
Total	379,321	-	379,321	381,977	-	381,977
Less ceded unearned premium reserve:						
Individual life insurance	75,573	-	75,573	$58,383	-	$58,383
Individual injury insurance	152,880	-	152,880	159,444	-	159,444
Group insurance	3	-	3	(68)	-	(68)
Investment-linked insurance	41,291	-	41,291	45,365	-	45,365
Total	269,747	-	269,747	263,124	-	263,124
Net	$109,574	$-	$109,574	$118,853	$-	$118,853

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

Unearned premium reserve is summarized below:

	For the six-months ended June 30, 2012 NT$			For the six-months ended June 30, 2011 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	11,303,764	5	11,303,769	10,997,120	3	10,997,123
Recover	(12,017,977)	(4)	(12,017,981)	(11,743,204)	(2)	(11,743,206)
Ending balance	11,303,764	5	11,303,769	10,997,120	3	10,997,123
Less ceded unearned premium reserve:						
Beginning balance-Net	8,610,317	-	8,610,317	6,263,909	-	6,263,909
Increase	-	-	-	1,505,740	-	1,505,740
Decrease	(571,865)	-	(571,865)	(194,298)	-	(194,298)
Total	8,038,452	-	8,038,452	7,575,351	-	7,575,351
Ending balance-Net	$3,265,312	$5	$3,265,317	$3,421,769	$3	$3,421,772

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$403,288	$-	$403,288	$407,892	$-	$407,892
Reserve	379,321	-	379,321	381,977	-	381,977
Recover	(403,288)	-	(403,288)	(407,892)	-	(407,892)
Ending balance	379,321	-	379,321	381,977	-	381,977
Less ceded unearned premium reserve:						
Beginning balance-Net	288,937	-	288,937	217,572	-	217,572
Increase	-	-	-	52,301	-	52,301
Decrease	(19,190)	-	(19,190)	(6,749)	-	(6,749)
Total	269,747	-	269,747	263,124	-	263,124
Ending balance-Net	$109,574	$-	$109,574	$118,853	$-	$118,853

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

C. Reserve for claims：

	June 30, 2012 NT$			June 30, 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	$122,223	$3,215	$125,438	$143,477	$2,027	$145,504
－Unreported claim	41,205	-	41,205	24,190	-	24,190
Individual injury insurance						
－Reported but not paid claim	174,280	-	174,280	215,790	-	215,790
－Unreported claim	936,970	-	936,970	594,843	-	594,843
Individual health insurance						
－Reported but not paid claim	141,817	-	141,817	139,326	-	139,326
－Unreported claim	1,452,833	-	1,452,833	1,173,176	-	1,173,176
Group insurance						
－Reported but not paid claim	44,765	-	44,765	22,380	-	22,380
－Unreported claim	1,176,644	-	1,176,644	1,208,382	-	1,208,382
Investment-linked insurance						
－Reported but not paid claim	13,393	-	13,393	43,526	-	43,526
Total	4,104,130	3,215	4,107,345	3,565,090	2,027	3,567,117
Less ceded reserve for claims:						
Individual injury insurance	742,679	-	742,679	579,539	-	579,539
Net	$3,361,451	$3,215	$3,364,666	$2,985,551	$2,027	$2,987,578

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to unaudited consolidated financial statements-continued

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

For the six-month periods ended June 30, 2012 and 2011

	June 30, 2012 US$			June 30, 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	$4,101	$108	$4,209	$4,984	$70	$5,054
—Unreported claim	1,383	-	1,383	840	-	840
Individual injury insurance						
— Reported but not paid claim	5,849	-	5,849	7,495	-	7,495
—Unreported claim	31,441	-	31,441	20,662	-	20,662
Individual health insurance						
— Reported but not paid claim	4,759	-	4,759	4,840	-	4,840
—Unreported claim	48,753	-	48,753	40,749	-	40,749
Group insurance						
— Reported but not paid claim	1,502	-	1,502	777	-	777
—Unreported claim	39,485	-	39,485	41,972	-	41,972
Investment-linked insurance						
— Reported but not paid claim	449	-	449	1,512	-	1,512
Total	137,722	108	137,830	123,831	70	123,901
Less ceded reserve for claims:						
Individual injury insurance	24,922	-	24,922	20,130	-	20,130
Net	$112,800	$108	$112,908	103,701	$70	$103,771

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

Reserve for claims is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,875,488	$3,242	$3,878,730	$3,444,087	$211	$3,444,298
Reserve	4,104,127	3,215	4,107,342	3,565,090	2,027	3,567,117
Recover	(3,875,488)	(3,242)	(3,878,730)	(3,444,087)	(211)	(3,444,298)
Losses on foreign exchange	3	-	3	-	-	-
Ending balance	4,104,130	3,215	4,107,345	3,565,090	2,027	3,567,117
Less ceded reserve for claims:						
Beginning balance-Net	549,591	-	549,591	497,707	-	497,707
Increase	193,088	-	193,088	81,832	-	81,832
Total	742,679	-	742,679	579,539	-	579,539
Net	$3,361,451	$3,215	$3,364,666	$2,985,551	$2,027	$2,987,578

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$130,050	$109	$130,159	$119,628	$7	$119,635
Reserve	137,722	108	137,830	123,831	70	123,901
Recover	(130,050)	(109)	(130,159)	(119,628)	(7)	(119,635)
Losses on foreign exchange	-	-	-	-	-	-
Ending balance	137,722	108	137,830	123,831	70	123,901
Less ceded reserve for claims:						
Beginning balance-Net	18,443	-	18,443	17,288	-	17,288
Increase	6,479	-	6,479	2,842	-	2,842
Total	24,922	-	24,922	20,130	-	20,130
Net	$112,800	$108	$112,908	$103,701	$70	$103,771

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

D. Special reserve：

	June 30, 2012 NT$				June 30, 2011 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	$76,531	$-	$-	$76,531	$124,126	$-	$-	$124,126
Individual injury insurance	1,109,116	-	-	1,109,116	2,436,862	-	-	2,436,862
Individual health insurance	1,842,498	-	-	1,842,498	3,763,752	-	-	3,763,752
Group insurance	1,394,244	-	-	1,394,244	3,279,615	-	-	3,279,615
Participating policies dividends reserve	985	-	-	985	(905)	-	-	(905)
Dividends risk reserve	-	-	-	-	905	-	-	905
Total	$4,423,374	$-	$-	$4,423,374	$9,604,355	$-	$-	$9,604,355

	June 30, 2012 US$				June 30, 2011 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	$2,568	$-	$-	$2,568	$4,311	$-	$-	$4,311
Individual injury insurance	37,218	-	-	37,218	84,643	-	-	84,643
Individual health insurance	61,829	-	-	61,829	130,731	-	-	130,731
Group insurance	46,787	-	-	46,787	113,915	-	-	113,915
Participating policies dividends reserve	33	-	-	33	(31)	-	-	(31)
Dividends risk reserve	-	-	-	-	31	-	-	31
Total	$148,435	$-	$-	$148,435	$333,600	$-	$-	$333,600

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

Special reserve is summarized below:

	For the six months ended June 30, 2012				For the six months ended June 30, 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	(31,646)	-	-	(31,646)	(84,961)	-	-	(84,961)
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	(569,592)	-	-	(569,592)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(57,371)	-	-	(57,371)	(298,037)	-	-	(298,037)
Reserves for participating policies dividends reserve	1,079	-	-	1,079	270	-	-	270
Recovery from participating policies dividends reserve	(321)	-	-	(321)	(285)	-	-	(285)
Reserves for dividends risk reserve	-	-	-	-	15	-	-	15
Reclassify to foreign exchange volatility reserve	(4,511,406)	-	-	(4,511,406)	-	-	-	-
Ending balance	$4,423,374	$-	$-	$4,423,374	$9,604,355	$-	$-	$9,604,355

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

	For the six months ended June 30, 2012				For the six months ended June 30, 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	$302,787	$-	$-	$302,787	$366,688	$-	$-	$366,688
Reserves for major incidents over 15 years	(1,062)	-	-	(1,062)	(2,951)	-	-	(2,951)
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	(19,784)	-	-	(19,784)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(1,925)	-	-	(1,925)	(10,352)	-	-	(10,352)
Reserves for participating policies dividends reserve	36	-	-	36	9	-	-	9
Recovery from participating policies dividends reserve	(11)	-	-	(11)	(10)	-	-	(10)
Reserves for dividends risk reserve	-	-	-	-	-	-	-	-
Reclassify to foreign exchange volatility reserve	(151,390)	-	-	(151,390)	-	-	-	-
Ending balance	$148,435	$-	$-	$148,435	$333,600	$-	$-	$333,600

E. Premium deficiency reserve：

	June 30, 2012			June 30, 2011		
	NT$			NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$14,411,530	$-	$14,411,530	$11,068,939	$-	$11,068,939
Individual health insurance	675,737	-	675,737	643,079	-	643,079
Group insurance	45,222	-	45,222	56,944	-	56,944
Total	$15,132,489	$-	$15,132,489	$11,768,962	$-	$11,768,962

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

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$483,608	$-	$483,608	$384,472	$-	$384,472
Individual health insurance	22,676	-	22,676	22,337	-	22,337
Group insurance	1,518	-	1,518	1,978	-	1,978
Total	$507,802	$-	$507,802	$408,787	$-	$408,787

Premium deficiency reserve is summarized below:

	For the six months end June 30, 2012 NT$			For the six months end June 30, 2011 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	1,583,951	-	1,583,951	2,175,369	-	2,175,369
Recover	-	-	-	(418,216)	-	(418,216)
Gains on foreign exchange	(51,189)	-	(51,189)	(52,292)	-	(52,292)
Ending balance	$15,132,489	$-	$15,132,489	$11,768,962	$-	$11,768,962

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

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$456,367	$-	$456,367	$349,569	$-	$349,569
Reserve	53,153	-	53,153	75,560	-	75,560
Recover	-	-	-	(14,526)	-	(14,526)
Gains on foreign exchange	(1,718)	-	(1,718)	(1,816)	-	(1,816)
Ending balance	$507,802	$-	$507,802	$408,787	$-	$408,787

F. Liability adequacy reserve

	June 30, 2012 (NT$)	June 30, 2012 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,873,925,690	$96,440,459
Unearned premium reserve	11,303,769	379,321
Premium deficiency reserve	15,132,489	507,802
Total	$2,900,361,948	$97,327,582
Book value of insurance liabilities	$2,900,361,948	$97,327,582
Estimated present value of cash flows	$2,154,345,445	$72,293,471
Balance of liability adequacy reserve	$-	$-

	June 30, 2011 (NT$)	June 30, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,588,741,013	$89,918,062
Unearned premium reserve	10,997,123	381,977
Premium deficiency reserve	11,768,962	408,787
Total	$2,611,507,098	$90,708,826
Book value of insurance liabilities	$2,611,507,098	$90,708,826
Estimated present value of cash flows	$2,140,100,563	$74,334,858
Balance of liability adequacy reserve	$-	$-

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

Note 2: Reserve for claims and special reserve are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date (June 30, 2012 and 2011, respectively) and therefore not included in the test.

Note 3: There are no instances of merge or transfer of insurance contract for the Company. 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：

	June 30, 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 June 30, 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.

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

	June 30, 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 June 30, 2011. (2) Discount rate：Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2010, with neutral assumption for discount rates after 30 years.

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

The Company issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of June 30, 2012 and 2011, reserve for insurance contract with feature of financial instruments is summarized below:

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Life insurance	$58,860,165	$1,975,173	$61,633,530	$2,140,797

	For the six months ended June 30,2012	For the six months ended June 30,2011
	NT$	NT$
Beginning balance	$60,624,750	$55,083,797
Premiums (returned) received	(5,029)	6,759,710
Insurance claim payments	(2,394,369)	(895,530)
Net provision of statutory reserve	634,813	685,553
Ending balance	$58,860,165	$61,633,530

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

	For the six months ended June 30,2012 US$	For the six months ended June 30,2011 US$
Beginning balance	$2,034,388	$1,913,296
Premiums (returned) received	(169)	234,794
Insurance claim payments	(80,348)	(31,105)
Net provision of statutory reserve	21,302	23,812
Ending balance	$1,975,173	$2,140,797

(2) Cathay Life (China)

A. Reserve for life insurance liabilities：

	June 30, 2012 NT$			June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$2,450,082	$-	$2,450,082	$2,478,503	$-	$2,478,503
Health insurance	12,330	-	12,330	(3,038)	-	(3,038)
Investment-linked insurance	50,777	-	50,777	19,406	-	19,406
Total	$2,513,189	$-	$2,513,189	$2,494,871	$-	$2,494,871

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$82,217	$-	$82,217	$86,089	$-	$86,089
Health insurance	414	-	414	(105)	-	(105)
Investment-linked insurance	1,704	-	1,704	674	-	674
Total	$84,335	$-	$84,335	$86,658	$-	$86,658

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

Reserve for life insurance liabilities is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,481,498	$-	$2,481,498	$3,083,702	$-	$3,083,702
Reserve	398,754	-	398,754	229,654	-	229,654
Recover	(312,016)	-	(312,016)	(844,197)	-	(844,197)
(Gains) losses on foreign exchange	(55,047)	-	(55,047)	25,712	-	25,712
Ending balance	$2,513,189	$-	$2,513,189	$2,494,871	$-	$2,494,871

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$83,271	$-	$83,271	$107,110	$-	$107,110
Reserve	13,381	-	13,381	7,977	-	7,977
Recover	(10,470)	-	(10,470)	(29,322)	-	(29,322)
(Gains) losses on foreign exchange	(1,847)	-	(1,847)	893	-	893
Ending balance	$84,335	$-	$84,335	$86,658	$-	$86,658

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

B. Unearned premium reserve：

	June 30, 2012 NT$			June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$6,833	$-	$6,833	$6,498	$-	$6,498
Individual health insurance	628	-	628	598	-	598
Group insurance	226,646	-	226,646	217,068	-	217,068
Total	234,107	-	234,107	224,164	-	224,164
Less ceded unearned premium reserve:						
Individual life insurance	61	-	61	58	-	58
Individual injury insurance	67	-	67	63	-	63
Individual health insurance	2,881	-	2,881	2,719	-	2,719
Group insurance	4,199	-	4,199	3,962	-	3,962
Total	7,208	-	7,208	6,802	-	6,802
Net	$226,899	$-	$226,899	$217,362	$-	$217,362

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to unaudited consolidated financial statements-continued

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

For the six-month periods ended June 30, 2012 and 2011

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$229	$-	$229	$225	$-	$225
Individual health insurance	21	-	21	21	-	21
Group insurance	7,606	-	7,606	7,540	-	7,540
Total	7,856	-	7,856	7,786	-	7,786
Less ceded unearned premium reserve:						
Individual life insurance	2	-	2	2	-	2
Individual injury insurance	2	-	2	2	-	2
Individual health insurance	96	-	96	94	-	94
Group insurance	141	-	141	138	-	138
Total	241	-	241	236	-	236
Net	$7,615	$-	$7,615	$7,550	$-	$7,550

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

Unearned premium reserve is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 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	110,322	-	110,322	52,076	-	52,076
Recover	(109,631)	-	(109,631)	(41,070)	-	(41,070)
(Gains) losses on foreign exchange	(5,302)	-	(5,302)	1,669	-	1,669
Ending balance	234,107	-	234,107	224,164	-	224,164
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	(163)	-	(163)	53	-	53
Total	7,208	-	7,208	6,802	-	6,802
Ending balance-Net	$226,899	$-	$226,899	$217,362	$-	$217,362

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$8,011	$-	$8,011	$7,346	$-	$7,346
Reserve	3,702	-	3,702	1,809	-	1,809
Recover	(3,679)	-	(3,679)	(1,427)	-	(1,427)
(Gains) losses on foreign exchange	(178)	-	(178)	58	-	58
Ending balance	7,856	-	7,856	7,786	-	7,786
Less ceded unearned premium reserve:						
Beginning balance-Net	246	-	246	234	-	234
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
(Losses) gains on foreign exchange	(5)	-	(5)	2	-	2
Total	241	-	241	236	-	236
Ending balance-Net	$7,615	$-	$7,615	$7,550	$-	$7,550

