

Cathay Life Insurance Co., Ltd.
Financial Statements
As of September 30, 2006 and 2007
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”, “Regulation on Business Entity Accounting Handling”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. 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 Review Report Originally Issued in Chinese

Independent auditors' review report

Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of September 30, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month periods ended September 30, 2006 and 2007 in order for them to be in conformity with "Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling", "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the ROC.

As discussed in Note 3 to the financial statements, effective from January 1, 2006, the Company adopted the ROC Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments".

Ernst & Young
Taipei, Taiwan
Republic of China
April 17, 2007

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Unaudited balance sheets

As of September 30, 2006 and 2007

(Expressed in thousands of dollars)

| Assets | Notes | September 30, 2006 | | September 30, 2007 | |
|---|-------|-------------------------------|----------------------------|-------------------------------|----------------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | | | | | |
| Cash and cash equivalents | 2,4 | \$308,770,019 | \$9,328,399 | \$226,574,039 | \$6,935,232 |
| Financial assets at fair value through profit or loss - current | 2,5 | 90,454,070 | 2,732,751 | 102,463,978 | 3,136,332 |
| Available-for-sale financial assets - current | 2,6 | 106,731,239 | 3,224,509 | 195,285,536 | 5,977,519 |
| Held-to-maturity financial assets - current | 2 | 14,249,164 | 430,488 | 7,923,309 | 242,526 |
| Derivative financial assets for hedging - current | 2,7 | 304,329 | 9,194 | 184,384 | 5,644 |
| Investments in debt securities with no active market - current | 2 | 5,517,326 | 166,687 | 5,051,153 | 154,611 |
| Notes receivable | 2 | 10,149,842 | 306,642 | 9,523,621 | 291,510 |
| Reinsurance accounts receivable | | 60,704 | 1,834 | 60,961 | 1,866 |
| Other accounts receivable | 2 | 28,147,681 | 850,383 | 30,343,136 | 928,777 |
| Other financial assets - current | | - | - | 4,000,000 | 122,436 |
| Prepayments | | 25,095 | 758 | 46,921 | 1,436 |
| Deferred income tax assets - current | 2,23 | 635,459 | 19,198 | 1,290,514 | 39,501 |
| Other current assets | | 242,080 | 7,314 | 326,693 | 10,000 |
| Subtotal | | <u>565,287,008</u> | <u>17,078,157</u> | <u>583,074,245</u> | <u>17,847,390</u> |
| Loans | | | | | |
| Policy loans | 2,8 | 173,158,563 | 5,231,377 | 184,257,852 | 5,639,971 |
| Secured loans | | 292,988,270 | 8,851,609 | 343,048,972 | 10,500,428 |
| Subtotal | | <u>466,146,833</u> | <u>14,082,986</u> | <u>527,306,824</u> | <u>16,140,399</u> |
| Funds and investments | | | | | |
| Available-for-sale financial assets - noncurrent | 2,9 | 145,064,287 | 4,382,607 | 223,161,080 | 6,830,765 |
| Held-to-maturity financial assets - noncurrent | 2,10 | 525,999,518 | 15,891,224 | 553,249,460 | 16,934,480 |
| Financial assets carried at cost - noncurrent | 2,11 | 20,011,317 | 604,572 | 19,412,750 | 594,207 |
| Investments in debt securities with no active market - noncurrent | 2 | 42,995,008 | 1,298,943 | 44,877,125 | 1,373,650 |
| Long-term investments in stocks under the equity method | 2,13 | 4,198,857 | 126,854 | 4,418,780 | 135,255 |
| Investments in real estate | 2,14 | 104,943,433 | 3,170,496 | 106,477,651 | 3,259,187 |
| Other financial assets - noncurrent | | 16,850,000 | 509,063 | 22,500,000 | 688,705 |
| Subtotal | | <u>860,062,420</u> | <u>25,983,759</u> | <u>974,096,846</u> | <u>29,816,249</u> |
| Property and equipment | | | | | |
| Land | 2,15 | 4,731,609 | 142,949 | 4,766,462 | 145,897 |
| Buildings and construction | | 9,658,163 | 291,787 | 10,180,615 | 311,620 |
| Computer equipment | | 1,563,176 | 47,226 | 1,668,282 | 51,065 |
| Communication and transportation equipment | | 32,110 | 970 | 17,599 | 539 |
| Other equipment | | 3,320,374 | 100,313 | 2,957,761 | 90,534 |
| Revaluation increments | | 1,472 | 45 | 1,054 | 32 |
| Less: Accumulated depreciation | | (6,330,744) | (191,261) | (6,728,942) | (205,967) |
| Less: Accumulated impairment | | (85,519) | (2,584) | (85,519) | (2,618) |
| Construction in progress and prepayment for equipment | | 40,141 | 1,213 | 86,769 | 2,656 |
| Subtotal | | <u>12,930,782</u> | <u>390,658</u> | <u>12,864,081</u> | <u>393,758</u> |
| Intangible assets | | | | | |
| Computer software cost | 2,16 | 331,541 | 10,016 | 381,951 | 11,691 |
| Subtotal | | <u>331,541</u> | <u>10,016</u> | <u>381,951</u> | <u>11,691</u> |
| Other assets | | | | | |
| Guarantee deposits paid | 2 | 8,195,783 | 247,607 | 8,264,696 | 252,975 |
| Deferred income tax assets - noncurrent | 2,23 | 455,368 | 13,757 | 411,794 | 12,605 |
| Other overdue receivables | 2,17 | 30,882 | 933 | 36,120 | 1,106 |
| Separate account products assets | 2 | 137,949,099 | 4,167,646 | 245,641,954 | 7,518,884 |
| Other assets - other | | 4,466,055 | 134,927 | 4,347,361 | 133,069 |
| Subtotal | | <u>151,097,187</u> | <u>4,564,870</u> | <u>258,701,925</u> | <u>7,918,639</u> |
| Total assets | | <u><u>\$2,055,855,771</u></u> | <u><u>\$62,110,446</u></u> | <u><u>\$2,356,425,872</u></u> | <u><u>\$72,128,126</u></u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited balance sheets - (continued)
As of September 30, 2006 and 2007
(Expressed in thousands of dollars)

| Liabilities & stockholders' equity | Notes | September 30, 2006 | | September 30, 2007 | |
|--|-------|------------------------|---------------------|------------------------|---------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current liabilities | | | | | |
| Financial liabilities at fair value through profit or loss - current | 2,18 | \$16,822,560 | \$508,235 | \$19,574,472 | \$599,157 |
| Derivative financial liabilities for hedging - current | 2,19 | 35,549 | 1,074 | 108,257 | 3,314 |
| Notes payable | | 3,523 | 106 | 1,713 | 52 |
| Commissions payable | | 905,200 | 27,347 | 878,094 | 26,878 |
| Life insurance proceeds payable | | 468 | 14 | 11,591 | 355 |
| Reinsurance accounts payable | | 191,133 | 5,774 | 183,023 | 5,602 |
| Other payable | | 20,684,668 | 624,915 | 21,449,589 | 656,553 |
| Accounts collected in advance | | 155,235 | 4,690 | 131,663 | 4,030 |
| Subtotal | | <u>38,798,336</u> | <u>1,172,155</u> | <u>42,338,402</u> | <u>1,295,941</u> |
| Long-term liabilities | | | | | |
| Reserve for land revaluation increment tax | 2 | 3,582 | 108 | 3,581 | 110 |
| Accrued pension liability | 2,30 | 1,664,459 | 50,286 | 1,489,666 | 45,597 |
| Subtotal | | <u>1,668,041</u> | <u>50,394</u> | <u>1,493,247</u> | <u>45,707</u> |
| Reserve for operations and liabilities | | | | | |
| Unearned premium reserve | 2 | 10,257,454 | 309,893 | 10,727,815 | 328,369 |
| Reserve for life insurance liabilities | | 1,733,490,954 | 52,371,328 | 1,889,616,974 | 57,839,515 |
| Special reserve | | 17,506,996 | 528,912 | 18,013,997 | 551,393 |
| Loss and loss expense provisions | | 1,342,278 | 40,552 | 1,407,942 | 43,096 |
| Subtotal | | <u>1,762,597,682</u> | <u>53,250,685</u> | <u>1,919,766,728</u> | <u>58,762,373</u> |
| Other liabilities | | | | | |
| Guarantee deposits received | | 1,568,398 | 47,384 | 1,467,075 | 44,906 |
| Separate account products liabilities | 2 | 137,949,099 | 4,167,646 | 245,641,954 | 7,518,884 |
| Other liabilities - other | | 6,657,591 | 201,136 | 8,811,122 | 269,701 |
| Subtotal | | <u>146,175,088</u> | <u>4,416,166</u> | <u>255,920,151</u> | <u>7,833,491</u> |
| Total liabilities | | <u>1,949,239,147</u> | <u>58,889,400</u> | <u>2,219,518,528</u> | <u>67,937,512</u> |
| Stockholders' equity | | | | | |
| Capital stock | | | | | |
| Common stock | 2,20 | 50,686,158 | 1,531,304 | 50,686,158 | 1,551,459 |
| Capital surplus | 2 | 9,649 | 291 | 9,648 | 295 |
| Retained earnings | | | | | |
| Legal reserve | 2,21 | 19,684,163 | 594,687 | 21,188,906 | 648,574 |
| Special reserve | | 14,133,703 | 427,000 | 16,693,810 | 510,983 |
| Unappropriated retained earnings | | 10,920,536 | 329,926 | 25,265,311 | 773,349 |
| Equity adjustment | | | | | |
| Unrealized gains on financial instruments | 2,21 | 11,140,691 | 336,577 | 22,967,049 | 703,001 |
| Unrealized revaluation increments | 2 | 2,105 | 64 | 2,105 | 65 |
| Cumulative conversion adjustments | 2 | 39,619 | 1,197 | 94,357 | 2,888 |
| Total stockholders' equity | | <u>106,616,624</u> | <u>3,221,046</u> | <u>136,907,344</u> | <u>4,190,614</u> |
| Total liabilities and stockholders' equity | | <u>\$2,055,855,771</u> | <u>\$62,110,446</u> | <u>\$2,356,425,872</u> | <u>\$72,128,126</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2006 and 2007

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

| Item | Notes | January 1-September 30, 2006 | | January 1-September 30, 2007 | |
|---|-------|------------------------------|---------------------|------------------------------|---------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Operating revenues | 2,24 | | | | |
| Premiums income | | \$196,999,820 | \$5,951,656 | \$215,413,133 | \$6,593,607 |
| Reinsurance commission earned | | 197,423 | 5,964 | 165,402 | 5,063 |
| Claims recovered from reinsurers | | 145,618 | 4,399 | 257,546 | 7,883 |
| Recovered premiums reserve | | 84,912,299 | 2,565,326 | 111,115,917 | 3,401,161 |
| Recovered special reserve | | 536,773 | 16,217 | 574,850 | 17,596 |
| Recovered claims reserve | | - | - | 1,470 | 45 |
| Handling fees earned | | 662,587 | 20,018 | 1,261,146 | 38,603 |
| Interest income | | 46,183,410 | 1,395,269 | 51,394,320 | 1,573,135 |
| Gains from valuation on financial assets | | 6,744,637 | 203,765 | 12,798,514 | 391,751 |
| Gains on long-term equity investments | | 228,384 | 6,900 | 288,165 | 8,820 |
| Gains on foreign exchange | | 8,202,892 | 247,822 | 677,710 | 20,744 |
| Gains on disposal of investments | | 7,736,357 | 233,727 | 22,561,885 | 690,599 |
| Gains on investments - real estate | | 6,778,847 | 204,799 | 5,019,261 | 153,635 |
| Separate account products revenues | | 53,205,953 | 1,607,431 | 182,886,335 | 5,597,990 |
| Subtotal | | <u>412,535,000</u> | <u>12,463,293</u> | <u>604,415,654</u> | <u>18,500,632</u> |
| Operating costs | 2,24 | | | | |
| Reinsurance premiums ceded | | (476,220) | (14,387) | (469,634) | (14,375) |
| Brokerage expenses | | (20,526,494) | (620,136) | (23,061,354) | (705,888) |
| Commissions expenses | | (182,065) | (5,500) | (75,836) | (2,321) |
| Insurance claims payment | | (108,900,209) | (3,290,037) | (138,085,915) | (4,226,689) |
| Provision for premiums reserve | | (196,150,520) | (5,925,998) | (214,767,745) | (6,573,852) |
| Provision for special reserve | | (599,483) | (18,111) | (866,315) | (26,517) |
| Contribution to the stabilization funds | | (196,820) | (5,946) | (215,230) | (6,588) |
| Provision for claims reserve | | (908,642) | (27,451) | (105,610) | (3,233) |
| Handling fees paid | | (945,978) | (28,579) | (1,042,092) | (31,897) |
| Interest expenses | | (96,345) | (2,911) | (29,100) | (891) |
| Losses from valuation on financial liabilities | | (16,795,429) | (507,415) | (7,994,017) | (244,690) |
| Separate account products expenses | | (53,205,953) | (1,607,431) | (182,886,335) | (5,597,990) |
| Other operating cost | | (142,240) | (4,297) | (312,632) | (9,569) |
| Subtotal | | <u>(399,126,398)</u> | <u>(12,058,199)</u> | <u>(569,911,815)</u> | <u>(17,444,500)</u> |
| Operating gross profit | | <u>13,408,602</u> | <u>405,094</u> | <u>34,503,839</u> | <u>1,056,132</u> |
| Operating expenses | 2,24 | | | | |
| Marketing expenses | | (1,945,435) | (58,775) | (2,161,505) | (66,162) |
| Administrative and general expenses | | (5,672,460) | (171,373) | (5,559,862) | (170,182) |
| Subtotal | | <u>(7,617,895)</u> | <u>(230,148)</u> | <u>(7,721,367)</u> | <u>(236,344)</u> |
| Operating income | | <u>5,790,707</u> | <u>174,946</u> | <u>26,782,472</u> | <u>819,788</u> |
| Non-operating revenues & gains | 2,24 | | | | |
| Gains on disposal of property and equipment | | 2,640 | 80 | 1,880 | 57 |
| Other non-operating revenues & gains | | 1,117,748 | 33,769 | 1,048,143 | 32,083 |
| Subtotal | | <u>1,120,388</u> | <u>33,849</u> | <u>1,050,023</u> | <u>32,140</u> |
| Non-operating expenses & losses | 2,24 | | | | |
| Losses on disposal of property and equipment | | (620) | (19) | (258) | (8) |
| Impairment loss | | - | - | (134,993) | (4,132) |
| Miscellaneous expenses | | (16,658) | (503) | (53,471) | (1,636) |
| Subtotal | | <u>(17,278)</u> | <u>(522)</u> | <u>(188,722)</u> | <u>(5,776)</u> |
| Income from continuing operations before income taxes | | 6,893,817 | 208,273 | 27,643,773 | 846,152 |
| Income taxes benefit (expense) | 2,23 | 710,864 | 21,476 | (2,378,462) | (72,803) |
| Income from continuing operations after income taxes | | 7,604,681 | 229,749 | 25,265,311 | 773,349 |
| Cumulative effect of changes in accounting principles | 3 | 3,315,855 | 100,177 | - | - |
| Net income | | <u>\$10,920,536</u> | <u>\$329,926</u> | <u>\$25,265,311</u> | <u>\$773,349</u> |
| Earnings per share (In dollars) | 24 | | | | |
| Income from continuing operations after income taxes | | \$1.50 | \$0.05 | \$4.98 | \$0.15 |
| Cumulative effect of changes in accounting principles | | 0.66 | 0.02 | - | - |
| Net income | | <u>\$2.16</u> | <u>\$0.07</u> | <u>\$4.98</u> | <u>\$0.15</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited statements of changes in stockholders' equity
For the nine months ended September 30, 2006 and 2007
(Expressed in thousands of dollars)

| Summary | Retained earnings | | | | | | | | | | Equity adjustment | | | | Total | | | |
|---|---------------------|--------------------|-----------------|--------------|---------------------|------------------|---------------------|------------------|----------------------------------|------------------|--|------------------|-----------------------------------|-------------|-----------------|----------------|-----------------------|--------------------|
| | Common stock | | Capital surplus | | Legal reserve | | Special reserve | | Unappropriated retained earnings | | Unrealized (losses) gains of financial instruments | | Unrealized revaluation increments | | | | Cumulative conversion | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Balance on January 1, 2006 | \$50,686,158 | \$1,531,304 | \$10,105 | \$305 | \$17,891,897 | \$540,540 | \$11,082,320 | \$334,813 | \$17,922,656 | \$541,470 | \$- | \$- | \$3,048 | \$92 | \$(4,119) | \$(124) | \$97,592,065 | \$2,948,400 |
| Unrealized gains on financial instruments - for first time adoption | - | - | - | - | - | - | - | - | - | - | 9,914,421 | 299,529 | - | - | - | - | 9,914,421 | 299,529 |
| Appropriations and Distributions for 2005 | | | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | 1,792,266 | 54,147 | - | - | (1,792,266) | (54,147) | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | - | - | 3,051,383 | 92,187 | (3,051,383) | (92,187) | - | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | - | - | - | (13,057,689) | (394,492) | - | - | - | - | - | - | (13,057,689) | (394,492) |
| Remuneration paid to directors and supervisors | - | - | - | - | - | - | - | - | (8,100) | (245) | - | - | - | - | - | - | (8,100) | (245) |
| Bonus paid to employees | - | - | - | - | - | - | - | - | (13,218) | (399) | - | - | - | - | - | - | (13,218) | (399) |
| Land revaluation increments | - | - | - | - | - | - | - | - | - | - | - | - | (943) | (28) | - | - | (943) | (28) |
| Capital surplus-long-term equity investments | - | - | (456) | (14) | - | - | - | - | - | - | - | - | - | - | - | - | (456) | (14) |
| Changes in unrealized gains on financial instruments | - | - | - | - | - | - | - | - | - | - | 1,226,270 | 37,048 | - | - | - | - | 1,226,270 | 37,048 |
| Cumulative conversion adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 43,738 | 1,321 | 43,738 | 1,321 |
| Net income for the nine months ended september 30, 2006 | - | - | - | - | - | - | - | - | 10,920,536 | 329,926 | - | - | - | - | - | - | 10,920,536 | 329,926 |
| Balance on September 30, 2006 | <u>\$50,686,158</u> | <u>\$1,531,304</u> | <u>\$9,649</u> | <u>\$291</u> | <u>\$19,684,163</u> | <u>\$594,687</u> | <u>\$14,133,703</u> | <u>\$427,000</u> | <u>\$10,920,536</u> | <u>\$329,926</u> | <u>\$11,140,691</u> | <u>\$336,577</u> | <u>\$2,105</u> | <u>\$64</u> | <u>\$39,619</u> | <u>\$1,197</u> | <u>\$106,616,624</u> | <u>\$3,221,046</u> |
| Balance on January 1, 2007 | \$50,686,158 | \$1,551,459 | \$9,648 | \$295 | \$19,684,163 | \$602,515 | \$14,133,703 | \$432,620 | \$15,047,432 | \$460,589 | \$20,222,726 | \$619,000 | \$2,105 | \$65 | \$34,973 | \$1,070 | \$119,820,908 | \$3,667,613 |
| Appropriations and distributions for 2006 | | | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | 1,504,743 | 46,059 | - | - | (1,504,743) | (46,059) | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | - | - | 2,560,107 | 78,363 | (2,560,107) | (78,363) | - | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | - | - | - | (10,962,644) | (335,557) | - | - | - | - | - | - | (10,962,644) | (335,557) |
| Remuneration paid to directors and supervisors | - | - | - | - | - | - | - | - | (8,100) | (248) | - | - | - | - | - | - | (8,100) | (248) |
| Bonus paid to employees | - | - | - | - | - | - | - | - | (11,838) | (362) | - | - | - | - | - | - | (11,838) | (362) |
| Changes in unrealized gains on financial instruments | - | - | - | - | - | - | - | - | - | - | 2,744,323 | 84,001 | - | - | - | - | 2,744,323 | 84,001 |
| Cumulative conversion adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 59,384 | 1,818 | 59,384 | 1,818 |
| Net income for the nine months ended September 30, 2007 | - | - | - | - | - | - | - | - | 25,265,311 | 773,349 | - | - | - | - | - | - | 25,265,311 | 773,349 |
| Balance on September 30, 2007 | <u>\$50,686,158</u> | <u>\$1,551,459</u> | <u>\$9,648</u> | <u>\$295</u> | <u>\$21,188,906</u> | <u>\$648,574</u> | <u>\$16,693,810</u> | <u>\$510,983</u> | <u>\$25,265,311</u> | <u>\$773,349</u> | <u>\$22,967,049</u> | <u>\$703,001</u> | <u>\$2,105</u> | <u>\$65</u> | <u>\$94,357</u> | <u>\$2,888</u> | <u>\$136,907,344</u> | <u>\$4,190,614</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

Cathay Life Insurance Co., Ltd.
Unaudited statements of cash flows
For the nine months ended September 30, 2006 and 2007
(Expressed in thousands of dollars)

| | January 1-September 30, 2006 | | January 1-September 30, 2007 | |
|---|------------------------------|-------------|------------------------------|-------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from operating activities | | | | |
| Net income for the periods | \$10,920,536 | \$329,926 | \$25,265,311 | \$773,349 |
| Adjustments: | | | | |
| Gains from valuation of financial assets | (6,744,637) | (203,765) | (12,798,514) | (391,751) |
| Losses from valuation on financial liabilities | 16,795,429 | 507,415 | 7,994,017 | 244,690 |
| (Recovered) provision bad debt | (58,572) | (1,770) | 185,912 | 5,691 |
| Depreciation | 1,733,051 | 52,358 | 1,821,197 | 55,745 |
| Amortization | 68,211 | 2,061 | 97,397 | 2,981 |
| Provision or recovered for each reserve | 112,209,573 | 3,390,017 | 104,047,433 | 3,184,801 |
| Gains on disposal of long-term investments held for disposal | (3,707) | (112) | - | - |
| Gains on disposal of property and equipment | (2,021) | (61) | (1,622) | (50) |
| Gains on disposal of investments in real estate | (1,004,697) | (30,353) | (1,240,106) | (37,959) |
| Impairment loss | - | - | 134,993 | 4,132 |
| Gains on long-term equity investments in excess of cash dividends received | (105,799) | (3,196) | (11,178) | (342) |
| Effects of exchange rate changes | (36,486) | (1,102) | (54,058) | (1,655) |
| Cumulative effect of changes in accounting principles | (3,315,855) | (100,177) | - | - |
| Decrease in financial assets at fair value through profit or loss - current | 39,135,311 | 1,182,336 | 8,521,275 | 260,829 |
| Decrease (increase) in available-for-sale financial assets - current | 18,885,696 | 570,565 | (37,160,610) | (1,137,454) |
| (Increase) decrease in held-to-maturity financial assets - current | (9,263,224) | (279,856) | 5,389,924 | 164,981 |
| Decrease (increase) in derivative financial assets for hedging - current | 129,421 | 3,910 | (166,200) | (5,087) |
| Increase in investments in debt securities with no active market - current | (5,517,326) | (166,687) | (49,325) | (1,510) |
| Decrease in notes receivable | 3,864,790 | 116,761 | 3,018,384 | 92,390 |
| Increase in reinsurance accounts receivable | (60,704) | (1,834) | (41,733) | (1,277) |
| Increase in other accounts receivable | (11,181,196) | (337,801) | (3,193,342) | (97,745) |
| (Increase) decrease in other financial assets - current | (10,850,000) | (327,795) | 3,000,000 | 91,827 |
| Decrease (Increase) in prepayments | 20,506 | 620 | (28,351) | (868) |
| (Increase) decrease in deferred income tax assets - current | (635,459) | (19,198) | 995,514 | 30,472 |
| Decrease in other current assets | 3,245,413 | 98,049 | 38,458 | 1,177 |
| Decrease in deferred income tax assets - noncurrent | 4,752 | 144 | 48,255 | 1,477 |
| Increase in other assets - other | (3,014,862) | (91,083) | (185,266) | (5,671) |
| (Decrease) increase in financial liabilities at fair value through profit or loss - current | (4,109,431) | (124,152) | 4,978 | 152 |
| Increase in derivative financial liabilities for hedging - current | 35,550 | 1,074 | 84,390 | 2,583 |
| Increase (decrease) in notes payable | 1,872 | 56 | (761) | (23) |
| Decrease in commissions payable | (482,340) | (14,572) | (111,564) | (3,415) |
| (Decrease) increase in life insurance proceeds payable | (3,541) | (107) | 10,689 | 327 |
| Decrease in reinsurance accounts payable | (657) | (20) | (13,465) | (412) |
| Increase in other payable | 15,244,059 | 460,545 | 6,361,779 | 194,728 |
| (Decrease) increase in accounts collected in advance | (327,750) | (9,902) | 7,080 | 217 |
| Decrease in deferred income tax liabilities - current | (396,408) | (11,976) | - | - |
| Increase (decrease) in accrued pension liability | 37,141 | 1,122 | (193,516) | (5,923) |
| Decrease in other liabilities - other | (4,665,280) | (140,945) | (3,983,502) | (121,931) |
| Net cash provided by (used in) operating activities | 160,551,359 | 4,850,495 | 107,793,873 | 3,299,476 |
| Cash flows from investing activities | | | | |
| Disposal of long-term investments held for disposal | 47,411 | 1,432 | - | - |
| Increase in policy loans | (6,664,372) | (201,341) | (8,485,943) | (259,747) |
| Increase in secured loans | (16,256,369) | (491,129) | (36,059,922) | (1,103,763) |
| Increase in available-for-sale financial assets - noncurrent | (30,754,928) | (929,152) | (48,062,357) | (1,471,147) |
| Increase in held-to-maturity financial assets - noncurrent | (71,834,776) | (2,170,235) | (29,038,864) | (888,854) |
| Decrease in financial assets carried at cost - noncurrent | 439,530 | 13,279 | 73,893 | 2,262 |
| Decrease (increase) in investments in debt securities with no active market-noncurrent | 2,611,552 | 78,899 | (2,094,940) | (64,124) |
| Disinvestment of long-term equity investments | - | - | 199,662 | 6,111 |
| Disposal of investments in real estate | 1,681,819 | 50,810 | 1,994,110 | 61,038 |
| Acquisition of investments in real estate | (4,534,015) | (136,979) | (6,505,101) | (199,115) |
| Increase in other financial assets-noncurrent | - | - | (12,150,000) | (371,901) |
| Disposal of property and equipment | 10,347 | 313 | 5,064 | 155 |
| Acquisition of property and equipment | (224,375) | (6,779) | (261,423) | (8,002) |
| Acquisition of intangible assets | (221,544) | (6,693) | (149,359) | (4,572) |
| Decrease (increase) in guarantee deposits paid | 26,826 | 811 | (83,595) | (2,559) |
| Increase in other overdue receivables | (3,074) | (93) | (29,016) | (888) |
| Net cash used in investing activities | (125,675,968) | (3,796,857) | (140,647,791) | (4,305,106) |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

