

Cathay Life Insurance Co., Ltd.
Financial Statements
As of September 30, 2007 and 2008
With Independent Auditors' Review Report

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of September 30, 2007 and 2008, 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 ("R.O.C."). 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, 2007 and 2008 in order for them to be in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C.

Ernst & Young
Taipei, Taiwan
Republic of China
October 17, 2008

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.

Cathay Life Insurance Co., Ltd.
Unaudited balance sheets
As of September 30, 2007 and 2008
(Expressed in thousands of dollars)

Assets	Notes	September 30, 2007		September 30, 2008	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4,25	\$226,574,039	\$6,935,232	\$199,119,334	\$6,178,074
Financial assets at fair value through profit or loss - current	2,5,12,25	100,780,426	3,084,800	65,571,841	2,034,497
Available-for-sale financial assets - current	2,6,12	195,285,536	5,977,519	137,944,650	4,280,008
Held-to-maturity financial assets - current	2,12,25	7,923,309	242,526	3,010,609	93,410
Derivative financial assets for hedging - current	2,7	184,384	5,644	736,804	22,861
Investments in debt securities with no active market - current	2	5,051,153	154,611	3,422,799	106,199
Notes receivable	2	9,523,621	291,510	6,122,150	189,952
Prepaid reinsurance premium		-	-	265,121	8,226
Claims recoverable from reinsurers		-	-	15,596	484
Reinsurance accounts receivable		60,961	1,866	22,762	706
Other accounts receivable	2,25	30,343,136	928,777	23,083,051	716,198
Other financial assets - current		4,000,000	122,436	-	-
Prepayments	25	46,921	1,436	55,613	1,725
Deferred income tax assets - current	2,23	1,290,514	39,501	6,881,010	213,497
Other current assets		326,693	10,000	169,657	5,264
Subtotal		<u>581,390,693</u>	<u>17,795,858</u>	<u>446,420,997</u>	<u>13,851,101</u>
Loans					
Policy loans	2,8,25	184,257,852	5,639,971	196,004,672	6,081,436
Secured loans		343,048,972	10,500,428	342,712,253	10,633,331
Subtotal		<u>527,306,824</u>	<u>16,140,399</u>	<u>538,716,925</u>	<u>16,714,767</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,12	223,161,080	6,830,765	262,979,339	8,159,458
Held-to-maturity financial assets - noncurrent	2,10,12	553,249,460	16,934,480	646,024,421	20,044,195
Financial assets carried at cost - noncurrent	2,11	19,412,750	594,207	19,377,737	601,233
Investments in debt securities with no active market - noncurrent	2,12	44,877,125	1,373,650	66,312,240	2,057,469
Long-term investments under the equity method	2,13	4,418,780	135,255	6,327,937	196,337
Investments in real estate	2,14	106,477,651	3,259,187	108,777,724	3,375,046
Other financial assets - noncurrent	25	22,500,000	688,705	12,100,000	375,427
Subtotal		<u>974,096,846</u>	<u>29,816,249</u>	<u>1,121,899,398</u>	<u>34,809,165</u>
Property and equipment					
Land	2,15,25	4,766,462	145,897	4,686,655	145,413
Buildings and construction		10,180,615	311,620	9,931,441	308,143
Computer equipment		1,668,282	51,065	1,829,706	56,770
Communication and transportation equipment		17,599	539	14,855	461
Other equipment		2,957,761	90,534	2,983,335	92,564
Revaluation increments		1,054	32	1,317	41
Less: Accumulated depreciation		(6,728,942)	(205,967)	(7,090,067)	(219,984)
Less: Accumulated impairment		(85,519)	(2,618)	(85,519)	(2,653)
Construction in progress and prepayment for equipment		86,769	2,656	269,350	8,357
Subtotal		<u>12,864,081</u>	<u>393,758</u>	<u>12,541,073</u>	<u>389,112</u>
Intangible assets					
Computer software cost	2,16	381,951	11,691	591,607	18,356
Other assets					
Guarantee deposits paid	2,25,26	9,948,248	304,507	14,832,799	460,217
Deferred income tax assets - noncurrent	2,23	411,794	12,605	545,885	16,937
Other overdue receivables	2,17,25	36,120	1,106	279,219	8,664
Separate account products assets	2,30	245,641,954	7,518,884	240,168,550	7,451,708
Other assets - other	25	4,347,361	133,069	10,759,383	333,831
Subtotal		<u>260,385,477</u>	<u>7,970,171</u>	<u>266,585,836</u>	<u>8,271,357</u>
Total assets		<u>\$2,356,425,872</u>	<u>\$72,128,126</u>	<u>\$2,386,755,836</u>	<u>\$74,053,858</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 to US\$1.00)