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

C. Reserve for claims：

	June 30, 2012 NT$			June 30, 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	$2,918	$-	$2,918	$1,902	$-	$1,902
－Unreported claim	2,374	-	2,374	1,547	-	1,547
Individual injury insurance						
－Reported but not paid claim	3,638	-	3,638	2,371	-	2,371
－Unreported claim	3,041	-	3,041	1,981	-	1,981
Individual health insurance						
－Reported but not paid claim	3,307	-	3,307	2,155	-	2,155
－Unreported claim	7,419	-	7,419	4,835	-	4,835
Group insurance						
－Reported but not paid claim	66,611	-	66,611	43,409	-	43,409
－Unreported claim	330,953	-	330,953	215,677	-	215,677
Total	420,261	-	420,261	273,877	-	273,877
Less ceded reserve for claims:						
Individual health insurance	526	-	526	1,091	-	1,091
Net	$419,735	$-	$419,735	$272,786	$-	$272,786

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to unaudited consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
For the six-month periods ended June 30, 2012 and 2011

	June 30, 2012 US$			June 30, 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	$98	$-	$98	$66	$-	$66
－Unreported claim	80	-	80	54	-	54
Individual injury insurance						
－Reported but not paid claim	122	-	122	82	-	82
－Unreported claim	102	-	102	69	-	69
Individual health insurance						
－Reported but not paid claim	111	-	111	75	-	75
－Unreported claim	249	-	249	168	-	168
Group insurance						
－Reported but not paid claim	2,235	-	2,235	1,508	-	1,508
－Unreported claim	11,106	-	11,106	7,491	-	7,491
Total	14,103	-	14,103	9,513	-	9,513
Less ceded reserve for claims:						
Individual health insurance	18	-	18	38	-	38
Net	$14,085	$-	$14,085	$9,475	$-	$9,475

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

Reserve for claims is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 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	563,743	-	563,743	289,581	-	289,581
Recover	(554,712)	-	(554,712)	(228,033)	-	(228,033)
(Gains) losses on foreign exchange	(9,334)	-	(9,334)	1,573	-	1,573
Ending balance	420,261	-	420,261	273,877	-	273,877
Less ceded reserve for claims:						
Beginning balance-Net	1,178	-	1,178	1,082	-	1,082
Increase	-	-	-	-	-	-
Decrease	(625)	-	(625)	-	-	-
(Losses) gains on foreign exchange	(27)	-	(27)	9	-	9
Total	526	-	526	1,091	-	1,091
Net	$419,735	$-	$419,735	$272,786	$-	$272,786

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$14,113	$-	$14,113	7,320	$-	7,320
Reserve	18,918	-	18,918	10,058	-	10,058
Recover	(18,615)	-	(18,615)	(7,920)	-	(7,920)
(Gains) losses on foreign exchange	(313)	-	(313)	55	-	55
Ending balance	14,103	-	14,103	9,513	-	9,513
Less ceded reserve for claims:						
Beginning balance-Net	40	-	40	38	-	38
Increase	-	-	-	-	-	-
Decrease	(21)	-	(21)	-	-	-
(Losses) gains on foreign exchange	(1)	-	(1)	-	-	-
Total	18	-	18	38	-	38
Net	$14,085	$-	$14,085	$9,475	$-	$9,475

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

D. Liability adequacy reserve

	June 30, 2012 (NT$)	June 30, 2012 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,513,189	$84,335
Unearned premium reserve	234,107	7,856
Total	$2,747,296	$92,191
Book value of insurance liabilities	$2,747,296	$92,191
Estimated present value of cash flows	$2,355,202	$79,034
Balance of liability adequacy reserve	$-	$-

	June 30, 2011 (NT$)	June 30, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,494,871	$86,658
Unearned premium reserve	224,164	7,786
Total	$2,719,035	$94,444
Book value of insurance liabilities	$2,719,035	$94,444
Estimated present value of cash flows	$2,316,180	$80,451
Balance of liability adequacy reserve	$-	$-

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

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 (June 30, 2012 and 2011, respectively) and therefore not included in the test.

Note 3： There are no instances of merge or transfer of insurance contract 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：

	June 30, 2012
Test method	Gross premium valuation method (GPV)
Groups	Testing based on products feature
Assumptions	Discount rate：Discount rates for traditional insurance contracts are calculated using ROI of the year end, 2011, which agreed with yearly report.

	June 30, 2011
Test method	Gross premium valuation method (GPV)
Groups	Testing based on products feature
Assumptions	Discount rate：Discount rates for traditional insurance contracts are calculated using ROI of the year end, 2010, which agreed with yearly report.

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 June 30, 2012 and 2011, reserve for insurance contract with feature of financial instruments is summarized below:

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

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Life insurance	$5,411,968	$181,610	$6,288,354	$218,421

	For the six months ended June 30,2012 NT$	For the six months ended June 30,2011 NT$
Beginning balance	$6,259,962	$5,518,921
Premiums received	1,250,659	1,194,310
Insurance claim payments	(704,984)	(574,800)
Net provision of statutory reserve	(1,254,013)	107,138
(Gains) losses on foreign exchange	(139,656)	42,785
Ending balance	$5,411,968	$6,288,354

	For the six months ended June 30,2012 US$	For the six months ended June 30,2011 US$
Beginning balance	$210,066	$191,696
Premiums received	41,968	41,483
Insurance claim payments	(23,657)	(19,965)
Net provision of statutory reserve	(42,081)	3,721
(Gains) losses on foreign exchange	(4,686)	1,486
Ending balance	$181,610	$218,421

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities：

	June 30, 2012 NT$			June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$262,299	$-	$262,299	$155,122	$-	$155,122
Investment – linked insurance	5	-	5	-	-	-
	$262,304	$-	$262,304	$155,122	$-	$155,122

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

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$8,802	-	$8,802	$5,387	$-	$5,387
Investment – linked insurance	-	-	-	-	-	-
	$8,802	-	$8,802	$5,387	$-	$5,387

Reserve for life insurance liabilities is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$231,165	$-	$231,165	$118,431	$-	$118,431
Reserve	32,636	-	32,636	45,431	-	45,431
Recover	-	-	-	-	-	-
Gains on foreign exchange	(1,497)	-	(1,497)	(8,740)	-	(8,740)
Ending balance	$262,304	$-	$262,304	$155,122	$-	$155,122

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$7,757	$-	$7,757	$4,113	$-	$4,113
Reserve	1,095	-	1,095	1,578	-	1,578
Recover	-	-	-	-	-	-
Gains on foreign exchange	(50)	-	(50)	(304)	-	(304)
Ending balance	$8,802	$-	$8,802	$5,387	$-	$5,387

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

B. Unearned premium reserve：

	June 30, 2012 NT$			June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$1,264	$-	$1,264	$1,117	$-	$1,117
Individual health insurance	1,237	-	1,237	978	-	978
Total	$2,501	$-	$2,501	$2,095	$-	$2,095

	June 30, 2012 US$			June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$42	$-	$42	$39	$-	$39
Individual health insurance	42	-	42	34	-	34
Total	$84	$-	$84	$73	$-	$73

Unearned premium reserve is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 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	-	-	-	173	-	173
Recover	(806)	-	(806)	-	-	-
Gains on foreign exchange	(27)	-	(27)	(139)	-	(139)
Ending balance	$2,501	$-	$2,501	$2,095	$-	$2,095

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

	For the six months ended June 30, 2012 US$			For the six months ended June 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	112	$-	112	$72	$-	$72
Reserve	-	-	-	6	-	6
Recover	(27)	-	(27)	-	-	-
Gains on foreign exchange	(1)	-	(1)	(5)	-	(5)
Ending balance	$84	$-	$84	$73	$-	$73

C. Reserve for claims：

	June 30, 2012 NT$			June 30, 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	$395	$-	$395	$242	$-	$242
－Unreported claim	-	-	-	-	-	-
Individual injury insurance						
－Reported but not paid claim	138	-	138	3	-	3
－Unreported claim	157	-	157	125	-	125
Individual health insurance						
－Reported but not paid claim	379	-	379	22	-	22
－Unreported claim	153	-	153	61	-	61
Total	$1,222	$-	$1,222	$453	$-	$453

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

	June 30, 2012 US$			June 30, 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	$13	$-	$13	$9	$-	$9
—Unreported claim	-	-	-	-	-	-
Individual injury insurance						
—Reported but not paid claim	5	-	5	-	-	-
—Unreported claim	5	-	5	4	-	4
Individual health insurance						
—Reported but not paid claim	13	-	13	1	-	1
—Unreported claim	5	-	5	2	-	2
Total	$41	$-	$41	$16	$-	$16

Reserve for claims is summarized below:

	For the six months ended June 30, 2012 NT$			For the six months ended June 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$789	$-	$789	$545	$-	$545
Reserve	436	-	436	-	-	-
Recover	-	-	-	(57)	-	(57)
Gains on foreign exchange	(3)	-	(3)	(35)	-	(35)
Ending balance	$1,222	$-	$1,222	$453	$-	$453

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

	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
	US$			US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$26	$-	$26	$19	$-	$19
Reserve	15	-	15	-	-	-
Recover	-	-	-	(2)	-	(2)
Gains on foreign exchange	-	-	-	(1)	-	(1)
Ending balance	$41	$-	$41	$16	$-	$16

D. Special reserve：

	June 30, 2012				June 30, 2011			
	NT$				NT$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	$529	$-	$-	$529	$516	$-	$-	$516

	June 30, 2012				June 30, 2011			
	US$				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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to unaudited consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
For the six-month periods ended June 30, 2012 and 2011

Special reserve is summarized below:

	For the six months ended June 30, 2012				For the six months ended June 30, 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	$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 for participating policies dividends reserve	-	-	-	-	-	-	-	-
Recovery from participating policies dividends reserve	-	-	-	-	-	-	-	-
Reserves for dividends risk reserve	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Gains on foreign exchange	(4)	-	-	(4)	(35)	-	-	(35)
Ending balance	$529	$-	$-	$529	$516	$-	$-	$516

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

	For the six months ended June 30, 2012 US$				For the six months ended June 30, 2011 US$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
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 for participating policies dividends reserve	-	-	-	-	-	-	-	-
Recovery from participating policies dividends reserve	-	-	-	-	-	-	-	-
Reserves for dividends risk reserve	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Gains on foreign exchange	-	-	-	-	(1)	-	-	(1)
Ending balance	$18	$-	$-	$18	$18	$-	$-	$18

E. Liability adequacy reserve

	June 30, 2012 (NT$)	June 30, 2012 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$262,304	$8,802
Unearned premium reserve	2,501	84
Total	$264,805	$8,886
Book value of insurance liabilities	$264,805	$8,886
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	$-	$-

	June 30, 2011 (NT$)	June 30, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$155,122	$5,387
Unearned premium reserve	2,095	73
Total	$157,217	$5,460
Book value of insurance liabilities	$157,217	$5,460
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	$-	$-

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

Note2： Outstanding reserve for claims (NT$1,222 (US$41) thousands) and special reserve (NT$529 (US$18) thousands) are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date (June 30, 2012 and 2011, respectively) and therefore 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 estimated present value of cash flows for conservative approach.

Note 4： Extended contracts are calculated based on maximum possibility of loss, which assumes immediate 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 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.

20. Common stock

As of June 30, 2012 and 2011, the total authorized thousand shares were both 5,306,527 at par value of NT$10.

21. Retained earnings

(1) Legal reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. Prior to 2007, this legal reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act.

On April 24, 2012, the Company's Board of Directors resolved to recognize the legal reserves NT$91,176 (US$3,059) thousands.

(2) Special reserve

Pursuant to the regulations established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special claim reserves for contingency according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" are appropriated as special reserve when approved by stockholders' meeting in the following year.

For special reserves, the balance of the annual reserve net of tax needs to be recorded in special reserve under equity since January of 2011 according to SFAS No. 22.

According to article 17 of "Regulations Governing the Acquisition and Disposal of Assets by Public Companies", when the company acquires real estates from its related parties, the differences between transaction price and valuation cost should be recognized as special reserve.

In addition, the full amount of special reserves for fluctuation of risks in liability should be recognized and recorded in special reserve next year after approved by shareholders; it should not be used for other purposes and distributed if not been approved by the authority.

On April 24, 2012, the Company's Board of Directors resolved to use the special reserves to offset the cumulative deficits amounting to NT$1,120,208 (US$37,591) thousands after recognizing special reserves NT$1,484,912 (US$49,829) thousands. The resolution was authorized by Financial Supervisory Commission on April 9, 2012.

(3) Undistributed retained earnings

A. According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve and special reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 2% of the aforementioned amount should be distributed as the employee bonus.

B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

C. 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 losses of financial instruments expect for the special reserve since 2007.

D. The employee bonus and remuneration of directors for the six months ended June 30, 2012 and 2011, amounting to NT$ 0 (US$ 0) thousands and NT$ 10,000 (US$347) thousands, respectively, was accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.

E. The Company's distribution of 2011 retained earnings has been approved by the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

F. Special reserves for major incidents and special reserves for fluctuation of risks should be recorded as special reserve under equity at the end of this year. As of June 30, 2012, the reserves amounted to NT$828,317 (US$27,796) thousands.

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

22. Retained earned premium

(1) The Company

	For the six months ended June 30,2012 NT$			For the six months ended June 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$250,760,881	$6,033,005	$256,793,886	$183,461,689	$19,980,991	$203,442,680
Reinsurance premium income	92,309	-	92,309	98,896	-	98,896
Premiums income	250,853,190	6,033,005	256,886,195	183,560,585	19,980,991	203,541,576
Less：						
Reinsurance premiums ceded	(13,822,673)	-	(13,822,673)	(10,206,119)	-	(10,206,119)
Changes in unearned premium reserve	142,348	(1)	142,347	2,057,526	(1)	2,057,525
Subtotal	(13,680,325)	(1)	(13,680,326)	(8,148,593)	(1)	(8,148,594)
Retained earned premium	$237,172,865	$6,033,004	$243,205,869	$175,411,992	$19,980,990	$195,392,982

	For the six months ended June 30,2012 US$			For the six months ended June 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$8,414,794	$202,450	$8,617,244	$6,372,410	$694,026	$7,066,436
Reinsurance premium income	3,098	-	3,098	3,435	-	3,435
Premiums income	8,417,892	202,450	$8,620,342	6,375,845	694,026	7,069,871
Less：						
Reinsurance premiums ceded	(463,848)	-	(463,848)	(354,502)	-	(354,502)
Changes in unearned premium reserve	4,777	-	4,777	71,466	-	71,466
Subtotal	(459,071)	-	(459,071)	(283,036)	-	(283,036)
Retained earned premium	$7,958,821	$202,450	$8,161,271	$6,092,809	$694,026	$6,786,835

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to unaudited consolidated financial statements-continued

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

For the six-month periods ended June 30, 2012 and 2011

(2)Cathay life (China)

	For the six months ended June 30,2012 NT$			For the six months ended June 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$1,026,821	$-	$1,026,821	$1,088,071	$-	$1,088,071
Reinsurance premium income	-	-	-	-	-	-
Premiums income	1,026,821	-	1,026,821	1,088,071	-	1,088,071
Less：						
Reinsurance premiums ceded	(7,255)	-	(7,255)	(4,742)	-	(4,742)
Changes in unearned premium reserve	(691)	-	(691)	(11,006)	-	(11,006)
Subtotal	(7,946)	-	(7,946)	(15,748)	-	(15,748)
Retained earned premium	$1,018,875	$-	$1,018,875	$1,072,323	$-	$1,072,323

	For the six months ended June 30,2012 US$			For the six months ended June 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$34,457	$-	$34,457	$37,793	$-	$37,793
Reinsurance premium income	-	-	-	-	-	-
Premiums income	34,457	-	34,457	37,793	-	37,793
Less：						
Reinsurance premiums ceded	(244)	-	(244)	(165)	-	(165)
Changes in unearned premium reserve	(23)	-	(23)	(382)	-	(382)
Subtotal	(267)	-	(267)	(547)	-	(547)
Retained earned premium	$34,190	$-	$34,190	$37,246	$-	$37,246

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

(3) Cathay life (Vietnam)

	For the six months ended June 30,2012 NT$			For the six months ended June 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$85,240	$-	$85,240	$98,009	$-	$98,009
Reinsurance premium income	-	-	-	-	-	-
Premiums income	85,240	-	85,240	98,009	-	98,009
Less：						
Reinsurance premiums ceded	-	-	-	-	-	-
Changes in unearned premium reserve	(806)	-	(806)	(173)	-	(173)
Subtotal	(806)	-	(806)	(173)	-	(173)
Retained earned premium	$84,434	$-	$84,434	$97,836	$-	$97,836

	For the six months ended June 30,2012 US$			For the six months ended June 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$2,861	$-	$2,861	$3,404	$-	$3,404
Reinsurance premium income	-	-	-	-	-	-
Premiums income	2,861	-	2,861	3,404	-	3,404
Less：						
Reinsurance premiums ceded	-	-	-	-	-	-
Changes in unearned premium reserve	(27)	-	(27)	(6)	-	(6)
Subtotal	(27)	-	(27)	(6)	-	(6)
Retained earned premium	$2,834	$-	$2,834	$3,398	$-	$3,398