Cathay life insurance Co., Ltd.
Unaudited statements of cash flows - (continued)
For the nine months ended September 30, 2006 and 2007
(Expressed in thousands of dollars)

| | January 1-September 30, 2006 | | January 1-September 30, 2007 | |
|---|------------------------------|------------------|------------------------------|--------------------|
| | NTS | US\$ | NTS | US\$ |
| Cash flows from financing activities | | | | |
| (Decrease) increase in guarantee deposits received | (75,286) | (2,275) | 2,758 | 84 |
| Cash dividends | (13,057,689) | (394,492) | (10,962,644) | (335,557) |
| Bonus paid to employees | (13,218) | (399) | (11,838) | (362) |
| Remuneration paid to directors and supervisors | (8,100) | (245) | (8,100) | (248) |
| Net cash (used in) provided by financing activities | <u>(13,154,293)</u> | <u>(397,411)</u> | <u>(10,979,824)</u> | <u>(336,083)</u> |
| Effects of exchange rate changes | 36,486 | 1,102 | 54,058 | 1,655 |
| Increase (decrease) in cash and cash equivalents | 21,757,584 | 657,329 | (43,779,684) | (1,340,058) |
| Cash and cash equivalents at the beginning of the periods | 287,012,435 | 8,671,070 | 270,353,723 | 8,275,290 |
| Cash and cash equivalents at the end of the periods | <u>\$308,770,019</u> | <u>9,328,399</u> | <u>\$226,574,039</u> | <u>\$6,935,232</u> |
| Supplemental disclosure of cash flows information | | | | |
| Interest paid during the period | \$73,921 | \$2,233 | \$6,014 | \$184 |
| Interest paid (excluding capitalized interest) | <u>\$73,921</u> | <u>\$2,233</u> | <u>\$6,014</u> | <u>\$184</u> |
| Income tax paid | <u>\$893,947</u> | <u>\$27,007</u> | <u>\$840,186</u> | <u>\$25,717</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

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Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements

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

As of September 30, 2006 and 2007

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 (the “Company Act”) of the Republic of China (“ROC”). 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 ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent acts of the ROC.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of September 30, 2006 and 2007, the total numbers of employees were 27,111 and 28,779, respectively.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with generally accepted accounting principles, “Business Entity Accounting Act”, “Regulation on Business Entity Accounting Handling”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. A summary of significant accounting policies follows:

(1) Current and non-current assets and liabilities

Current assets are assets which can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are liabilities which will be paid-off within one year. Liabilities other than current liabilities are non-current liabilities.

(2) Cash and cash equivalents

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

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Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

(3) Recognition of financial assets and liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. 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 the “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”. Financial assets are measured at fair value plus the cost of ownership or issuance cost at the initial recognition.

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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Cathay Life Insurance Co., Ltd.

Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair value are recognized when the investments in debt securities with no active market are derecognized and 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 not classified in any of the three preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profit or loss.

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

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

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is recorded 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. The impairment loss can not be reversed.

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

The Company takes 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 date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

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

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for 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 entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

Fair value hedges

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

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Note to unaudited financial statements-continued

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

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

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

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(7) Allowance for bad and doubtful debts

Based on the regulation the Company estimated the possible bad debts of accounts receivable and secured loans by evaluating customers' financial results, payments histories, collaterals and past due periods.

(8) Long-term investments in stocks under the equity method

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was analyzed and accounted for in conformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method". Goodwill is no longer amortized.

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If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method accounts.

If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

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

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

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

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Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property increments shall be recorded at “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 on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

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

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

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

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

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

As of September 30, 2006 and 2007

(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From July 1, 2002 to September 30, 2007, an aggregate of NT\$1,461,806 (US\$44,745) was appropriated to this fund.

(13) Accounting for assets impairment

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

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

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

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

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

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(14) Real estate securitization

The Company has adopted “Accounting Treatment under Real Estate Securitization” with the Accounting Research and Development Foundation.

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

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

(15) Guaranteed depository insurance payment

According to Article 141 of the ROC 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”.

(16) Reserve for operations

Reserves for operations are organized according to the Insurance Act. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provide the figures for these reserves.

In addition, according to the MOF regulation which became effective from December 30, 2002, the surplus from the “Special Reserve for the Loss Movement” should be placed as special reserve under proprietary equity after the Board of Directors approved the surplus appropriation. This amount may not be distributed or used for other purposes unless approved by the MOF.

The Company had a surplus of NT\$16,693,810 (US\$510,983) from the “Special Reserve for the Loss Movement” as of September 30, 2007.

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(17) Insurance premium income and expenses

In accordance with “The General Accounting Systems for Insurance Companies” published by the Finance Ministry of the ROC, the Company records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(18) Pension plan

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

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

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company adopted the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed 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.

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

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(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

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

(20) Income taxes

The Company 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. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets 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.

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

The Company has 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 by the flow-through method.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders' meeting.

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 its undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effects due to the adopt 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.

(21) 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.

(22) Separate account products

The Company sells Separate account products, of which the insured should pay 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 day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

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The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of “Accounting standards in separate account”. The above accounts are recorded under the line items of “Separate account products assets”, “Separate account products liabilities”, “Separate account products revenues” and “Separate account products expenses”.

(23) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$33.10 and NT\$32.67 provided by Federal Reserve Bank of New York of September 30, 2006 and 2007 are used for the conversion.

3. Changes in accounting and its effects

The Company adopted the ROC Statements of Financial Accounting Standards No.34 “Accounting For Financial Instruments” (SFAS No.34) and No.36. “Disclosure and Presentation of Financial Instruments” (SFAS No.36) beginning on and after January 1, 2006 (the “effective date”).

The above change in accounting principles increased the Company’s assets, liability and stockholders’ equity - unrealized (losses) gains of financial instruments by NT\$15,291,670 (US\$461,984), NT\$2,061,394 (US\$62,278) and NT\$9,914,421 (US\$299,529) as of January 1, 2006, respectively. It also increased the Company’s net income and earnings per share by NT\$3,315,855 (US\$100,177) and NT\$0.66 (US\$0.02), respectively, for the nine months ended September 30, 2006.

The Company adopted the ROC Statement of Financial Accounting Standards No.5, “Accounting for long-term investments in stocks under the equity method” (“SFAS No.5 (r5)”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company’s share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles decreased the Company’s long-term equity investments by NT\$1,401(US\$42) as of September 30, 2006, and decreased the Company’s net income by NT\$1,401(US\$42) for the nine months ended September 30, 2006. The Company considers the effect insignificant.

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As of September 30, 2006 and 2007

4. Cash and cash equivalents

| | September 30, | | | |
|------------------|----------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash on hand | \$274,941 | \$8,306 | \$309,605 | \$9,477 |
| Cash in banks | 14,342,866 | 433,319 | 37,657,796 | 1,152,672 |
| Time deposits | 258,873,306 | 7,820,946 | 173,186,479 | 5,301,086 |
| Cash equivalents | 35,278,906 | 1,065,828 | 15,420,159 | 471,997 |
| Total | <u>\$308,770,019</u> | <u>\$9,328,399</u> | <u>\$226,574,039</u> | <u>\$6,935,232</u> |

As of September 30, 2006 and 2007, the amounts of time deposits with maturities beyond one year were NT\$131,000 (US\$3,958) and NT\$52,000 (US\$1,592), respectively.

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

| | September 30, | | | |
|----------------------------------|---------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$12,576,905 | \$379,967 | \$16,205,682 | \$496,042 |
| Overseas stocks | 1,954,599 | 59,051 | 2,015,883 | 61,704 |
| Beneficiary certificates | 29,955,705 | 905,006 | 28,710,110 | 878,791 |
| Exchange traded funds | 2,003,751 | 60,536 | 219,326 | 6,713 |
| Overseas bonds | 13,396,488 | 404,728 | 18,376,497 | 562,488 |
| Corporate bonds | 571,774 | 17,274 | 3,434,113 | 105,115 |
| Government bonds | 18,183,871 | 549,362 | 3,159,628 | 96,714 |
| Financial debentures | 1,516,179 | 45,806 | 997,400 | 30,530 |
| Derivative financial instruments | 3,547,822 | 107,185 | 1,984,133 | 60,733 |
| Structured time deposits | - | - | 2,000,000 | 61,218 |
| Subtotal | 83,707,094 | 2,528,915 | 77,102,772 | 2,360,048 |
| Add: Adjustment of valuation | 6,746,976 | 203,836 | 25,361,206 | 776,284 |
| Total | <u>\$90,454,070</u> | <u>\$2,732,751</u> | <u>\$102,463,978</u> | <u>\$3,136,332</u> |

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6. Available-for-sale financial assets - current

| | September 30, | | | |
|--|----------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$76,617,624 | \$2,314,732 | \$114,439,407 | \$3,502,890 |
| Overseas stocks | 8,502,781 | 256,881 | 22,442,879 | 686,957 |
| Beneficiary certificates | 6,427,293 | 194,178 | 14,760,397 | 451,803 |
| Collateralized loans obligation and collateralized bonds obligation | - | - | 833,195 | 25,503 |
| Exchange traded funds | 288,611 | 8,719 | 4,101,003 | 125,528 |
| Real estate investment trust | 4,029,813 | 121,747 | 8,730,371 | 267,229 |
| Financial debentures | 500,000 | 15,106 | 3,300,000 | 101,010 |
| Corporate bonds | 518,000 | 15,650 | 3,699,590 | 113,241 |
| Overseas bonds | 1,501,960 | 45,376 | 1,409,395 | 43,141 |
| Subtotal | 98,386,082 | 2,972,389 | 173,716,237 | 5,317,302 |
| Add: Adjustment of valuation | 8,345,157 | 252,120 | 21,569,299 | 660,217 |
| Total | <u>\$106,731,239</u> | <u>\$3,224,509</u> | <u>\$195,285,536</u> | <u>\$5,977,519</u> |

7. Derivative financial assets for hedging - current

| | September 30, | | | |
|----------------------------------|------------------|----------------|------------------|----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Derivative financial instruments | \$- | \$- | \$- | \$- |
| Add: Adjustment of valuation | 304,329 | 9,194 | 184,384 | 5,644 |
| Total | <u>\$304,329</u> | <u>\$9,194</u> | <u>\$184,384</u> | <u>\$5,644</u> |

8. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

B. Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment becomes overdue can make written statements, requesting that the Company pay the premium and interest payable by using the Company's "policy value reserve" prior to the due date or before the insurance

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contract's termination date. However, applicants may also choose to inform the Company by writing to stop paying such installments.

(2) Secured loans

| | September 30, | | | |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Secured loans | \$292,910,825 | \$8,849,270 | \$343,100,652 | \$10,502,010 |
| Less: Allowance for bad debts | (306,159) | (9,250) | (884,667) | (27,079) |
| Subtotal | 292,604,666 | 8,840,020 | 342,215,985 | 10,474,931 |
| Overdue receivables | 1,278,681 | 38,631 | 1,263,810 | 38,684 |
| Less: Allowance for bad debts | (895,077) | (27,042) | (430,823) | (13,187) |
| Subtotal | 383,604 | 11,589 | 832,987 | 25,497 |
| Total | <u>\$292,988,270</u> | <u>\$8,851,609</u> | <u>\$343,048,972</u> | <u>\$10,500,428</u> |

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

9. Available-for-sale financial assets – noncurrent

| | September 30, | | | |
|--|----------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Corporate bonds | \$17,817,974 | \$538,308 | \$14,728,282 | \$450,820 |
| Government bonds | 16,331,918 | 493,411 | 43,432,358 | 1,329,426 |
| Financial debentures | 32,378,521 | 978,203 | 105,448,336 | 3,227,681 |
| Collateralized loans obligation and collateralized bonds obligation | 951,336 | 28,741 | 6,909,702 | 211,500 |
| Overseas bonds | 75,525,354 | 2,281,733 | 52,030,980 | 1,592,623 |
| Subtotal | 143,005,103 | 4,320,396 | 222,549,658 | 6,812,050 |
| Less: Adjustment of valuation | 2,059,184 | 62,211 | 611,422 | 18,715 |
| Total | <u>\$145,064,287</u> | <u>\$4,382,607</u> | <u>\$223,161,080</u> | <u>\$6,830,765</u> |

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10. Held-to-maturity financial assets – noncurrent

| | September 30, | | | |
|--|----------------------|---------------------|----------------------|---------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Corporate bonds | \$5,320,574 | \$160,742 | \$4,267,105 | \$130,612 |
| Government bonds | 18,357,525 | 554,608 | 26,671,814 | 816,401 |
| Financial debentures | 10,069,872 | 304,226 | 10,678,444 | 326,858 |
| Collateralized loans obligation and collateralized bonds obligation | 9,466,321 | 285,992 | 22,655,377 | 693,461 |
| Overseas bonds | 490,894,673 | 14,830,654 | 497,035,716 | 15,213,827 |
| Subtotal | 534,108,965 | 16,136,222 | 561,308,456 | 17,181,159 |
| Less: Securities serving as deposits paid - bonds | (8,109,447) | (244,998) | (8,058,996) | (246,679) |
| Total | <u>\$525,999,518</u> | <u>\$15,891,224</u> | <u>\$553,249,460</u> | <u>\$16,934,480</u> |

11. Financial assets carried at cost – noncurrent

| | September 30, | | | |
|------------------------------|---------------------|------------------|---------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Stocks | \$20,011,317 | \$604,572 | \$20,655,621 | \$632,250 |
| Less: Accumulated impairment | - | - | (1,242,871) | (38,043) |
| Total | <u>\$20,011,317</u> | <u>\$604,572</u> | <u>\$19,412,750</u> | <u>\$594,207</u> |

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$89,352,844 (US\$2,699,482) and NT\$79,889,009 (US\$2,445,332) as of September 30, 2006 and 2007, respectively. The details of structured notes are listed below:

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| Item | September 30, 2006 | | | | | |
|-------------------------------------|---------------------|--------------------|-------------------------|------------------|---------------------|--------------------|
| | Cost | | Adjustment of valuation | | Book value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss - current | \$2,939,047 | \$88,793 | \$(108,910) | \$(3,290) | \$2,830,137 | \$85,503 |
| Available-for-sale financial assets | 14,064,994 | 424,924 | (39,077) | (1,181) | 14,025,917 | 423,743 |
| Held-to-maturity financial assets | 71,686,987 | 2,165,770 | - | - | 71,686,987 | 2,165,770 |
| Investments in debt securities with | | | | | | |
| no active market - noncurrent | 809,803 | 24,466 | - | - | 809,803 | 24,466 |
| Total | \$89,500,831 | \$2,703,953 | \$(147,987) | \$(4,471) | \$89,352,844 | \$2,699,482 |

| Item | September 30, 2007 | | | | | |
|-------------------------------------|---------------------|--------------------|-------------------------|------------------|---------------------|--------------------|
| | Cost | | Adjustment of valuation | | Book value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss - current | \$1,470,298 | \$45,004 | \$2,187 | \$67 | \$1,472,485 | \$45,071 |
| Available-for-sale financial assets | 14,131,920 | 432,566 | (128,535) | (3,934) | 14,003,385 | 428,632 |
| Held-to-maturity financial assets | 63,959,087 | 1,957,731 | - | - | 63,959,087 | 1,957,731 |
| Investments in debt securities with | | | | | | |
| no active market - current | 454,052 | 13,898 | - | - | 454,052 | 13,898 |
| Total | \$80,015,357 | \$2,449,199 | \$(126,348) | \$(3,867) | \$79,889,009 | \$2,445,332 |

13. Long-term investments in stocks under the equity method

(1) Long-term investments in stocks under the equity method are as follows:

| Investee | September 30, | | | |
|--|--------------------|------------------|--------------------|------------------|
| | 2006 | | 2007 | |
| | Book value | | Book value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| WK Technology Fund VI Co., Ltd. | \$391,930 | \$11,841 | \$459,445 | \$14,063 |
| Vista Technology Venture Capital Corp. | 41,489 | 1,254 | 39,583 | 1,212 |
| Omnitek Venture Capital Corp. | 358,908 | 10,843 | 253,712 | 7,766 |
| Wa Tech Venture Capital Co., Ltd. | 167,330 | 5,055 | 222,175 | 6,801 |
| IBT Venture Capital Corp. | 596,656 | 18,026 | 461,721 | 14,133 |
| Cathay Insurance (Bermuda) Co., Ltd. | 72,200 | 2,181 | 84,893 | 2,599 |
| Symphox Information Co., Ltd. | 254,492 | 7,689 | 266,857 | 8,168 |
| Cathay Securities Investment Trust Co., Ltd. | 240,546 | 7,267 | 324,984 | 9,947 |
| Cathay Venture Capital Corp. | 442,163 | 13,358 | 437,357 | 13,387 |
| Cathay Securities Investment Co., Ltd. | 110,989 | 3,353 | 141,475 | 4,330 |
| Cathay Life Insurance Ltd. (Shanghai) | 1,522,154 | 45,987 | 1,726,578 | 52,849 |
| Total | \$4,198,857 | \$126,854 | \$4,418,780 | \$135,255 |

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(2) Changes in long-term investments in stocks under the equity method are summarized below:

| | For the nine months ended September 30, | | | |
|---|---|------------------|--------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance as of January 1 | \$3,883,938 | \$117,340 | \$4,290,720 | \$131,335 |
| Add: Gains on long-term equity investments | 228,384 | 6,900 | 288,165 | 8,820 |
| Cumulative conversion adjustments | 43,738 | 1,321 | 59,384 | 1,818 |
| Unrealized gain or loss on financial instruments - long-term equity investments | 165,838 | 5,010 | 257,159 | 7,871 |
| Less: Cash dividends | (122,585) | (3,703) | (276,987) | (8,478) |
| Disinvestment of long-term investments | - | - | (199,661) | (6,111) |
| Capital surplus-long-term equity investments | (456) | (14) | - | - |
| Balance as of September 30 | <u>\$4,198,857</u> | <u>\$126,854</u> | <u>\$4,418,780</u> | <u>\$135,255</u> |

(3) The recognized equity investment gains for the nine months ended September 30, 2006 and 2007 are listed below:

| Investee | For the nine months ended September 30, | | | |
|--|---|----------------|------------------|----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| WK Technology Fund VI Co., Ltd. | \$11,892 | \$359 | \$15,923 | \$487 |
| Vista Technology Venture Capital Corp. | 2,162 | 66 | (319) | (10) |
| Omnitek Venture Capital Corp. | 104,523 | 3,158 | 19,648 | 601 |
| Wa Tech Venture Capital Co., Ltd. | 22,087 | 667 | 32,983 | 1,010 |
| IBT Venture Capital Corp. | 54,945 | 1,660 | 20,340 | 623 |
| Cathay Insurance (Bermuda) Co., Ltd. | 4,102 | 124 | 11,337 | 347 |
| Symphox Information Co., Ltd. | (12,578) | (380) | 3,894 | 119 |
| Cathay Securities Investment Trust Co., Ltd. | 49,610 | 1,499 | 128,882 | 3,945 |
| Cathay Venture Capital Corp. | 33,010 | 997 | 26,789 | 820 |
| Cathay Securities Investment Co., Ltd. | 17,253 | 521 | 44,396 | 1,359 |
| Cathay Life Insurance Ltd. (Shanghai) | (58,622) | (1,771) | (15,708) | (481) |
| Total | <u>\$228,384</u> | <u>\$6,900</u> | <u>\$288,165</u> | <u>\$8,820</u> |

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- A. The equity investment gains (losses) were recognized based on their respective reviewed financial statements for the nine months ended September 30, 2006, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd. were recognized based on the unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the nine months ended September 30, 2006, were reviewed by other auditors. Modified unqualified review reports were issued for all above invested companies except the Cathay Insurance (Bermuda) Co., Ltd. of which unqualified review report was issued.
- B. The equity investment gains (losses) were recognized based on their respective reviewed financial statements for the nine months ended September 30, 2007, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd. were recognized based on the unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the nine months ended September 30, 2007, were reviewed by other auditors. Unqualified review reports were issued for all above invested companies except the Cathay Venture Capital Corp., of which modified unqualified review report was issued.

14. Investments in real estate

| September 30, 2006 | | | | | | | | | | |
|----------------------------|---------------|-------------|------------------------|-------|--------------------------|-------------|------------------------|-----------|---------------|-------------|
| Item | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Investments in real estate | \$118,933,072 | \$3,593,144 | \$4,215 | \$127 | \$(14,389,106) | \$(434,716) | \$(196,952) | \$(5,950) | \$104,351,229 | \$3,152,605 |
| Construction | 592,204 | 17,891 | - | - | - | - | - | - | 592,204 | 17,891 |
| Total | \$119,525,276 | \$3,611,035 | \$4,215 | \$127 | \$(14,389,106) | \$(434,716) | \$(196,952) | \$(5,950) | \$104,943,433 | \$3,170,496 |

| September 30, 2007 | | | | | | | | | | |
|------------------------------------|---------------|-------------|------------------------|-------|--------------------------|-------------|------------------------|-----------|---------------|-------------|
| Item | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Investments in real estate | \$120,274,484 | \$3,681,496 | \$4,632 | \$142 | \$(15,002,499) | \$(459,213) | \$(195,923) | \$(5,997) | \$105,080,694 | \$3,216,428 |
| Construction | 1,388,452 | 42,499 | - | - | - | - | - | - | 1,388,452 | 42,499 |
| Prepayments for buildings and land | 8,505 | 260 | - | - | - | - | - | - | 8,505 | 260 |
| Total | \$121,671,441 | \$3,724,255 | \$4,632 | \$142 | \$(15,002,499) | \$(459,213) | \$(195,923) | \$(5,997) | \$106,477,651 | \$3,259,187 |

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The relative information was disclosed as following:

The Company transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$264,087).

After the REIT was issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding securities. Thus, it should be treated as a part of unsold real estate. The Company has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of September 30, 2006, the amounts of deferred gain on disposal of real estate was NT\$1,773,919 (US\$53,593) had been recognized.

- (5) The Company had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building in the third quarter of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, “Accounting Treatment of Real Estate Securitization” and “Interpretation of the Accounting Treatment of Real Estate Securitization”, respectively. The gain on disposal of real estates on this transaction was NT\$1,195,081 (US\$36,580) for the nine months ended September 30, 2007.

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As of September 30, 2006 and 2007

15. Property and equipment

| Item | September 30, 2006 | | | | | | | | | |
|---|--------------------|-----------|------------------------|------|--------------------------|-------------|------------------------|-----------|--------------|-----------|
| | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Land | \$4,731,609 | \$142,949 | \$1,472 | \$45 | \$- | \$- | \$(51,331) | \$(1,551) | \$4,681,750 | \$141,443 |
| Buildings and construction | 9,658,163 | 291,787 | - | - | (3,026,018) | (91,420) | (34,188) | (1,033) | 6,597,957 | 199,334 |
| Computer equipment | 1,563,176 | 47,226 | - | - | (1,152,022) | (34,804) | - | - | 411,154 | 12,422 |
| Communication and transportation equipment | 32,110 | 970 | - | - | (21,797) | (659) | - | - | 10,313 | 311 |
| Other equipment | 3,320,374 | 100,313 | - | - | (2,130,907) | (64,378) | - | - | 1,189,467 | 35,935 |
| Subtotal | 19,305,432 | 583,245 | 1,472 | \$45 | (6,330,744) | (191,261) | (85,519) | (2,584) | 12,890,641 | 389,445 |
| Construction in progress and prepayment for equipment | 40,141 | 1,213 | - | - | - | - | - | - | 40,141 | 1,213 |
| Total | \$19,345,573 | \$584,458 | \$1,472 | \$45 | \$(6,330,744) | \$(191,261) | \$(85,519) | \$(2,584) | \$12,930,782 | \$390,658 |

| Item | September 30, 2007 | | | | | | | | | |
|---|--------------------|-----------|------------------------|------|--------------------------|-------------|------------------------|-----------|--------------|-----------|
| | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Land | \$4,766,462 | \$145,897 | \$1,054 | \$32 | \$- | \$- | \$(51,331) | \$(1,571) | \$4,716,185 | \$144,358 |
| Buildings and construction | 10,180,615 | 311,620 | - | - | (3,397,741) | (104,002) | (34,188) | (1,047) | 6,748,686 | 206,571 |
| Computer equipment | 1,668,282 | 51,065 | - | - | (1,294,797) | (39,633) | - | - | 373,485 | 11,432 |
| Communication and transportation equipment | 17,599 | 539 | - | - | (14,146) | (433) | - | - | 3,453 | 106 |
| Other equipment | 2,957,761 | 90,534 | - | - | (2,022,258) | (61,899) | - | - | 935,503 | 28,635 |
| Subtotal | 19,590,719 | 599,655 | 1,054 | 32 | (6,728,942) | (205,967) | (85,519) | (2,618) | 12,777,312 | 391,102 |
| Construction in progress and prepayment for equipment | 86,769 | 2,656 | - | - | - | - | - | - | 86,769 | 2,656 |
| Total | \$19,677,488 | \$602,311 | \$1,054 | \$32 | \$(6,728,942) | \$(205,967) | \$(85,519) | \$(2,618) | \$12,864,081 | \$393,758 |

No properties or plants and equipments were pledged as collaterals as of September 30, 2006 and 2007.