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

Cathay Life Insurance Co., Ltd.
Unaudited balance sheets - (continued)
As of September 30, 2007 and 2008
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	September 30, 2007		September 30, 2008	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,18	\$19,574,472	\$599,157	\$38,397,213	\$1,191,350
Derivative financial liabilities for hedging - current	2,19	108,257	3,314	32,073	995
Notes payable		1,713	52	1,912	59
Commissions payable		878,094	26,878	926,078	28,733
Life insurance proceeds payable		11,591	355	8,078	251
Reinsurance accounts payable		183,023	5,602	179,084	5,557
Other payable	2,3,21,25	21,449,589	656,553	4,995,924	155,009
Accounts collected in advance		131,663	4,030	136,346	4,230
Subtotal		<u>42,338,402</u>	<u>1,295,941</u>	<u>44,676,708</u>	<u>1,386,184</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	110	3,581	111
Accrued pension liability	2,30	1,489,666	45,597	1,377,299	42,733
Subtotal		<u>1,493,247</u>	<u>45,707</u>	<u>1,380,880</u>	<u>42,844</u>
Reserve for operations and liabilities					
Unearned premium reserve	2	10,727,815	328,369	11,041,290	342,578
Reserve for life insurance liabilities		1,889,616,974	57,839,515	1,994,176,997	61,873,317
Special reserve		15,095,571	462,062	15,828,067	491,097
Reserve for claims		1,407,942	43,096	1,395,793	43,307
Premium deficiency reserve		2,918,426	89,331	2,683,999	83,277
Subtotal		<u>1,919,766,728</u>	<u>58,762,373</u>	<u>2,025,126,146</u>	<u>62,833,576</u>
Other liabilities					
Guarantee deposits received	25	1,467,075	44,906	1,527,452	47,392
Separate account products liabilities	2,30	245,641,954	7,518,884	240,168,550	7,451,708
Other liabilities - other		8,811,122	269,701	3,151,330	97,777
Subtotal		<u>255,920,151</u>	<u>7,833,491</u>	<u>244,847,332</u>	<u>7,596,877</u>
Total liabilities		<u>2,219,518,528</u>	<u>67,937,512</u>	<u>2,316,031,066</u>	<u>71,859,481</u>
Stockholders' equity					
Capital stock					
Common stock	2,20	50,686,158	1,551,459	52,686,158	1,634,693
Capital surplus	2	9,648	295	13,009,648	403,650
Retained earnings					
Legal reserve	2,21	21,188,906	648,574	23,535,758	730,244
Special reserve		16,693,810	510,983	19,169,006	594,757
Unappropriated retained earnings		25,265,311	773,349	(638,313)	(19,805)
Equity adjustment					
Unrealized (losses) gains on financial instruments	2,21	22,967,049	703,001	(37,253,027)	(1,155,849)
Unrealized revaluation increments	2	2,105	65	2,105	65
Cumulative conversion adjustments	2	94,357	2,888	213,435	6,622
Total stockholders' equity		<u>136,907,344</u>	<u>4,190,614</u>	<u>70,724,770</u>	<u>2,194,377</u>
Total liabilities and stockholders' equity		<u>\$2,356,425,872</u>	<u>\$72,128,126</u>	<u>\$2,386,755,836</u>	<u>\$74,053,858</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 to US\$1.00)