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

23. Retained claim payment

(1) The Company

	For the six months ended June 30,2012 NT$			For the six months ended June 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$81,236,202	$26,978,959	$108,215,161	$78,783,767	$55,200,096	$133,983,863
Reinsurance claim payments	66,509	-	66,509	53,435	-	53,435
Insurance claim payments	81,302,711	26,978,959	108,281,670	78,837,202	55,200,096	134,037,298
Less：						
Claims recovered from reinsures	(5,480,500)	-	(5,480,500)	(3,743,757)	-	(3,743,757)
Retained claim payment	$75,822,211	$26,978,959	$102,801,170	$75,093,445	$55,200,096	$130,293,541

	For the six months ended June 30,2012 US$			For the six months ended June 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$2,726,047	$905,334	$3,631,381	$2,736,497	$1,917,336	$4,653,833
Reinsurance claim payments	2,232	-	2,232	1,856	-	1,856
Insurance claim payments	2,728,279	905,334	3,633,613	2,738,353	1,917,336	4,655,689
Less：						
Claims recovered from reinsures	(183,909)	-	(183,909)	(130,037)	-	(130,037)
Retained claim payment	$2,544,370	$905,334	$3,449,704	$2,608,316	$1,917,336	$4,525,652

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

(2) Cathay life (China)

	For the six months ended June 30,2012 NT$			For the six months ended June 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$679,348	$-	$679,348	$745,176	$-	$745,176
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	679,348	-	679,348	745,176	-	745,176
Less：						
Claims recovered from reinsures	(8,004)	-	(8,004)	-	-	-
Retained claim payment	$671,344	$-	$671,344	$745,176	$-	$745,176

	For the six months ended June 30,2012 US$			For the six months ended June 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$22,797	$-	$22,797	$25,884	$-	$25,884
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	22,797	-	22,797	25,884	-	25,884
Less：						
Claims recovered from reinsures	(269)	-	(269)	-	-	-
Retained claim payment	$22,528	$-	$22,528	$25,884	$-	$25,884

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

(3) Cathay life (Vietnam)

	For the six months ended June 30,2012 NT$			For the six months ended June 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$12,419	$-	$12,419	$8,433	$-	$8,433
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	12,419	-	12,419	8,433	-	8,433
Less：						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payment	$12,419	$-	$12,419	$8,433	$-	$8,433

	For the six months ended June 30,2012 US$			For the six months ended June 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$417	$-	$417	$293	$-	$293
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	417	-	417	293	-	293
Less：						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payment	$417	$-	$417	$293	$-	$293

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

24. Personnel expense、depreciation and amortizations – The Company and Subsidiaries

Item	For the six months ended June 30, 2012 (NT$)			For the six months ended June 30, 2012 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$5,878,136	$1,367,302	$7,245,438	$197,253	$45,883	$243,136
Labor & health insurance expenses	825,185	163,369	988,554	27,691	5,482	33,173
Pension expenses	559,197	103,751	662,948	18,765	3,482	22,247
Other expenses	703,314	164,213	867,527	23,601	5,511	29,112
Depreciation	21,244	1,165,909	1,187,153	713	39,124	39,837
Amortizations	347	50,681	51,028	11	1,701	1,712

Item	For the six months ended June 30, 2011 (NT$)			For the six months ended June 30, 2011 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$6,818,578	$1,366,981	$8,185,559	$236,838	$47,481	$284,319
Labor & health insurance expenses	828,483	156,260	984,743	28,777	5,427	34,204
Pension expenses	512,369	90,472	602,841	17,797	3,142	20,939
Other expenses	637,934	163,205	801,139	22,158	5,669	27,827
Depreciation	27,947	1,186,322	1,214,269	971	41,206	42,177
Amortizations	398	80,997	81,395	14	2,813	2,827

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

25. Estimated income taxes

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

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Total deferred tax assets	$16,273,081	$546,077	$21,136,733	$734,169
Total deferred tax liabilities	$(2,238)	$(75)	$(3,936,489)	$(136,731)
Allowance for deferred tax assets	$(770,480)	$(25,855)	$(648,205)	$(22,515)
Temporary differences:				
Pension expense	$253,890	$8,520	$226,041	$7,851
Unrealized foreign exchange losses	9,854,710	330,695	15,764,826	547,580
Losses (gains) from valuation on financial assets and liabilities	944,111	31,682	(3,932,701)	(136,600)
Impairment losses	221,499	7,433	221,499	7,694
Unrealized bad debt losses	77,461	2,599	77,483	2,691
Others	8,403	282	4,252	148
Total	$11,360,074	$381,211	$12,361,400	$429,364
Loss carryforwards	$6,189,026	$207,685	$5,489,346	$190,668
Tax effect under consolidated income tax system	$(1,297,252)	$(43,532)	$(702,065)	$(24,386)
Deferred income tax assets of foreign branches	$(2,238)	$(75)	$13,928	$484
Investment tax credits	$21,233	$713	$37,635	$1,307

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Deferred tax assets	$16,273,081	$546,077	$21,136,733	$734,169
Allowance for deferred tax assets	(770,480)	(25,855)	(648,205)	(22,515)
Deferred tax assets-Net	15,502,601	520,222	20,488,528	711,654
Deferred tax liabilities	(2,238)	(75)	(3,936,489)	(136,731)
Net offset balance of deferred tax assets	$15,500,363	$520,147	$16,552,039	$574,923

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

(2) Income tax benefit included the following:

	For the six months ended June 30,			
	2012		2011	
	NT$	US$	NT$	US$
Tax expenses before adjusting temporary and other differences	$6,296	$211	$5,893,498	$204,706
Deferred income tax (benefit) expenses:				
Unrealized foreign exchange gains	(1,847,514)	(61,997)	(978,984)	(34,004)
Unrealized financial instruments valuation losses (gains)	1,376,398	46,188	(7,447,891)	(258,697)
Unrealized pension benefit	(20,087)	(674)	(7,760)	(270)
Loss carryforwards	(595,187)	(19,973)	-	-
Allowance for deferred tax assets	14,027	471	-	-
Others	15	1	20	1
Prior year adjustment	298,460	10,016	75,689	2,629
Withholding tax for overseas investments	9,334	313	-	-
Tax effect under basic tax systems	55,517	1,863	-	-
Investment tax credit	-	-	(57)	(2)
Tax effect under consolidated income tax systems	186,683	6,264	-	-
Total income tax benefit	$(516,058)	$(17,317)	$(2,465,485)	$(85,637)

(3) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal year 2006. Due to disagreements on premiums on bonds investment amortized to interest revenue, the Company has filed appeals for fiscal year of 2002 through 2006.

Symphox Information's income tax returns have been assessed by the Tax Authorities up to fiscal year 2009.

(4) Information related to imputation-The Company and Subsidiaries

A. Balance of imputation credit account

	June 30,			
	2012		2011	
	NT$	US$	NT$	US$
The Company	$4,060,149	$136,247	$2,964,442	$102,968
Symphox Information	5,900	198	2,089	73

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

B. Imputation credit account ratio

	For the six months ended June 30,	
	2012 (Actual)	2011 (Actual)
The Company	20.48%	-(Note)
Symphox Information	20.48%	20.48%

Note: The imputation credit account ratio was inapplicable due to the Company's cumulative deficits of 2010.

(5) Information related to undistributed earnings

	June 30,			
	2012		2011	
Year	NT$	US$	NT$	US$
After 1998	$-	$-	$-	$-

Net income (loss) for the six months ended June 30, 2012 and 2011 were excluded from the undistributed earnings after year 1998.

26.Earnings per share

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the six-month period	Before tax	After tax	(denominator)	Before tax	After tax
ended June 30, 2012	NT$	NT$	(thousand shares)	NT$	NT$
Consolidated loss	$(2,015,752)	$(1,499,694)	5,306,527	$(0.38)	$(0.28)

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the six-month period	Before tax	After tax	(denominator)	Before tax	After tax
ended June 30, 2012	US$	US$	(thousand shares)	US$	US$
Consolidated loss	$(67,642)	$(50,325)	5,306,527	$(0.01)	$(0.01)

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the six-month period	Before tax	After tax	(denominator)	Before tax	After tax
ended June 30, 2011	NT$	NT$	(thousand shares)	NT$	NT$
Consolidated (loss) income	$(1,350,081)	$1,115,404	5,306,527	$(0.25)	$0.21

For the six-month period ended June 30, 2011	Amount (numerator) Before tax US$	Amount (numerator) After tax US$	Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars) Before tax US$	Earnings per share (In dollars) After tax US$
Consolidated (loss) income	$(46,894)	$38,743	5,306,527	$(0.01)	$0.01

27.Information of insurance contract

Risk management objectives, policies, procedures and methods:

(1) 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 the Company'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.

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:

(A) Assist drafting and execute the risk management policies set by the board of directors.

(B) Assist determines the risk quotas based on risk appetite.

(C) Summarize the risk information provided by all departments. Facilitate and communicate the execution of the policies as well as the risk quotas with departments.

(D) Periodically provide risk management related reports.

(E) Periodically monitor all operating department's risk quotas and manage the exceptions attributable to exceed the risk quotas granted.

(F) Assist the pressure test. Execute back testing if necessary.

(G) Other risk management issues.

D. Operating departments

a. Managers of the operating departments：

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

(B) Make sure to delivery risk management information periodically to the risk management department.

b. Operating departments：

(A) Address and measure risks and report the pervasiveness of exposure.

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

(C) 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.

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

(E) 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 company's risk management policies.

(2) Reporting risk or measuring the range and characteristics of the system

The Company 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 the Company's risks.

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, the Company applies scenario analysis and stress test to evaluate the change in value of the asset groups due to significant domestic and international incidences. In accordance with the adoption of foreign exchange volatility reserve, the Company regulates the ceiling of foreign exchange risk and early warning system of the reserve, and also monitors foreign exchange risk regularly.

B. Credit risk

This risk represents the Company's loss due to the default of debtors. The measurements that the Company uses include credit rating, concentration analysis and value at risk (VAR) under 95% confidence level. The Company also periodically applies back-testing to the credit risk to ensure accuracy of the model. Furthermore, the Company 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 the Company'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. The Company takes international credit ranking companies' ranking and other economy indexes into consideration to set the investment ceiling for specific countries. The Company 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 the Company's commitment when due. The Company 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.

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. The Company 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. The Company assumed the risk transferred from the policy holder and when the Company pays the claim, due to unexpected change the Company 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. The Company 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. The Company applies capital adequacy rate as the index of capital adequacy.

(3) 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:

a. Promulgate the Company's risk management standards including the definition and rage of risk, management structure, risk management indexes and other risk management measures.

b. Establish methods to evaluate insurance risks.

c. Periodically provide the insurance risk management report to the risk management committee for supervising insurance risks and developing insurance risk management strategies.

d. 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:

a. 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.

b. The Company has an underwriter team dealing with controversy events such as new type of contracts and change of security systems and clarifying related underwriting standards.

c. The Company has a judging team for highly insured projects to enhance its risk management and prevent adverse selection and moral hazard.

(4) Evaluation based on the enterprise taken as a whole and range of managing insurance risks

A. Evaluation of insurance risks includes the following risks:

a. 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.

b. Underwriting risks: Unexpected losses arise from promoting business, underwriting activities and approval, other expenditure activities, etc..

c. 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.

d. 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 the Company's credit raking and solvency.

e. Claim risks: This type of risk arises from inappropriate operation or mistakes while handling claim.

f. Risk of insufficient reserve: This type of risk arises from insufficient reserve due to underestimate of liability.

B. Range of managing insurance risks

a. Establish Company's insurance risk management standards as the guidance of performing risk management.

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

c. Draft action plans for matching the Company's expanding strategy and response to the changes of financial environment worldwide.

d. Establish measurement methods for insurance risks.

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

f. Other issues related to insurance risks management.

(5) Methods to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks

The method that the Company 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 the Company 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, the Company has established reinsurer selection standards.

(6) Methods for managing assets and liabilities

A. The Company 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.

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 Cathay Financial Holding.

(7) 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, the Company is required to maintain its capital adequacy rate in a certain rage. In order to enhance the Company's capital management and maintain its capital adequacy ratio, the Company has established a set of capital adequacy management standards as following:

A. Capital adequacy management

a. Periodically provide capital adequacy management reports and analysis to the financial department of Cathay Financial Holding.

b. Periodically provide the risk management committee the capital adequacy management analysis report.

c. Practice scenario analysis for capital adequacy ratio focusing on the Company's usage of funding, changes of the financial environment including updates of laws and regulations.

d. Periodically review the capital adequacy rate and related control standards to fulfill the management of capital adequacy.

B. Exception management process

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

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

28.Information of insurance risk

(1) Sensitivity of insurance risk- Insurance contracts and financial instruments with discretionary participation features：

A. The Company

	June 30, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,008,317	Decrease (increase) 836,903
Expense	×1.05 (×0.95)	Decrease (increase) 1,268,342	Decrease (increase) 1,052,724
Surrender rates	×1.05 (×0.95)	Increase (decrease) 161,125	Increase (decrease) 133,734
Investment return rate	+0.1%	Increase 1,470,082	Increase 1,220,168
Investment return rate	-0.1%	Decrease 1,470,810	Decrease 1,220,773

	June 30, 2012 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 33,836	Decrease (increase) 28,084
Expense	×1.05 (×0.95)	Decrease (increase) 42,562	Decrease (increase) 35,326
Surrender rates	×1.05 (×0.95)	Increase (decrease) 5,407	Increase (decrease) 4,488
Investment return rate	+0.1%	Increase 49,332	Increase 40,945
Investment return rate	-0.1%	Decrease 49,356	Decrease 40,966

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

	June 30, 2011 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 995,275	Decrease (increase) 826,078
Expense	×1.05 (×0.95)	Decrease (increase) 1,217,731	Decrease (increase) 1,010,717
Surrender rates	×1.05 (×0.95)	Increase (decrease) 181,571	Increase (decrease) 150,704
Investment return rate	+0.1%	Increase 1,350,562	Increase 1,120,967
Investment return rate	-0.1%	Decrease 1,351,232	Decrease 1,121,523

	June 30, 2011 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 34,570	Decrease (increase) 28,693
Expense	×1.05 (×0.95)	Decrease (increase) 42,297	Decrease (increase) 35,107
Surrender rates	×1.05 (×0.95)	Increase (decrease) 6,307	Increase (decrease) 5,235
Investment return rate	+0.1%	Increase 46,911	Increase 38,936
Investment return rate	-0.1%	Decrease 46,934	Decrease 38,955

B. Cathay life (China)

	June 30, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase) 34,026	Decrease (increase) 25,519
Expense	×1.05 (×0.95)	Decrease (increase) 32,720	Decrease (increase) 24,540
Surrender rates	×1.10 (×0.90)	Increase (decrease) 17,491	Increase (decrease) 13,118
Investment return rate	+0.25%	Increase 113,160	Increase 84,870
Investment return rate	-0.25%	Decrease 123,301	Decrease 92,476

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to unaudited consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
For the six-month periods ended June 30, 2012 and 2011

	June 30, 2012		
	US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase) 1,142	Decrease (increase) 856
Expense	×1.05 (×0.95)	Decrease (increase) 1,098	Decrease (increase) 823
Surrender rates	×1.10 (×0.90)	Increase (decrease) 587	Increase (decrease) 440
Investment return rate	+0.25%	Increase 3,797	Increase 2,848
Investment return rate	-0.25%	Decrease 4,138	Decrease 3,103

	June 30, 2011		
	NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10(×0.90)	Decrease (increase) 8,012	Decrease (increase) 8,012
Expense	×1.05(×0.95)	Decrease (increase) 26,078	Decrease (increase) 26,078
Surrender rates	×1.10(×0.90)	Increase (decrease) 15,715	Increase (decrease) 15,715
Investment return rate	+0.25%	Increase 76,831	Increase 76,831
Investment return rate	-0.25%	Decrease 83,927	Decrease 83,927

	June 30, 2011		
	US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10(×0.90)	Decrease (increase) 278	Decrease (increase) 278
Expense	×1.05(×0.95)	Decrease (increase) 906	Decrease (increase) 906
Surrender rates	×1.10(×0.90)	Increase (decrease) 546	Increase (decrease) 546
Investment return rate	+0.25%	Increase 2,669	Increase 2,669
Investment return rate	-0.25%	Decrease 2,915	Decrease 2,915

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

C. Cathay Life (Vietnam)

	June 30, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 81	Decrease (increase) 61
Expense	×1.05 (×0.95)	Decrease (increase) 6,911	Decrease (increase) 5,183
Surrender rates	×1.05 (×0.95)	Increase (decrease) 3,505	Increase (decrease) 2,629
Investment return rate	+0.1%	Increase 774	Increase 580
Investment return rate	-0.1%	Decrease 774	Decrease 581

	June 30, 2012 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 3	Decrease (increase) 2
Expense	×1.05 (×0.95)	Decrease (increase) 232	Decrease (increase) 174
Surrender rates	×1.05 (×0.95)	Increase (decrease) 118	Increase (decrease) 88
Investment return rate	+0.1%	Increase 26	Increase 19
Investment return rate	-0.1%	Decrease 26	Decrease 19

	June 30, 2011 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase) 21	Decrease (increase) 16
Expense	×1.05 (×0.95)	Decrease (increase) 8,334	Decrease (increase) 6,250
Surrender rates	×1.10 (×0.90)	Increase (decrease) 756	Increase (decrease) 567
Investment return rate	+0.25%	Increase 725	Increase 544
Investment return rate	-0.25%	Decrease 725	Decrease 544

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

	June 30, 2011 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase) 1	Decrease (increase) 1
Expense	×1.05 (×0.95)	Decrease (increase) 289	Decrease (increase) 217
Surrender rates	×1.10 (×0.90)	Increase (decrease) 26	Increase (decrease) 20
Investment return rate	+0.25%	Increase 25	Increase 19
Investment return rate	-0.25%	Decrease 25	Decrease 19

a. Changes in income before tax listed above refer to the effects of income before tax for the six months ended June 30, 2012 and 2011 by the assumption. Change of the Company、Cathay Life (China) and Cathay Life (Vietnam) stockholders' equity is assumed 17%、25% and 25% of income tax rate has been used.

b. 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.

c. Test of Sensitivity

(A) Life Table/Morbidity test is measured by mortality, morbidity and the occurrence rate of injury insurance multiply change in supposition, in opposition to the change in income before tax.