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As of September 30, 2006 and 2007

16. Intangible assets

| Item | January 1, 2006 | | Increase | | Decrease | | September 30, 2006 | |
|--------------------------|-----------------|---------|-----------|---------|----------|------|--------------------|----------|
| | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ |
| Acquired Cost: | | | | | | | | |
| Computer software | \$223,266 | \$6,745 | \$221,544 | \$6,693 | \$- | \$- | \$444,810 | \$13,438 |
| Amortized and impairment | | | | | | | | |
| Amortized | (45,058) | (1,361) | (68,211) | (2,061) | - | - | (113,269) | (3,422) |
| Book value | \$178,208 | \$5,384 | \$153,333 | \$4,632 | \$- | \$- | \$331,541 | \$10,016 |

| Item | January 1, 2007 | | Increase | | Decrease | | September 30, 2007 | |
|--------------------------|-----------------|----------|-----------|---------|----------|------|--------------------|----------|
| | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ |
| Acquired Cost: | | | | | | | | |
| Computer software | \$471,850 | \$14,443 | \$149,359 | \$4,572 | \$- | \$- | \$621,209 | \$19,015 |
| Amortized and impairment | | | | | | | | |
| Amortized | (141,861) | (4,342) | (97,397) | (2,982) | - | - | (239,258) | (7,324) |
| Book value | \$329,989 | \$10,101 | \$51,962 | \$1,590 | \$- | \$- | \$381,951 | \$11,691 |

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

17. Other overdue receivables

| | September 30, | | | |
|--|---------------|---------|-----------|---------|
| | 2006 | | 2007 | |
| | NTS | US\$ | NTS | US\$ |
| Overdue receivables | \$72,841 | \$2,201 | \$142,911 | \$4,374 |
| Less: Allowance for bad and doubtful debts | (41,959) | (1,268) | (106,791) | (3,268) |
| Total | \$30,882 | \$933 | \$36,120 | \$1,106 |

18. Financial liabilities at fair value through profit or loss – current

| Item | September 30, | | | |
|----------------------------------|---------------|-----------|--------------|-----------|
| | 2006 | | 2007 | |
| | NTS | US\$ | NTS | US\$ |
| Derivative financial instruments | \$52,932 | \$1,599 | \$53,401 | \$1,634 |
| Add: Adjustment of valuation | 16,769,628 | 506,636 | 19,521,071 | 597,523 |
| Total | \$16,822,560 | \$508,235 | \$19,574,472 | \$599,157 |

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As of September 30, 2006 and 2007

19. Derivative financial liabilities for hedging – current

| Item | September 30, | | | |
|----------------------------------|-----------------|----------------|------------------|----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Derivative financial instruments | \$- | \$- | \$- | \$- |
| Add: Adjustment of valuation | 35,549 | 1,074 | 108,257 | 3,314 |
| Total | <u>\$35,549</u> | <u>\$1,074</u> | <u>\$108,257</u> | <u>\$3,314</u> |

20. Capital stock

As of September 30, 2006 and 2007, the total authorized thousand shares were 5,068,616 with par value of NT\$10 each.

21. Retained earnings

(1) Legal reserve

Pursuant to the ROC Company Act, 10% of the Company's net income shall be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficit but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued shares capital, up to 50% of such excess may be capitalized if authorized by the Board of Directors.

(2) Undistributed retained earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.

B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.

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As of September 30, 2006 and 2007

- C. 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.
- D. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the legal reserve since 2007.

22. Personnel expense 、 depreciation and amortizations

| Item | For the nine months ended September 30, 2006 NT\$ | | | For the nine months ended September 30, 2006 US\$ | | |
|-----------------------------------|--|-------------------|--------------|--|-------------------|-----------|
| | Operating costs | Operating expense | Total | Operating costs | Operating expense | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$18,405,021 | \$1,960,853 | \$20,365,874 | \$556,043 | \$59,240 | \$615,283 |
| Labor & health insurance expenses | 830,594 | 125,066 | 955,660 | 25,094 | 3,778 | 28,872 |
| Pension expenses | 500,825 | 75,411 | 576,236 | 15,131 | 2,278 | 17,409 |
| Other expenses | 701,492 | 146,142 | 847,634 | 21,193 | 4,415 | 25,608 |
| Depreciation | - | 1,733,051 | 1,733,051 | - | 52,358 | 52,358 |
| Amortizations | - | 68,211 | 68,211 | - | 2,061 | 2,061 |

| Item | For the nine months ended September 30, 2007 NT\$ | | | For the nine months ended September 30, 2007 US\$ | | |
|-----------------------------------|--|--------------------|--------------|--|--------------------|-----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$20,960,421 | \$1,654,439 | \$22,614,860 | \$641,580 | \$50,641 | \$692,221 |
| Labor & health insurance expenses | 871,335 | 122,922 | 994,257 | 26,671 | 3,762 | 30,433 |
| Pension expenses | 356,234 | 50,255 | 406,489 | 10,904 | 1,538 | 12,442 |
| Other expenses | 777,075 | 134,331 | 911,406 | 23,785 | 4,112 | 27,897 |
| Depreciation | - | 1,821,197 | 1,821,197 | - | 55,745 | 55,745 |
| Amortizations | - | 97,397 | 97,397 | - | 2,981 | 2,981 |

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As of September 30, 2006 and 2007

23. Estimated income taxes

(1) Income taxes (benefit) expense included the following:

| | For the nine months ended September 30, | | | |
|---|---|--------------------|---------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income before taxes | \$6,893,817 | \$208,273 | \$27,643,773 | \$846,152 |
| Adjustments | | | | |
| Interest income of tax on a separate basis | (2,751,543) | (83,128) | (1,920,463) | (58,784) |
| Gains on disposal of securities and futures | (4,977,532) | (150,379) | (25,245,615) | (772,746) |
| Losses (gains) from valuation of financial assets and liabilities | 10,050,792 | 303,649 | (4,804,497) | (147,062) |
| Gains on disposal of lands | (2,830,475) | (85,513) | (1,067,142) | (32,664) |
| Unrealized exchange losses (gains) | (8,166,406) | (246,719) | (623,649) | (19,089) |
| Cash dividends | (4,992,460) | (150,830) | (4,249,925) | (130,087) |
| Differences of pension expense and actually contributed | 37,141 | 1,122 | (193,516) | (5,923) |
| Gains on long-term equity investments | (228,384) | (6,900) | (288,165) | (8,821) |
| Impairment loss | - | - | 134,993 | 4,132 |
| Others | (1,424,245) | (43,028) | 8,198 | 251 |
| Taxable income | (8,389,295) | (253,453) | (10,606,008) | (324,641) |
| Dividends | - | - | 7,500,078 | 229,571 |
| Multiply by: tax rates | 25% | 25% | 25% | 25% |
| Subtotal | (2,097,324) | (63,364) | (776,482) | (23,767) |
| Add: Extra 10% income tax on undistributed retained earnings | - | - | - | - |
| Tax effects under income basic tax systems | - | - | 1,463,693 | 44,802 |
| Add (less): Tax effects under integrated income tax systems | 1,559,592 | 47,118 | 377,599 | 11,558 |
| Deferred income taxes (benefit) expense | (1,027,116) | (31,031) | 990,071 | 30,305 |
| Add: Separation taxes | 520,300 | 15,719 | 309,602 | 9,477 |
| Additional taxes assessed by the tax authority | 901 | 27 | 5,938 | 182 |
| Estimate adjustment | 3,588 | 109 | 12,890 | 394 |
| Overseas investments taxes | - | - | 4,759 | 146 |
| Allocation of the cumulative effect of changes in accounting principles | 338,668 | 10,232 | - | -- |
| Less: Income tax credit | (9,473) | (286) | (9,608) | (294) |
| Total income taxes (benefit) expense | <u>\$ (710,864)</u> | <u>\$ (21,476)</u> | <u>\$ 2,378,462</u> | <u>\$ 72,803</u> |

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(2) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal 2003. But the Company has filed an application about the assessed tax returns of 2002 and 2003 to the Tax Authorities for reexamination.

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

| | September 30, | | | |
|--|---------------|-----------|---------------|------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Total deferred tax assets | \$3,534,243 | \$106,774 | \$2,409,418 | \$73,750 |
| Total deferred tax liabilities | \$2,443,416 | \$73,819 | \$707,110 | \$21,644 |
| Temporary differences: | | | | |
| Pension expense | \$1,664,459 | \$50,286 | \$1,489,666 | \$45,597 |
| Unrealized exchange losses (gains) | (9,773,664) | (295,277) | (993,640) | (30,414) |
| Losses (gains) from valuation on financial assets and liabilities | 12,293,872 | 371,416 | (1,834,803) | (56,162) |
| Impairment loss | 157,012 | 4,744 | 157,012 | 4,806 |
| Other | 21,627 | 653 | 23,298 | 713 |
| Total | \$4,363,306 | \$131,822 | \$(1,158,467) | \$(35,460) |
| Loss carryforwards | \$- | \$- | \$7,967,698 | \$243,884 |
| Allocation of cumulative effect of changes in accounting principles | \$- | \$- | \$- | \$- |
| Deferred tax assets - current | \$3,078,875 | \$93,017 | \$1,997,624 | \$61,145 |
| Deferred tax liabilities - current | (2,443,416) | (73,819) | (707,110) | (21,644) |
| Net offset balance of deferred tax assets - current | \$635,459 | \$19,198 | \$1,290,514 | \$39,501 |
| Deferred tax assets - noncurrent | \$455,368 | \$13,757 | \$411,794 | \$12,605 |
| Deferred tax liabilities - noncurrent | - | - | - | - |
| Net balance of deferred tax assets - noncurrent | \$455,368 | \$13,757 | \$411,794 | \$12,605 |

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(4) Information related to imputation

| | September 30, | | | |
|--------------------------------------|---------------|---------|-----------|----------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance of imputation credit account | \$216,950 | \$6,554 | \$981,143 | \$30,032 |

| | September 30, | |
|---|---|-------|
| | 2006 | 2007 |
| | Imputation credit account ratio - actual (May 15, 2006) | 7.33% |
| Imputation credit account ratio - actual (May 15, 2007) | - | 7.96% |

(5) Related information on undistributed earnings

| Year | September 30, | | | |
|------------|---------------|------|------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| After 1998 | \$- | \$- | \$- | \$- |

Undistributed earnings after 1998 did not include the net income from January 1 to September 30, 2006 and 2007.

(6) Tax credits obtained in accordance with “Statute for Upgrading Industries” are as follows:

| Regulation | Deductible items | Amount of deductible | | | | Expiry Year |
|----------------------------------|--------------------|----------------------|-------|-------------------|-------|-------------|
| | | income tax | | Remaining balance | | |
| | | NT\$ | US\$ | NT\$ | US\$ | |
| Statute for Upgrading Industries | Education training | \$9,608 | \$294 | \$9,608 | \$294 | 2011 |

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24. Earnings per share

| | For the nine months ended September 30, 2006 | | | |
|--|--|------------------|---------------------|------------------|
| | Before tax | | After tax | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income from continuing operations after income taxes (a) | \$6,893,817 | \$208,273 | \$7,604,681 | \$229,749 |
| Cumulative effect of changes in accounting principles (a) | 2,977,187 | 89,945 | 3,315,855 | 100,177 |
| Net income (a) | <u>\$9,871,004</u> | <u>\$298,218</u> | <u>\$10,920,536</u> | <u>\$329,926</u> |
| Outstanding number of thousand shares at end of periods (b) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Weighted average outstanding number of thousand shares (c) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Earnings per share (a) / (c) (dollars) | | | | |
| Income from continuing operations after income taxes | \$1.36 | \$0.04 | \$1.50 | \$0.05 |
| Cumulative effect of changes in accounting principles | 0.59 | 0.02 | 0.66 | 0.02 |
| Net income | <u>\$1.95</u> | <u>\$0.06</u> | <u>\$2.16</u> | <u>\$0.07</u> |
| | | | | |
| | For the nine months ended September 30, 2007 | | | |
| | Before tax | | After tax | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Net income (a) | <u>\$27,643,773</u> | <u>\$846,152</u> | <u>\$25,265,311</u> | <u>\$773,349</u> |
| Outstanding number of thousand shares at end of periods (b) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Weighted average outstanding number of thousand shares (c) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Earnings per share (a) / (c) (dollars) | | | | |
| Net income | <u>\$5.45</u> | <u>\$0.17</u> | <u>\$4.98</u> | <u>\$0.15</u> |

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25. Related party transactions

(1) Related parties

| Name | Relationship |
|--|--|
| Cathay Financial Holding Co., Ltd. | Parent Company |
| Cathay Insurance (Bermuda) Co., Ltd. | Subsidiary of the Company |
| Symphox Information Co., Ltd. | Subsidiary of the Company |
| Cathay Securities Investment Co., Ltd. | Subsidiary of the Company |
| Cathay Life Insurance Ltd. (Shanghai) | Subsidiary of the Company |
| Cathay Securities Investment Trust Co., Ltd. | An equity method investee |
| Cathay Venture Capital Corp. | An equity method investee |
| Vista Technology Venture Capital Corp. | An equity method investee |
| Cathay Real Estate Development Co., Ltd. | Affiliate |
| Cathay United Bank | Affiliate |
| San Ching Engineering Co., Ltd. | Affiliate |
| Cathay Century Insurance Co., Ltd. | Affiliate |
| Cathay Securities Co., Ltd. | Affiliate |
| Cathay Capital Management Inc. | Affiliate |
| Seaward Card Co., Ltd. | Affiliate |
| Lin Yuan Property Management Co., Ltd. | Affiliate |
| Cathay Pacific Venture Capital Co., Ltd. | Affiliate |
| Cathay II Venture Capital Corp. | Affiliate |
| Cathay Pacific Partners Co., Ltd. | Affiliate |
| Cathay Property Insurance Agent Co., Ltd. | Affiliate |
| Indovina Bank Limited | Affiliate |
| Culture and Charity Foundation of the CUB | Affiliate |
| Seaward Leasing Co., Ltd. | Affiliate |
| Cathay Life Insurance Agent Co., Ltd. | Affiliate |
| Cathay Futures Co., Ltd. | Affiliate |
| Cathay Lin Yuan Security Co., Ltd. | Affiliate |
| Lucky Bank Taiwan Inc. | Affiliate (Have been merged with Cathay United Bank on January 1, 2007) |
| China England Company Ltd. | Affiliate |
| Cathay Real Estate Management Co., Ltd. | Affiliate |
| Yi Ru Corporation | Their chairman is an immediate family member of the Company's chairman in 2006 |
| Cathay Charity Foundation | Their vice-chairman is the Company's chairman |
| Cathay General Hospital | Their chairman is the Company's chairman |
| Lin Yuan Investment Co., Ltd. | Their chairman is an immediate family member of the Company's chairman |
| Wan Pao Development Co., Ltd. | Their chairman is an immediate family member of the Company's chairman |
| Taiwan Asset Management Corporation | Their chairman is Cathay United Bank |
| Other related parties | The directors supervisors, managers spouses and second relatives are included |

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Cathay Life Insurance Co., Ltd.

Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

(2) Significant transactions with related parties

A. Property transactions

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

(A) Significant transactions with related parties for the nine months ended September 30, 2006 and 2007 are listed below:

| Name | Item | For the nine months ended September 30, 2006 | |
|--|-----------------------------|--|----------------|
| | | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | Cathay General Hospital etc | \$6,512 | \$196 |
| Cathay Real Estate Development Co., Ltd. | Cathay Land Mark | 1,500 | 45 |
| Lin Yuan Property Management Co., Ltd. | Cathay Cosmos Building etc | 126,322 | 3,818 |
| Symphox Information Co., Ltd. | World Building | 1,890 | 57 |
| | Total | <u>\$136,224</u> | <u>\$4,116</u> |

| Name | Item | For the nine months ended September 30, 2007 | |
|--|----------------------------|--|----------------|
| | | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | Cathay Lank Mark etc | \$21,863 | \$669 |
| Lin Yuan Property Management Co., Ltd. | International Building etc | 153,534 | 4,700 |
| | Total | <u>\$175,397</u> | <u>\$5,369</u> |

The total amounts of contracted projects for real estate as of September 30, 2006 and 2007 between the Company and San Ching Engineering Co., Ltd. were NT\$1,233,866 (US\$37,277) and NT\$39,388 (US\$1,206), respectively.

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

As of September 30, 2006 and 2007

(B) Real estates acquired from related parties for the nine months ended September 30, 2006 and 2007 are as follows:

| Name | Item | For the nine months ended September 30, 2006 | |
|--|---|---|------------------|
| | | Contract Price | |
| | | NT\$ | US\$ |
| Wan Pao Development Co., Ltd. | Simen Rd, Tainan City. | <u>\$5,290,000</u> | <u>\$159,819</u> |
| Cathay Real Estate Development Co., Ltd. | Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City. | <u>\$2,470,000</u> | <u>\$74,622</u> |

The Company did not acquire any real estates from its related parties for the nine months ended September 30, 2007.

(C) Real-estate rental income (from related parties):

| Name | Rental income | | | |
|--|---|-----------------|------------------|-----------------|
| | For the nine months ended September 30, | | | |
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holding Co., Ltd. | \$7,395 | \$223 | \$12,678 | \$388 |
| Cathay Real Estate Development Co., Ltd. | 11,825 | 357 | 12,733 | 390 |
| Cathay United Bank | 187,244 | 5,657 | 205,547 | 6,292 |
| Cathay Century Insurance Co., Ltd. | 39,307 | 1,188 | 52,173 | 1,597 |
| Cathay General Hospital | 110,523 | 3,339 | 88,591 | 2,712 |
| San Ching Engineering Co., Ltd. | 5,592 | 169 | 5,930 | 181 |
| Symphox Information Co., Ltd. | 22,446 | 678 | 12,179 | 373 |
| Cathay Securities Investment Trust Co., Ltd. | 9,008 | 272 | 9,786 | 299 |
| Cathay Securities Investment Co., Ltd. | 2,507 | 76 | 2,646 | 81 |
| Cathay Securities Co., Ltd. | 11,366 | 343 | 12,835 | 393 |
| Cathay Capital Management Inc. | 1,487 | 45 | 1,601 | 49 |
| Seaward Leasing Co., Ltd. | 909 | 28 | 949 | 29 |
| Taiwan Asset Management Corporation | 10,463 | 316 | 11,029 | 337 |
| Cathay Futures Co., Ltd. | 494 | 15 | 546 | 17 |
| Total | <u>\$420,566</u> | <u>\$12,706</u> | <u>\$429,223</u> | <u>\$13,138</u> |

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As of September 30, 2006 and 2007

| Name | Guarantee deposits received | | | |
|--|-----------------------------|----------------|--------------------|----------------|
| | September 30, 2006 | | September 30, 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Real Estate Development Co., Ltd. | \$3,645 | \$110 | \$3,774 | \$115 |
| Cathay United Bank | 65,336 | 1,974 | 63,822 | 1,954 |
| Cathay Century Insurance Co., Ltd. | 14,036 | 424 | 17,359 | 531 |
| Cathay General Hospital | 6,840 | 207 | 8,564 | 262 |
| San Ching Engineering Co., Ltd. | 1,709 | 52 | 1,709 | 52 |
| Cathay Securities Investment Trust Co., Ltd. | 2,738 | 83 | 2,738 | 84 |
| Cathay Securities Investment Co., Ltd. | 877 | 26 | 877 | 27 |
| Cathay Securities Co., Ltd. | 3,785 | 114 | 4,644 | 142 |
| Cathay Capital Management Inc. | 479 | 15 | 479 | 15 |
| Seaward Leasing Co., Ltd. | 346 | 10 | 346 | 11 |
| Taiwan Asset Management Corporation | 3,477 | 105 | 3,477 | 106 |
| Cathay Financial Holding Co., Ltd. | - | - | 4,864 | 149 |
| Symphox Information Co., Ltd. | 2,718 | 82 | 84 | 3 |
| Total | <u>\$105,986</u> | <u>\$3,202</u> | <u>\$112,737</u> | <u>\$3,451</u> |

Lease terms and collection of rental are governed by signed contracts, with lease terms generally 2 to 5 years. Rentals are collected monthly.

(D) Real-estate rental expense (to related parties):

| Name | Rental expense | | | |
|--|---|--------------|-----------------|---------------|
| | For the nine months ended September 30, | | | |
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Real Estate Development Co., Ltd. | \$23,047 | \$696 | \$23,003 | \$704 |
| Lin Yuan Investment Co., Ltd. | 1,684 | 51 | 1,465 | 45 |
| Yi Ru Corporation | 2,757 | 83 | 2,845 | 87 |
| Lucky Bank Taiwan Inc. | 3,447 | 104 | - | - |
| Cathay United Bank | 704 | 22 | 5,354 | 164 |
| Total | <u>\$31,639</u> | <u>\$956</u> | <u>\$32,667</u> | <u>\$1000</u> |

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Cathay Life Insurance Co., Ltd.

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As of September 30, 2006 and 2007

| Name | Guarantee deposits paid | | | |
|--|-------------------------|--------------|--------------------|--------------|
| | September 30, 2006 | | September 30, 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Real Estate Development Co., Ltd. | \$8,926 | \$270 | \$8,929 | \$273 |
| Lin Yuan Investment Co., Ltd. | 628 | 19 | 628 | 19 |
| Yi Ru Corporation | 1,190 | 36 | 1,190 | 37 |
| Lucky Bank Taiwan Inc. | 1,292 | 39 | - | - |
| Cathay United Bank | - | - | 2,078 | 64 |
| Total | <u>\$12,036</u> | <u>\$364</u> | <u>\$12,825</u> | <u>\$393</u> |

According to contracts, terms of leases with third parties generally were 3 years, and rents were paid monthly.

B. Cash in banks

| Name | Item | For the nine months ended September 30, 2006 | | |
|------------------------|--------------|--|-------------|--------------------|
| | | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United | Time deposit | \$75,657 | 1.05%-2.02% | \$26,250 |
| Bank | Cash in bank | 1,325 | 0.10% | 2,210,568 |
| Lucky Bank Taiwan Inc. | Cash in bank | 5 | 0.10% | 13,058 |
| Total | | <u>\$76,987</u> | | <u>\$2,249,876</u> |

| Name | Item | For the nine months ended September 30, 2006 | | |
|------------------------|--------------|--|-------------|-----------------|
| | | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United | Time deposit | \$2,286 | 1.05%-2.02% | \$793 |
| Bank | Cash in bank | 40 | 0.10% | 66,784 |
| Lucky Bank Taiwan Inc. | Cash in bank | - | 0.10% | 395 |
| Total | | <u>\$2,326</u> | | <u>\$67,972</u> |

| Name | Item | For the nine months ended September 30, 2007 | | |
|---------------|--------------|--|-------------|--------------------|
| | | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United | Time deposit | \$35,920 | 1.15%-2.49% | \$5,663,050 |
| Bank | Cash in bank | 2,572 | 0.10%-2.35% | 2,491,526 |
| Total | | <u>\$38,492</u> | | <u>\$8,154,576</u> |

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Cathay Life Insurance Co., Ltd.

Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

| | | For the nine months ended September 30, 2007 | | |
|--------------------|--------------|--|-------------|----------------|
| Name | Item | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United Bank | Time deposit | \$1,099 | 1.15%-2.49% | \$173,341 |
| | Cash in bank | 79 | 0.10%-2.35% | 76,263 |
| Total | | \$1,178 | | \$249,604 |

C. Other financial assets - current

| | | For the nine months ended September 30, 2006 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United Bank | | \$15,369 | 1.80%-3.00% | \$2,500,000 |

| | | For the nine months ended September 30, 2006 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United Bank | | \$464 | 1.80%-3.00% | \$75,529 |

| | | For the nine months ended September 30, 2007 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United Bank | | \$31,462 | 1.80%-3.17% | \$5,250,000 |

| | | For the nine months ended September 30, 2007 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United Bank | | \$963 | 1.80%-3.17% | \$160,698 |

D. Secured loans

| | | For the nine months ended September 30, 2006 | | |
|-------------------------|----------------|--|-------------|----------------|
| Name | Maximum amount | Interest income | Rate | Ending balance |
| | NT\$ | NT\$ | | NT\$ |
| Cathay General Hospital | \$4,070,069 | \$89,357 | 3.03%-3.26% | \$4,070,000 |
| Other related parties | 72,183 | 1,385 | 2.10%-3.14% | 68,739 |
| Total | \$4,142,252 | \$90,742 | | \$4,138,739 |

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Cathay Life Insurance Co., Ltd.

Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

| Name | For the nine months ended September 30, 2006 | | | |
|-------------------------|--|-----------------|-------------|------------------|
| | Maximum amount | Interest income | Rate | Ending balance |
| | US\$ | US\$ | | US\$ |
| Cathay General Hospital | \$122,963 | \$2,699 | 3.03%-3.26% | \$122,961 |
| Other related parties | 2,181 | 42 | 2.10%-3.14% | 2,076 |
| Total | \$125,144 | \$2,741 | | \$125,037 |

| Name | For the nine months ended September 30, 2007 | | | |
|-------------------------|--|------------------|-------------|--------------------|
| | Maximum amount | Interest income | Rate | Ending balance |
| | NT\$ | NT\$ | | NT\$ |
| Cathay General Hospital | \$4,449,654 | \$111,299 | 3.44%-3.60% | \$4,420,965 |
| Other related parties | 272,775 | 4,576 | 0.00%-5.87% | 234,923 |
| Total | \$4,722,429 | \$115,875 | | \$4,655,888 |

| Name | For the nine months ended September 30, 2007 | | | |
|-------------------------|--|-----------------|-------------|------------------|
| | Maximum amount | Interest income | Rate | Ending balance |
| | US\$ | US\$ | | US\$ |
| Cathay General Hospital | \$136,200 | \$3,407 | 3.44%-3.60% | \$135,322 |
| Other related parties | 8,349 | 140 | 0.00%-5.87% | 7,191 |
| Total | \$144,549 | \$3,547 | | \$142,513 |

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

| Name | | September 30, | | | |
|----------------------------|--------------|---------------|-----------|-------------|-----------|
| | | 2006 | | 2007 | |
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Securities | | | | | |
| Investment Trust Co., Ltd. | Market value | \$6,011,412 | \$181,614 | \$7,499,121 | \$229,542 |
| | Cost | \$5,529,170 | \$167,044 | \$6,687,114 | \$204,687 |

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

As of September 30, 2006 and 2007

F. Other accounts receivable

| Name | September 30, | | | |
|--|---------------|---------|----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$315,630 | \$9,536 | \$96,857 | \$2,965 |
| Cathay Insurance (Bermuda) Co., Ltd. | 14,047 | 424 | 10,994 | 337 |
| Cathay Financial Holding Co., Ltd. | 525,713 | 15,883 | 68,719 | 2,103 |
| Cathay Securities Investment Co., Ltd. | - | - | 13,125 | 402 |
| Cathay General Hospital | 30,894 | 933 | 100 | 3 |
| Cathay United Bank | - | - | 8,725 | 267 |

G. Prepayments

| Name | September 30, | | | |
|---------------------------------------|---------------|-------|----------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Symphox Information Co., Ltd. | \$6,428 | \$194 | \$32,496 | \$995 |
| Lin Yuan Investment Co., Ltd. | - | - | 419 | 13 |
| Yi Ru Corporation | 462 | 14 | 356 | 11 |
| Cathay Life Insurance Agent Co., Ltd. | 17,229 | 521 | - | - |

H. Guarantee deposits paid

| Name | September 30, | | | |
|--------------------------|------------------|-----------------|------------------|-----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | <u>\$642,829</u> | <u>\$19,421</u> | <u>\$364,700</u> | <u>\$11,163</u> |

As of September 30, 2006 and 2007, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. were NT\$342 (US\$10) and NT\$156 (US\$5), respectively.

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As of September 30, 2006 and 2007

I. Other payable

| Name | September 30, | | | |
|--|---------------|-------|---------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$5,953 | \$180 | \$2,891 | \$88 |
| Symphox Information Co., Ltd. | 34,806 | 1,052 | 42,711 | 1,307 |
| Lin Yuan Property Management Co., Ltd. | 45,620 | 1,378 | 64,242 | 1,966 |
| Cathay Real Estate Development Co., Ltd. | - | - | 1,200 | 37 |
| Cathay United Bank | 37,800 | 1,142 | - | - |
| Cathay Securities Co., Ltd. | 37,800 | 1,142 | 336 | 10 |
| Seaward Card Co., Ltd. | 555 | 17 | - | - |
| San Ching Engineering Co., Ltd. | - | - | 504 | 15 |
| Cathay Securities Investment Co., Ltd. | - | - | 13,125 | 402 |
| Seaward Leasing Co., Ltd. | - | - | 837 | 26 |

J. Accounts collected in advance

| Name | September 30, | | | |
|-------------------------------------|---------------|------|---------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Taiwan Asset Management Corporation | \$2,484 | \$75 | \$2,542 | \$78 |
| Cathay Century Insurance Co., Ltd. | 2,359 | 71 | - | - |

K. Premiums income

| Name | For the nine months ended September 30, | | | |
|--|---|----------------|------------------|-----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay United Bank | \$256,807 | \$7,759 | \$343,035 | \$10,500 |
| Cathay General Hospital | 20,295 | 613 | 22,303 | 683 |
| Cathay Securities Investment Trust Co., Ltd. | 612 | 19 | 826 | 25 |
| San Ching Engineering Co., Ltd. | 891 | 27 | 945 | 29 |
| Cathay Century Insurance Co., Ltd. | 5,607 | 169 | 6,082 | 186 |
| Cathay Securities Co., Ltd. | 1,236 | 38 | 1,383 | 42 |
| Symphox Information Co., Ltd. | 1,005 | 30 | 1,007 | 31 |
| Cathay Financial Holding Co., Ltd. | 562 | 17 | 685 | 21 |
| Cathay Real Estate Development Co., Ltd. | 989 | 30 | 1,312 | 40 |
| Cathay Futures Co., Ltd. | 672 | 20 | 93 | 3 |
| Other related parties | 25,665 | 775 | 308,231 | 9,435 |
| Total | <u>\$314,341</u> | <u>\$9,497</u> | <u>\$685,902</u> | <u>\$20,995</u> |

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L. Insurance expense

| Name | For the nine months ended September 30, | | | |
|------------------------------------|---|---------|----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$99,673 | \$3,011 | \$89,904 | \$2,752 |

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$8,000 (US\$242) and NT\$8,403 (US\$257) paid by the Company on behalf the employees for fidelity bond insurance were included in insurance expenses for the nine months ended September 30, 2006 and 2007.

M. Indemnity income

| Name | For the nine months ended September 30, | | | |
|------------------------------------|---|-------|---------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$6,781 | \$205 | \$6,041 | \$185 |

N. Reinsurance income

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|---------|----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$106,074 | \$3,205 | \$90,291 | \$2,764 |

O. Reinsurance handing fee income

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|------|---------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$579 | \$17 | \$2,644 | \$81 |

P. Reinsurance claims payment

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|---------|---------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$71,282 | \$2,154 | \$3,843 | \$118 |

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Q. Reinsurance commission expense

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|-------|---------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$13,305 | \$402 | \$1,188 | \$36 |

R. Miscellaneous income

| Name | For the nine months ended September 30, | | | |
|--|---|----------|-----------|----------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$503,299 | \$15,205 | \$548,806 | \$16,798 |
| Cathay United Bank | 78,795 | 2,381 | 93,040 | 2,848 |
| Cathay securities Investment Trust Co., Ltd. | 10,179 | 307 | 3,905 | 120 |
| Cathay General Hospital | - | - | 3,222 | 99 |
| Cathay Securities Co., Ltd. | - | - | 1,569 | 48 |
| Symphox Information Co., Ltd. | 1,646 | 50 | 928 | 28 |
| Cathay Real Estate Development Co., Ltd. | - | - | 1,009 | 31 |
| Cathay Financial Holding Co., Ltd. | - | - | 849 | 26 |
| Taiwan Asset Management Corporation | - | - | 781 | 24 |
| San Ching Engineering Co., Ltd. | - | - | 398 | 12 |
| Total | \$593,919 | \$17,943 | \$654,507 | \$20,034 |

S. Commissions expenses

| Name | For the nine months ended September 30, | | | |
|---------------------------------------|---|---------|----------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Agent Co., Ltd. | \$90,881 | \$2,746 | \$18,595 | \$569 |

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

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T. Operating expenses

| Name | For the nine months ended September 30, | | | |
|--|---|-----------------|--------------------|-----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Symphox Information Co., Ltd. | \$158,272 | \$4,782 | \$185,033 | \$5,664 |
| Cathay General Hospital | 3,069 | 93 | 3,855 | 118 |
| Lin Yuan Property Management Co., Ltd. | 483,518 | 14,608 | 460,224 | 14,087 |
| Cathay Securities Investment Co., Ltd. | 39,375 | 1,189 | 64,739 | 1,982 |
| San Ching Engineering Co., Ltd. | 3,040 | 92 | 4,075 | 125 |
| Cathay Futures Co., Ltd. | - | - | 3,047 | 93 |
| Seaward Card Cold Ltd. | 1,132 | 34 | 3,150 | 96 |
| Cathay Real Estate Development Co., Ltd. | 3,661 | 110 | 4,274 | 131 |
| Cathay Capital Management Inc. | 19,196 | 580 | 13,721 | 420 |
| Seaward Leasing Co., Ltd. | 5,100 | 154 | 6,345 | 194 |
| Cathay United Bank | - | - | 474,036 | 14,510 |
| Cathay Charity Foundation | 2,250 | 68 | - | - |
| Lin Yuan Property Management Co., Ltd. | - | - | 600 | 18 |
| Lucky Bank Taiwan Inc. | 431 | 13 | - | - |
| Total | <u>\$719,044</u> | <u>\$21,723</u> | <u>\$1,223,099</u> | <u>\$37,438</u> |

U. Sale of securities

| For the nine months ended September 30, 2006 | | | | | | |
|--|--|----------------------|----------|---------|------------------|------|
| Related party | Securities | Shares (thousand) | Amount | | Gain on disposal | |
| | | | NT\$ | US\$ | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | Lin Yuan Property Management Co., Ltd. | 2,400 | \$47,554 | \$1,437 | \$3,707 | \$12 |
| Seaward Leasing Co., Ltd. | Waterland Securities Co., Ltd. etc. | - | 187,708 | 5,671 | - | - |

There were no related party transactions of securities for the nine months ended September 30, 2007.

V. Cost of disposal real estate

| Name | For the nine months ended September 30, | | | |
|-----------------------------|---|----------------|-----------------|--------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Securities Co., Ltd. | \$37,800 | \$1,142 | \$21,115 | \$646 |
| Cathay United Bank | 37,800 | 1,142 | - | - |
| Total | <u>\$75,600</u> | <u>\$2,284</u> | <u>\$21,115</u> | <u>\$646</u> |

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W. Other

(A) As of September 30, 2006 and 2007, the nominal amount of the financial instruments transactions with Cathay United Bank are listed below:

| Item | September 30, | |
|------------------------------------|---------------|----------------------------|
| | 2006 | 2007 |
| Forward foreign exchange contracts | USD 302,316 | USD 773,623 |
| CS contracts | USD 1,830,344 | USD 1,352,782 |
| Financial debentures | - | NTD 200,000 (USD 6,122) |

The above financial debentures were the debentures acquired by Cathay United Bank from the secondary market. The amount acquired in the third quarter of 2007 was NT\$193,510 (US\$5,923).

(B) In the third quarter of 2007, the Company had entered a credit assignment agreement with Cathay United Bank in an amount of NT\$1,030,000 (US\$31,527).

26. Pledged assets

As of September 30, 2006 and 2007, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Act, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

| Item | September 30, | | | |
|-------------------------|--------------------|------------------|--------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Guarantee deposits paid | \$8,109,447 | \$244,998 | \$8058,996 | \$246,679 |
| Time deposits | 195,840 | 5,917 | 216,460 | 6,625 |
| Total | <u>\$8,305,287</u> | <u>\$250,915</u> | <u>\$8,275,456</u> | <u>\$253,304</u> |

Pledged assets are based on the carrying amounts.

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As of September 30, 2006 and 2007

27. Other important matters and contingent liabilities

None.

28. Serious damages

None.

29. Subsequent events

The company has received approval from the China Insurance Regulatory Commission in October, 2007 to form a joint-venture general insurance subsidiary with Cathay Century Insurance Co., Ltd in China. Please refer to note 29 “Information for investment in Mainland China”.

30. Other important events

(1) Pension related information

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

(2) Financial risk management objectives and policies

The Company’s financial assets primarily consist of domestic or foreign common stocks, preferred stocks, bonds, corporate bonds, short-term notes, mortgage-backed securities, mutual funds, cash and cash equivalents.

The Company enters into derivative transactions such as stock options, index futures, interest rate futures, interest rate swaps, currency forwards and cross currency swap to protect against the risks of stock value, interest rate and exchange rate from investment activities.

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

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Market Risk

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

Credit Risk

Credit risk is the risk of loss due to counterparty or a debtor defaulting on their contractual obligations. The Company minimizes the credit risk exposure by performing the following evaluations and controls:

The Company has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by the Company before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees. No defaults have occurred during the current financial year.

Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are limited to 80% of the carrying value of the secured buildings which varies in different regions.

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

Operational Risk

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

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Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has 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.

(3) Financial instruments related information

| Item | September 30, 2006 | | | |
|---|--------------------|---------------|-----------------|-------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets - non-derivative</u> | | | | |
| Cash and cash equivalents | \$308,770,019 | \$308,770,019 | \$9,328,399 | \$9,328,399 |
| Notes receivable | 10,149,842 | 10,149,842 | 306,642 | 306,642 |
| Financial assets at fair value through profit or loss - | | | | |
| current | 83,100,332 | 83,100,332 | 2,510,584 | 2,510,584 |
| Available-for-sale financial assets - current | 106,731,239 | 106,731,239 | 3,224,509 | 3,224,509 |
| Held-to-maturity financial assets - current | 14,249,164 | 14,239,821 | 430,488 | 430,206 |
| Investments in debt securities with no active market - | | | | |
| current | 5,517,326 | 5,517,326 | 166,687 | 166,687 |
| Available-for-sale financial assets - noncurrent | 145,064,287 | 145,064,287 | 4,382,607 | 4,382,607 |
| Held-to-maturity financial assets - noncurrent | 525,999,518 | 514,947,113 | 15,891,224 | 15,557,315 |
| Financial assets carried at cost - noncurrent | 20,011,317 | 20,011,317 | 604,572 | 604,572 |
| Investments in debt securities with no active market - | | | | |
| noncurrent | 42,995,008 | 42,749,992 | 1,298,943 | 1,291,541 |
| Long-term investments in stocks under the equity | | | | |
| method | 4,198,857 | 4,198,857 | 126,854 | 126,854 |
| Guarantee deposits paid | 8,195,783 | 8,195,783 | 247,607 | 247,607 |
| <u>Liabilities - non-derivative</u> | | | | |
| Notes payable | 3,523 | 3,523 | 106 | 106 |
| Guarantee deposits received | 1,568,398 | 1,568,398 | 47,384 | 47,384 |

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| Item | September 30, 2006 | | | |
|---|--------------------|---------------|-----------------|-------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit or loss - | | | | |
| current | | | | |
| Futures | 3,505,484 | 3,505,484 | 105,906 | 105,906 |
| Option | 38,566 | 38,566 | 1,165 | 1,165 |
| Forward | 3,409,922 | 3,409,922 | 103,019 | 103,019 |
| IRS | 399,766 | 399,766 | 12,077 | 12,077 |
| Derivative financial assets for hedging - current | | | | |
| IRS | 304,329 | 304,329 | 9,194 | 9,194 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - current | | | | |
| Option | 2,383 | 2,383 | 72 | 72 |
| Forward | 16,428,852 | 16,428,852 | 496,340 | 496,340 |
| IRS | 391,325 | 391,325 | 11,823 | 11,823 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | 35,549 | 35,549 | 1,074 | 1,074 |
| Item | September 30, 2007 | | | |
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets - non-derivative</u> | | | | |
| Cash and cash equivalents | \$226,574,039 | \$226,574,039 | \$6,935,232 | \$6,935,232 |
| Notes receivable | 9,523,621 | 9,523,621 | 291,510 | 291,510 |
| Financial assets at fair value through profit or loss - | | | | |
| current | | | | |
| Available-for-sale financial assets - current | 81,802,435 | 81,802,435 | 2,503,901 | 2,503,901 |
| Held-to-maturity financial assets - current | 195,285,536 | 195,285,536 | 5,977,519 | 5,977,519 |
| Investments in debt securities with no active market - current | 7,923,309 | 7,921,427 | 242,526 | 242,468 |
| noncurrent | | | | |
| Available-for-sale financial assets - noncurrent | 5,051,153 | 5,052,472 | 154,611 | 154,652 |
| Held-to-maturity financial assets - noncurrent | 223,161,080 | 223,161,080 | 6,830,765 | 6,830,765 |
| Financial assets carried at cost - noncurrent | 553,249,460 | 532,063,365 | 16,934,480 | 16,285,992 |
| Investments in debt securities with no active market - noncurrent | 19,412,750 | 19,412,750 | 594,207 | 594,207 |
| Long-term investments in stocks under the equity method | 44,877,125 | 41,432,433 | 1,373,650 | 1,268,210 |
| Guarantee deposits paid | 4,418,780 | 4,418,780 | 135,255 | 135,255 |
| | 8,264,696 | 8,264,696 | 252,975 | 252,975 |

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| Item | September 30, 2007 | | | |
|--|--------------------|------------|-----------------|------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Liabilities - non-derivative</u> | | | | |
| Notes payable | \$1,713 | \$1,713 | \$52 | \$52 |
| Guarantee deposits received | 1,467,075 | 1,467,075 | 44,906 | 44,906 |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit or loss – | | | | |
| current | | | | |
| Futures | 1,683,552 | 1,683,552 | 51,532 | 51,532 |
| Option | 45,899 | 45,899 | 1,405 | 1,405 |
| Forward | 18,804,085 | 18,804,085 | 575,576 | 575,576 |
| IRS | 128,007 | 128,007 | 3,918 | 3,918 |
| Derivative financial assets for hedging - current | | | | |
| IRS | 184,384 | 184,384 | 5,644 | 5,644 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - current | | | | |
| Option | 35,154 | 35,154 | 1,076 | 1,076 |
| Forward | 19,453,512 | 19,453,512 | 595,455 | 595,455 |
| IRS | 85,806 | 85,806 | 2,626 | 2,626 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | 108,257 | 108,257 | 3,314 | 3,314 |

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

- ① The fair value of the Company's 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.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.

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- ③ Quoted market price, if available, are 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 financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's financial instruments was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at September 30, 2006 and 2007:

| Financial instruments | September 30, 2006 | | | |
|--|----------------------------------|-------------|-------------------------------|------------|
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - non-derivative</u> | | | | |
| Financial assets at fair value through profit and loss - | | | | |
| current | \$77,430,266 | \$2,339,283 | \$5,670,066 | \$171,301 |
| Available-for-sale financial assets - current | 106,730,080 | 3,224,474 | 1,159 | 35 |
| Held-to-maturity financial assets - current | 9,518,921 | 287,581 | 4,720,899 | 142,625 |
| Investment in debt securities with no active market - | | | | |
| current | - | - | 5,517,326 | 166,687 |
| Available-for-sale financial assets - noncurrent | 130,238,178 | 3,934,688 | 14,826,109 | 447,919 |
| Held-to-maturity financial assets - noncurrent | 74,541,832 | 2,252,019 | 440,405,281 | 13,305,295 |
| Financial assets carried at cost - noncurrent | - | - | 20,011,317 | 604,572 |
| Investment in debt securities with no active market - | | | | |
| noncurrent | - | - | 42,749,992 | 1,291,541 |
| Long-term investments in stocks under the equity | | | | |
| method | - | - | 4,198,857 | 126,854 |

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As of September 30, 2006 and 2007

| Financial instruments | September 30, 2006 | | | |
|--|----------------------------------|-------------|-------------------------------|------------|
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit and loss - | | | | |
| current | | | | |
| Futures | \$3,505,484 | \$105,906 | \$- | \$- |
| Option | 38,566 | 1,165 | - | - |
| Forward | - | - | 3,409,922 | 103,019 |
| IRS | - | - | 399,766 | 12,077 |
| Derivative financial assets for hedging - current | | | | |
| IRS | - | - | 304,329 | 9,194 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit and | | | | |
| loss - current | | | | |
| Option | 2,383 | 72 | - | - |
| Forward | - | - | 16,428,852 | 496,340 |
| IRS | - | - | 391,325 | 11,823 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | - | - | 35,549 | 1,074 |
| | | | | |
| Financial instruments | September 30, 2007 | | | |
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - non-derivative</u> | | | | |
| Financial assets at fair value through profit or loss - | | | | |
| current | \$72,230,803 | \$2,210,921 | \$9,571,632 | \$292,979 |
| Available-for-sale financial assets - current | 195,285,536 | 5,977,519 | - | - |
| Held-to-maturity financial assets - current | 7,177,736 | 219,704 | 743,691 | 22,764 |
| Investments in debt securities with no active market - | | | | |
| current | - | - | 5,052,472 | 154,652 |
| Available-for-sale financial assets - noncurrent | 208,834,151 | 6,392,230 | 14,326,929 | 438,535 |
| Held-to-maturity financial assets - noncurrent | 92,674,226 | 2,836,677 | 439,389,138 | 13,449,316 |
| Financial assets carried at cost - noncurrent | - | - | 19,412,750 | 594,207 |
| Investment in debt securities with no active market - | | | | |
| noncurrent | 3,450,296 | 105,611 | 37,982,137 | 1,162,600 |
| Long-term investments in stocks under the equity | | | | |
| method | - | - | 4,418,780 | 135,255 |

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As of September 30, 2006 and 2007

| Financial instruments | September 30, 2007 | | | |
|--|----------------------------------|----------|-------------------------------|---------|
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit or loss - | | | | |
| current | | | | |
| Futures | \$1,683,552 | \$51,532 | \$- | \$- |
| Option | 4,125 | 126 | 41,774 | 1,279 |
| Forward | - | - | 18,804,085 | 575,577 |
| IRS | - | - | 128,007 | 3,918 |
| Derivative financial assets for hedging - current | | | | |
| IRS | - | - | 184,384 | 5,644 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - current | | | | |
| Option | - | - | 35,154 | 1,076 |
| Forward | - | - | 19,453,512 | 595,455 |
| IRS | - | - | 85,806 | 2,626 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | - | - | 108,257 | 3,314 |

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at September 30, 2006 and 2007:

① September 30, 2006

Non-derivative financial instruments of fixed interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|----------|------------------|----------|------------------|---------|------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$363,510 | \$10,982 | \$539,025 | \$16,285 | \$159,547 | \$4,820 | \$223,329 | \$6,747 |
| Available-for-sale financial assets | 11,144,156 | 336,681 | 1,620,299 | 48,952 | 1,283,648 | 38,781 | 801,015 | 24,200 |
| Held-to-maturity financial assets | 11,641,484 | 351,706 | 7,782,714 | 235,127 | 3,355,050 | 101,361 | 12,104,988 | 365,710 |
| Investments in debt securities with | | | | | | | | |
| no active market | 501,195 | 15,142 | 346,991 | 10,483 | 1,570,060 | 47,434 | 486,942 | 14,711 |

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As of September 30, 2006 and 2007

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|----------|--------------|------------|--------------|------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$865,979 | \$26,163 | \$25,907,666 | \$782,709 | \$28,059,056 | \$847,706 |
| Available-for-sale financial assets | 6,349,032 | 191,814 | 76,687,946 | 2,316,856 | 97,886,096 | 2,957,284 |
| Held-to-maturity financial assets | 13,102,257 | 395,839 | 403,831,376 | 12,200,344 | 451,817,869 | 13,650,087 |
| Investments in debt securities with | | | | | | |
| no active market | 298,832 | 9,028 | 31,634,667 | 955,730 | 34,838,687 | 1,052,528 |

Non-derivative financial instruments of float interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|-----------|------------------|------|------------------|------|------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$7,072,195 | \$213,661 | \$- | \$- | \$- | \$- | \$- | \$- |
| Available-for-sale financial assets | 49,713,698 | 1,501,924 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 88,430,813 | 2,671,626 | - | - | - | - | - | - |
| Investments in debt securities with | | | | | | | | |
| no active market | 13,673,648 | 413,101 | - | - | - | - | - | - |

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|------|--------------|------|-------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$- | \$- | \$- | \$- | \$7,072,195 | \$213,661 |
| Available-for-sale financial assets | - | - | - | - | 49,713,698 | 1,501,924 |
| Held-to-maturity financial assets | - | - | - | - | 88,430,813 | 2,671,626 |
| Investments in debt securities with | | | | | | |
| no active market | - | - | - | - | 13,673,648 | 413,101 |

Derivative financial instruments

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|--------------------------------------|--------------------|---------|------------------|---------|------------------|-------|------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$258,199 | \$7,801 | \$109,200 | \$3,299 | \$17,483 | \$528 | \$3,825 | \$116 |
| Derivative financial assets for | | | | | | | | |
| hedging | 4,965 | 150 | 46,432 | 1,403 | 13,462 | 407 | 124,287 | 3,755 |
| Financial liabilities at fair value | | | | | | | | |
| through profit or loss | (63,329) | (1,913) | (2,308) | (70) | (310) | (9) | (1,335) | (40) |
| Derivative financial liabilities for | | | | | | | | |
| hedging | (1,109) | (34) | (5,283) | (160) | (29,157) | (881) | - | - |

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| Item | Due in 4~5 years | | Over 5 years | | Total | |
|--------------------------------------|------------------|-------|--------------|---------|-----------|----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$857 | \$26 | \$275,024 | \$8,309 | \$664,588 | \$20,078 |
| Derivative financial assets for | | | | | | |
| hedging | 63,863 | 1,929 | 51,320 | 1,550 | 304,329 | 9,194 |
| Financial liabilities at fair value | | | | | | |
| through profit or loss | (25,071) | (757) | (301,355) | (9,104) | (393,708) | (11,895) |
| Derivative financial liabilities for | | | | | | |
| hedging | - | - | - | - | (35,549) | (1,074) |