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

Cathay Life Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2007 and 2008
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-September 30, 2007		January 1-September 30, 2008	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,25				
Premiums income		\$215,413,133	\$6,593,607	\$253,519,094	\$7,865,935
Reinsurance commission earned		165,402	5,063	222,124	6,892
Claims recovered from reinsurers		257,546	7,883	178,479	5,538
Recovered premiums reserve		111,115,917	3,401,161	177,262,648	5,499,927
Recovered special reserve		127,538	3,904	128,232	3,978
Recovered claims reserve		1,470	45	81,919	2,542
Recovered premium deficiency reserve		447,312	13,692	208,986	6,484
Handling fees earned		1,261,146	38,603	4,920,611	152,672
Interest income		51,394,320	1,573,135	56,116,306	1,741,120
Gains from valuation on financial assets		12,798,514	391,751	8,900,831	276,166
Gains on long-term equity investments	13	288,165	8,820	85,338	2,648
Gains on foreign exchange		677,710	20,744	-	-
Gains on disposal of investments		22,561,885	690,599	8,332,736	258,540
Gains on investments - real estate	14	5,019,261	153,635	4,135,078	128,299
Separate account products revenues	30	182,886,335	5,597,990	184,253,002	5,716,817
Subtotal		<u>604,415,654</u>	<u>18,500,632</u>	<u>698,345,384</u>	<u>21,667,558</u>
Operating costs	2,25				
Reinsurance premiums ceded		(469,634)	(14,375)	(235,736)	(7,314)
Brokerage expenses	22	(23,061,354)	(705,888)	(21,086,214)	(654,242)
Commissions expenses		(75,836)	(2,321)	(81,211)	(2,520)
Insurance claims payment		(138,085,915)	(4,226,689)	(204,906,549)	(6,357,634)
Provision for premiums reserve		(214,767,745)	(6,573,852)	(253,302,301)	(7,859,209)
Provision for special reserve		(866,168)	(26,513)	(622,475)	(19,314)
Contribution to the stabilization funds		(215,230)	(6,588)	(253,318)	(7,860)
Provision for claims reserve		(105,610)	(3,233)	-	-
Provision for premium deficiency reserve		(147)	(4)	(71,497)	(2,218)
Handling fees paid		(1,042,092)	(31,897)	(1,062,543)	(32,967)
Interest expenses		(29,100)	(891)	(32,345)	(1,004)
Losses from valuation on financial liabilities		(7,994,017)	(244,690)	(25,338,594)	(786,180)
Losses on foreign exchange		-	-	(2,862,896)	(88,827)
Separate account products expenses	30	(182,886,335)	(5,597,990)	(184,253,002)	(5,716,817)
Other operating cost		(312,632)	(9,569)	(660,952)	(20,507)
Subtotal		<u>(569,911,815)</u>	<u>(17,444,500)</u>	<u>(694,769,633)</u>	<u>(21,556,613)</u>
Operating gross profit		<u>34,503,839</u>	<u>1,056,132</u>	<u>3,575,751</u>	<u>110,945</u>
Operating expenses	2,3,16,22,25				
Marketing expenses		(2,161,505)	(66,162)	(2,681,778)	(83,208)
Administrative and general expenses		(5,559,862)	(170,182)	(5,120,292)	(158,867)
Subtotal		<u>(7,721,367)</u>	<u>(236,344)</u>	<u>(7,802,070)</u>	<u>(242,075)</u>
Operating income (loss)		<u>26,782,472</u>	<u>819,788</u>	<u>(4,226,319)</u>	<u>(131,130)</u>
Non-operating revenues and gains	2,25				
Gains on disposal of property and equipment		1,880	57	43	1
Other non-operating revenues and gains		1,048,143	32,083	1,030,386	31,970
Subtotal		<u>1,050,023</u>	<u>32,140</u>	<u>1,030,429</u>	<u>31,971</u>
Non-operating expenses and losses	2,25				
Losses on disposal of property and equipment		(258)	(8)	(186)	(6)
Impairment loss		(134,993)	(4,132)	(541,809)	(16,811)
Miscellaneous expenses		(53,471)	(1,636)	(4,875)	(151)
Subtotal		<u>(188,722)</u>	<u>(5,776)</u>	<u>(546,870)</u>	<u>(16,968)</u>