(B) Expenses sensitivity is measured by all expenses listed on income statement (Note 1) multiply change in supposition, in opposition to the change in income before tax.

(C) Surrender rate sensitivity test is measured by surrender rate multiplies change in supposition, in opposition to the change in income before tax.

(D) The rate of returns sensitivity test is measured by the rate of returns (Note 2) increases (decreases) change in supposition, 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 x net profits or losses on investment / (the beginning balance of usable capital + the ending balance of usable capital – net profits or losses on investment) and it needs to be annualized.

(2) Interpretation of concentration on insurance risk

The Company'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).The Company reduces the risk of exposure not only by monitoring the status of the risk continuously, but also buying reinsurance contracts.

The Company 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.

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

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.

(3) Trend of the development on compensation

A. The Company

a. Direct business trend of development

Accident year	Development period (years) NT$							Expected future payment
	1	2	3	4	5	6	7	
2005Q3~2006Q2	10,960,652	12,862,591	12,952,801	12,983,058	13,002,962	13,017,367	13,025,556	-
2006Q3~2007Q2	12,336,380	14,502,340	14,632,397	14,678,842	14,712,774	14,769,456	14,777,642	8,186
2007Q3~2008Q2	12,562,311	14,951,930	15,117,368	15,170,737	15,224,556	15,255,614	15,263,942	39,386
2008Q3~2009Q2	13,615,581	16,157,704	16,359,090	16,445,402	16,485,665	16,519,523	16,528,799	83,397
2009Q3~2010Q2	14,369,300	17,331,855	17,588,505	17,650,962	17,694,751	17,730,515	17,739,989	151,484
2010Q3~2011Q2	14,582,924	17,837,367	18,028,910	18,092,414	18,137,543	18,172,753	18,182,053	344,686
2011Q3~2012Q2	14,768,726	17,562,034	17,744,987	17,804,609	17,846,355	17,880,223	17,889,496	3,120,770

Expected future payment	$3,747,909
Less：Expected reported but not paid claim	176,112
Add : Assumed reserve for incurred but not reported claim	35,855
Reserve for incurred but not reported claim	3,607,652
Add : Reported but not paid claim	499,693
Reserve claim balance	$4,107,345

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

Accident year	Development period (years) US$							Expected future payment
	1	2	3	4	5	6	7	
2005Q3~2006Q2	367,807	431,631	434,658	435,673	436,341	436,824	437,099	-
2006Q3~2007Q2	413,972	486,656	491,020	492,579	493,717	495,619	495,894	275
2007Q3~2008Q2	421,554	501,743	507,294	509,085	510,891	511,933	512,213	1,322
2008Q3~2009Q2	456,899	542,205	548,963	551,859	553,210	554,346	554,657	2,798
2009Q3~2010Q2	482,191	581,606	590,218	592,314	593,784	594,984	595,301	5,083
2010Q3~2011Q2	489,360	598,569	604,997	607,128	608,642	609,824	610,136	11,567
2011Q3~2012Q2	495,595	589,330	595,469	597,470	598,871	600,007	600,319	104,724

Expected future payment	$125,769
Less：Expected reported but not paid claim	5,910
Add : Assumed reserve for incurred but not reported claim	1,203
Reserve for incurred but not reported claim	121,062
Add : Reported but not paid claim	16,768
Reserve claim balance	$137,830

b. Retained business trend of development

Accident year	Development period (years) NT$							Expected future payment
	1	2	3	4	5	6	7	
2005Q3~2006Q2	11,035,345	12,944,025	13,043,606	13,078,150	13,100,094	13,115,326	13,124,906	-
2006Q3~2007Q2	12,416,111	14,607,049	14,741,865	14,790,685	14,825,421	14,884,121	14,892,474	8,353
2007Q3~2008Q2	12,636,600	15,049,938	15,218,831	15,273,394	15,329,265	15,360,881	15,369,367	40,102
2008Q3~2009Q2	13,534,283	15,926,300	16,113,169	16,197,904	16,237,086	16,269,687	16,278,603	80,699
2009Q3~2010Q2	12,729,551	15,073,391	15,252,793	15,299,331	15,332,997	15,356,928	15,363,021	110,228
2010Q3~2011Q2	12,728,250	15,318,144	15,460,868	15,506,885	15,540,894	15,563,107	15,568,693	250,549
2011Q3~2012Q2	12,943,029	15,253,568	15,391,484	15,434,973	15,466,460	15,488,336	15,494,183	2,551,154

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

Expected future payment	$3,041,085
Less：Expected reported but not paid claim	176,112
Add：Reported but not paid claim	499,693
Retained reserve claim balance	$3,364,666

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

Accident year	Development period (years) US$ 1	2	3	4	5	6	7	Expected future payment
2005Q3~2006Q2	370,314	434,363	437,705	438,864	439,600	440,112	440,433	-
2006Q3~2007Q2	416,648	490,169	494,693	496,332	497,497	499,467	499,747	280
2007Q3~2008Q2	424,047	505,031	510,699	512,530	514,405	515,466	515,751	1,346
2008Q3~2009Q2	454,171	534,440	540,710	543,554	544,869	545,963	546,262	2,708
2009Q3~2010Q2	427,166	505,818	511,839	513,400	514,530	515,333	515,538	3,699
2010Q3~2011Q2	427,122	514,031	518,821	520,365	521,507	522,252	522,439	8,408
2011Q3~2012Q2	434,330	511,865	516,493	517,952	519,009	519,743	519,939	85,609

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

Expected future payment	$102,050
Less：Expected reported but not paid claim	5,910
Add：Reported but not paid claim	16,768
Retained reserve claim balance	$112,908

B. Cathay life (China)

a. Direct business trend of development

Accident year	Development period (years) NT$ 1	2	3	4	5	6	7	Expected future payment
2005Q3~2006Q2	26	51	53	53	53	53	53	-
2006Q3~2007Q2	789	3,170	3,181	3,181	3,181	3,181	3,181	-
2007Q3~2008Q2	9,054	17,438	18,209	18,209	18,209	18,209	18,209	-
2008Q3~2009Q2	49,918	112,796	118,716	118,716	118,716	118,716	118,716	-
2009Q3~2010Q2	93,836	187,793	199,813	199,813	199,813	199,813	199,813	-
2010Q3~2011Q2	173,359	360,323	366,106	366,106	366,106	366,106	366,106	5,783
2011Q3~2012Q2	254,168	664,720	664,720	664,720	664,720	664,720	664,720	410,552

Expected future payment	$416,335
Less：Expected reported but not paid claim	36,385
Add : Assumed reserve for incurred but not reported claim	-
Reserve for incurred but not reported claim	379,950
Add : Reported but not paid claim	40,311
Reserve claim balance	$420,261

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

Accident year	Development period (years) US$							Expected future payment
	1	2	3	4	5	6	7	
2005Q3~2006Q2	1	2	2	2	2	2	2	-
2006Q3~2007Q2	26	104	107	107	107	107	107	-
2007Q3~2008Q2	304	585	611	611	611	611	611	-
2008Q3~2009Q2	1,675	3,785	3,984	3,984	3,984	3,984	3,984	-
2009Q3~2010Q2	3,149	6,302	6,705	6,705	6,705	6,705	6,705	-
2010Q3~2011Q2	5,817	12,091	12,285	12,285	12,285	12,285	12,285	194
2011Q3~2012Q2	8,529	22,306	22,306	22,306	22,306	22,306	22,306	13,777

Expected future payment	13,971
Less：Expected reported but not paid claim	1,221
Add : Assumed reserve for incurred but not reported claim	-
Reserve for incurred but not reported claim	12,750
Add : Reported but not paid claim	1,353
Reserve claim balance	$14,103

b. Retained business trend of development

Accident year	Development period (years) NT$							Expected future payment
	1	2	3	4	5	6	7	
2005Q3~2006Q2	26	51	53	53	53	53	53	-
2006Q3~2007Q2	789	3,170	3,181	3,181	3,181	3,181	3,181	-
2007Q3~2008Q2	9,054	17,438	18,209	18,209	18,209	18,209	18,209	-
2008Q3~2009Q2	49,918	112,796	118,716	118,716	118,716	118,716	118,716	-
2009Q3~2010Q2	93,836	187,661	199,679	199,679	199,679	199,679	199,679	-
2010Q3~2011Q2	172,969	358,455	364,215	364,215	364,215	364,215	364,215	5,760
2011Q3~2012Q2	256,542	666,591	666,591	666,591	666,591	666,591	666,591	410,049

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

Expected future payment	$415,809
Less：Expected reported but not paid claim	36,385
Add：Reported but not paid claim	40,311
Retained reserve claim balance	$419,735

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to unaudited consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
For the six-month periods ended June 30, 2012 and 2011

Accident year	Development period (years) US$							Expected future payment
	1	2	3	4	5	6	7	
2005Q3~2006Q2	1	2	2	2	2	2	2	-
2006Q3~2007Q2	26	106	107	107	107	107	107	-
2007Q3~2008Q2	304	585	611	611	611	611	611	-
2008Q3~2009Q2	1,675	3,785	3,984	3,984	3,984	3,984	3,984	-
2009Q3~2010Q2	3,149	6,297	6,701	6,701	6,701	6,701	6,701	-
2010Q3~2011Q2	5,804	12,029	12,222	12,222	12,222	12,222	12,222	193
2011Q3~2012Q2	8,609	22,369	22,369	22,369	22,369	22,369	22,369	13,760

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

Expected future payment	13,953
Less：Expected reported but not paid claim	1,221
Add：Reported but not paid claim	1,353
Retained reserve claim balance	$14,085

The Company 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.

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

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 as time goes. 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.

C. Cathay life (Vietnam)

a. Direct business trend of development

Accident year	Development period (years) NT$			
	1	2	3	4
2008Q3~2009Q2	3	6	6	6
2009Q3~2010Q2	155	214	214	214
2010Q3~2011Q2	141	210	210	210
2011Q3~2012Q2	609	873	873	873

Accident year	Development period (years) US$			
	1	2	3	4
2008Q3~2009Q2	-	-	-	-
2009Q3~2010Q2	5	7	7	7
2010Q3~2011Q2	5	7	7	7
2011Q3~2012Q2	20	29	29	29

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

b. Retained business trend of development

Accident year	Development period (years) NT$			
	1	2	3	4
2008Q3~2009Q2	3	6	6	6
2009Q3~2010Q2	155	214	214	214
2010Q3~2011Q2	141	210	210	210
2011Q3~2012Q2	609	873	873	873

Accident year	Development period (years) US$			
	1	2	3	4
2008Q3~2009Q2	-	-	-	-
2009Q3~2010Q2	5	7	7	7
2010Q3~2011Q2	5	7	7	7
2011Q3~2012Q2	20	29	29	29

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 as time goes.

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.

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

29.Credit risk, liquidity risk, and market risk for insurance contracts

(1) Credit risk

This risk represents the Company's financial loss due to the default of reinsurers; therefore, may cause impairment of reinsurance assets.

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, the Company chooses trading entity carefully and also reviews its credit rating periodically. Also, the Company monitors and controls the risk of reinsurance transactions properly in accordance with the Company's "Reinsurance Risk Management Plan" and "Reinsurance Entity Assessment Procedures."

The credit rating to the trading entities of reinsurance in the Company is good and above certain level, complying with the Company's related rules and the regulations in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company; therefore, no significant credit risks exist.

(2) 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.

Unit: Billion

June 30, 2012 NT$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments with discretionary participation feature	(19.1)	176.3	9,012.1

June 30, 2012 US$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments with discretionary participation feature	(0.6)	5.9	302.4

Note: Separate account products are not included in.

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

(3) Market risk

When the Company 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 contacts 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.

30. Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date:

	June 30, 2012 NT$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$386,059,124	$-	$386,059,124
Receivables	54,443,952	230,183	54,674,135
Investments	565,231,841	2,109,599,929	2,674,831,770
Reinsurance reserve assets - Net	-	8,788,865	8,788,865
Property and equipment - Net	-	15,061,644	15,061,644
Intangible assets	-	356,606	356,606
Other assets	640,974	34,936,099	35,577,073
Separate account product assets	347,408	294,435,431	294,782,839
Total assets			$3,470,132,056

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

	June 30, 2012 NT$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$30,428,224	$315	$30,428,539
Financial liabilities	9,359,519	30,000,000	39,359,519
Reserve for liabilities	-	2,981,665,338	2,981,665,338
Other liabilities	202,153	8,219,758	8,421,911
Separate account product liabilities	2,878,554	291,904,285	294,782,839
Total liabilities			$3,354,658,146

	June 30, 2012 US$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$12,955,004	$-	$12,955,004
Receivables	1,826,978	7,724	1,834,702
Investments	18,967,511	70,791,944	89,759,455
Reinsurance reserve assets - Net	-	294,928	294,928
Property and equipment - Net	-	505,424	505,424
Intangible assets	-	11,967	11,967
Other assets	21,509	1,172,353	1,193,862
Separate account product assets	11,658	9,880,384	9,892,042
Total assets			$116,447,384

	June 30, 2012 US$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$1,021,081	$11	$1,021,092
Financial liabilities	314,077	1,006,712	1,320,789
Reserve for liabilities	-	100,055,884	100,055,884
Other liabilities	6,783	275,831	282,614
Separate account product liabilities	96,596	9,795,446	9,892,042
Total liabilities			$112,572,421

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

	June 30, 2011 NT$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$403,073,800	$-	$403,073,800
Receivables	49,040,378	258,244	49,298,622
Investments	386,837,986	1,986,417,415	2,373,255,401
Reinsurance reserve assets - Net	-	8,162,783	8,162,783
Property and equipment - Net	-	12,391,991	12,391,991
Intangible assets	-	475,078	475,078
Other assets	9,324,456	22,348,394	31,672,850
Separate account product assets	170,300	302,924,772	303,095,072
Total assets			$3,181,425,597

	June 30, 2011 NT$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$28,920,450	$359	$28,920,809
Financial liabilities	2,473,506	25,000,000	27,473,506
Reserve for liabilities	-	2,695,751,552	2,695,751,552
Other liabilities	246,548	20,086,565	20,333,113
Separate account product liabilities	2,764,140	300,330,932	303,095,072
Total liabilities			$3,075,574,052

	June 30, 2011 US$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$14,000,479	$-	$14,000,479
Receivables	1,703,383	8,970	1,712,353
Investments	13,436,540	68,996,784	82,433,324
Reinsurance reserve assets - Net	-	283,528	283,528
Property and equipment - Net	-	430,427	430,427
Intangible assets	-	16,501	16,501
Other assets	323,878	776,256	1,100,134
Separate account product assets	5,915	10,521,875	10,527,790
Total assets			$110,504,536

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

	June 30, 2011 US$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$1,004,532	$12	$1,004,544
Financial liabilities	85,916	868,357	954,273
Reserve for liabilities	-	93,634,996	93,634,996
Other liabilities	8,564	697,692	706,256
Separate account product liabilities	96,010	10,431,780	10,527,790
Total liabilities			$106,827,859

31.Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Inc.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Conning Asset Management Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited	Subsidiary of Cathay United Bank
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Century Insurance Co., Ltd. (Vietnam)	Subsidiary of Cathay Century Insurance Co., Ltd.
Cathay Insurance Company Limited. (China)	An equity-method investee
Cathay General Hospital	Related party disclosed according to SFAS No. 6
Cathay Real Estate Development Co., Ltd.	Related party disclosed according to SFAS No. 6
Lin Yuan Property Management Co., Ltd.	Related party disclosed according to SFAS No. 6
San Ching Engineering Co., Ltd.	Related party disclosed according to SFAS No. 6
Cathay Healthcare Inc.	Related party disclosed according to SFAS No. 6
China Eastern Airlines Co., Ltd.	Subsidiary of China Eastern Air Holding Group
Other related parties	The directors, supervisors, mangers, and their spouses, as well as their second immediate families

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

(2) Significant transactions with related parties

A. Property transactions

Property transactions between the Company 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, the result of public bidding and the contracts of both parties.

a. Significant transactions with related parties for the six months ended June 30, 2012 and 2011 are listed below:

	For the six months ended June 30, 2012		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$8,996	$302
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc	665,323	22,326
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	22,043	740
Total		$696,362	$23,368

	For the six months ended June 30, 2011		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$9,541	$331
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	435,650	15,132
Total		$445,191	$15,463

The total amounts of contracted projects for real estate as of June 30, 2012 and 2011, between the Company and San Ching Engineering Co., Ltd. were NT$5,483,615 (US$184,014) thousands and NT$5,466,706 (US$189,882) thousands, respectively.