② September 30, 2007

Non-derivative financial instruments of fixed interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|----------|------------------|----------|------------------|---------|------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$381,201 | \$11,668 | \$1,428,676 | \$43,730 | \$171,667 | \$5,255 | \$309,001 | \$9,458 |
| Available-for-sale financial assets | 2,395,480 | 73,324 | 2,830,762 | 86,647 | 1,654,810 | 50,652 | 10,215,191 | 312,678 |
| Held-to-maturity financial assets | 7,047,010 | 215,703 | 6,319,727 | 193,441 | 10,002,033 | 306,153 | 15,262,218 | 467,163 |
| Investments in debt securities with | | | | | | | | |
| no active market | 506,302 | 15,497 | 1,024,859 | 31,370 | 1,155,729 | 35,376 | 777,618 | 23,802 |

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|-----------|--------------|------------|--------------|-------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$3,351,735 | \$102,594 | \$15,522,396 | \$475,127 | \$21,164,676 | \$647,832 |
| Available-for-sale financial assets | 9,845,965 | 301,376 | 87,464,814 | 2,677,221 | 114,407,022 | 3,501,898 |
| Held-to-maturity financial assets | 9,886,678 | 302,622 | 432,108,038 | 13,226,447 | 480,625,704 | 14,711,531 |
| Investments in debt securities with | | | | | | |
| no active market | 1,190,982 | 36,455 | 34,174,593 | 1,046,054 | 38,830,083 | \$1,188,555 |

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Non-derivative financial instruments of float interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|-----------|------------------|------|------------------|------|------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$7,370,447 | \$225,603 | \$- | \$- | \$- | \$- | \$- | \$- |
| Available-for-sale financial assets | 117,978,396 | 3,611,215 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 80,547,065 | 2,465,475 | - | - | - | - | - | - |
| Investments in debt securities with | | | | | | | | |
| no active market | 11,098,195 | 339,706 | - | - | - | - | - | - |

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|------|--------------|------|-------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$- | \$- | \$- | \$- | \$7,370,447 | \$225,603 |
| Available-for-sale financial assets | - | - | - | - | 117,978,396 | 3,611,215 |
| Held-to-maturity financial assets | - | - | - | - | 80,547,065 | 2,465,475 |
| Investments in debt securities with | | | | | | |
| no active market | - | - | - | - | 11,098,195 | 339,706 |

Derivative financial instruments

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|--------------------------------------|--------------------|-------|------------------|---------|------------------|-------|------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$18,874 | \$578 | \$61,488 | \$1,882 | \$6,566 | \$201 | \$3,742 | \$114 |
| Derivative financial assets for | | | | | | | | |
| hedging | 21,144 | 647 | 11,674 | 357 | 94,923 | 2,906 | 4,578 | 140 |
| Financial liabilities at fair value | | | | | | | | |
| through profit or loss | (12,637) | (387) | (65,093) | (1,992) | (3,038) | (93) | (8,558) | (262) |
| Derivative financial liabilities for | | | | | | | | |
| hedging | (26,813) | (821) | (5,611) | (172) | (7,752) | (237) | (14,506) | (444) |

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As of September 30, 2006 and 2007

| Item | Due in 4-5 years | | Over 5 years | | Total | |
|--------------------------------------|------------------|-------|--------------|---------|-----------|---------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$9,254 | \$283 | \$63,858 | \$1,955 | \$163,782 | \$5,013 |
| Derivative financial assets for | | | | | | |
| hedging | - | - | 52,065 | 1,594 | 184,384 | 5,644 |
| Financial liabilities at fair value | | | | | | |
| through profit or loss | (11,756) | (360) | (19,878) | (608) | (120,960) | (3,702) |
| Derivative financial liabilities for | | | | | | |
| hedging | - | - | (53,575) | (1,640) | (108,257) | (3,314) |

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at September 30, 2006 and 2007:

Cash flow hedges – IRS

① September 30, 2006

| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|----------|------------------------------|--------------|---------------|
| NT\$ | US\$ | | | |
| \$372,500 | \$11,254 | ARMS | Each quarter | 2009/3/24 |
| 350,000 | 10,574 | 4.0005%-6ml | Yearly | 2008/9/26 |
| 500,000 | 15,106 | 7.6%-90DCP | Half year | 2007/10/10 |
| 500,000 | 15,106 | 7.05%-90DCP | Half year | 2007/10/10 |
| 300,000 | 9,063 | 5.5%-6ml | Half year | 2007/12/26 |
| 500,000 | 15,106 | 6.9%-90DCP | Each quarter | 2007/7/9 |
| 200,000 | 6,042 | 4.003%-6ml | Half year | 2008/6/13 |
| 500,000 | 15,106 | 4%-12ml | Yearly | 2008/6/5 |
| 300,000 | 9,063 | 4.3%-12ml | Yearly | 2010/6/20 |
| 900,000 | 27,190 | 90DCP | Each quarter | 2015/2/4 |
| 400,000 | 12,085 | 90DCP | Each quarter | 2015/3/17 |
| 50,000 | 1,511 | 90DCP | Each quarter | 2009/3/15 |
| 500,000 | 15,106 | If 6ml<1.1%,6ml | Half year | 2011/6/30 |
| | | If 1.1%<6ml<2.0%,3.8% | | |
| | | If 6ml>2.0%,Max(5.50%-6ml,0) | | |

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| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|---------|---|--------------|---------------|
| NT\$ | US\$ | | | |
| \$200,000 | \$6,042 | 7.603%-6ml | Half year | 2007/7/31 |
| 300,000 | 9,063 | 7.5%-6ml | Half year | 2007/7/31 |
| 300,000 | 9,063 | 5.1%-6ml | Half year | 2007/12/19 |
| 300,000 | 9,063 | If 6ml<6.9%,3.8% If 6ml>6.9%,0% | Half year | 2007/7/31 |
| 200,000 | 6,042 | 0~0.5Y:3.8%,0.5Y+6ml :3.0% 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1%-2.5%, 2.5-3.5Y:1%-3.0%, 3.5-4.5Y:1%-3.5%, 4.5-5.5Y:1%-4.0%, 5.5-6.5Y:1%-4.5%, 6.5-7.0Y:1%-5.0% | Half year | 2011/3/19 |
| 200,000 | 6,042 | If6ml<0.95%,6ml If0.95%<6ml<2.0%,3.5% If2.0%<6ml;4.8%-6ml | Half year | 2009/1/9 |
| 300,000 | 9,063 | If6ml<0.95%,6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml | Half year | 2009/1/7 |
| 200,000 | 6,042 | 4.000%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,063 | 4.0002%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,085 | 4.0006%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,085 | 4.0007%-6ml | Half year | 2010/4/7 |
| 250,000 | 7,553 | 90DCP | Each quarter | 2008/8/10 |
| 900,000 | 27,190 | 90DCP | Each quarter | 2010/8/18 |
| 600,000 | 18,127 | 90DCP | Each quarter | 2010/8/19 |
| 450,000 | 13,595 | 90DCP | Each quarter | 2008/8/22 |
| 330,000 | 9,970 | 90DCP | Each quarter | 2008/8/24 |
| 300,000 | 9,063 | 5.35%-6ml | Each quarter | 2008/1/8 |
| 200,000 | 6,042 | 4.0003%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,063 | 5.37%-6ml | Yearly | 2011/3/15 |
| 200,000 | 6,042 | 5.85%-6ml | Half year | 2009/1/13 |
| 50,000 | 1,511 | 4.15%-6ml | Half year | 2009/1/16 |
| 200,000 | 6,042 | 6.3%-6ml | Yearly | 2010/11/27 |
| 100,000 | 3,021 | 4.007%-6ml | Half year | 2010/4/7 |
| 100,000 | 3,021 | 4.007%-6ml | Half year | 2010/4/7 |

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As of September 30, 2006 and 2007

② September 30, 2007

| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|---------|---|--------------|---------------|
| NT\$ | US\$ | | | |
| \$310,000 | \$9,489 | ARMS | Each quarter | 2009/3/24 |
| 350,000 | 10,713 | 4.0005%-6ml | Yearly | 2008/9/26 |
| 500,000 | 15,305 | The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP | Half year | 2007/10/10 |
| 500,000 | 15,305 | 7.05%-90BACP | Half year | 2007/10/10 |
| 300,000 | 9,183 | 5.5%-6ml | Half year | 2007/12/26 |
| 200,000 | 6,122 | 4.003%-6ml | Half year | 2008/6/13 |
| 500,000 | 15,305 | 4%-12ml | Yearly | 2008/6/5 |
| 300,000 | 9,183 | 4.3%-12ml | Yearly | 2010/6/20 |
| 500,000 | 15,305 | If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0) | Half year | 2011/6/30 |
| 200,000 | 6,122 | 0.5Y:3.8%, 3.0%*n/N if 6ml 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y:1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0% | Half year | 2011/3/19 |
| 300,000 | 9,183 | 5.1%-6ml | Half year | 2007/12/19 |
| 200,000 | 6,122 | If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml | Half year | 2009/1/9 |
| 300,000 | 9,183 | If 6ml<0.95%,6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml | Half year | 2009/1/7 |
| 200,000 | 6,122 | 4.000%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,183 | 4.0002%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,244 | 4.0006%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,244 | 4.0007%-6ml | Half year | 2010/4/7 |
| 250,000 | 7,652 | 90DCP | Each quarter | 2008/8/10 |
| 900,000 | 27,548 | 90DCP | Each quarter | 2010/8/18 |
| 600,000 | 18,365 | 90DCP | Each quarter | 2010/8/19 |

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As of September 30, 2006 and 2007

| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|--------|---|--------------|---------------|
| NT\$ | US\$ | | | |
| \$450,000 | 13,774 | 90DCP | Each quarter | 2008/8/22 |
| 330,000 | 10,101 | 90DCP | Each quarter | 2008/8/24 |
| 300,000 | 9,183 | 5.35%-6ml | Half year | 2008/1/8 |
| 200,000 | 6,122 | 4.0003%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,183 | 5.37%-6ml | Yearly | 2011/3/15 |
| 200,000 | 6,122 | 5.85%-6ml | Half year | 2009/1/13 |
| 50,000 | 1,530 | If 6ml<=1%,6ml + 0.2% If 1%<6ml<2%,3.15% If 6ml>=2%,4.15%-6ml | Half year | 2009/1/16 |
| 200,000 | 6,122 | 6.3%-6ml | Yearly | 2010/11/27 |
| 300,000 | 9,183 | 180DCP + 40bps | Half year | 2008/3/24 |
| 300,000 | 9,183 | 180DCP | Half year | 2008/6/12 |
| 2,000,000 | 61,218 | 90DCP+75bps | Each quarter | 2008/7/19 |
| 1,150,000 | 35,200 | 90DCP+30bps | Each quarter | 2008/9/17 |
| 100,000 | 3,061 | 180DCP+30bps | Half year | 2008/12/18 |
| 200,000 | 6,122 | 180DCP+18bps | Half year | 2008/7/11 |
| 900,000 | 27,548 | 90DCP+100bps | Each quarter | 2009/5/20 |
| 2,700,000 | 82,645 | 90DCP+25bps | Each quarter | 2013/8/24 |
| 1,500,000 | 45,914 | 90DCP+23bps | Yearly | 2013/12/16 |
| 1,000,000 | 30,609 | 90DCP+26.5bps | Yearly | 2013/12/14 |
| 1,300,000 | 39,792 | 90DCP+45bps | Each quarter | 2013/12/27 |
| 500,000 | 15,305 | 90DCP+23bps | Yearly | 2013/12/14 |
| 1,000,000 | 30,609 | 90DCP+26.5bps | Each quarter | 2013/12/16 |
| 3,000,000 | 91,827 | 90DCP+26.5bps | Yearly | 2013/11/3 |
| 100,000 | 3,061 | 4.0006%-6ml | Half year | 2010/4/7 |
| 100,000 | 3,061 | 4.0006%-6ml | Half year | 2010/4/7 |

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$416,550 (US\$12,585) and NT\$125,322 (US\$3,836) as of September 30, 2006 and 2007.

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As of September 30, 2006 and 2007

(7) Discretionary account management

| Item | September 30, 2006 | | | |
|-------------------|---------------------|------------------|---------------------|------------------|
| | Carrying amount | | Fair value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$5,147,193 | \$155,504 | \$5,147,193 | \$155,504 |
| Repurchase bonds | 6,327,016 | 191,149 | 6,329,588 | 191,226 |
| Convertible bonds | 28,415 | 858 | 28,415 | 858 |
| Government Bonds | 2,674,479 | 80,800 | 2,674,479 | 80,800 |
| Cash in bank | 162,637 | 4,914 | 162,697 | 4,916 |
| Total | <u>\$14,339,740</u> | <u>\$433,225</u> | <u>\$14,342,372</u> | <u>\$433,304</u> |

| Item | September 30, 2007 | | | |
|------------------|---------------------|------------------|---------------------|------------------|
| | Carrying amount | | Fair value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$15,549,713 | \$475,963 | \$18,286,105 | \$559,722 |
| Repurchase bonds | 9,589,219 | 293,518 | 9,593,918 | 293,661 |
| Short-term notes | 318,578 | 9,751 | 318,884 | 9,761 |
| Cash in banks | 748,031 | 22,897 | 748,245 | 22,903 |
| Total | <u>\$26,205,541</u> | <u>\$802,129</u> | <u>\$28,947,152</u> | <u>\$886,047</u> |

As of September 30, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT\$12,450,000 (US\$376,133) and NT\$21,950,000 (US\$671,870), respectively.

(8) Material contract

None.

(9) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2006 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 30, 2007.

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(10) Other

None.

31. 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 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). 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. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30, 2007, the Company's remittances to this company totaled approximately US\$48,330.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$2,639 as the registered capital to establish a China-based general insurance subsidiary. The Company has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund has not been wired out as of September 30, 2007.

32. Segment Information

None.

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

As of September 30, 2006 and 2007

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 (the “Company Act”) of the Republic of China (“ROC”). 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 ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent acts of the ROC.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of September 30, 2006 and 2007, the total numbers of employees were 27,111 and 28,779, respectively.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with generally accepted accounting principles, “Business Entity Accounting Act”, “Regulation on Business Entity Accounting Handling”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. A summary of significant accounting policies follows:

(1) Current and non-current assets and liabilities

Current assets are assets which can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are liabilities which will be paid-off within one year. Liabilities other than current liabilities are non-current liabilities.

(2) Cash and cash equivalents

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

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(3) Recognition of financial assets and liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. 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 the “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”. Financial assets are measured at fair value plus the cost of ownership or issuance cost at the initial recognition.

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair value are recognized when the investments in debt securities with no active market are derecognized and 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 not classified in any of the three preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profit or loss.

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is recorded 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. The impairment loss can not be reversed.

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

The Company takes 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 date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for 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 entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

Fair value hedges

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

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

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

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

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(7) Allowance for bad and doubtful debts

Based on the regulation the Company estimated the possible bad debts of accounts receivable and secured loans by evaluating customers' financial results, payments histories, collaterals and past due periods.

(8) Long-term investments in stocks under the equity method

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was analyzed and accounted for in conformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method". Goodwill is no longer amortized.

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If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method accounts.

If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

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

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

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

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(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property increments shall be recorded at “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 on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

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

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

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

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

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(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From July 1, 2002 to September 30, 2007, an aggregate of NT\$1,461,806 (US\$44,745) was appropriated to this fund.

(13) Accounting for assets impairment

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

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

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

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

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

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(14) Real estate securitization

The Company has adopted “Accounting Treatment under Real Estate Securitization” with the Accounting Research and Development Foundation.

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

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

(15) Guaranteed depository insurance payment

According to Article 141 of the ROC 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”.

(16) Reserve for operations

Reserves for operations are organized according to the Insurance Act. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provide the figures for these reserves.

In addition, according to the MOF regulation which became effective from December 30, 2002, the surplus from the “Special Reserve for the Loss Movement” should be placed as special reserve under proprietary equity after the Board of Directors approved the surplus appropriation. This amount may not be distributed or used for other purposes unless approved by the MOF.

The Company had a surplus of NT\$16,693,810 (US\$510,983) from the “Special Reserve for the Loss Movement” as of September 30, 2007.

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(17) Insurance premium income and expenses

In accordance with “The General Accounting Systems for Insurance Companies” published by the Finance Ministry of the ROC, the Company records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(18) Pension plan

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

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

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company adopted the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed 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.

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

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(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

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

(20) Income taxes

The Company 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. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets 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.

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

The Company has 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 by the flow-through method.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders' meeting.

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 its undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effects due to the adopt 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.

(21) 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.

(22) Separate account products

The Company sells Separate account products, of which the insured should pay 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 day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

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The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of “Accounting standards in separate account”. The above accounts are recorded under the line items of “Separate account products assets”, “Separate account products liabilities”, “Separate account products revenues” and “Separate account products expenses”.

(23) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$33.10 and NT\$32.67 provided by Federal Reserve Bank of New York of September 30, 2006 and 2007 are used for the conversion.

3. Changes in accounting and its effects

The Company adopted the ROC Statements of Financial Accounting Standards No.34 “Accounting For Financial Instruments” (SFAS No.34) and No.36. “Disclosure and Presentation of Financial Instruments” (SFAS No.36) beginning on and after January 1, 2006 (the “effective date”).

The above change in accounting principles increased the Company’s assets, liability and stockholders’ equity - unrealized (losses) gains of financial instruments by NT\$15,291,670 (US\$461,984), NT\$2,061,394 (US\$62,278) and NT\$9,914,421 (US\$299,529) as of January 1, 2006, respectively. It also increased the Company’s net income and earnings per share by NT\$3,315,855 (US\$100,177) and NT\$0.66 (US\$0.02), respectively, for the nine months ended September 30, 2006.

The Company adopted the ROC Statement of Financial Accounting Standards No.5, “Accounting for long-term investments in stocks under the equity method” (“SFAS No.5 (r5)”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company’s share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles decreased the Company’s long-term equity investments by NT\$1,401(US\$42) as of September 30, 2006, and decreased the Company’s net income by NT\$1,401(US\$42) for the nine months ended September 30, 2006. The Company considers the effect insignificant.

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As of September 30, 2006 and 2007

4. Cash and cash equivalents

| | September 30, | | | |
|------------------|----------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash on hand | \$274,941 | \$8,306 | \$309,605 | \$9,477 |
| Cash in banks | 14,342,866 | 433,319 | 37,657,796 | 1,152,672 |
| Time deposits | 258,873,306 | 7,820,946 | 173,186,479 | 5,301,086 |
| Cash equivalents | 35,278,906 | 1,065,828 | 15,420,159 | 471,997 |
| Total | <u>\$308,770,019</u> | <u>\$9,328,399</u> | <u>\$226,574,039</u> | <u>\$6,935,232</u> |

As of September 30, 2006 and 2007, the amounts of time deposits with maturities beyond one year were NT\$131,000 (US\$3,958) and NT\$52,000 (US\$1,592), respectively.

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

| | September 30, | | | |
|----------------------------------|---------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$12,576,905 | \$379,967 | \$16,205,682 | \$496,042 |
| Overseas stocks | 1,954,599 | 59,051 | 2,015,883 | 61,704 |
| Beneficiary certificates | 29,955,705 | 905,006 | 28,710,110 | 878,791 |
| Exchange traded funds | 2,003,751 | 60,536 | 219,326 | 6,713 |
| Overseas bonds | 13,396,488 | 404,728 | 18,376,497 | 562,488 |
| Corporate bonds | 571,774 | 17,274 | 3,434,113 | 105,115 |
| Government bonds | 18,183,871 | 549,362 | 3,159,628 | 96,714 |
| Financial debentures | 1,516,179 | 45,806 | 997,400 | 30,530 |
| Derivative financial instruments | 3,547,822 | 107,185 | 1,984,133 | 60,733 |
| Structured time deposits | - | - | 2,000,000 | 61,218 |
| Subtotal | 83,707,094 | 2,528,915 | 77,102,772 | 2,360,048 |
| Add: Adjustment of valuation | 6,746,976 | 203,836 | 25,361,206 | 776,284 |
| Total | <u>\$90,454,070</u> | <u>\$2,732,751</u> | <u>\$102,463,978</u> | <u>\$3,136,332</u> |

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6. Available-for-sale financial assets - current

| | September 30, | | | |
|--|----------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$76,617,624 | \$2,314,732 | \$114,439,407 | \$3,502,890 |
| Overseas stocks | 8,502,781 | 256,881 | 22,442,879 | 686,957 |
| Beneficiary certificates | 6,427,293 | 194,178 | 14,760,397 | 451,803 |
| Collateralized loans obligation and collateralized bonds obligation | - | - | 833,195 | 25,503 |
| Exchange traded funds | 288,611 | 8,719 | 4,101,003 | 125,528 |
| Real estate investment trust | 4,029,813 | 121,747 | 8,730,371 | 267,229 |
| Financial debentures | 500,000 | 15,106 | 3,300,000 | 101,010 |
| Corporate bonds | 518,000 | 15,650 | 3,699,590 | 113,241 |
| Overseas bonds | 1,501,960 | 45,376 | 1,409,395 | 43,141 |
| Subtotal | 98,386,082 | 2,972,389 | 173,716,237 | 5,317,302 |
| Add: Adjustment of valuation | 8,345,157 | 252,120 | 21,569,299 | 660,217 |
| Total | <u>\$106,731,239</u> | <u>\$3,224,509</u> | <u>\$195,285,536</u> | <u>\$5,977,519</u> |

7. Derivative financial assets for hedging - current

| | September 30, | | | |
|----------------------------------|------------------|----------------|------------------|----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Derivative financial instruments | \$- | \$- | \$- | \$- |
| Add: Adjustment of valuation | 304,329 | 9,194 | 184,384 | 5,644 |
| Total | <u>\$304,329</u> | <u>\$9,194</u> | <u>\$184,384</u> | <u>\$5,644</u> |

8. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

B. Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment becomes overdue can make written statements, requesting that the Company pay the premium and interest payable by using the Company's "policy value reserve" prior to the due date or before the insurance

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contract's termination date. However, applicants may also choose to inform the Company by writing to stop paying such installments.