The total amounts of contracted projects for real estate as of June 30, 2012 and 2011, between the Company and Cathay Real Estate Development Co., Ltd. were NT$49,306 (US$1,655) thousands and NT$2,625 (US$91) thousands, respectively.

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

b. Real estates acquired from related parties are as follows:

	For the six months ended June 30, 2011		
Name	Item	NT$	US$
Cathay United Bank	No. 166-1, 166-2, Sec. 1, Zhonghua Rd., Wanhua Dist., Taipei City	$320,000	$11,115

The price was referred to an appraisal report, and the ownership has been transferred during 2011. The Company did not acquire any real estates from its related parties for the six months ended June 30, 2012.

c. Real-estate rental income (from related parties):

	Rental income			
	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$13,685	$459	$13,105	$455
Cathay Real Estate Development Co., Ltd.	8,655	291	10,834	376
Cathay United Bank	215,927	7,246	197,639	6,865
Cathay Century Insurance Co., Ltd.	46,145	1,549	45,196	1,570
Cathay General Hospital	87,352	2,931	90,956	3,159
San Ching Engineering Co., Ltd.	3,074	103	4,389	152
Cathay Securities Investment Trust Co., Ltd.	19,521	655	15,477	538
Cathay Securities Co., Ltd.	10,797	362	10,419	362
Cathay Securities Investment Consulting Co., Ltd.	4,628	155	4,823	168
Cathay Healthcare Inc.	14,805	497	-	-
Total	$424,589	$14,248	$392,838	$13,645

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

	Guarantee deposits received			
	June 30, 2012		June 30, 2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$4,028	$135	$3,745	$130
Cathay United Bank	71,897	2,413	71,749	2,492
Cathay Century Insurance Co., Ltd.	22,801	765	22,786	792
Cathay General Hospital	10,166	341	11,984	416
Cathay Securities Investment Trust Co., Ltd.	8,903	299	8,934	310
Cathay Securities Co., Ltd.	6,106	205	4,710	164
Cathay Financial Holding Co., Ltd.	6,254	210	5,816	202
Cathay Healthcare Inc.	8,373	281	-	-
Total	$138,528	$4,649	$129,724	$4,506

Lease periods are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

d. Real-estate rental expense (to related parties):

	Rental expense			
	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$3,910	$131	$14,734	$512
Cathay United Bank	18,653	626	17,821	619
Total	22,563	$757	$32,555	$1,131

	Guarantee deposits paid			
	June 30, 2012		June 30, 2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$1,780	$60	$8,610	$299
Cathay United Bank	8,921	299	8,921	310
Total	$10,701	$359	$17,531	$609

According to contracts, leasing periods are generally 3 years, and rentals are usually paid on a monthly basis.

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

B. Cash in banks

		For the six months ended June 30, 2012		
Name	Item	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$210,634	0.17%~1.40%	$41,500,098
	Cash in bank	8,826	0.02%~1.05%	16,508,051
Indovina Bank Limited	Time deposit	1,385	9%~14%	4,140
	Cash in bank	30	-	3,706
Total		$220,875		$58,015,995

		For the six months ended June 30, 2012		
Name	Item	Interest income US$	Rate	Ending balance US$
Cathay United Bank	Time deposit	$7,068	0.17%~1.40%	$1,392,621
	Cash in bank	296	0.02%~1.05%	553,961
Indovina Bank Limited	Time deposit	46	9%~14%	139
	Cash in bank	1	-	124
Total		$7,411		$1,946,845

		For the six months ended June 30, 2011		
Name	Item	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$73,605	0.12%~4.60%	$42,935,419
	Cash in bank	2,917	0.02%~1.10%	5,478,976
Indovina Bank Limited	Time deposit	1,316	1.00%~11.20%	8,149
	Cash in bank	15	-	1,018
Total		$77,853		$48,423,562

		For the six months ended June 30, 2011		
Name	Item	Interest income US$	Rate	Ending balance US$
Cathay United Bank	Time deposit	$2,557	0.12%~4.60%	$1,491,331
	Cash in bank	101	0.02%~1.10%	190,308
Indovina Bank Limited	Time deposit	46	1.00%~11.20%	283
	Cash in bank	1	-	35
Total		$2,705		$1,681,957

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

C. Secured loans

	For the six months ended June 30, 2012			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,485,571	$42,492	2.43%~2.55%	$3,348,900
Other related parties	331,242	2,400	1.53%~3.78%	317,872
Total		$44,892		$3,666,772

	For the six months ended June 30, 2012			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$116,965	$1,426	2.43%~2.55%	$112,379
Other related parties	11,116	81	1.53%~3.78%	10,667
Total		$1,507		$123,046

	For the six months ended June 30, 2011			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,756,320	$41,710	2.09%~2.39%	$3,621,095
Other related parties	248,450	2,241	1.31%~3.65%	231,735
Total		$43,951		$3,852,830

	For the six months ended June 30, 2011			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$130,473	$1,448	2.09%~2.39%	$125,776
Other related parties	8,630	79	1.31%~3.65%	8,049
Total		$1,527		$133,825

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

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

		June 30,			
		2012		2011	
Name		NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd. managed funds	Market value	$1,671,540	$56,092	$1,982,221	$68,851
	Cost	$1,544,534	$51,830	$1,924,527	$66,847

E. Discretionary account management balance

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$216,034,420	$7,249,477	$-	$-

F. Other receivables

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay United Bank	$14,844	$498	$27,420	$952
Cathay Financial Holding Co., Ltd. (Note)	5,335,029	179,028	-	-
Cathay Century Insurance Co., Ltd.	175,910	5,903	164,360	5,709
Cathay Insurance (Bermuda) Co., Ltd.	2,424	81	20,662	718
Cathay Securities Investment Trust Co., Ltd.	20,519	689	-	-

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

G. Guarantee deposits paid

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$413,418	$13,873	$148,509	$5,158

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

As of June 30, 2012 and 2011, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT$238 (US$8) thousands and NT$79 (US$3) thousands, respectively.

H. Guarantee deposits received

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$5,000	$168	$-	$-

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

I. Other payable

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$7,674	$258	$13,350	$464
Cathay Financial Holding Co., Ltd. (Note)	2,094,514	70,286	1,587,075	55,126
Cathay Century Insurance Co., Ltd.	16,281	546	17,975	624
San Ching Engineering Co., Ltd.	43,035	1,444	824	29

Note: The payables consist of interest expense accrued from preferred stock and tax payable under the consolidated income tax system.

J. Preferred stock liability

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$30,000,000	$1,006,712	$25,000,000	$868,357

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

K. Accounts collected in advance

	June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$10,474	$351	$8,944	$311
Cathay United Bank	28,888	969	31,658	1,100
Cathay Securities Co., Ltd.	3,878	130	3,256	113

L. Premiums income

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay United Bank	$320,224	$10,746	$304,963	$10,592
Cathay General Hospital	19,983	671	21,154	735
Cathay Century Insurance Co., Ltd.	6,116	205	5,099	177
China Eastern Airlines Co., Ltd.	256,934	8,622	475,841	16,528
Other related parties	31,382	1,053	74,846	2,600
Total	$634,639	$21,297	$881,903	$30,632

M.Insurance expense

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$97,863	$3,284	$98,740	$3,430

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT$6,722 (US$226) thousands and NT$5,639 (US$196) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the six months ended June 30, 2012 and 2011, respectively.

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

N. Reinsurance income

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$63,460	$2,130	$64,239	$2,231

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the six months ended June 30, 2012 and 2011, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd..

O. Reinsurance service expenses

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$5,732	$192	$3,592	$125

P. Reinsurance claims payment

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$58,724	$1,971	$38,575	$1,340

Q. Other operating income

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$12,485	$419	$10,229	$355
Cathay United Bank	213,882	7,177	255,037	8,859
Cathay General Hospital	32,144	1,079	12,452	432
Total	$258,511	$8,675	$277,718	$9,646

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

R. Miscellaneous income

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$571,489	$19,177	$590,232	$20,501
Cathay United Bank	52,346	1,757	53,485	1,858
Cathay Securities Investment Trust Co., Ltd.	49,637	1,666	57,645	2,002
Cathay Financial Holding Co., Ltd.	2,632	88	3,513	122
Cathay General Hospital	2,737	92	3,106	108
Total	$678,841	$22,780	$707,981	$24,591

Miscellaneous income is mainly generated from the Company's integrated marketing activities.

S. Operating expenses

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$303,526	$10,186	$285,562	$9,919
Cathay Securities Investment Consulting Co., Ltd.	6,589	221	11,340	394
Seaward Card Co., Ltd.	52,702	1,769	35,444	1,231
Cathay United Bank	1,345,681	45,157	846,091	29,388
Cathay Venture Inc.	12,466	418	15,000	521
Cathay Real Estate Development Co., Ltd.	9,757	327	-	-
Cathay General Hospital	814	27	4,597	160
Total	$1,731,535	$58,105	$1,198,034	$41,613

T. Non-operating expenses and losses

	For the six months ended June 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$451,519	$15,152	$404,151	$14,038

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

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

U. Sales of securities

For the six months ended June 30, 2011

		Shares	Amount		Gains from disposal	
Name	Securities	(thousand)	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	Cathay Securities Investment Trust Co., Ltd.	17,256	$1,106,232	$38,424	$632,746	$21,978

There was no significant transaction of securities with related parties for the six months ended June 30, 2012.

V. Other

a. As of June 30, 2012 and 2011, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

	June 30,	
Item	2012	2011
Forward foreign exchange contracts	USD -	USD 684,084
CS contracts	USD 1,771,000	USD 1,446,000

b. The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT$0 (US$0) thousands and NT$380,000 (US$13,199) thousands during the six months ended June 30, 2012 and 2011, respectively.

32.Pledged assets

(1) The Company

As of June 30, 2012 and 2011, the Company provided cash and time deposits to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the “Guaranteed Depository Insurance”.

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

	June 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid - Government bonds	$10,577,082	$354,936	$9,639,476	$334,820
Guarantee deposits paid - Time deposits	87,298	2,929	128,298	4,456
Guarantee deposits paid - Others	9,864	331	8,686	302
Total	$10,674,244	$358,196	$9,776,460	$339,578

Pledged assets are summarized based on the carrying amounts.

(2) Symphox information

As of June 30, 2012 and 2011, the pledged property details are as follows:

	June 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss	$44,918	$1,507	$39,589	$1,375

The pledged assets, such as cash, time deposits or bond finds, are utilized to strengthen the financial operation of electronic gift certificates and to protect the clients' interests.

(3) Cathay life (China)

	June 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid	$1,195,485	$40,117	$1,108,735	$38,511

According to the requirement of the China Insurance Regulatory Commission, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Life (China) are time deposits.

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

33. Other important commitment and contingent liabilities

None.

34. Serious disaster damages

None.

35. Significant subsequent events

None.

36. Others matters

(1) Pension related information

According to the R.O.C. SFAS No.23 "Interim Financial Reporting and Disclosure", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS No.18 "Accounting for pensions".

(2) Separate account insurance products related information

A. The Company

a. Separate account insurance products – assets and liabilities

Assets			Liabilities		
Item	June 30, 2012		Item	June 30, 2012	
	NT$	US$		NT$	US$
Cash in bank	$298,684	$10,023	Other payable	$2,871,592	$96,362
Financial assets at fair value through profit or loss	289,988,474	9,731,157	Reserve for separate account	291,529,950	9,782,884
Interest receivable	5,417	181			
Other receivable	4,108,967	137,885			
Total	$294,401,542	$9,879,246	Total	$294,401,542	$9,879,246

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

Assets			Liabilities		
Item	June 30, 2011		Item	June 30, 2011	
	NT$	US$		NT$	US$
Cash in bank	$127,761	$4,438	Other payable	$2,762,336	$95,948
Financial assets at fair value through profit or loss	285,286,352	9,909,217	Reserve for separate account	299,858,375	10,415,365
Interest receivable	3,441	119			
Other receivable	17,203,157	597,539			
Total	$302,620,711	$10,511,313	Total	$302,620,711	$10,511,313

b. Separate account insurance products - revenues and expenses

Expenses			Revenues		
Item	January 1-June 30, 2012		Item	January 1-June 30, 2012	
	NT$	US$		NT$	US$
Insurance claims payment	$4,061,235	$136,283	Premiums income	$17,879,270	599,976
Cash surrender value	21,683,742	727,642	Interest income	2,077	70
Dividends	692	23	Gains from valuation on financial assets	10,153,667	340,727
Recovery of separate account reserve	(29,259)	(981)	Gains on disposal of investment	1,635,793	54,892
Administrative expenses	1,873,447	62,867	Losses on foreign exchange	(2,110,911)	(70,836)
			Miscellaneous income	29,961	1,005
Total	$27,589,857	$925,834	Total	$27,589,857	$925,834

Expenses			Revenues		
Item	January 1-June 30, 2011		Item	January 1-June 30, 2011	
	NT$	US$		NT$	US$
Insurance claims payment	$2,955,176	$102,646	Premiums income	$53,425,101	$1,855,683
Cash surrender value	32,054,115	1,113,377	Interest income	5,531	192
Dividends	808	28	Gains from valuation on financial assets	3,178,719	110,411
Provision for separate account reserve	27,138,820	942,647	Gains on disposal of investment	3,429,514	119,122
Gains on surrender	(519)	(18)	Gains on foreign exchange	4,069,678	141,357
Administrative expenses	1,979,959	68,773	Miscellaneous income	19,816	688
Total	$64,128,359	$2,227,453	Total	$64,128,359	$2,227,453

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

c. The commission earned for the sales of separate account insurance products from counterparties for the six months ended June 30, 2012 and 2011 were NT$489,516 (US$16,427) thousands and NT$628,906 (US$21,845) thousands, respectively.

B. Cathay life (China)

a. Separate account insurance products-assets and liabilities

Assets			Liabilities		
Item	June 30,2012		Item	June 30,2012	
	NT$	US$		NT$	US$
Cash in bank	$43,200	$1,450	Other account payable	$6,548	$220
Financial assets at fair value through profit or loss	337,991	11,342	Reserve for separate account	374,749	12,576
Interests receivable	106	4			
Total	$381,297	$12,796	Total	$381,297	$12,796

Assets			Liabilities		
Item	June 30,2011		Item	June 30,2011	
	NT$	US$		NT$	US$
Cash in bank	$39,068	$1,357	Other account payable	$134	$5
Cash equivalent	3,119	108	Tax payable	1,803	63
Financial assets at fair value through profit or loss	422,770	14,685	Reserve for separate account	467,195	16,228
Interests receivable	31	1	Others	5,229	181
Others	9,373	326			
Total	$474,361	$16,477	Total	$474,361	16,477

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

b. Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1- June 30,2012		Item	January 1- June 30,2012	
	NT$	US$		NT$	US$
Cash surrender value	$89,949	$3,019	Premiums income	$41,499	$1,393
Losses on disposal of investment	8,549	287	Interest income	536	18
Administrative expenses	2,389	80	Recovery of separate account reserve	27,207	913
Others	601	20	Tax expenses	2,033	68
			Gains from valuation on financial assets	30,213	1,014
Total	$101,488	$3,406	Total	$101,488	$3,406

Expenses			Revenues		
Item	January 1- June 30,2011		Item	January 1- June 30,2011	
	NT$	US$		NT$	US$
Cash surrender value	$154,960	$5,383	Premiums income	$165,858	$5,761
Losses on disposal of investment	1,502	52	Interest income	442	15
Losses from valuation on financial assets	22,599	785	Recovery of separate account reserve	32	1
Administrative expenses	9,570	332	Tax expenses	751	26
			Gains on disposal of investment	21,548	749
Total	$188,631	$6,552	Total	$188,631	$6,552

(3) Discretionary account management

	June 30, 2012			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$102,828,950	$3,450,636	$102,828,950	$3,450,636
Overseas stocks	33,486,117	1,123,695	33,486,117	1,123,695
Repurchase bonds and notes	1,618,056	54,297	1,618,056	54,297
Beneficiary certificates	37,488,798	1,258,013	37,488,798	1,258,013
Cash in banks	37,882,153	1,271,213	37,882,153	1,271,213
Futures and options	1,847,737	62,005	1,847,737	62,005
Corporate bonds	882,609	29,618	882,609	29,618
Total	$216,034,420	$7,249,477	$216,034,420	$7,249,477

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

	June 30, 2011			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$94,160	$3,271	$94,160	$3,271
Repurchase bonds	490,096	17,023	490,096	17,023
Cash in banks	94,356	3,277	94,356	3,277
Beneficiary certificates	254,575	8,842	254,575	8,842
Futures and options	10,384	361	10,384	361
Total	$943,571	$32,774	$943,571	$32,774

As of June 30, 2012, the Company entered into discretionary account management contracts in the amounts of NT$139,500,000 (US$4,681,208) thousands, US$2,340,000 thousands and HK$6,350,000 (US$818,594) thousands. As of June 30, 2011, the amount is NT$1,000,000 (US$34,734) thousands.

(4) Revenues and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are allocated to the Company and its affiliates based on the attribution of the transactions.

(5) Financial risk management objectives and policies

The Company'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.

The Company also enters into derivative transactions such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps 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. The Company 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 parent company Cathay Financial Holding Co., Ltd., 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. The risk management policies are summarized as follows:

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. The Company 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 the Company'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 the Company's exposure to the credit risk, following evaluations and controls are performed:

The Company 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 the Company before committing to business lending, mortgage lending, policy loan, and securities investments. All business loans are secured by land, property, plant and equipment 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. The Company 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, 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, short-term notes (includes repurchase agreement) and domestic bond funds. 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.

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. The Company categorizes and manages the investment risk based on each country or region, as well as regularly monitors the concentration of foreign countries to minimize its country risk.

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

(6) Financial instruments related information

A. The Company

(a) Fair value

	June 30, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$381,568,170	$381,568,170	$12,804,301	$12,804,301
Receivables	54,177,319	54,177,319	1,818,031	1,818,031
Financial assets at fair value through profit or loss	51,362,998	51,362,998	1,723,591	1,723,591
Available-for-sale financial assets	1,227,806,737	1,227,806,737	41,201,568	41,201,568
Financial assets carried at cost	9,691,980	(Note)	325,234	(Note)
Investments under the equity method-Net	3,932,188	3,932,188	131,953	131,953
Investments in debt securities with no active market	699,663,559	700,706,652	23,478,643	23,513,646
Other financial assets	24,500,000	24,500,000	822,147	822,147
Guarantee deposits paid	14,259,168	14,259,168	478,495	478,495
Liabilities - non-derivative				
Payables	29,964,743	29,964,743	1,005,528	1,005,528
Preferred stock liability	30,000,000	31,013,328	1,006,712	1,040,716
Guarantee deposits received	1,998,558	1,998,558	67,066	67,066
Assets - derivative				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	3,419,787	3,419,787	114,758	114,758
IRS and CDS	191,893	191,893	6,439	6,439
Derivative financial assets for hedging				
IRS and CDS	1,561,602	1,561,602	52,403	52,403
Liabilities - derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	8,877,217	8,877,217	297,893	297,893
IRS and CDS	140,682	140,682	4,721	4,721

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

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

	June 30, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$398,256,434	$398,256,434	$13,833,151	$13,833,151
Receivables	48,907,545	48,907,545	1,698,769	1,698,769
Financial assets at fair value through profit or loss	16,511,518	16,511,518	573,516	573,516
Available-for-sale financial assets	653,655,337	653,655,337	22,704,249	22,704,249
Financial assets carried at cost	8,965,059	(Note)	311,395	(Note)
Investments under the equity method-Net	4,282,791	4,282,791	148,760	148,760
Investments in debt securities with no active market	443,629,683	436,607,079	15,409,159	15,165,234
Held-to-maturity financial assets	568,918,837	583,047,238	19,760,988	20,251,728
Other financial assets	33,100,000	33,100,000	1,149,705	1,149,705
Guarantee deposits paid	11,542,167	11,542,167	400,909	400,909
Liabilities - non-derivative				
Payables	28,598,832	28,598,832	993,360	993,360
Preferred stock liability	25,000,000	27,346,370	868,357	949,857
Guarantee deposits received	1,796,706	1,796,706	62,407	62,407
Assets – derivative				
Financial assets at fair value through profit or loss				
Option	14,956	14,956	519	519
Forward, CS and CCS	25,231,085	25,231,085	876,384	876,384
IRS and CDS	11,233	11,233	390	390
Derivative financial assets for hedging				
IRS and CDS	1,777,657	1,777,657	61,745	61,745
Liabilities - derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	1,962,121	1,962,121	68,153	68,153
IRS and CDS	406,230	406,230	14,110	14,110

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

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 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 the Company 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 the Company'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 the Company. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

(D) 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.

(E) If no quoted market prices exist for the Company's investments under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.

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

(F) As of June 30, 2012 and 2011, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	June 30, 2012			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$352,840,153	$11,840,274	$28,728,017	$964,027
Receivables	-	-	54,177,319	1,818,031
Financial assets at fair value through profit or loss	37,811,221	1,268,833	13,551,777	454,758
Available-for-sale financial assets	539,288,545	18,096,931	688,518,192	23,104,637
Investments under the equity method	-	-	3,932,188	131,953
Investment in debt securities with no active market	434,812,910	14,591,037	265,893,742	8,922,609
Other financial assets	-	-	24,500,000	822,147
Liabilities-non-derivative				
Payables	-	-	29,964,743	1,005,528
Preferred stock liability	-	-	31,013,328	1,040,716
Assets - derivative				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	-	-	3,419,787	114,758
IRS and CDS	-	-	191,893	6,439
Derivative financial assets for hedging				
IRS and CDS	-	-	1,561,602	52,403
Liabilities - derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	8,877,217	297,893
IRS and CDS	-	-	140,682	4,721

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to unaudited consolidated financial statements-continued

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

For the six-month periods ended June 30, 2012 and 2011

	June 30, 2011			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$385,838,482	$13,401,823	$12,417,952	$431,328
Receivables	-	-	48,907,545	1,698,769
Financial assets at fair value through profit or loss	16,191,674	562,406	319,844	11,110
Available-for-sale financial assets	627,713,283	21,803,171	25,942,054	901,078
Investments under the equity method	-	-	4,282,791	148,760
Investment in debt securities with no active market	-	-	436,607,079	15,165,234
Held-to-maturity financial assets	40,679,752	1,412,982	542,367,486	18,838,746
Other financial assets	-	-	33,100,000	1,149,705
Liabilities-non-derivative				
Payables	-	-	28,598,832	993,360
Preferred stock liability	-	-	27,346,370	949,857
Assets – derivative				
Financial assets at fair value through profit or loss				
Options	14,956	519	-	-
Forward, CS and CCS	-	-	25,231,085	876,384
IRS and CDS	-	-	11,233	390
Derivative financial assets for hedging				
IRS and CDS	-	-	1,777,657	61,745
Liabilities - derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	1,962,121	68,153
IRS and CDS	-	-	406,230	14,110

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

b. Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at June 30, 2012 and 2011:

(A) June 30, 2012

Non-derivative financial instruments of fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$2,858,714	$95,930	$215,408	$7,229	$118,557	$3,978	$1,441,428	$48,370
Available-for-sale financial assets	28,885,215	969,303	34,601,918	1,161,138	40,068,044	1,344,565	45,480,201	1,526,181
Investments in debt securities with no active market	8,683,254	291,384	13,297,305	446,218	32,779,713	1,099,991	5,226,211	175,376
Preferred stock liability	-	-	-	-	-	-	15,000,000	503,356

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$9,796,665	$328,747	$-	$-	$14,430,772	$484,254
Available-for-sale financial assets	48,936,828	1,642,175	513,068,491	17,217,064	711,040,697	23,860,426
Investments in debt securities with no active market	12,132,198	407,121	584,494,462	19,613,908	656,613,143	22,033,998
Preferred stock liability	10,000,000	335,571	5,000,000	167,785	30,000,000	1,006,712

Non-derivative financial instruments of float interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$272	$9	$21,143	$710	$186	$6	$3	$-
Available-for-sale financial assets	123,429,446	4,141,928	1,038,879	34,862	-	-	480,010	16,108
Investments in debt securities with no active market	-	-	-	-	1,400,431	46,994	-	-

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

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$8	$-	$2	$-	$21,614	$725
Available-for-sale financial assets	1,665,774	55,898	40,694,325	1,365,581	167,308,434	5,614,377
Investments in debt securities with no active market	-	-	41,649,985	1,397,651	43,050,416	1,444,645

Derivative financial instruments

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$5,995	$201	$46,005	$1,544	$-	$-
Derivative financial assets for hedging	61,138	2,052	446,258	14,975	792,899	26,607	-	-
Financial liabilities at fair value through profit or loss	-	-	42,343	1,421	85,739	2,877	8,138	273

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$2,486	$83	$115,139	$3,864	$169,625	$5,692
Derivative financial assets for hedging	153,043	5,136	108,264	3,633	1,561,602	52,403
Financial liabilities at fair value through profit or loss	4,462	150	-	-	140,682	4,721

(B) June 30, 2011

Non-derivative financial instruments of fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$2,593,720	$90,091	$1,098,966	$38,172	$214,059	$7,435	$257,342	$8,939
Available-for-sale financial assets	15,484,392	537,839	24,442,766	849,002	9,247,731	321,213	21,540,618	748,198
Held-to-maturity financial assets	10,132,032	351,929	22,006,641	764,385	29,188,849	1,013,854	24,835,489	862,643
Investments in debt securities with no active market	12,659,531	439,720	8,5826,292	298,239	8,275,141	287,431	19,874,541	690,328
Preferred stock liability	-	-	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$1,474,810	$51,226	$4	$-	$5,638,901	$195,863
Available-for-sale financial assets	28,641,858	994,855	108,792,803	3,778,840	208,150,168	7,229,947
Held-to-maturity financial assets	19,091,380	663,125	441,603,868	15,338,793	546,858,259	18,994,729
Investments in debt securities with no active market	3,784,011	131,435	366,494,267	12,729,915	419,673,783	14,577,068
Preferred stock liability	15,000,000	521,014	10,000,000	347,343	25,000,000	868,357

Non-derivative financial instruments of float interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$77,584	$2,695	$-	$-	$-	$-	$-	$-
Available-for-sale financial assets	141,841,618	4,926,767	-	-	-	-	-	-
Held-to-maturity financial assets	22,060,577	766,258	-	-	-	-	-	-
Investments in debt securities with no active market	23,955,900	832,091	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$77,584	$2,695
Available-for-sale financial assets	-	-	-	-	141,841,618	4,926,767
Held-to-maturity financial assets	-	-	-	-	22,060,577	766,258
Investments in debt securities with no active market	-	-	-	-	23,955,900	832,091

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

Derivative financial instruments

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$2,428	$84	$6,321	$220
Derivative financial assets for hedging	5,374	187	124,942	4,340	596,240	20,710	905,959	31,468
Financial liabilities at fair value through profit or loss	-	-	-	-	39,719	1,379	205,065	7,123

-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$1,545	$54	$-	$-	$10,294	$358
Derivative financial assets for hedging	-	-	145,142	5,041	1,777,657	61,746
Financial liabilities at fair value through profit or loss	-	-	-	-	244,784	8,502

c. Credit risk

The Company doesn’t expose to concentrations of credit risk.

d. Hedged accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company’s interest rate swap for bonds used as hedging instruments at June 30, 2012 and 2011:

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

(A) June 30, 2012

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$2,000,000	$67,114	90DCP	Each quarter	2012.9.9
2,000,000	67,114	90DCP	Each quarter	2012.10.11
700,000	23,490	90DCP	Each quarter	2012.11.24
2,000,000	67,114	90DCP	Yearly	2013.3.26
2,425,000	81,376	90DCP	Each quarter	2013.4.24
3,600,000	120,805	90DCP	Each quarter	2013.6.8
2,700,000	90,604	90DCP+25bps	Each quarter	2013.8.24
3,000,000	100,671	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	67,114	90DCP	Yearly	2013.11.3
1,000,000	33,557	90DCP+26.5bps	Yearly	2013.12.14
500,000	16,779	90DCP+23bps	Yearly	2013.12.14
1,500,000	50,336	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,557	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,201	90DCP	Yearly	2014.3.12
1,000,000	33,557	90DCP	Yearly	2014.6.12
3,000,000	100,671	90DCP	Each quarter	2014.6.25
1,810,000	60,738	90DCP	Each quarter	2014.6.26
2,000,000	67,114	90DCP	Yearly	2014.6.29
5,000,000	167,785	90DCP	Yearly	2014.8.23
1,000,000	33,557	90DCP	Yearly	2014.9.20
3,200,000	107,383	90DCP	Yearly	2014.9.27
2,000,000	67,114	90DCP	Each quarter	2014.9.28
1,500,000	50,336	90DCP	Yearly	2014.9.29
2,500,000	83,893	90DCP	Yearly	2014.12.20
2,000,000	67,114	90DCP	Yearly	2014.12.24
2,300,000	77,181	90DCP	Each quarter	2015.3.25
1,500,000	50,336	90DCP	Each quarter	2015.5.9
2,543,500	85,352	90DCP	Each quarter	2016.10.23
900,000	30,201	90DCP	Each quarter	2016.10.24
1,200,000	40,268	90DCP	Each quarter	2017.10.25
1,400,000	46,980	90DCP	Each quarter	2017.12.9
600,000	20,134	90DCP	Each quarter	2020.9.23

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

(B) June 30, 2011

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$2,000,000	$69,469	90DCP	Each quarter	2011.9.9
1,000,000	34,734	90DCP	Each quarter	2012.6.26
2,000,000	69,469	90DCP	Each quarter	2012.9.9
2,000,000	69,469	90DCP	Each quarter	2012.10.11
700,000	24,314	90DCP	Each quarter	2012.11.24
2,000,000	69,469	90DCP	Yearly	2013.3.26
2,425,000	84,231	90DCP	Each quarter	2013.4.24
3,600,000	125,043	90DCP	Each quarter	2013.6.8
2,700,000	93,783	90DCP+25bps	Each quarter	2013.8.24
3,000,000	104,203	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	69,469	90DCP	Yearly	2013.11.3
1,000,000	34,734	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,367	90DCP+23bps	Yearly	2013.12.14
1,500,000	52,101	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,734	90DCP+26.5bps	Yearly	2013.12.16
900,000	31,261	90DCP	Yearly	2014.3.12
1,000,000	34,734	90DCP	Yearly	2014.6.12
3,000,000	104,203	90DCP	Each quarter	2014.6.25
1,810,000	62,869	90DCP	Each quarter	2014.6.26
2,000,000	69,469	90DCP	Yearly	2014.6.29
5,000,000	173,671	90DCP	Yearly	2014.8.23
1,000,000	34,734	90DCP	Yearly	2014.9.20
3,200,000	111,150	90DCP	Yearly	2014.9.27
2,000,000	69,469	90DCP	Each quarter	2014.9.28
1,500,000	52,101	90DCP	Yearly	2014.9.29
2,500,000	86,836	90DCP	Yearly	2014.12.20
2,000,000	69,469	90DCP	Yearly	2014.12.24
2,300,000	79,889	90DCP	Each quarter	2015.3.25
1,500,000	52,101	90DCP	Each quarter	2015.5.9
2,543,500	88,347	90DCP	Each quarter	2016.10.23
900,000	31,261	90DCP	Each quarter	2016.10.24
1,200,000	41,681	90DCP	Each quarter	2017.10.25
1,400,000	48,628	90DCP	Each quarter	2017.12.9
600,000	20,841	90DCP	Each quarter	2020.9.23

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

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

The Company's interest rate swap agreements are considered to be highly effective cash flow hedges. As of June 30, 2012 and 2011, unrealized gains on these financial instruments recognized in equity were NT$1,561,914 (US$52,413) thousands and NT$1,787,115 (US$62,074) thousands, respectively.