(2) Secured loans

| | September 30, | | | |
|-------------------------------|----------------------|--------------------|----------------------|---------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Secured loans | \$292,910,825 | \$8,849,270 | \$343,100,652 | \$10,502,010 |
| Less: Allowance for bad debts | (306,159) | (9,250) | (884,667) | (27,079) |
| Subtotal | 292,604,666 | 8,840,020 | 342,215,985 | 10,474,931 |
| Overdue receivables | 1,278,681 | 38,631 | 1,263,810 | 38,684 |
| Less: Allowance for bad debts | (895,077) | (27,042) | (430,823) | (13,187) |
| Subtotal | 383,604 | 11,589 | 832,987 | 25,497 |
| Total | <u>\$292,988,270</u> | <u>\$8,851,609</u> | <u>\$343,048,972</u> | <u>\$10,500,428</u> |

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

9. Available-for-sale financial assets – noncurrent

| | September 30, | | | |
|--|----------------------|--------------------|----------------------|--------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Corporate bonds | \$17,817,974 | \$538,308 | \$14,728,282 | \$450,820 |
| Government bonds | 16,331,918 | 493,411 | 43,432,358 | 1,329,426 |
| Financial debentures | 32,378,521 | 978,203 | 105,448,336 | 3,227,681 |
| Collateralized loans obligation and collateralized bonds obligation | 951,336 | 28,741 | 6,909,702 | 211,500 |
| Overseas bonds | 75,525,354 | 2,281,733 | 52,030,980 | 1,592,623 |
| Subtotal | 143,005,103 | 4,320,396 | 222,549,658 | 6,812,050 |
| Less: Adjustment of valuation | 2,059,184 | 62,211 | 611,422 | 18,715 |
| Total | <u>\$145,064,287</u> | <u>\$4,382,607</u> | <u>\$223,161,080</u> | <u>\$6,830,765</u> |

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10. Held-to-maturity financial assets – noncurrent

| | September 30, | | | |
|--|----------------------|---------------------|----------------------|---------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Corporate bonds | \$5,320,574 | \$160,742 | \$4,267,105 | \$130,612 |
| Government bonds | 18,357,525 | 554,608 | 26,671,814 | 816,401 |
| Financial debentures | 10,069,872 | 304,226 | 10,678,444 | 326,858 |
| Collateralized loans obligation and collateralized bonds obligation | 9,466,321 | 285,992 | 22,655,377 | 693,461 |
| Overseas bonds | 490,894,673 | 14,830,654 | 497,035,716 | 15,213,827 |
| Subtotal | 534,108,965 | 16,136,222 | 561,308,456 | 17,181,159 |
| Less: Securities serving as deposits paid - bonds | (8,109,447) | (244,998) | (8,058,996) | (246,679) |
| Total | <u>\$525,999,518</u> | <u>\$15,891,224</u> | <u>\$553,249,460</u> | <u>\$16,934,480</u> |

11. Financial assets carried at cost – noncurrent

| | September 30, | | | |
|------------------------------|---------------------|------------------|---------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Stocks | \$20,011,317 | \$604,572 | \$20,655,621 | \$632,250 |
| Less: Accumulated impairment | - | - | (1,242,871) | (38,043) |
| Total | <u>\$20,011,317</u> | <u>\$604,572</u> | <u>\$19,412,750</u> | <u>\$594,207</u> |

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$89,352,844 (US\$2,699,482) and NT\$79,889,009 (US\$2,445,332) as of September 30, 2006 and 2007, respectively. The details of structured notes are listed below:

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| Item | September 30, 2006 | | | | | |
|-------------------------------------|---------------------|--------------------|-------------------------|------------------|---------------------|--------------------|
| | Cost | | Adjustment of valuation | | Book value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss - current | \$2,939,047 | \$88,793 | \$(108,910) | \$(3,290) | \$2,830,137 | \$85,503 |
| Available-for-sale financial assets | 14,064,994 | 424,924 | (39,077) | (1,181) | 14,025,917 | 423,743 |
| Held-to-maturity financial assets | 71,686,987 | 2,165,770 | - | - | 71,686,987 | 2,165,770 |
| Investments in debt securities with | | | | | | |
| no active market - noncurrent | 809,803 | 24,466 | - | - | 809,803 | 24,466 |
| Total | \$89,500,831 | \$2,703,953 | \$(147,987) | \$(4,471) | \$89,352,844 | \$2,699,482 |

| Item | September 30, 2007 | | | | | |
|-------------------------------------|---------------------|--------------------|-------------------------|------------------|---------------------|--------------------|
| | Cost | | Adjustment of valuation | | Book value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss - current | \$1,470,298 | \$45,004 | \$2,187 | \$67 | \$1,472,485 | \$45,071 |
| Available-for-sale financial assets | 14,131,920 | 432,566 | (128,535) | (3,934) | 14,003,385 | 428,632 |
| Held-to-maturity financial assets | 63,959,087 | 1,957,731 | - | - | 63,959,087 | 1,957,731 |
| Investments in debt securities with | | | | | | |
| no active market - current | 454,052 | 13,898 | - | - | 454,052 | 13,898 |
| Total | \$80,015,357 | \$2,449,199 | \$(126,348) | \$(3,867) | \$79,889,009 | \$2,445,332 |

13. Long-term investments in stocks under the equity method

(1) Long-term investments in stocks under the equity method are as follows:

| Investee | September 30, | | | |
|--|--------------------|------------------|--------------------|------------------|
| | 2006 | | 2007 | |
| | Book value | | Book value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| WK Technology Fund VI Co., Ltd. | \$391,930 | \$11,841 | \$459,445 | \$14,063 |
| Vista Technology Venture Capital Corp. | 41,489 | 1,254 | 39,583 | 1,212 |
| Omnitek Venture Capital Corp. | 358,908 | 10,843 | 253,712 | 7,766 |
| Wa Tech Venture Capital Co., Ltd. | 167,330 | 5,055 | 222,175 | 6,801 |
| IBT Venture Capital Corp. | 596,656 | 18,026 | 461,721 | 14,133 |
| Cathay Insurance (Bermuda) Co., Ltd. | 72,200 | 2,181 | 84,893 | 2,599 |
| Symphox Information Co., Ltd. | 254,492 | 7,689 | 266,857 | 8,168 |
| Cathay Securities Investment Trust Co., Ltd. | 240,546 | 7,267 | 324,984 | 9,947 |
| Cathay Venture Capital Corp. | 442,163 | 13,358 | 437,357 | 13,387 |
| Cathay Securities Investment Co., Ltd. | 110,989 | 3,353 | 141,475 | 4,330 |
| Cathay Life Insurance Ltd. (Shanghai) | 1,522,154 | 45,987 | 1,726,578 | 52,849 |
| Total | \$4,198,857 | \$126,854 | \$4,418,780 | \$135,255 |

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As of September 30, 2006 and 2007

(2) Changes in long-term investments in stocks under the equity method are summarized below:

| | For the nine months ended September 30, | | | |
|---|---|------------------|--------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance as of January 1 | \$3,883,938 | \$117,340 | \$4,290,720 | \$131,335 |
| Add: Gains on long-term equity investments | 228,384 | 6,900 | 288,165 | 8,820 |
| Cumulative conversion adjustments | 43,738 | 1,321 | 59,384 | 1,818 |
| Unrealized gain or loss on financial instruments - long-term equity investments | 165,838 | 5,010 | 257,159 | 7,871 |
| Less: Cash dividends | (122,585) | (3,703) | (276,987) | (8,478) |
| Disinvestment of long-term investments | - | - | (199,661) | (6,111) |
| Capital surplus-long-term equity investments | (456) | (14) | - | - |
| Balance as of September 30 | <u>\$4,198,857</u> | <u>\$126,854</u> | <u>\$4,418,780</u> | <u>\$135,255</u> |

(3) The recognized equity investment gains for the nine months ended September 30, 2006 and 2007 are listed below:

| Investee | For the nine months ended September 30, | | | |
|--|---|----------------|------------------|----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| WK Technology Fund VI Co., Ltd. | \$11,892 | \$359 | \$15,923 | \$487 |
| Vista Technology Venture Capital Corp. | 2,162 | 66 | (319) | (10) |
| Omnitek Venture Capital Corp. | 104,523 | 3,158 | 19,648 | 601 |
| Wa Tech Venture Capital Co., Ltd. | 22,087 | 667 | 32,983 | 1,010 |
| IBT Venture Capital Corp. | 54,945 | 1,660 | 20,340 | 623 |
| Cathay Insurance (Bermuda) Co., Ltd. | 4,102 | 124 | 11,337 | 347 |
| Symphox Information Co., Ltd. | (12,578) | (380) | 3,894 | 119 |
| Cathay Securities Investment Trust Co., Ltd. | 49,610 | 1,499 | 128,882 | 3,945 |
| Cathay Venture Capital Corp. | 33,010 | 997 | 26,789 | 820 |
| Cathay Securities Investment Co., Ltd. | 17,253 | 521 | 44,396 | 1,359 |
| Cathay Life Insurance Ltd. (Shanghai) | (58,622) | (1,771) | (15,708) | (481) |
| Total | <u>\$228,384</u> | <u>\$6,900</u> | <u>\$288,165</u> | <u>\$8,820</u> |

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As of September 30, 2006 and 2007

- A. The equity investment gains (losses) were recognized based on their respective reviewed financial statements for the nine months ended September 30, 2006, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd. were recognized based on the unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the nine months ended September 30, 2006, were reviewed by other auditors. Modified unqualified review reports were issued for all above invested companies except the Cathay Insurance (Bermuda) Co., Ltd. of which unqualified review report was issued.
- B. The equity investment gains (losses) were recognized based on their respective reviewed financial statements for the nine months ended September 30, 2007, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd. were recognized based on the unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the nine months ended September 30, 2007, were reviewed by other auditors. Unqualified review reports were issued for all above invested companies except the Cathay Venture Capital Corp., of which modified unqualified review report was issued.

14. Investments in real estate

| September 30, 2006 | | | | | | | | | | |
|------------------------------------|---------------|-------------|------------------------|-------|--------------------------|-------------|------------------------|-----------|---------------|-------------|
| Item | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Investments in real estate | \$118,933,072 | \$3,593,144 | \$4,215 | \$127 | \$(14,389,106) | \$(434,716) | \$(196,952) | \$(5,950) | \$104,351,229 | \$3,152,605 |
| Construction | 592,204 | 17,891 | - | - | - | - | - | - | 592,204 | 17,891 |
| Total | \$119,525,276 | \$3,611,035 | \$4,215 | \$127 | \$(14,389,106) | \$(434,716) | \$(196,952) | \$(5,950) | \$104,943,433 | \$3,170,496 |
| September 30, 2007 | | | | | | | | | | |
| Item | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Investments in real estate | \$120,274,484 | \$3,681,496 | \$4,632 | \$142 | \$(15,002,499) | \$(459,213) | \$(195,923) | \$(5,997) | \$105,080,694 | \$3,216,428 |
| Construction | 1,388,452 | 42,499 | - | - | - | - | - | - | 1,388,452 | 42,499 |
| Prepayments for buildings and land | 8,505 | 260 | - | - | - | - | - | - | 8,505 | 260 |
| Total | \$121,671,441 | \$3,724,255 | \$4,632 | \$142 | \$(15,002,499) | \$(459,213) | \$(195,923) | \$(5,997) | \$106,477,651 | \$3,259,187 |

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The relative information was disclosed as following:

The Company transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$264,087).

After the REIT was issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding securities. Thus, it should be treated as a part of unsold real estate. The Company has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of September 30, 2006, the amounts of deferred gain on disposal of real estate was NT\$1,773,919 (US\$53,593) had been recognized.

- (5) The Company had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building in the third quarter of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, “Accounting Treatment of Real Estate Securitization” and “Interpretation of the Accounting Treatment of Real Estate Securitization”, respectively. The gain on disposal of real estates on this transaction was NT\$1,195,081 (US\$36,580) for the nine months ended September 30, 2007.

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15. Property and equipment

| Item | September 30, 2006 | | | | | | | | | |
|---|--------------------|-----------|------------------------|------|--------------------------|-------------|------------------------|-----------|--------------|-----------|
| | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Land | \$4,731,609 | \$142,949 | \$1,472 | \$45 | \$- | \$- | \$(51,331) | \$(1,551) | \$4,681,750 | \$141,443 |
| Buildings and construction | 9,658,163 | 291,787 | - | - | (3,026,018) | (91,420) | (34,188) | (1,033) | 6,597,957 | 199,334 |
| Computer equipment | 1,563,176 | 47,226 | - | - | (1,152,022) | (34,804) | - | - | 411,154 | 12,422 |
| Communication and transportation equipment | 32,110 | 970 | - | - | (21,797) | (659) | - | - | 10,313 | 311 |
| Other equipment | 3,320,374 | 100,313 | - | - | (2,130,907) | (64,378) | - | - | 1,189,467 | 35,935 |
| Subtotal | 19,305,432 | 583,245 | 1,472 | \$45 | (6,330,744) | (191,261) | (85,519) | (2,584) | 12,890,641 | 389,445 |
| Construction in progress and prepayment for equipment | 40,141 | 1,213 | - | - | - | - | - | - | 40,141 | 1,213 |
| Total | \$19,345,573 | \$584,458 | \$1,472 | \$45 | \$(6,330,744) | \$(191,261) | \$(85,519) | \$(2,584) | \$12,930,782 | \$390,658 |

| Item | September 30, 2007 | | | | | | | | | |
|---|--------------------|-----------|------------------------|------|--------------------------|-------------|------------------------|-----------|--------------|-----------|
| | Cost | | Revaluation increments | | Accumulated depreciation | | Accumulated impairment | | Net value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Land | \$4,766,462 | \$145,897 | \$1,054 | \$32 | \$- | \$- | \$(51,331) | \$(1,571) | \$4,716,185 | \$144,358 |
| Buildings and construction | 10,180,615 | 311,620 | - | - | (3,397,741) | (104,002) | (34,188) | (1,047) | 6,748,686 | 206,571 |
| Computer equipment | 1,668,282 | 51,065 | - | - | (1,294,797) | (39,633) | - | - | 373,485 | 11,432 |
| Communication and transportation equipment | 17,599 | 539 | - | - | (14,146) | (433) | - | - | 3,453 | 106 |
| Other equipment | 2,957,761 | 90,534 | - | - | (2,022,258) | (61,899) | - | - | 935,503 | 28,635 |
| Subtotal | 19,590,719 | 599,655 | 1,054 | 32 | (6,728,942) | (205,967) | (85,519) | (2,618) | 12,777,312 | 391,102 |
| Construction in progress and prepayment for equipment | 86,769 | 2,656 | - | - | - | - | - | - | 86,769 | 2,656 |
| Total | \$19,677,488 | \$602,311 | \$1,054 | \$32 | \$(6,728,942) | \$(205,967) | \$(85,519) | \$(2,618) | \$12,864,081 | \$393,758 |

No properties or plants and equipments were pledged as collaterals as of September 30, 2006 and 2007.

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As of September 30, 2006 and 2007

16. Intangible assets

| Item | January 1, 2006 | | Increase | | Decrease | | September 30, 2006 | |
|--------------------------|-----------------|---------|-----------|---------|----------|------|--------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Acquired Cost: | | | | | | | | |
| Computer software | \$223,266 | \$6,745 | \$221,544 | \$6,693 | \$- | \$- | \$444,810 | \$13,438 |
| Amortized and impairment | | | | | | | | |
| Amortized | (45,058) | (1,361) | (68,211) | (2,061) | - | - | (113,269) | (3,422) |
| Book value | \$178,208 | \$5,384 | \$153,333 | \$4,632 | \$- | \$- | \$331,541 | \$10,016 |

| Item | January 1, 2007 | | Increase | | Decrease | | September 30, 2007 | |
|--------------------------|-----------------|----------|-----------|---------|----------|------|--------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Acquired Cost: | | | | | | | | |
| Computer software | \$471,850 | \$14,443 | \$149,359 | \$4,572 | \$- | \$- | \$621,209 | \$19,015 |
| Amortized and impairment | | | | | | | | |
| Amortized | (141,861) | (4,342) | (97,397) | (2,982) | - | - | (239,258) | (7,324) |
| Book value | \$329,989 | \$10,101 | \$51,962 | \$1,590 | \$- | \$- | \$381,951 | \$11,691 |

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

17. Other overdue receivables

| | September 30, | | | |
|--|---------------|---------|-----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Overdue receivables | \$72,841 | \$2,201 | \$142,911 | \$4,374 |
| Less: Allowance for bad and doubtful debts | (41,959) | (1,268) | (106,791) | (3,268) |
| Total | \$30,882 | \$933 | \$36,120 | \$1,106 |

18. Financial liabilities at fair value through profit or loss – current

| Item | September 30, | | | |
|----------------------------------|---------------|-----------|--------------|-----------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Derivative financial instruments | \$52,932 | \$1,599 | \$53,401 | \$1,634 |
| Add: Adjustment of valuation | 16,769,628 | 506,636 | 19,521,071 | 597,523 |
| Total | \$16,822,560 | \$508,235 | \$19,574,472 | \$599,157 |

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19. Derivative financial liabilities for hedging – current

| Item | September 30, | | | |
|----------------------------------|-----------------|----------------|------------------|----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Derivative financial instruments | \$- | \$- | \$- | \$- |
| Add: Adjustment of valuation | 35,549 | 1,074 | 108,257 | 3,314 |
| Total | <u>\$35,549</u> | <u>\$1,074</u> | <u>\$108,257</u> | <u>\$3,314</u> |

20. Capital stock

As of September 30, 2006 and 2007, the total authorized thousand shares were 5,068,616 with par value of NT\$10 each.

21. Retained earnings

(1) Legal reserve

Pursuant to the ROC Company Act, 10% of the Company's net income shall be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficit but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued shares capital, up to 50% of such excess may be capitalized if authorized by the Board of Directors.

(2) Undistributed retained earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.

B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.

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- C. 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.
- D. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the legal reserve since 2007.

22. Personnel expense 、 depreciation and amortizations

| Item | For the nine months ended September 30, 2006 NT\$ | | | For the nine months ended September 30, 2006 US\$ | | |
|-----------------------------------|--|-------------------|--------------|--|-------------------|-----------|
| | Operating costs | Operating expense | Total | Operating costs | Operating expense | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$18,405,021 | \$1,960,853 | \$20,365,874 | \$556,043 | \$59,240 | \$615,283 |
| Labor & health insurance expenses | 830,594 | 125,066 | 955,660 | 25,094 | 3,778 | 28,872 |
| Pension expenses | 500,825 | 75,411 | 576,236 | 15,131 | 2,278 | 17,409 |
| Other expenses | 701,492 | 146,142 | 847,634 | 21,193 | 4,415 | 25,608 |
| Depreciation | - | 1,733,051 | 1,733,051 | - | 52,358 | 52,358 |
| Amortizations | - | 68,211 | 68,211 | - | 2,061 | 2,061 |

| Item | For the nine months ended September 30, 2007 NT\$ | | | For the nine months ended September 30, 2007 US\$ | | |
|-----------------------------------|--|--------------------|--------------|--|--------------------|-----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$20,960,421 | \$1,654,439 | \$22,614,860 | \$641,580 | \$50,641 | \$692,221 |
| Labor & health insurance expenses | 871,335 | 122,922 | 994,257 | 26,671 | 3,762 | 30,433 |
| Pension expenses | 356,234 | 50,255 | 406,489 | 10,904 | 1,538 | 12,442 |
| Other expenses | 777,075 | 134,331 | 911,406 | 23,785 | 4,112 | 27,897 |
| Depreciation | - | 1,821,197 | 1,821,197 | - | 55,745 | 55,745 |
| Amortizations | - | 97,397 | 97,397 | - | 2,981 | 2,981 |

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23. Estimated income taxes

(1) Income taxes (benefit) expense included the following:

| | For the nine months ended September 30, | | | |
|---|---|--------------------|---------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income before taxes | \$6,893,817 | \$208,273 | \$27,643,773 | \$846,152 |
| Adjustments | | | | |
| Interest income of tax on a separate basis | (2,751,543) | (83,128) | (1,920,463) | (58,784) |
| Gains on disposal of securities and futures | (4,977,532) | (150,379) | (25,245,615) | (772,746) |
| Losses (gains) from valuation of financial assets and liabilities | 10,050,792 | 303,649 | (4,804,497) | (147,062) |
| Gains on disposal of lands | (2,830,475) | (85,513) | (1,067,142) | (32,664) |
| Unrealized exchange losses (gains) | (8,166,406) | (246,719) | (623,649) | (19,089) |
| Cash dividends | (4,992,460) | (150,830) | (4,249,925) | (130,087) |
| Differences of pension expense and actually contributed | 37,141 | 1,122 | (193,516) | (5,923) |
| Gains on long-term equity investments | (228,384) | (6,900) | (288,165) | (8,821) |
| Impairment loss | - | - | 134,993 | 4,132 |
| Others | (1,424,245) | (43,028) | 8,198 | 251 |
| Taxable income | (8,389,295) | (253,453) | (10,606,008) | (324,641) |
| Dividends | - | - | 7,500,078 | 229,571 |
| Multiply by: tax rates | 25% | 25% | 25% | 25% |
| Subtotal | (2,097,324) | (63,364) | (776,482) | (23,767) |
| Add: Extra 10% income tax on undistributed retained earnings | - | - | - | - |
| Tax effects under income basic tax systems | - | - | 1,463,693 | 44,802 |
| Add (less): Tax effects under integrated income tax systems | 1,559,592 | 47,118 | 377,599 | 11,558 |
| Deferred income taxes (benefit) expense | (1,027,116) | (31,031) | 990,071 | 30,305 |
| Add: Separation taxes | 520,300 | 15,719 | 309,602 | 9,477 |
| Additional taxes assessed by the tax authority | 901 | 27 | 5,938 | 182 |
| Estimate adjustment | 3,588 | 109 | 12,890 | 394 |
| Overseas investments taxes | - | - | 4,759 | 146 |
| Allocation of the cumulative effect of changes in accounting principles | 338,668 | 10,232 | - | -- |
| Less: Income tax credit | (9,473) | (286) | (9,608) | (294) |
| Total income taxes (benefit) expense | <u>\$ (710,864)</u> | <u>\$ (21,476)</u> | <u>\$ 2,378,462</u> | <u>\$ 72,803</u> |

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(2) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal 2003. But the Company has filed an application about the assessed tax returns of 2002 and 2003 to the Tax Authorities for reexamination.

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

| | September 30, | | | |
|--|---------------|-----------|---------------|------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Total deferred tax assets | \$3,534,243 | \$106,774 | \$2,409,418 | \$73,750 |
| Total deferred tax liabilities | \$2,443,416 | \$73,819 | \$707,110 | \$21,644 |
| Temporary differences: | | | | |
| Pension expense | \$1,664,459 | \$50,286 | \$1,489,666 | \$45,597 |
| Unrealized exchange losses (gains) | (9,773,664) | (295,277) | (993,640) | (30,414) |
| Losses (gains) from valuation on financial assets and liabilities | 12,293,872 | 371,416 | (1,834,803) | (56,162) |
| Impairment loss | 157,012 | 4,744 | 157,012 | 4,806 |
| Other | 21,627 | 653 | 23,298 | 713 |
| Total | \$4,363,306 | \$131,822 | \$(1,158,467) | \$(35,460) |
| Loss carryforwards | \$- | \$- | \$7,967,698 | \$243,884 |
| Allocation of cumulative effect of changes in accounting principles | \$- | \$- | \$- | \$- |
| Deferred tax assets - current | \$3,078,875 | \$93,017 | \$1,997,624 | \$61,145 |
| Deferred tax liabilities - current | (2,443,416) | (73,819) | (707,110) | (21,644) |
| Net offset balance of deferred tax assets - current | \$635,459 | \$19,198 | \$1,290,514 | \$39,501 |
| Deferred tax assets - noncurrent | \$455,368 | \$13,757 | \$411,794 | \$12,605 |
| Deferred tax liabilities - noncurrent | - | - | - | - |
| Net balance of deferred tax assets - noncurrent | \$455,368 | \$13,757 | \$411,794 | \$12,605 |

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Cathay Life Insurance Co., Ltd.

Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

(4) Information related to imputation

| | September 30, | | | |
|--------------------------------------|---------------|---------|-----------|----------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance of imputation credit account | \$216,950 | \$6,554 | \$981,143 | \$30,032 |

| | September 30, | |
|---|---|-------|
| | 2006 | 2007 |
| | Imputation credit account ratio - actual (May 15, 2006) | 7.33% |
| Imputation credit account ratio - actual (May 15, 2007) | - | 7.96% |

(5) Related information on undistributed earnings

| Year | September 30, | | | |
|------------|---------------|------|------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| After 1998 | \$- | \$- | \$- | \$- |

Undistributed earnings after 1998 did not include the net income from January 1 to September 30, 2006 and 2007.

(6) Tax credits obtained in accordance with “Statute for Upgrading Industries” are as follows:

| Regulation | Deductible items | Amount of deductible | | | | Expiry Year |
|----------------------------------|--------------------|----------------------|-------|-------------------|-------|-------------|
| | | income tax | | Remaining balance | | |
| | | NT\$ | US\$ | NT\$ | US\$ | |
| Statute for Upgrading Industries | Education training | \$9,608 | \$294 | \$9,608 | \$294 | 2011 |

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

As of September 30, 2006 and 2007

24. Earnings per share

| | For the nine months ended September 30, 2006 | | | |
|--|--|------------------|---------------------|------------------|
| | Before tax | | After tax | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income from continuing operations after income taxes (a) | \$6,893,817 | \$208,273 | \$7,604,681 | \$229,749 |
| Cumulative effect of changes in accounting principles (a) | 2,977,187 | 89,945 | 3,315,855 | 100,177 |
| Net income (a) | <u>\$9,871,004</u> | <u>\$298,218</u> | <u>\$10,920,536</u> | <u>\$329,926</u> |
| Outstanding number of thousand shares at end of periods (b) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Weighted average outstanding number of thousand shares (c) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Earnings per share (a) / (c) (dollars) | | | | |
| Income from continuing operations after income taxes | \$1.36 | \$0.04 | \$1.50 | \$0.05 |
| Cumulative effect of changes in accounting principles | 0.59 | 0.02 | 0.66 | 0.02 |
| Net income | <u>\$1.95</u> | <u>\$0.06</u> | <u>\$2.16</u> | <u>\$0.07</u> |
| | | | | |
| | For the nine months ended September 30, 2007 | | | |
| | Before tax | | After tax | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Net income (a) | <u>\$27,643,773</u> | <u>\$846,152</u> | <u>\$25,265,311</u> | <u>\$773,349</u> |
| Outstanding number of thousand shares at end of periods (b) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Weighted average outstanding number of thousand shares (c) | 5,068,616 | 5,068,616 | 5,068,616 | 5,068,616 |
| Earnings per share (a) / (c) (dollars) | | | | |
| Net income | <u>\$5.45</u> | <u>\$0.17</u> | <u>\$4.98</u> | <u>\$0.15</u> |

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Cathay Life Insurance Co., Ltd.

Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

25. Related party transactions

(1) Related parties

| Name | Relationship |
|--|--|
| Cathay Financial Holding Co., Ltd. | Parent Company |
| Cathay Insurance (Bermuda) Co., Ltd. | Subsidiary of the Company |
| Symphox Information Co., Ltd. | Subsidiary of the Company |
| Cathay Securities Investment Co., Ltd. | Subsidiary of the Company |
| Cathay Life Insurance Ltd. (Shanghai) | Subsidiary of the Company |
| Cathay Securities Investment Trust Co., Ltd. | An equity method investee |
| Cathay Venture Capital Corp. | An equity method investee |
| Vista Technology Venture Capital Corp. | An equity method investee |
| Cathay Real Estate Development Co., Ltd. | Affiliate |
| Cathay United Bank | Affiliate |
| San Ching Engineering Co., Ltd. | Affiliate |
| Cathay Century Insurance Co., Ltd. | Affiliate |
| Cathay Securities Co., Ltd. | Affiliate |
| Cathay Capital Management Inc. | Affiliate |
| Seaward Card Co., Ltd. | Affiliate |
| Lin Yuan Property Management Co., Ltd. | Affiliate |
| Cathay Pacific Venture Capital Co., Ltd. | Affiliate |
| Cathay II Venture Capital Corp. | Affiliate |
| Cathay Pacific Partners Co., Ltd. | Affiliate |
| Cathay Property Insurance Agent Co., Ltd. | Affiliate |
| Indovina Bank Limited | Affiliate |
| Culture and Charity Foundation of the CUB | Affiliate |
| Seaward Leasing Co., Ltd. | Affiliate |
| Cathay Life Insurance Agent Co., Ltd. | Affiliate |
| Cathay Futures Co., Ltd. | Affiliate |
| Cathay Lin Yuan Security Co., Ltd. | Affiliate |
| Lucky Bank Taiwan Inc. | Affiliate (Have been merged with Cathay United Bank on January 1, 2007) |
| China England Company Ltd. | Affiliate |
| Cathay Real Estate Management Co., Ltd. | Affiliate |
| Yi Ru Corporation | Their chairman is an immediate family member of the Company's chairman in 2006 |
| Cathay Charity Foundation | Their vice-chairman is the Company's chairman |
| Cathay General Hospital | Their chairman is the Company's chairman |
| Lin Yuan Investment Co., Ltd. | Their chairman is an immediate family member of the Company's chairman |
| Wan Pao Development Co., Ltd. | Their chairman is an immediate family member of the Company's chairman |
| Taiwan Asset Management Corporation | Their chairman is Cathay United Bank |
| Other related parties | The directors supervisors, managers spouses and second relatives are included |

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

As of September 30, 2006 and 2007

(2) Significant transactions with related parties

A. Property transactions

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

(A) Significant transactions with related parties for the nine months ended September 30, 2006 and 2007 are listed below:

| Name | Item | For the nine months ended September 30, 2006 | |
|--|-----------------------------|--|----------------|
| | | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | Cathay General Hospital etc | \$6,512 | \$196 |
| Cathay Real Estate Development Co., Ltd. | Cathay Land Mark | 1,500 | 45 |
| Lin Yuan Property Management Co., Ltd. | Cathay Cosmos Building etc | 126,322 | 3,818 |
| Symphox Information Co., Ltd. | World Building | 1,890 | 57 |
| | Total | <u>\$136,224</u> | <u>\$4,116</u> |

| Name | Item | For the nine months ended September 30, 2007 | |
|--|----------------------------|--|----------------|
| | | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | Cathay Lank Mark etc | \$21,863 | \$669 |
| Lin Yuan Property Management Co., Ltd. | International Building etc | 153,534 | 4,700 |
| | Total | <u>\$175,397</u> | <u>\$5,369</u> |

The total amounts of contracted projects for real estate as of September 30, 2006 and 2007 between the Company and San Ching Engineering Co., Ltd. were NT\$1,233,866 (US\$37,277) and NT\$39,388 (US\$1,206), respectively.

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

As of September 30, 2006 and 2007

(B) Real estates acquired from related parties for the nine months ended September 30, 2006 and 2007 are as follows:

| Name | Item | For the nine months ended September 30, 2006 | |
|--|---|---|------------------|
| | | Contract Price | |
| | | NT\$ | US\$ |
| Wan Pao Development Co., Ltd. | Simen Rd, Tainan City. | <u>\$5,290,000</u> | <u>\$159,819</u> |
| Cathay Real Estate Development Co., Ltd. | Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City. | <u>\$2,470,000</u> | <u>\$74,622</u> |

The Company did not acquire any real estates from its related parties for the nine months ended September 30, 2007.

(C) Real-estate rental income (from related parties):

| Name | Rental income | | | |
|--|---|-----------------|------------------|-----------------|
| | For the nine months ended September 30, | | | |
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holding Co., Ltd. | \$7,395 | \$223 | \$12,678 | \$388 |
| Cathay Real Estate Development Co., Ltd. | 11,825 | 357 | 12,733 | 390 |
| Cathay United Bank | 187,244 | 5,657 | 205,547 | 6,292 |
| Cathay Century Insurance Co., Ltd. | 39,307 | 1,188 | 52,173 | 1,597 |
| Cathay General Hospital | 110,523 | 3,339 | 88,591 | 2,712 |
| San Ching Engineering Co., Ltd. | 5,592 | 169 | 5,930 | 181 |
| Symphox Information Co., Ltd. | 22,446 | 678 | 12,179 | 373 |
| Cathay Securities Investment Trust Co., Ltd. | 9,008 | 272 | 9,786 | 299 |
| Cathay Securities Investment Co., Ltd. | 2,507 | 76 | 2,646 | 81 |
| Cathay Securities Co., Ltd. | 11,366 | 343 | 12,835 | 393 |
| Cathay Capital Management Inc. | 1,487 | 45 | 1,601 | 49 |
| Seaward Leasing Co., Ltd. | 909 | 28 | 949 | 29 |
| Taiwan Asset Management Corporation | 10,463 | 316 | 11,029 | 337 |
| Cathay Futures Co., Ltd. | 494 | 15 | 546 | 17 |
| Total | <u>\$420,566</u> | <u>\$12,706</u> | <u>\$429,223</u> | <u>\$13,138</u> |

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Note to unaudited financial statements-continued

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

As of September 30, 2006 and 2007

| Name | Guarantee deposits received | | | |
|--|-----------------------------|----------------|--------------------|----------------|
| | September 30, 2006 | | September 30, 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Real Estate Development Co., Ltd. | \$3,645 | \$110 | \$3,774 | \$115 |
| Cathay United Bank | 65,336 | 1,974 | 63,822 | 1,954 |
| Cathay Century Insurance Co., Ltd. | 14,036 | 424 | 17,359 | 531 |
| Cathay General Hospital | 6,840 | 207 | 8,564 | 262 |
| San Ching Engineering Co., Ltd. | 1,709 | 52 | 1,709 | 52 |
| Cathay Securities Investment Trust Co., Ltd. | 2,738 | 83 | 2,738 | 84 |
| Cathay Securities Investment Co., Ltd. | 877 | 26 | 877 | 27 |
| Cathay Securities Co., Ltd. | 3,785 | 114 | 4,644 | 142 |
| Cathay Capital Management Inc. | 479 | 15 | 479 | 15 |
| Seaward Leasing Co., Ltd. | 346 | 10 | 346 | 11 |
| Taiwan Asset Management Corporation | 3,477 | 105 | 3,477 | 106 |
| Cathay Financial Holding Co., Ltd. | - | - | 4,864 | 149 |
| Symphox Information Co., Ltd. | 2,718 | 82 | 84 | 3 |
| Total | <u>\$105,986</u> | <u>\$3,202</u> | <u>\$112,737</u> | <u>\$3,451</u> |

Lease terms and collection of rental are governed by signed contracts, with lease terms generally 2 to 5 years. Rentals are collected monthly.

(D) Real-estate rental expense (to related parties):

| Name | Rental expense | | | |
|--|---|--------------|-----------------|---------------|
| | For the nine months ended September 30, | | | |
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Real Estate Development Co., Ltd. | \$23,047 | \$696 | \$23,003 | \$704 |
| Lin Yuan Investment Co., Ltd. | 1,684 | 51 | 1,465 | 45 |
| Yi Ru Corporation | 2,757 | 83 | 2,845 | 87 |
| Lucky Bank Taiwan Inc. | 3,447 | 104 | - | - |
| Cathay United Bank | 704 | 22 | 5,354 | 164 |
| Total | <u>\$31,639</u> | <u>\$956</u> | <u>\$32,667</u> | <u>\$1000</u> |

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Note to unaudited financial statements-continued

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As of September 30, 2006 and 2007

| Name | Guarantee deposits paid | | | |
|--|-------------------------|--------------|--------------------|--------------|
| | September 30, 2006 | | September 30, 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Real Estate Development Co., Ltd. | \$8,926 | \$270 | \$8,929 | \$273 |
| Lin Yuan Investment Co., Ltd. | 628 | 19 | 628 | 19 |
| Yi Ru Corporation | 1,190 | 36 | 1,190 | 37 |
| Lucky Bank Taiwan Inc. | 1,292 | 39 | - | - |
| Cathay United Bank | - | - | 2,078 | 64 |
| Total | <u>\$12,036</u> | <u>\$364</u> | <u>\$12,825</u> | <u>\$393</u> |

According to contracts, terms of leases with third parties generally were 3 years, and rents were paid monthly.

B. Cash in banks

| | | For the nine months ended September 30, 2006 | | |
|------------------------|--------------|--|-------------|--------------------|
| Name | Item | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United | Time deposit | \$75,657 | 1.05%-2.02% | \$26,250 |
| Bank | Cash in bank | 1,325 | 0.10% | 2,210,568 |
| Lucky Bank Taiwan Inc. | Cash in bank | 5 | 0.10% | 13,058 |
| Total | | <u>\$76,987</u> | | <u>\$2,249,876</u> |

| | | For the nine months ended September 30, 2006 | | |
|------------------------|--------------|--|-------------|-----------------|
| Name | Item | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United | Time deposit | \$2,286 | 1.05%-2.02% | \$793 |
| Bank | Cash in bank | 40 | 0.10% | 66,784 |
| Lucky Bank Taiwan Inc. | Cash in bank | - | 0.10% | 395 |
| Total | | <u>\$2,326</u> | | <u>\$67,972</u> |

| | | For the nine months ended September 30, 2007 | | |
|---------------|--------------|--|-------------|--------------------|
| Name | Item | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United | Time deposit | \$35,920 | 1.15%-2.49% | \$5,663,050 |
| Bank | Cash in bank | 2,572 | 0.10%-2.35% | 2,491,526 |
| Total | | <u>\$38,492</u> | | <u>\$8,154,576</u> |

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Cathay Life Insurance Co., Ltd.

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

As of September 30, 2006 and 2007

| | | For the nine months ended September 30, 2007 | | |
|--------------------|--------------|--|-------------|----------------|
| Name | Item | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United Bank | Time deposit | \$1,099 | 1.15%-2.49% | \$173,341 |
| | Cash in bank | 79 | 0.10%-2.35% | 76,263 |
| Total | | \$1,178 | | \$249,604 |

C. Other financial assets - current

| | | For the nine months ended September 30, 2006 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United Bank | | \$15,369 | 1.80%-3.00% | \$2,500,000 |

| | | For the nine months ended September 30, 2006 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United Bank | | \$464 | 1.80%-3.00% | \$75,529 |

| | | For the nine months ended September 30, 2007 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | NT\$ | Rate | NT\$ |
| Cathay United Bank | | \$31,462 | 1.80%-3.17% | \$5,250,000 |

| | | For the nine months ended September 30, 2007 | | |
|--------------------|--|--|-------------|----------------|
| Name | | Interest income | | Ending balance |
| | | US\$ | Rate | US\$ |
| Cathay United Bank | | \$963 | 1.80%-3.17% | \$160,698 |

D. Secured loans

| | | For the nine months ended September 30, 2006 | | |
|-------------------------|----------------|--|-------------|----------------|
| Name | Maximum amount | Interest income | Rate | Ending balance |
| | NT\$ | NT\$ | | NT\$ |
| Cathay General Hospital | \$4,070,069 | \$89,357 | 3.03%-3.26% | \$4,070,000 |
| Other related parties | 72,183 | 1,385 | 2.10%-3.14% | 68,739 |
| Total | \$4,142,252 | \$90,742 | | \$4,138,739 |

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| Name | For the nine months ended September 30, 2006 | | | |
|-------------------------|--|-----------------|-------------|------------------|
| | Maximum amount | Interest income | Rate | Ending balance |
| | US\$ | US\$ | | US\$ |
| Cathay General Hospital | \$122,963 | \$2,699 | 3.03%-3.26% | \$122,961 |
| Other related parties | 2,181 | 42 | 2.10%-3.14% | 2,076 |
| Total | \$125,144 | \$2,741 | | \$125,037 |

| Name | For the nine months ended September 30, 2007 | | | |
|-------------------------|--|------------------|-------------|--------------------|
| | Maximum amount | Interest income | Rate | Ending balance |
| | NT\$ | NT\$ | | NT\$ |
| Cathay General Hospital | \$4,449,654 | \$111,299 | 3.44%-3.60% | \$4,420,965 |
| Other related parties | 272,775 | 4,576 | 0.00%-5.87% | 234,923 |
| Total | \$4,722,429 | \$115,875 | | \$4,655,888 |

| Name | For the nine months ended September 30, 2007 | | | |
|-------------------------|--|-----------------|-------------|------------------|
| | Maximum amount | Interest income | Rate | Ending balance |
| | US\$ | US\$ | | US\$ |
| Cathay General Hospital | \$136,200 | \$3,407 | 3.44%-3.60% | \$135,322 |
| Other related parties | 8,349 | 140 | 0.00%-5.87% | 7,191 |
| Total | \$144,549 | \$3,547 | | \$142,513 |

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

| Name | | September 30, | | | |
|----------------------------|--------------|---------------|-----------|-------------|-----------|
| | | 2006 | | 2007 | |
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Securities | | | | | |
| Investment Trust Co., Ltd. | Market value | \$6,011,412 | \$181,614 | \$7,499,121 | \$229,542 |
| | Cost | \$5,529,170 | \$167,044 | \$6,687,114 | \$204,687 |

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F. Other accounts receivable

| Name | September 30, | | | |
|--|---------------|---------|----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$315,630 | \$9,536 | \$96,857 | \$2,965 |
| Cathay Insurance (Bermuda) Co., Ltd. | 14,047 | 424 | 10,994 | 337 |
| Cathay Financial Holding Co., Ltd. | 525,713 | 15,883 | 68,719 | 2,103 |
| Cathay Securities Investment Co., Ltd. | - | - | 13,125 | 402 |
| Cathay General Hospital | 30,894 | 933 | 100 | 3 |
| Cathay United Bank | - | - | 8,725 | 267 |

G. Prepayments

| Name | September 30, | | | |
|---------------------------------------|---------------|-------|----------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Symphox Information Co., Ltd. | \$6,428 | \$194 | \$32,496 | \$995 |
| Lin Yuan Investment Co., Ltd. | - | - | 419 | 13 |
| Yi Ru Corporation | 462 | 14 | 356 | 11 |
| Cathay Life Insurance Agent Co., Ltd. | 17,229 | 521 | - | - |

H. Guarantee deposits paid

| Name | September 30, | | | |
|--------------------------|---------------|----------|-----------|----------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$642,829 | \$19,421 | \$364,700 | \$11,163 |

As of September 30, 2006 and 2007, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. were NT\$342 (US\$10) and NT\$156 (US\$5), respectively.

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I. Other payable

| Name | September 30, | | | |
|--|---------------|-------|---------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$5,953 | \$180 | \$2,891 | \$88 |
| Symphox Information Co., Ltd. | 34,806 | 1,052 | 42,711 | 1,307 |
| Lin Yuan Property Management Co., Ltd. | 45,620 | 1,378 | 64,242 | 1,966 |
| Cathay Real Estate Development Co., Ltd. | - | - | 1,200 | 37 |
| Cathay United Bank | 37,800 | 1,142 | - | - |
| Cathay Securities Co., Ltd. | 37,800 | 1,142 | 336 | 10 |
| Seaward Card Co., Ltd. | 555 | 17 | - | - |
| San Ching Engineering Co., Ltd. | - | - | 504 | 15 |
| Cathay Securities Investment Co., Ltd. | - | - | 13,125 | 402 |
| Seaward Leasing Co., Ltd. | - | - | 837 | 26 |

J. Accounts collected in advance

| Name | September 30, | | | |
|-------------------------------------|---------------|------|---------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Taiwan Asset Management Corporation | \$2,484 | \$75 | \$2,542 | \$78 |
| Cathay Century Insurance Co., Ltd. | 2,359 | 71 | - | - |

K. Premiums income

| Name | For the nine months ended September 30, | | | |
|--|---|----------------|------------------|-----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay United Bank | \$256,807 | \$7,759 | \$343,035 | \$10,500 |
| Cathay General Hospital | 20,295 | 613 | 22,303 | 683 |
| Cathay Securities Investment Trust Co., Ltd. | 612 | 19 | 826 | 25 |
| San Ching Engineering Co., Ltd. | 891 | 27 | 945 | 29 |
| Cathay Century Insurance Co., Ltd. | 5,607 | 169 | 6,082 | 186 |
| Cathay Securities Co., Ltd. | 1,236 | 38 | 1,383 | 42 |
| Symphox Information Co., Ltd. | 1,005 | 30 | 1,007 | 31 |
| Cathay Financial Holding Co., Ltd. | 562 | 17 | 685 | 21 |
| Cathay Real Estate Development Co., Ltd. | 989 | 30 | 1,312 | 40 |
| Cathay Futures Co., Ltd. | 672 | 20 | 93 | 3 |
| Other related parties | 25,665 | 775 | 308,231 | 9,435 |
| Total | <u>\$314,341</u> | <u>\$9,497</u> | <u>\$685,902</u> | <u>\$20,995</u> |

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L. Insurance expense

| Name | For the nine months ended September 30, | | | |
|------------------------------------|---|---------|----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$99,673 | \$3,011 | \$89,904 | \$2,752 |

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$8,000 (US\$242) and NT\$8,403 (US\$257) paid by the Company on behalf the employees for fidelity bond insurance were included in insurance expenses for the nine months ended September 30, 2006 and 2007.

M. Indemnity income

| Name | For the nine months ended September 30, | | | |
|------------------------------------|---|-------|---------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$6,781 | \$205 | \$6,041 | \$185 |

N. Reinsurance income

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|---------|----------|---------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$106,074 | \$3,205 | \$90,291 | \$2,764 |

O. Reinsurance handing fee income

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|------|---------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$579 | \$17 | \$2,644 | \$81 |

P. Reinsurance claims payment

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|---------|---------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$71,282 | \$2,154 | \$3,843 | \$118 |

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Cathay Life Insurance Co., Ltd.

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

As of September 30, 2006 and 2007

Q. Reinsurance commission expense

| Name | For the nine months ended September 30, | | | |
|--------------------------------------|---|-------|---------|------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Insurance (Bermuda) Co., Ltd. | \$13,305 | \$402 | \$1,188 | \$36 |

R. Miscellaneous income

| Name | For the nine months ended September 30, | | | |
|--|---|----------|-----------|----------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Century Insurance Co., Ltd. | \$503,299 | \$15,205 | \$548,806 | \$16,798 |
| Cathay United Bank | 78,795 | 2,381 | 93,040 | 2,848 |
| Cathay securities Investment Trust Co., Ltd. | 10,179 | 307 | 3,905 | 120 |
| Cathay General Hospital | - | - | 3,222 | 99 |
| Cathay Securities Co., Ltd. | - | - | 1,569 | 48 |
| Symphox Information Co., Ltd. | 1,646 | 50 | 928 | 28 |
| Cathay Real Estate Development Co., Ltd. | - | - | 1,009 | 31 |
| Cathay Financial Holding Co., Ltd. | - | - | 849 | 26 |
| Taiwan Asset Management Corporation | - | - | 781 | 24 |
| San Ching Engineering Co., Ltd. | - | - | 398 | 12 |
| Total | \$593,919 | \$17,943 | \$654,507 | \$20,034 |

S. Commissions expenses

| Name | For the nine months ended September 30, | | | |
|---------------------------------------|---|---------|----------|-------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Agent Co., Ltd. | \$90,881 | \$2,746 | \$18,595 | \$569 |

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As of September 30, 2006 and 2007

T. Operating expenses

| Name | For the nine months ended September 30, | | | |
|--|---|-----------------|--------------------|-----------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Symphox Information Co., Ltd. | \$158,272 | \$4,782 | \$185,033 | \$5,664 |
| Cathay General Hospital | 3,069 | 93 | 3,855 | 118 |
| Lin Yuan Property Management Co., Ltd. | 483,518 | 14,608 | 460,224 | 14,087 |
| Cathay Securities Investment Co., Ltd. | 39,375 | 1,189 | 64,739 | 1,982 |
| San Ching Engineering Co., Ltd. | 3,040 | 92 | 4,075 | 125 |
| Cathay Futures Co., Ltd. | - | - | 3,047 | 93 |
| Seaward Card Cold Ltd. | 1,132 | 34 | 3,150 | 96 |
| Cathay Real Estate Development Co., Ltd. | 3,661 | 110 | 4,274 | 131 |
| Cathay Capital Management Inc. | 19,196 | 580 | 13,721 | 420 |
| Seaward Leasing Co., Ltd. | 5,100 | 154 | 6,345 | 194 |
| Cathay United Bank | - | - | 474,036 | 14,510 |
| Cathay Charity Foundation | 2,250 | 68 | - | - |
| Lin Yuan Property Management Co., Ltd. | - | - | 600 | 18 |
| Lucky Bank Taiwan Inc. | 431 | 13 | - | - |
| Total | \$719,044 | \$21,723 | \$1,223,099 | \$37,438 |

U. Sale of securities

| For the nine months ended September 30, 2006 | | | | | | |
|--|--|----------------------|----------|---------|------------------|------|
| Related party | Securities | Shares (thousand) | Amount | | Gain on disposal | |
| | | | NT\$ | US\$ | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | Lin Yuan Property Management Co., Ltd. | 2,400 | \$47,554 | \$1,437 | \$3,707 | \$12 |
| Seaward Leasing Co., Ltd. | Waterland Securities Co., Ltd. etc. | - | 187,708 | 5,671 | - | - |

There were no related party transactions of securities for the nine months ended September 30, 2007.

V. Cost of disposal real estate

| Name | For the nine months ended September 30, | | | |
|-----------------------------|---|----------------|-----------------|--------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Securities Co., Ltd. | \$37,800 | \$1,142 | \$21,115 | \$646 |
| Cathay United Bank | 37,800 | 1,142 | - | - |
| Total | \$75,600 | \$2,284 | \$21,115 | \$646 |

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As of September 30, 2006 and 2007

W. Other

(A) As of September 30, 2006 and 2007, the nominal amount of the financial instruments transactions with Cathay United Bank are listed below:

| Item | September 30, | |
|------------------------------------|---------------|----------------------------|
| | 2006 | 2007 |
| Forward foreign exchange contracts | USD 302,316 | USD 773,623 |
| CS contracts | USD 1,830,344 | USD 1,352,782 |
| Financial debentures | - | NTD 200,000 (USD 6,122) |

The above financial debentures were the debentures acquired by Cathay United Bank from the secondary market. The amount acquired in the third quarter of 2007 was NT\$193,510 (US\$5,923).

(B) In the third quarter of 2007, the Company had entered a credit assignment agreement with Cathay United Bank in an amount of NT\$1,030,000 (US\$31,527).

26. Pledged assets

As of September 30, 2006 and 2007, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Act, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

| Item | September 30, | | | |
|-------------------------|--------------------|------------------|--------------------|------------------|
| | 2006 | | 2007 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Guarantee deposits paid | \$8,109,447 | \$244,998 | \$8058,996 | \$246,679 |
| Time deposits | 195,840 | 5,917 | 216,460 | 6,625 |
| Total | <u>\$8,305,287</u> | <u>\$250,915</u> | <u>\$8,275,456</u> | <u>\$253,304</u> |

Pledged assets are based on the carrying amounts.

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As of September 30, 2006 and 2007

27. Other important matters and contingent liabilities

None.

28. Serious damages

None.

29. Subsequent events

The company has received approval from the China Insurance Regulatory Commission in October, 2007 to form a joint-venture general insurance subsidiary with Cathay Century Insurance Co., Ltd in China. Please refer to note 29 “Information for investment in Mainland China”.

30. Other important events

(1) Pension related information

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

(2) Financial risk management objectives and policies

The Company’s financial assets primarily consist of domestic or foreign common stocks, preferred stocks, bonds, corporate bonds, short-term notes, mortgage-backed securities, mutual funds, cash and cash equivalents.

The Company enters into derivative transactions such as stock options, index futures, interest rate futures, interest rate swaps, currency forwards and cross currency swap to protect against the risks of stock value, interest rate and exchange rate from investment activities.

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

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Market Risk

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

Credit Risk

Credit risk is the risk of loss due to counterparty or a debtor defaulting on their contractual obligations. The Company minimizes the credit risk exposure by performing the following evaluations and controls:

The Company has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by the Company before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees. No defaults have occurred during the current financial year.

Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are limited to 80% of the carrying value of the secured buildings which varies in different regions.

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

Operational Risk

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

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Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has 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.

(3) Financial instruments related information

| Item | September 30, 2006 | | | |
|---|--------------------|---------------|-----------------|-------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets - non-derivative</u> | | | | |
| Cash and cash equivalents | \$308,770,019 | \$308,770,019 | \$9,328,399 | \$9,328,399 |
| Notes receivable | 10,149,842 | 10,149,842 | 306,642 | 306,642 |
| Financial assets at fair value through profit or loss - | | | | |
| current | 83,100,332 | 83,100,332 | 2,510,584 | 2,510,584 |
| Available-for-sale financial assets - current | 106,731,239 | 106,731,239 | 3,224,509 | 3,224,509 |
| Held-to-maturity financial assets - current | 14,249,164 | 14,239,821 | 430,488 | 430,206 |
| Investments in debt securities with no active market - | | | | |
| current | 5,517,326 | 5,517,326 | 166,687 | 166,687 |
| Available-for-sale financial assets - noncurrent | 145,064,287 | 145,064,287 | 4,382,607 | 4,382,607 |
| Held-to-maturity financial assets - noncurrent | 525,999,518 | 514,947,113 | 15,891,224 | 15,557,315 |
| Financial assets carried at cost - noncurrent | 20,011,317 | 20,011,317 | 604,572 | 604,572 |
| Investments in debt securities with no active market - | | | | |
| noncurrent | 42,995,008 | 42,749,992 | 1,298,943 | 1,291,541 |
| Long-term investments in stocks under the equity | | | | |
| method | 4,198,857 | 4,198,857 | 126,854 | 126,854 |
| Guarantee deposits paid | 8,195,783 | 8,195,783 | 247,607 | 247,607 |
| <u>Liabilities - non-derivative</u> | | | | |
| Notes payable | 3,523 | 3,523 | 106 | 106 |
| Guarantee deposits received | 1,568,398 | 1,568,398 | 47,384 | 47,384 |

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As of September 30, 2006 and 2007

| Item | September 30, 2006 | | | |
|---|--------------------|---------------|-----------------|-------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit or loss - | | | | |
| current | | | | |
| Futures | 3,505,484 | 3,505,484 | 105,906 | 105,906 |
| Option | 38,566 | 38,566 | 1,165 | 1,165 |
| Forward | 3,409,922 | 3,409,922 | 103,019 | 103,019 |
| IRS | 399,766 | 399,766 | 12,077 | 12,077 |
| Derivative financial assets for hedging - current | | | | |
| IRS | 304,329 | 304,329 | 9,194 | 9,194 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - current | | | | |
| Option | 2,383 | 2,383 | 72 | 72 |
| Forward | 16,428,852 | 16,428,852 | 496,340 | 496,340 |
| IRS | 391,325 | 391,325 | 11,823 | 11,823 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | 35,549 | 35,549 | 1,074 | 1,074 |
| Item | September 30, 2007 | | | |
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets - non-derivative</u> | | | | |
| Cash and cash equivalents | \$226,574,039 | \$226,574,039 | \$6,935,232 | \$6,935,232 |
| Notes receivable | 9,523,621 | 9,523,621 | 291,510 | 291,510 |
| Financial assets at fair value through profit or loss - | | | | |
| current | | | | |
| Available-for-sale financial assets - current | 81,802,435 | 81,802,435 | 2,503,901 | 2,503,901 |
| Held-to-maturity financial assets - current | 195,285,536 | 195,285,536 | 5,977,519 | 5,977,519 |
| Investments in debt securities with no active market - current | 7,923,309 | 7,921,427 | 242,526 | 242,468 |
| noncurrent | | | | |
| Available-for-sale financial assets - noncurrent | 5,051,153 | 5,052,472 | 154,611 | 154,652 |
| Held-to-maturity financial assets - noncurrent | 223,161,080 | 223,161,080 | 6,830,765 | 6,830,765 |
| Financial assets carried at cost - noncurrent | 553,249,460 | 532,063,365 | 16,934,480 | 16,285,992 |
| Investments in debt securities with no active market - noncurrent | 19,412,750 | 19,412,750 | 594,207 | 594,207 |
| Long-term investments in stocks under the equity method | 44,877,125 | 41,432,433 | 1,373,650 | 1,268,210 |
| Guarantee deposits paid | 4,418,780 | 4,418,780 | 135,255 | 135,255 |
| | 8,264,696 | 8,264,696 | 252,975 | 252,975 |

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| Item | September 30, 2007 | | | |
|--|--------------------|------------|--------------------|------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Liabilities - non-derivative</u> | | | | |
| Notes payable | \$1,713 | \$1,713 | \$52 | \$52 |
| Guarantee deposits received | 1,467,075 | 1,467,075 | 44,906 | 44,906 |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit or loss – | | | | |
| current | | | | |
| Futures | 1,683,552 | 1,683,552 | 51,532 | 51,532 |
| Option | 45,899 | 45,899 | 1,405 | 1,405 |
| Forward | 18,804,085 | 18,804,085 | 575,576 | 575,576 |
| IRS | 128,007 | 128,007 | 3,918 | 3,918 |
| Derivative financial assets for hedging - current | | | | |
| IRS | 184,384 | 184,384 | 5,644 | 5,644 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - current | | | | |
| Option | 35,154 | 35,154 | 1,076 | 1,076 |
| Forward | 19,453,512 | 19,453,512 | 595,455 | 595,455 |
| IRS | 85,806 | 85,806 | 2,626 | 2,626 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | 108,257 | 108,257 | 3,314 | 3,314 |

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

- ① The fair value of the Company's 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.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.

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- ③ Quoted market price, if available, are 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 financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's financial instruments was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at September 30, 2006 and 2007:

| Financial instruments | September 30, 2006 | | | |
|--|----------------------------------|-------------|-------------------------------|------------|
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - non-derivative</u> | | | | |
| Financial assets at fair value through profit and loss - | | | | |
| current | \$77,430,266 | \$2,339,283 | \$5,670,066 | \$171,301 |
| Available-for-sale financial assets - current | 106,730,080 | 3,224,474 | 1,159 | 35 |
| Held-to-maturity financial assets - current | 9,518,921 | 287,581 | 4,720,899 | 142,625 |
| Investment in debt securities with no active market - | | | | |
| current | - | - | 5,517,326 | 166,687 |
| Available-for-sale financial assets - noncurrent | 130,238,178 | 3,934,688 | 14,826,109 | 447,919 |
| Held-to-maturity financial assets - noncurrent | 74,541,832 | 2,252,019 | 440,405,281 | 13,305,295 |
| Financial assets carried at cost - noncurrent | - | - | 20,011,317 | 604,572 |
| Investment in debt securities with no active market - | | | | |
| noncurrent | - | - | 42,749,992 | 1,291,541 |
| Long-term investments in stocks under the equity | | | | |
| method | - | - | 4,198,857 | 126,854 |

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| Financial instruments | September 30, 2006 | | | |
|--|----------------------------------|-------------|-------------------------------|------------|
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit and loss - | | | | |
| current | | | | |
| Futures | \$3,505,484 | \$105,906 | \$- | \$- |
| Option | 38,566 | 1,165 | - | - |
| Forward | - | - | 3,409,922 | 103,019 |
| IRS | - | - | 399,766 | 12,077 |
| Derivative financial assets for hedging - current | | | | |
| IRS | - | - | 304,329 | 9,194 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit and | | | | |
| loss - current | | | | |
| Option | 2,383 | 72 | - | - |
| Forward | - | - | 16,428,852 | 496,340 |
| IRS | - | - | 391,325 | 11,823 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | - | - | 35,549 | 1,074 |
| | | | | |
| September 30, 2007 | | | | |
| Financial instruments | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - non-derivative</u> | | | | |
| Financial assets at fair value through profit or loss - | | | | |
| current | \$72,230,803 | \$2,210,921 | \$9,571,632 | \$292,979 |
| Available-for-sale financial assets - current | 195,285,536 | 5,977,519 | - | - |
| Held-to-maturity financial assets - current | 7,177,736 | 219,704 | 743,691 | 22,764 |
| Investments in debt securities with no active market - | | | | |
| current | - | - | 5,052,472 | 154,652 |
| Available-for-sale financial assets - noncurrent | 208,834,151 | 6,392,230 | 14,326,929 | 438,535 |
| Held-to-maturity financial assets - noncurrent | 92,674,226 | 2,836,677 | 439,389,138 | 13,449,316 |
| Financial assets carried at cost - noncurrent | - | - | 19,412,750 | 594,207 |
| Investment in debt securities with no active market - | | | | |
| noncurrent | 3,450,296 | 105,611 | 37,982,137 | 1,162,600 |
| Long-term investments in stocks under the equity | | | | |
| method | - | - | 4,418,780 | 135,255 |

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| Financial instruments | September 30, 2007 | | | |
|--|----------------------------------|----------|-------------------------------|---------|
| | Based on the quoted market price | | Based on valuation techniques | |
| | NT\$ | US\$ | NT\$ | US\$ |
| <u>Assets - derivative</u> | | | | |
| Financial assets at fair value through profit or loss - | | | | |
| current | | | | |
| Futures | \$1,683,552 | \$51,532 | \$- | \$- |
| Option | 4,125 | 126 | 41,774 | 1,279 |
| Forward | - | - | 18,804,085 | 575,577 |
| IRS | - | - | 128,007 | 3,918 |
| Derivative financial assets for hedging - current | | | | |
| IRS | - | - | 184,384 | 5,644 |
| <u>Liabilities - derivative</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - current | | | | |
| Option | - | - | 35,154 | 1,076 |
| Forward | - | - | 19,453,512 | 595,455 |
| IRS | - | - | 85,806 | 2,626 |
| Derivative financial liabilities for hedging - current | | | | |
| IRS | - | - | 108,257 | 3,314 |

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at September 30, 2006 and 2007:

① September 30, 2006

Non-derivative financial instruments of fixed interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|----------|------------------|----------|------------------|---------|------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$363,510 | \$10,982 | \$539,025 | \$16,285 | \$159,547 | \$4,820 | \$223,329 | \$6,747 |
| Available-for-sale financial assets | 11,144,156 | 336,681 | 1,620,299 | 48,952 | 1,283,648 | 38,781 | 801,015 | 24,200 |
| Held-to-maturity financial assets | 11,641,484 | 351,706 | 7,782,714 | 235,127 | 3,355,050 | 101,361 | 12,104,988 | 365,710 |
| Investments in debt securities with | | | | | | | | |
| no active market | 501,195 | 15,142 | 346,991 | 10,483 | 1,570,060 | 47,434 | 486,942 | 14,711 |

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| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|----------|--------------|------------|--------------|------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$865,979 | \$26,163 | \$25,907,666 | \$782,709 | \$28,059,056 | \$847,706 |
| Available-for-sale financial assets | 6,349,032 | 191,814 | 76,687,946 | 2,316,856 | 97,886,096 | 2,957,284 |
| Held-to-maturity financial assets | 13,102,257 | 395,839 | 403,831,376 | 12,200,344 | 451,817,869 | 13,650,087 |
| Investments in debt securities with | | | | | | |
| no active market | 298,832 | 9,028 | 31,634,667 | 955,730 | 34,838,687 | 1,052,528 |

Non-derivative financial instruments of float interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|-----------|------------------|------|------------------|------|------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$7,072,195 | \$213,661 | \$- | \$- | \$- | \$- | \$- | \$- |
| Available-for-sale financial assets | 49,713,698 | 1,501,924 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 88,430,813 | 2,671,626 | - | - | - | - | - | - |
| Investments in debt securities with | | | | | | | | |
| no active market | 13,673,648 | 413,101 | - | - | - | - | - | - |

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|------|--------------|------|-------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$- | \$- | \$- | \$- | \$7,072,195 | \$213,661 |
| Available-for-sale financial assets | - | - | - | - | 49,713,698 | 1,501,924 |
| Held-to-maturity financial assets | - | - | - | - | 88,430,813 | 2,671,626 |
| Investments in debt securities with | | | | | | |
| no active market | - | - | - | - | 13,673,648 | 413,101 |

Derivative financial instruments

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|--------------------------------------|--------------------|---------|------------------|---------|------------------|-------|------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$258,199 | \$7,801 | \$109,200 | \$3,299 | \$17,483 | \$528 | \$3,825 | \$116 |
| Derivative financial assets for | | | | | | | | |
| hedging | 4,965 | 150 | 46,432 | 1,403 | 13,462 | 407 | 124,287 | 3,755 |
| Financial liabilities at fair value | | | | | | | | |
| through profit or loss | (63,329) | (1,913) | (2,308) | (70) | (310) | (9) | (1,335) | (40) |
| Derivative financial liabilities for | | | | | | | | |
| hedging | (1,109) | (34) | (5,283) | (160) | (29,157) | (881) | - | - |

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| Item | Due in 4~5 years | | Over 5 years | | Total | |
|--------------------------------------|------------------|-------|--------------|---------|-----------|----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$857 | \$26 | \$275,024 | \$8,309 | \$664,588 | \$20,078 |
| Derivative financial assets for | | | | | | |
| hedging | 63,863 | 1,929 | 51,320 | 1,550 | 304,329 | 9,194 |
| Financial liabilities at fair value | | | | | | |
| through profit or loss | (25,071) | (757) | (301,355) | (9,104) | (393,708) | (11,895) |
| Derivative financial liabilities for | | | | | | |
| hedging | - | - | - | - | (35,549) | (1,074) |

② September 30, 2007

Non-derivative financial instruments of fixed interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|----------|------------------|----------|------------------|---------|------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$381,201 | \$11,668 | \$1,428,676 | \$43,730 | \$171,667 | \$5,255 | \$309,001 | \$9,458 |
| Available-for-sale financial assets | 2,395,480 | 73,324 | 2,830,762 | 86,647 | 1,654,810 | 50,652 | 10,215,191 | 312,678 |
| Held-to-maturity financial assets | 7,047,010 | 215,703 | 6,319,727 | 193,441 | 10,002,033 | 306,153 | 15,262,218 | 467,163 |
| Investments in debt securities with | | | | | | | | |
| no active market | 506,302 | 15,497 | 1,024,859 | 31,370 | 1,155,729 | 35,376 | 777,618 | 23,802 |

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|-----------|--------------|------------|--------------|-------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$3,351,735 | \$102,594 | \$15,522,396 | \$475,127 | \$21,164,676 | \$647,832 |
| Available-for-sale financial assets | 9,845,965 | 301,376 | 87,464,814 | 2,677,221 | 114,407,022 | 3,501,898 |
| Held-to-maturity financial assets | 9,886,678 | 302,622 | 432,108,038 | 13,226,447 | 480,625,704 | 14,711,531 |
| Investments in debt securities with | | | | | | |
| no active market | 1,190,982 | 36,455 | 34,174,593 | 1,046,054 | 38,830,083 | \$1,188,555 |

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Non-derivative financial instruments of float interest rate

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|-------------------------------------|--------------------|-----------|------------------|------|------------------|------|------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$7,370,447 | \$225,603 | \$- | \$- | \$- | \$- | \$- | \$- |
| Available-for-sale financial assets | 117,978,396 | 3,611,215 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 80,547,065 | 2,465,475 | - | - | - | - | - | - |
| Investments in debt securities with | | | | | | | | |
| no active market | 11,098,195 | 339,706 | - | - | - | - | - | - |

| Item | Due in 4~5 years | | Over 5 years | | Total | |
|-------------------------------------|------------------|------|--------------|------|-------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$- | \$- | \$- | \$- | \$7,370,447 | \$225,603 |
| Available-for-sale financial assets | - | - | - | - | 117,978,396 | 3,611,215 |
| Held-to-maturity financial assets | - | - | - | - | 80,547,065 | 2,465,475 |
| Investments in debt securities with | | | | | | |
| no active market | - | - | - | - | 11,098,195 | 339,706 |

Derivative financial instruments

| Item | Less than one year | | Due in 1~2 years | | Due in 2~3 years | | Due in 3~4 years | |
|--------------------------------------|--------------------|-------|------------------|---------|------------------|-------|------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | | | |
| through profit or loss | \$18,874 | \$578 | \$61,488 | \$1,882 | \$6,566 | \$201 | \$3,742 | \$114 |
| Derivative financial assets for | | | | | | | | |
| hedging | 21,144 | 647 | 11,674 | 357 | 94,923 | 2,906 | 4,578 | 140 |
| Financial liabilities at fair value | | | | | | | | |
| through profit or loss | (12,637) | (387) | (65,093) | (1,992) | (3,038) | (93) | (8,558) | (262) |
| Derivative financial liabilities for | | | | | | | | |
| hedging | (26,813) | (821) | (5,611) | (172) | (7,752) | (237) | (14,506) | (444) |

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As of September 30, 2006 and 2007

| Item | Due in 4-5 years | | Over 5 years | | Total | |
|--------------------------------------|------------------|-------|--------------|---------|-----------|---------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Financial assets at fair value | | | | | | |
| through profit or loss | \$9,254 | \$283 | \$63,858 | \$1,955 | \$163,782 | \$5,013 |
| Derivative financial assets for | | | | | | |
| hedging | - | - | 52,065 | 1,594 | 184,384 | 5,644 |
| Financial liabilities at fair value | | | | | | |
| through profit or loss | (11,756) | (360) | (19,878) | (608) | (120,960) | (3,702) |
| Derivative financial liabilities for | | | | | | |
| hedging | - | - | (53,575) | (1,640) | (108,257) | (3,314) |

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at September 30, 2006 and 2007:

Cash flow hedges – IRS

① September 30, 2006

| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|----------|------------------------------|--------------|---------------|
| NT\$ | US\$ | | | |
| \$372,500 | \$11,254 | ARMS | Each quarter | 2009/3/24 |
| 350,000 | 10,574 | 4.0005%-6ml | Yearly | 2008/9/26 |
| 500,000 | 15,106 | 7.6%-90DCP | Half year | 2007/10/10 |
| 500,000 | 15,106 | 7.05%-90DCP | Half year | 2007/10/10 |
| 300,000 | 9,063 | 5.5%-6ml | Half year | 2007/12/26 |
| 500,000 | 15,106 | 6.9%-90DCP | Each quarter | 2007/7/9 |
| 200,000 | 6,042 | 4.003%-6ml | Half year | 2008/6/13 |
| 500,000 | 15,106 | 4%-12ml | Yearly | 2008/6/5 |
| 300,000 | 9,063 | 4.3%-12ml | Yearly | 2010/6/20 |
| 900,000 | 27,190 | 90DCP | Each quarter | 2015/2/4 |
| 400,000 | 12,085 | 90DCP | Each quarter | 2015/3/17 |
| 50,000 | 1,511 | 90DCP | Each quarter | 2009/3/15 |
| 500,000 | 15,106 | If 6ml<1.1%,6ml | Half year | 2011/6/30 |
| | | If 1.1%<6ml<2.0%,3.8% | | |
| | | If 6ml>2.0%,Max(5.50%-6ml,0) | | |

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As of September 30, 2006 and 2007

| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|---------|---|--------------|---------------|
| NT\$ | US\$ | | | |
| \$200,000 | \$6,042 | 7.603%-6ml | Half year | 2007/7/31 |
| 300,000 | 9,063 | 7.5%-6ml | Half year | 2007/7/31 |
| 300,000 | 9,063 | 5.1%-6ml | Half year | 2007/12/19 |
| 300,000 | 9,063 | If 6ml<6.9%,3.8% If 6ml>6.9%,0% | Half year | 2007/7/31 |
| 200,000 | 6,042 | 0~0.5Y:3.8%,0.5Y+6ml :3.0% 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1%-2.5%, 2.5-3.5Y:1%-3.0%, 3.5-4.5Y:1%-3.5%, 4.5-5.5Y:1%-4.0%, 5.5-6.5Y:1%-4.5%, 6.5-7.0Y:1%-5.0% | Half year | 2011/3/19 |
| 200,000 | 6,042 | If6ml<0.95%,6ml If0.95%<6ml<2.0%,3.5% If2.0%<6ml;4.8%-6ml | Half year | 2009/1/9 |
| 300,000 | 9,063 | If6ml<0.95%,6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml | Half year | 2009/1/7 |
| 200,000 | 6,042 | 4.000%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,063 | 4.0002%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,085 | 4.0006%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,085 | 4.0007%-6ml | Half year | 2010/4/7 |
| 250,000 | 7,553 | 90DCP | Each quarter | 2008/8/10 |
| 900,000 | 27,190 | 90DCP | Each quarter | 2010/8/18 |
| 600,000 | 18,127 | 90DCP | Each quarter | 2010/8/19 |
| 450,000 | 13,595 | 90DCP | Each quarter | 2008/8/22 |
| 330,000 | 9,970 | 90DCP | Each quarter | 2008/8/24 |
| 300,000 | 9,063 | 5.35%-6ml | Each quarter | 2008/1/8 |
| 200,000 | 6,042 | 4.0003%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,063 | 5.37%-6ml | Yearly | 2011/3/15 |
| 200,000 | 6,042 | 5.85%-6ml | Half year | 2009/1/13 |
| 50,000 | 1,511 | 4.15%-6ml | Half year | 2009/1/16 |
| 200,000 | 6,042 | 6.3%-6ml | Yearly | 2010/11/27 |
| 100,000 | 3,021 | 4.007%-6ml | Half year | 2010/4/7 |
| 100,000 | 3,021 | 4.007%-6ml | Half year | 2010/4/7 |

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As of September 30, 2006 and 2007

② September 30, 2007

| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|---------|---|--------------|---------------|
| NT\$ | US\$ | | | |
| \$310,000 | \$9,489 | ARMS | Each quarter | 2009/3/24 |
| 350,000 | 10,713 | 4.0005%-6ml | Yearly | 2008/9/26 |
| 500,000 | 15,305 | The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP | Half year | 2007/10/10 |
| 500,000 | 15,305 | 7.05%-90BACP | Half year | 2007/10/10 |
| 300,000 | 9,183 | 5.5%-6ml | Half year | 2007/12/26 |
| 200,000 | 6,122 | 4.003%-6ml | Half year | 2008/6/13 |
| 500,000 | 15,305 | 4%-12ml | Yearly | 2008/6/5 |
| 300,000 | 9,183 | 4.3%-12ml | Yearly | 2010/6/20 |
| 500,000 | 15,305 | If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0) | Half year | 2011/6/30 |
| 200,000 | 6,122 | 0.5Y:3.8%, 3.0%*n/N if 6ml 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y:1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0% | Half year | 2011/3/19 |
| 300,000 | 9,183 | 5.1%-6ml | Half year | 2007/12/19 |
| 200,000 | 6,122 | If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml | Half year | 2009/1/9 |
| 300,000 | 9,183 | If 6ml<0.95%,6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml | Half year | 2009/1/7 |
| 200,000 | 6,122 | 4.000%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,183 | 4.0002%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,244 | 4.0006%-6ml | Half year | 2010/4/7 |
| 400,000 | 12,244 | 4.0007%-6ml | Half year | 2010/4/7 |
| 250,000 | 7,652 | 90DCP | Each quarter | 2008/8/10 |
| 900,000 | 27,548 | 90DCP | Each quarter | 2010/8/18 |
| 600,000 | 18,365 | 90DCP | Each quarter | 2010/8/19 |

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| Par value | | Exchange rate | Frequency | Maturity date |
|-----------|--------|---|--------------|---------------|
| NT\$ | US\$ | | | |
| \$450,000 | 13,774 | 90DCP | Each quarter | 2008/8/22 |
| 330,000 | 10,101 | 90DCP | Each quarter | 2008/8/24 |
| 300,000 | 9,183 | 5.35%-6ml | Half year | 2008/1/8 |
| 200,000 | 6,122 | 4.0003%-6ml | Half year | 2010/4/7 |
| 300,000 | 9,183 | 5.37%-6ml | Yearly | 2011/3/15 |
| 200,000 | 6,122 | 5.85%-6ml | Half year | 2009/1/13 |
| 50,000 | 1,530 | If 6ml<=1%,6ml + 0.2% If 1%<6ml<2%,3.15% If 6ml>=2%,4.15%-6ml | Half year | 2009/1/16 |
| 200,000 | 6,122 | 6.3%-6ml | Yearly | 2010/11/27 |
| 300,000 | 9,183 | 180DCP + 40bps | Half year | 2008/3/24 |
| 300,000 | 9,183 | 180DCP | Half year | 2008/6/12 |
| 2,000,000 | 61,218 | 90DCP+75bps | Each quarter | 2008/7/19 |
| 1,150,000 | 35,200 | 90DCP+30bps | Each quarter | 2008/9/17 |
| 100,000 | 3,061 | 180DCP+30bps | Half year | 2008/12/18 |
| 200,000 | 6,122 | 180DCP+18bps | Half year | 2008/7/11 |
| 900,000 | 27,548 | 90DCP+100bps | Each quarter | 2009/5/20 |
| 2,700,000 | 82,645 | 90DCP+25bps | Each quarter | 2013/8/24 |
| 1,500,000 | 45,914 | 90DCP+23bps | Yearly | 2013/12/16 |
| 1,000,000 | 30,609 | 90DCP+26.5bps | Yearly | 2013/12/14 |
| 1,300,000 | 39,792 | 90DCP+45bps | Each quarter | 2013/12/27 |
| 500,000 | 15,305 | 90DCP+23bps | Yearly | 2013/12/14 |
| 1,000,000 | 30,609 | 90DCP+26.5bps | Each quarter | 2013/12/16 |
| 3,000,000 | 91,827 | 90DCP+26.5bps | Yearly | 2013/11/3 |
| 100,000 | 3,061 | 4.0006%-6ml | Half year | 2010/4/7 |
| 100,000 | 3,061 | 4.0006%-6ml | Half year | 2010/4/7 |

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$416,550 (US\$12,585) and NT\$125,322 (US\$3,836) as of September 30, 2006 and 2007.

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(7) Discretionary account management

| Item | September 30, 2006 | | | |
|-------------------|---------------------|------------------|---------------------|------------------|
| | Carrying amount | | Fair value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$5,147,193 | \$155,504 | \$5,147,193 | \$155,504 |
| Repurchase bonds | 6,327,016 | 191,149 | 6,329,588 | 191,226 |
| Convertible bonds | 28,415 | 858 | 28,415 | 858 |
| Government Bonds | 2,674,479 | 80,800 | 2,674,479 | 80,800 |
| Cash in bank | 162,637 | 4,914 | 162,697 | 4,916 |
| Total | <u>\$14,339,740</u> | <u>\$433,225</u> | <u>\$14,342,372</u> | <u>\$433,304</u> |

| Item | September 30, 2007 | | | |
|------------------|---------------------|------------------|---------------------|------------------|
| | Carrying amount | | Fair value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$15,549,713 | \$475,963 | \$18,286,105 | \$559,722 |
| Repurchase bonds | 9,589,219 | 293,518 | 9,593,918 | 293,661 |
| Short-term notes | 318,578 | 9,751 | 318,884 | 9,761 |
| Cash in banks | 748,031 | 22,897 | 748,245 | 22,903 |
| Total | <u>\$26,205,541</u> | <u>\$802,129</u> | <u>\$28,947,152</u> | <u>\$886,047</u> |

As of September 30, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT\$12,450,000 (US\$376,133) and NT\$21,950,000 (US\$671,870), respectively.

(8) Material contract

None.

(9) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2006 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 30, 2007.

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(10) Other

None.

31. 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 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). 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. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30, 2007, the Company's remittances to this company totaled approximately US\$48,330.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$2,639 as the registered capital to establish a China-based general insurance subsidiary. The Company has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund has not been wired out as of September 30, 2007.

32. Segment Information

None.