B. Symphox Information

	June 30, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$521,104	$521,104	$17,487	$17,487
Receivables	179,188	179,188	6,013	6,013
Financial assets at fair value through profit and loss	114,801	114,801	3,852	3,852
Available-for-sale-financial assets	1,000	1,000	34	34
Guarantee deposits paid	8,210	8,210	276	276
Liabilities - non-derivative				
Payables	195,109	195,109	6,547	6,547
Guarantee deposits received	62	62	2	2

	June 30, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$545,217	$545,217	$18,938	$18,938
Receivables	183,907	183,907	6,388	6,388
Financial assets at fair value through profit and loss	182,981	182,981	6,356	6,356
Guarantee deposits paid	8,895	8,895	309	309
Liabilities - non-derivative				
Payables	174,361	174,361	6,056	6,056
Guarantee deposits received	63	63	2	2

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

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

(A) The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

(B) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Symphox Information 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 Symphox Information'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 Symphox Information.

(D) The fair values of Symphox Information's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	June 30, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$521,104	$17,487	$-	$-
Receivables	-	-	179,188	6,013
Financial assets at fair value through profit or loss	114,801	3,852	-	-
Available-for-sale financial assets	-	-	1,000	34
Liabilities - non-derivative				
Payables	-	-	195,109	6,547

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

	June 30, 2011			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$545,217	$18,938	$-	$-
Receivables	-	-	183,907	6,388
Financial assets at fair value through profit or loss	182,981	6,356	-	-
Liabilities - non-derivative				
Payables	-	-	174,361	6,056

C. Cathay Life (China)

	June 30, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$3,539,607	$3,539,607	$118,779	$118,779
Receivables	405,807	405,807	13,618	13,618
Financial assets at fair value through profit and loss	487,514	487,514	16,360	16,360
Available-for-sale financial assets	4,839,444	4,839,444	162,397	162,397
Investment in debt securities with no active market	517,616	517,616	17,369	17,369
Guarantee deposits paid	1,195,485	1,195,485	40,117	40,117
Liabilities – non-derivative				
Payables	401,747	401,747	13,481	13,481
Short-term debt	341,620	341,620	11,464	11,464
Guarantee deposits received	9,117	9,117	306	306

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

	June 30, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$3,944,124	$3,944,124	$136,996	$136,996
Receivables	351,376	351,376	12,205	12,205
Financial assets at fair value through profit and loss	373,306	373,306	12,967	12,967
Available-for-sale financial assets	5,596,456	5,596,456	194,389	194,389
Investment in debt securities with no active market	227,245	227,245	7,893	7,893
Guarantee deposits paid	1,136,740	1,136,740	39,484	39,484
Liabilities – non-derivative				
Payables	318,949	318,949	11,078	11,078
Short-term debt	105,155	105,155	3,652	3,652
Guarantee deposits received	7,510	7,510	261	261

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

(A) The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

(B) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the 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 (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 received is based on the carrying amount as Cathay Life (China) predicts the future cash inflow or outflow will be of similar amount to the carrying value.

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

(D) The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

	June 30, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$3,539,607	$118,779	$-	$-
Receivables	-	-	405,807	13,618
Financial assets at fair value through profit or loss-current	487,514	16,360	-	-
Available-for-sale financial assets	1,334,345	44,776	3,505,099	117,621
Investment in debt securities with no active market	-	-	517,616	17,369
Liabilities - non-derivative				
Payables	-	-	401,747	13,481
Short-term debt	341,620	11,464	-	-

	June 30, 2011			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$3,944,124	$136,996	$-	$-
Receivables	-	-	351,376	12,205
Financial assets at fair value through profit or loss	373,306	12,967	-	-
Available-for-sale financial assets	1,285,978	44,668	4,310,478	149,721
Investment in debt securities with no active market	-	-	227,245	7,893
Liabilities - non-derivative				
Payables	-	-	318,949	11,078
Short-term debt	105,155	3,652	-	-

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

D. Cathay Life (Vietnam)

	June 30, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$430,243	$430,243	$14,437	$14,437
Receivables	136,255	136,255	4,572	4,572
Available-for-sale financial assets	1,062,954	1,062,954	35,670	35,670
Guarantee deposits paid	40,048	40,048	1,344	1,344
Liabilities - non-derivative				
Payables	16,818	16,818	564	564

	June 30, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$328,025	$328,025	$11,394	$11,394
Receivables	108,138	108,138	3,756	3,756
Available-for-sale financial assets	998,862	998,862	34,695	34,695
Guarantee deposits paid	39,125	39,125	1,359	1,359
Liabilities - non-derivative				
Payables	24,570	24,570	853	853

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

(A) The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

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

(B) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the 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 (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 and guarantee deposits received is based on the carrying amount as Cathay Life (Vietnam) predicts the future cash inflow or outflow will be of similar amount to the carrying value.

(D) The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

	June 30, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$430,243	$14,437	$-	$-
Receivables	-	-	136,255	4,572
Available-for-sale financial assets-noncurrent	1,062,954	35,670	-	-
Liabilities - non-derivative				
Payables	-	-	16,818	564

	June 30, 2011			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets - non-derivative				
Cash and cash equivalents	$328,025	$11,394	$-	$-
Receivables	-	-	108,138	3,756
Available-for-sale financial assets	998,862	34,695	-	-
Liabilities - non-derivative				
Payables	-	-	24,570	853

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

(7) Eliminated intercompany transactions

A. Eliminated intercompany transactions for the six-month period of 2012

Transactions	Companies and amounts							
	The Company		Symphox Information		Cathay Life (China)		Cathay Life (Vietnam)	
Eliminations of investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$(19,748)	$(663)	$14,456	$485	$13,600	$456	$(8,308)	$(278)
Eliminations of stockholders' equity on subsidiaries	2,706,492	90,822	546,436	18,337	1,878,876	63,049	1,438,537	48,273

Note: The intercompany elimination differences for the first half year of 2012 are minority interests: NT$1,157,357 (US$38,837) thousands.

B. Eliminated intercompany transactions for the six-month period of 2011

Transactions	Companies and amounts							
	The Company		Symphox Information		Cathay Life (China)		Cathay Life (Vietnam)	
Eliminations of investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$73,510	$2,553	$20,740	$720	$(75,279)	$(2,614)	$(18,971)	$(659)
Eliminations of stockholders' equity on subsidiaries	2,786,188	96,776	550,190	19,110	2,153,516	74,801	1,378,656	47,886

Note: The intercompany elimination differences for the first half year of 2011 are minority interests: NT$1,296,174 (US$45,021) thousands.

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

37. Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2012.06.30			2011.06.30		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$34,397,908	29.900000	$1,028,497,452	$33,187,009	28.802000	$955,852,233
EUR	614,085	37.581310	23,078,100	311,825	41.732660	13,013,285
GBP	428,732	46.738185	20,038,168	277,748	46.297770	12,859,112
CHN	17,189,095	4.700704	80,800,841	1,943,091	4.454377	8,655,260
Non-Monetary Items						
USD	2,612,279	29.900000	78,173,378	2,229,774	28.802000	64,361,711
HKD	8,522,815	3.855179	32,856,980	5,667,522	3.700820	20,974,479
Investments Under The Equity Method						
CNY	112,317	4.705600	528,520	147,479	4.455800	657,135
USD	3,875	29.900000	115,870	4,167	28.802000	120,007

38. 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, the Company consistently adjusts the hedge ratios and risk exposure position under the risk control.

B. Adjustment in foreign exchange volatility reserve:

	June 30, 2012	
	NT$	US$
Beginning balance (The first money)	$4,511,406	$151,390
Reserve:		
Compulsory reserve	602,404	20,215
Extra reserve	528,025	17,719
Subtotal	1,130,429	37,934
Recover	575,410	19,309
Total	$5,066,425	$170,015

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

C. Effects due to foreign exchange volatility reserve:

	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
Item	NT$	US$	NT$	US$	NT$	US$
Consolidated income	$(1,039,028)	$(34,866)	$(1,499,694)	$(50,325)	$(460,666)	$(15,459)
Earnings per share	(0.20)	(0.01)	(0.28)	(0.01)	(0.08)	-
Foreign exchange volatility reserve	-	-	5,066,425	170,015	5,066,425	170,015
Stockholders' equity	115,934,576	3,890,422	115,473,910	3,874,963	(460,666)	(15,459)

39. Pre-disclosure for adoption of international financial reporting standards

The Financial Supervisory Commission ("FSC") requires insurance enterprises to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations ("IFRSs") approved and promulgated by the FSC, starting 2013.

Under Rule No. 10002506141 issued by the FSC, the main contents of the plan which the Company and Subsidiaries required to be disclosed were as follows:

Contents of Plan	Responsible Department or Personnel	Status of Execution
1. Assess stage: 2010/1/1~2011/12/31		
◎Make a plan to adopt IFRSs and establish a project team	Accounting department and other authorized departments	Finished
◎Proceed initial internal training	Accounting department and other authorized departments	Finished
◎Identify differences between the existing accounting policies and IFRSs	Accounting department and other authorized departments	Finished
◎Identify the adjustment required for existing accounting policies	Accounting department and other authorized departments	Finished
◎Select voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards" and assess the impact of these exemptions	Accounting department and other authorized departments	Finished

Contents of Plan	Responsible Department or Personnel	Status of Execution
◎Identify the adjustments required for IT system and internal controls	Accounting department , IT department and Audit department	Finished
2. Prepare stage: 2011/1/1~2012/12/31		
◎Finalize the accounting policies under IFRSs	Accounting department and other authorized departments	Finished
◎Finalize the selection of voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Accounting department and other authorized departments	Finished
◎Finalize adjustments to the IT system and internal control.	Accounting department, IT department and Audit department	In process
◎Proceed advanced internal training	Accounting department and other authorized departments	In process
3. Practice stage: 2012/1/1~2013/12/31		
◎Test the operation of IT system	Accounting department, IT department and other authorized departments	In process
◎Prepare opening IFRSs balance sheet and comparative financial statements	Accounting department	Finished
◎Prepare IFRSs financial statements	Accounting department	In process

The Company and Subsidiaries assess the material differences in accounting policies based on the IFRSs as recognized by the FSC and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise expected to become effective in 2013. However, these assessments may be changed as the FSC may recognize different versions of IFRSs or amend the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise in the future. Furthermore, the Company and Subsidiaries have decided the accounting policies to be adopted under IFRSs based on the current circumstances, if 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."

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 Insurance Enterprises are described in the table below:

Financial Instruments	Under the requirements of the existing Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, equity investments in unlisted entities or entities traded on emerging stock market should be measured at cost. However under the requirements of IFRSs, 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.
Investment Property	For the Company first-time adopted IFRSs, it is eligible to exempt from the regulation of IFRS 1. The cost of certain investment property can be recognized at fair value. And the rest should apply retrospective application of IAS 40 in accordance with the materiality principle.
Property, Plant and Equipment	For the Company first-time adopted IFRSs, it should apply retrospective application of IAS 16 in accordance with the materiality principle.
Leases	Leases of the Company's properties are currently classified as operating leases as they are not qualified as capital leases under R.O.C. GAAP. However under the requirements of IFRSs, a lease is classified as a finance lease, if substantially all the risks and rewards of a leased asset lie with the lessee under the lease agreement.
Income Taxes	Under the requirements of R.O.C. 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 IFRSs, a deferred tax asset shall be recognized to the extent that it is probable that would be utilized.

<table>
<tr><td rowspan="3">Employee Benefits</td><td>The Company has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under R.O.C. GAAP. However under the requirements of IFRSs, 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 active market in such bonds, the market yields on government bonds shall be used.</td></tr>
<tr><td>Under the requirements of R.O.C. 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.</td></tr>
<tr><td>Under the requirements of R.O.C. 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.</td></tr>
<tr><td>Special Reserve</td><td>Special reserve is recently listed under the liabilities in accordance with the requirement of the “Regulations Governing the Setting Aside of Various Reserve by Insurance Enterprise.” However, based upon IFRSs requirement, the special reserve should not be listed under liabilities.
In response to trends in international accounting practices and the planned implementation of the Statement of Financial Accounting Standards No. 40 in 2011, the FSC recently revised the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” to switch the special reserves from the liabilities to owners’ equity.</td></tr>
<tr><td>Customer Loyalty Programmes</td><td>Symphox Information Co., Ltd. recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates 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 Symphox Information fulfills its obligations to supply awards.</td></tr>
</table>

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

The preliminary assessment on the monetary impacts of the material differences and effects between the existing accounting policies and the accounting policies to be adopted under IFRSs is as follows：

Reconciliation of the balance sheet as of January 1, 2012:

Unit：NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$379,048,580	$-	$379,048,580	
Receivables	46,130,916	362,935	46,493,851	1
Investments	2,514,358,680	3,507,954	2,517,866,634	2,3
Reinsurance reserve assets - Net	9,168,433	-	9,168,433	
Property and equipment - Net	13,326,813	8,444,448	21,771,261	3,4
Intangible assets	396,833	-	396,833	
Other assets	33,315,273	(6,790,315)	26,524,958	7,8,10
Separate account product assets	294,051,012	-	294,051,012	
Total assets	3,289,796,540	5,525,022	3,295,321,562	
Payables	22,611,251	61,699	22,672,950	1
Financial liabilities	47,670,059	-	47,670,059	
Insurance liabilities	2,803,536,690	(3,760,504)	2,799,776,186	5,6
Provision	-	346,155	346,155	7
Other liabilities	8,369,185	4,367,505	12,736,690	8,9,10
Separate account product liabilities	294,051,012	-	294,051,012	
Total liabilities	3,176,238,197	1,014,855	3,177,253,052	
Common stock	53,065,274	-	53,065,274	
Capital surplus	13,009,649	-	13,009,649	
Legal reserve	9,150,054	-	9,150,054	
Special reserve	27,624,972	4,511,406	32,136,378	5
Unappropriated retained earnings	(286,071)	2,993,820	2,707,749	1~10
Equity adjustments	9,860,696	(2,994,565)	6,866,131	2,4,8,10
Minority interests	1,133,769	(494)	1,133,275	4,8,9
Total stockholders' equity	113,558,343	4,510,167	118,068,510	

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

Unit：US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$12,522,252	$-	$12,522,252	
Receivables	1,523,981	11,990	1,535,971	1
Investments	83,064,377	115,889	83,180,266	2,3
Reinsurance reserve assets - Net	302,888	-	302,888	
Property and equipment - Net	440,265	278,971	719,236	3,4
Intangible assets	13,110	-	13,110	
Other assets	1,100,604	(224,325)	876,279	7,8,10
Separate account product assets	9,714,272	-	9,714,272	
Total assets	108,681,749	182,525	108,864,274	
Payables	746,986	2,038	749,024	1
Financial liabilities	1,574,829	-	1,574,829	
Insurance liabilities	92,617,664	(124,232)	92,493,432	5,6
Provision	-	11,436	11,436	7
Other liabilities	276,484	144,285	420,769	8,9,10
Separate account product liabilities	9,714,272	-	9,714,272	
Total liabilities	104,930,235	33,527	104,963,762	
Common stock	1,753,065	-	1,753,065	
Capital surplus	429,787	-	429,787	
Legal reserve	302,281	-	302,281	
Special reserve	912,619	149,039	1,061,658	5
Unappropriated retained earnings	(9,451)	98,903	89,452	1~10
Equity adjustments	325,758	(98,928)	226,830	2,4,8,10
Minority interests	37,455	(16)	37,439	4,8,9
Total stockholders' equity	3,751,514	148,998	3,900,512	

Note：The exchange rate provided by the Federal Reserve Bank of New York on January 1, 2012 was NT$ 30.27 to US$ 1.00.

Reconciliation items are as follows：

1. The Company adopted IAS 17 to recognize rent revenue under the straight-line method during the lease term. As of January 1, 2012, the IFRSs adjustment resulted in increases of other receivables by NT$362,935 (US$11,990) thousands, tax payables by NT$61,699 (US$2,038) thousands and an increase of retained earnings by NT$301,236(US$9,952).

2. According to the IAS 39, the Company reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. As of January 1, 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT$10,615,151 (US$350,682) thousands and unrealized gains on financial instruments by NT$426,603 (US$14,093) thousands. The adjustment also made decreases of financial assets carried at cost by NT$10,191,832 (US$336,697) thousands and retained earnings by NT$37,960 (US$1,254) thousands.

3. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IFRS 1, the Company identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions. The others were retrospectively applied to the IAS 40. The Company assessed the net increase in fair value of investment property was NT$18,243,350 (US$602,687) thousands as of January 1, 2012, and reviewed each significant components resulted in retrospectively recognizing accumulated depreciation by NT$2,664,823 (US$88,035) thousands and the increase in retained earnings by NT$13,850,603 (US$457,568) thousands. In addition, the Company reclassified investment property to property and equipment by NT$12,493,892 (US$412,748) thousands.

4. The Company determined revalued amount of some properties as deemed cost according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and retrospectively adopted IAS 16. The Company assessed that significant components of property and equipment resulted in retrospectively recognizing accumulated depreciation by NT$4,048,868 (US$133,758) thousands, decreases of retained earnings and unrealized revaluation increments by NT$3,359,099 (US$110,971) thousands and NT$1,462 (US$48) thousands, respectively on January 1, 2012. According to IAS 16, Symphox Information adjusted useful life of fixed assets to economic life, and therefore resulted in recognizing accumulated depreciation by NT$576 (US$19) thousands, decreases of retained earnings and minority interests by NT$287 (US$9) thousands and NT$191 (US$6) thousands, respectively.

5. In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the “Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the reserves under liability recorded before December 31, 2012 should be reclassified to special reserve considering of balance after tax according to the IAS 12 under stockholders’ equity on January 1, 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to January 1, 2012. As of January 1, 2012, the “Special Reserves for Major Incidents” and “Special Reserve for Fluctuation of Risks” are amounted to NT$9,022,812 (US$298,078) thousands. The half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on March 1, 2012, and the rest of it NT$4,511,406 (US$149,039) was diverted to special reserve under equity since January 1, 2012. In addition, retained earnings was deducted by NT$766,939 (US$25,337) thousands due to the effect of deferred income tax.

6. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of other accountings first-time adopted to IFRSs, the exceeds should be recognized as special reserve under insurance liabilities by full amount at the date of transition. The transition resulted in recognizing special reserve by NT$750,902 (US$24,807) thousands and a corresponding decrease of retained earnings.

7. The Company adopted IAS 37 to assess the provisions due to taxation administrative remedy. After assessment, the Company should increase provisions by NT$346,155 (US$11,436) thousands, decrease other assets and retained earnings by NT$60,483 (US$1,998) thousands and NT$406,638 (US$13,434) thousands respectively on January 1, 2012.

8. The Company and Symphox Information adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to the IFRS 1. As of January 1, 2012, the IFRSs adjustment resulted in increases of accrual pension liability and prepaid pension by NT$1,414,590 (US$46,732) thousands and NT$1,591 (US$53) thousands, respectively, decreases of retained earnings by NT$1,596,346 (US$52,738) thousands, increases of minority interests by NT$527 (US$17) thousands, and decreases net loss not recognized as pension cost by NT$509,674 (US$16,838) thousands.

9. According to IFRIC 13 "Customer Loyalty Programmes", the initial sale should be partially allocated to the award credits given and should be recognized as deferred revenue, the consideration allocated to the award credits should be deferred and only recognized as revenue when award credit are redeemed and Symphox Information fulfills its obligations to supply awards. Therefore, the adjustment resulted in an increase of accounts collected in advance by NT$2,507 (US$83) thousands, and decreases of retained earnings and minority interests by NT$1,251(US$41) thousands and NT$830(US$27) thousands, respectively.

10. According to the IAS 12, the Company and Symphox Information reviewed income tax effects resulted from adjustment items above, the adjustment totally recognized deferred tax assets and deferred tax liabilities by NT$1,434,300 (US$47,383) thousands and NT$2,948,154 (US$97,396) thousands, respectively. In addition, assessing income tax effects directly recognized in other comprehensive incomes or equity items, the Company should decrease in recognition of deferred tax assets and unrealized gains or losses on financial instruments by NT$3,929,380 (US$129,811) thousands. In addition, the Company assessed that unused tax loss carryforward would not probably realize and decreased in recognition of deferred tax assets and the amount of retained earnings by NT$4,238,597 (US$140,026) thousands and a corresponding decrease of retained earnings. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT$2,254(US$74) thousands.

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to unaudited consolidated financial statements-continued

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

For the six-month periods ended June 30, 2012 and 2011

Reconciliation of the balance sheet as of June 30, 2012:

Unit：NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$386,059,124	$-	$386,059,124	
Receivables	54,674,135	511,463	55,185,598	1,7
Investments	2,674,831,770	3,706,011	2,678,537,781	2,3
Reinsurance reserve assets – Net	8,788,865	-	8,788,865	
Property and equipment – Net	15,061,644	8,436,930	23,498,574	3,4
Intangible assets	356,606	-	356,606	
Other assets	35,577,073	(6,575,576)	29,001,497	8,11
Separate account product assets	294,782,839	-	294,782,839	
Total assets	3,470,132,056	6,078,828	3,476,210,884	
Payables	30,428,539	53,669	30,482,208	1,10
Financial liabilities	39,359,519	-	39,359,519	
Insurance liabilities	2,981,665,338	(3,671,487)	2,977,993,851	5,6
Provision	-	346,155	346,155	7
Other liabilities	8,421,911	4,342,315	12,764,226	8,9,11
Separate account product liabilities	294,782,839	-	294,782,839	
Total liabilities	3,354,658,146	1,070,652	3,355,728,798	
Common stock	53,065,274	-	53,065,274	
Capital surplus	13,009,649	-	13,009,649	
Legal reserve	9,241,230	-	9,241,230	
Special reserve	27,247,725	4,511,406	31,759,131	5
Unappropriated retained earnings	(1,522,884)	3,094,129	1,571,245	1~11
Equity adjustments	13,275,559	(2,597,358)	10,678,201	2,4,8,11
Minority interests	1,157,357	(1)	1,157,356	8,9,10
Total stockholders' equity	115,473,910	5,008,176	120,482,086	

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

Unit：US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$12,955,004	$-	$12,955,004	
Receivables	1,834,702	17,163	1,851,865	1,7
Investments	89,759,455	124,363	89,883,818	2,3
Reinsurance reserve assets – Net	294,928	-	294,928	
Property and equipment – Net	505,424	283,118	788,542	3,4
Intangible assets	11,967	-	11,967	
Other assets	1,193,862	(220,657)	973,205	8,11
Separate account product assets	9,892,042	-	9,892,042	
Total assets	116,447,384	203,987	116,651,371	
Payables	1,021,092	1,801	1,022,893	1,10
Financial liabilities	1,320,789	-	1,320,789	
Insurance liabilities	100,055,884	(123,204)	99,932,680	5,6
Provision	-	11,616	11,616	7
Other liabilities	282,614	145,715	428,329	8,9,11
Separate account product liabilities	9,892,042	-	9,892,042	
Total liabilities	112,572,421	35,928	112,608,349	
Common stock	1,780,714	-	1,780,714	
Capital surplus	436,566	-	436,566	
Legal reserve	310,108	-	310,108	
Special reserve	914,353	151,389	1,065,742	5
Unappropriated retained earnings	(51,103)	103,830	52,727	1～11
Equity adjustments	445,488	(87,160)	358,328	2,4,8,11
Minority interests	38,837	-	38,837	8,9,10
Total stockholders' equity	3,874,963	168,059	4,043,022	

Reconciliation items are as follows：

1. The Company adopted IAS 17 to recognize rent revenue under the straight-line method during the lease term. The IFRSs adjustment resulted in increases of other receivables by NT$310,753 (US$10,428) thousands, tax payables by NT$52,828 (US$1,773) thousands, retained earnings by NT$301,236 (US$10,108) thousands, decrease of rent revenue by NT$52,182 (US$1,751) thousands and an increase of income tax benefit by NT$8,871 (US$298) thousands.

2. According to the IAS 39, the Company reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. As of June 30, 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT$10,380,761 (US$348,348) thousands, unrealized gains on financial instruments by NT$697,792 (US$23,416) thousands. The adjustment also made decreases of financial assets carried at cost by NT$9,691,979 (US$325,234) thousands and retained earnings by NT$37,960 (US$1,273) thousands.

3. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IFRS 1, the Company identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions. The others were retrospectively applied to the IAS 40. The Company assessed the net increase in fair value of investment property was NT$18,243,350 (US$612,193) thousands as of June 30, 2012, and reviewed each significant components resulted in retrospectively recognizing accumulated depreciation by NT$1,867,911 (US$62,682) thousand and the increases in retained earnings by NT$13,850,603 (US$464,785) thousands, depreciation expense by NT$75,500 (US$2,533) thousands and income tax benefit by NT$12,835(US$430). In addition, the Company reclassified investment property to property and equipment by NT$13,358,210 (US$448,262) thousands.

4. The Company determined revalued amount of some properties as deemed cost according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and retrospectively adopted IAS 16. The Company assessed that significant components of property and equipment resulted in retrospectively recognizing accumulated depreciation by NT$4,921,280 (US$165,144) thousands, decreases of retained earnings and unrealized revaluation increments by NT$3,359,099 (US$112,721) thousands and NT$1,462 (US$49) thousands, respectively.

5. In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the “Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the reserves under liability recorded before December 31, 2012 should be reclassified to special reserve considering of balance after tax according to the IAS 12 under stockholders’ equity on January 1, 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to January 1, 2012. The adjustment resulted in a decrease of “Special Reserves for Major Incidents” and “Special Reserve for Fluctuation of Risks” by NT$4,422,389 (US$148,402) thousands, a decrease of changes in provision for special reserves by NT$89,017 (US$2,987) thousands and an increase of special reserve under equity by NT$4,511,406 (US$151,389) thousands. In addition, retained earnings will be deducted by NT$766,939 (US$25,736) thousands due to the effect of deferred income tax.

6. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of other accountings first-time adopted to IFRSs, the exceeds should be recognized as special reserve under insurance liabilities by full amount at the date of transition. The transition resulted in recognizing special reserve by NT$750,902 (US$25,198) thousands and a corresponding decrease of retained earnings.

7. The Company adopted IAS 37 to assess the provisions due to taxation administrative remedy. After assessment, the Company should increase provisions by NT$346,155 (US$11,616) thousands, decrease retained earnings by NT$406,638 (US$13,646) thousands. In addition, the reversal recognition resulted in increases of tax receivables by NT$200,710 (US$6,735) thousands and income tax benefit NT$261,192 (US$8,765) thousands.

8. The Company and Symphox Information adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to the IFRS 1. As of June 30, 2012, the IFRSs adjustment resulted in increases of accrual pension liability by NT$1,391,291 (US$46,688) thousands, prepaid pension by NT$1,590 (US$53) thousands and decreases of retained earnings by NT$1,596,346 (US$53,569) thousands, increases of minority interests by NT$527 (US$17) thousands, and decreases net loss not recognized as pension cost by NT$509,674 (US$17,103) thousands, respectively. In addition, the adjustment resulted in decreases of pension expense and income tax benefit by NT$23,299 (US$782) thousands and NT$3,961 (US$133) thousands, respectively.

9. According to IFRIC 13 “Customer Loyalty Programmes”, the initial sale should be partially allocated to the award credits given and should be recognized as deferred revenue, the consideration allocated to the award credits should be deferred and only recognized as revenue when award credit are redeemed and Symphox Information fulfills its obligations to supply awards. Therefore, the adjustment resulted in an increase of accounts collected in advance by NT$2,507 (US$84) thousands, and decreases of retained earnings and minority interests by NT$1,251 (US$41) thousands and NT$830 (US$28) thousands, respectively. In addition, Symphox Information recognized operating revenue and decreases accounts collected in advance by NT$1,875 (US$63) thousands, resulting in a decrease of income taxes benefit by NT$372 (US$13) thousands.

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

10. The adjustments of Symphox Information would affect operating expenses such as employee benefits and income taxes benefit under IFRSs. The adjustments resulted in increases of payables by NT$841 (US$28) thousands, operating cost by NT$148(US$5) thousands, and decreases of retained earnings by NT$287 (US$10) thousands, minority interests by NT$191 (US$6) thousands, operating expense by NT$276 (US$9) thousands and income taxes benefit by NT$394 (US$13) thousands. In addition, the adjustments resulted in an increase of minority interests by NT$493 (US$17) thousands.

11. According to the IAS 12, the Company and Symphox Information reviewed income tax effects resulted from adjustment items above, the adjustment totally recognized deferred tax assets and deferred tax liabilities by NT$1,448,527 (US$48,609) thousands and NT$2,948,154 (US$98,931) thousands, respectively. Also, assessing income tax effects directly recognized in other comprehensive incomes or equity items, the Company should decrease in recognition of deferred tax assets and unrealized gains or losses on financial instruments by NT$3,803,362 (US$127,630) thousands. In addition, the Company assessed that unused tax loss carryforward would not probably realize and resulted in decreases of retained earnings by NT$4,238,597 (US$142,235) thousands and deferred tax assets by NT$4,224,569 (US$141,764) thousands, and resulted in increases of income tax benefit by NT$14,028 (US$471) thousands. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT$2,238 (US$75) thousands.

Reconciliation of the income statement for the three months period ended June 30, 2012:

Unit：NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Operating revenue	$337,822,361	$(50,307)	$337,772,054	1,9
Operating cost	(332,085,339)	(89,165)	(332,174,504)	5,10
Gross margin	5,737,022	(139,472)	5,597,550	
Operating expense	(8,232,366)	(51,925)	(8,284,291)	3,8,10
Operating loss	(2,495,344)	(191,397)	(2,686,741)	
Non-operating revenue and expenses	479,592	-	479,592	
Loss from continuing operations before income taxes	(2,015,752)	(191,397)	(2,207,149)	
Income taxes benefit	516,058	292,199	808,257	1,3,7~11
Consolidated loss	(1,499,694)	100,802	(1,398,892)	

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

Unit：US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Operating revenue	$11,336,321	$(1,688)	$11,334,633	1,9
Operating cost	(11,143,803)	(2,992)	(11,146,795)	5,10
Gross margin	192,518	(4,680)	187,838	
Operating expense	(276,254)	(1,742)	(277,996)	3,8,10
Operating loss	(83,736)	(6,422)	(90,158)	
Non-operating revenue and expenses	16,094	-	16,094	
Loss from continuing operations before income taxes	(67,642)	(6,422)	(74,064)	
Income taxes benefit	17,317	9,805	27,122	1,3,7~11
Consolidated loss	(50,325)	3,383	(46,942)	

About reconciliation of income statements, please refer to the notes of reconciliation of balance sheets.

(3) 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 Company is as follows：

A. The Company has elected to regard the revalued amount under previous GAAP as the deemed costs for certain items of land and buildings as at the date of revaluation.

B. The Company has elected to use the fair value at the date of transition to be the deemed costs for certain investment properties as at that date.

C. The Company has recognized all cumulative actuarial gains and losses directly to retained earnings as at January 1, 2012.

D. The Company has selected to disclose present value of defined pension plan, fair value of plan assets, surplus or shortage of the plans, and experience adjustment information required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.

E. The Company designates financial instruments which were recognized as financial assets carried at cost previously as available-for-sale financial assets at the date of transition.

40. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$22,850 thousands and US$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US$50,000 to US$48,330 thousands approved by MOEAIC on December 20, 2010. Also, MOEAIC authorized the Company 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. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004. The Company has remitted US$48,330 thousands to Cathay Life Insurance Ltd. (China) till December 31, 2009, and injected another US$29,880 thousands on September 29, 2010. As of June 30, 2012, the Company's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US$78,210 thousands.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company 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 the Company 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 the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on August 26, 2008. As of June 30, 2012, the Company's remittances to this general insurance company totaled approximately US$28,140 thousands.

41. Segment information

The Company abides by the provisions of insurance law for insurance business operations. In accordance with SFAS No. 41, the Company provides insurance contract type products, the overall business decision-makers make decisions based on resource allocation, making the overall company as one functional operation's department.