Income (loss) from continuing operations before income taxes		<u>27,643,773</u>	<u>846,152</u>	<u>(3,742,760)</u>	<u>(116,127)</u>
Income taxes (expense) benefit	2,23	<u>(2,378,462)</u>	<u>(72,803)</u>	<u>3,104,447</u>	<u>96,322</u>
Net income (loss)		<u>\$25,265,311</u>	<u>\$773,349</u>	<u>\$(638,313)</u>	<u>\$(19,805)</u>
Earnings per share (In dollars)	24				
Net income (loss)		<u>\$4.98</u>	<u>\$0.15</u>	<u>\$(0.12)</u>	<u>\$-</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 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, 2007 and 2008
(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 on financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
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>
Balance on January 1, 2008	\$50,686,158	\$1,572,639	\$9,648	\$299	\$21,188,906	\$657,428	\$16,693,810	\$517,959	\$23,468,521	\$728,158	\$11,169,132	\$346,545	\$2,105	\$65	\$132,518	\$4,111	\$123,350,798	\$3,827,204
Appropriations and Distributions for 2007																		
Legal reserve	-	-	-	-	2,346,852	72,816	-	-	(2,346,852)	(72,816)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,475,196	76,798	(2,475,196)	(76,798)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(18,625,315)	(577,888)	-	-	-	-	-	-	(18,625,315)	(577,888)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(251)	-	-	-	-	-	-	(8,100)	(251)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,058)	(405)	-	-	-	-	-	-	(13,058)	(405)
Capital increase by cash	2,000,000	62,054	13,000,000	403,351	-	-	-	-	-	-	-	-	-	-	-	-	15,000,000	465,405
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(48,422,159)	(1,502,394)	-	-	-	-	(48,422,159)	(1,502,394)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	80,917	2,511	80,917	2,511
Net loss for the nine months ended September 30, 2008	-	-	-	-	-	-	-	-	(638,313)	(19,805)	-	-	-	-	-	-	(638,313)	(19,805)
Balance on September 30, 2008	<u>\$52,686,158</u>	<u>\$1,634,693</u>	<u>\$13,009,648</u>	<u>\$403,650</u>	<u>\$23,535,758</u>	<u>\$730,244</u>	<u>\$19,169,006</u>	<u>\$594,757</u>	<u>\$(638,313)</u>	<u>\$(19,805)</u>	<u>\$(37,253,027)</u>	<u>\$(1,155,849)</u>	<u>\$2,105</u>	<u>\$65</u>	<u>\$213,435</u>	<u>\$6,622</u>	<u>\$70,724,770</u>	<u>\$2,194,377</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 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, 2007 and 2008
(Expressed in thousands of dollars)

	January 1-September 30, 2007		January 1-September 30, 2008	
	NTS	US\$	NTS	US\$
Cash flows from operating activities				
Net income (loss) for the periods	\$25,265,311	\$773,349	\$(638,313)	\$(19,805)
Adjustments:				
Gains from valuation of financial assets	(12,798,514)	(391,751)	(8,900,831)	(276,166)
Losses from valuation on financial liabilities	7,994,017	244,690	25,338,594	786,180
Provision bad debt	185,912	5,691	440,465	13,666
Depreciation	1,821,197	55,745	1,537,387	47,700
Amortization	97,397	2,981	140,768	4,367
Provision or recovered for each reserve	104,047,433	3,184,801	76,314,713	2,367,816
(Gains) loss on disposal of property and equipment	(1,622)	(50)	143	4
Gains on disposal of investments in real estate	(1,240,106)	(37,959)	(161,819)	(5,021)
Impairment loss	134,993	4,132	541,809	16,811
Gains on long-term equity investments (in excess of) less than cash dividends received	(11,178)	(342)	288,707	8,958
Effects of exchange rate changes	(54,058)	(1,655)	-	-
Decrease in financial assets at fair value through profit or loss - current	8,382,197	256,572	36,086,321	1,119,650
Increase in available-for-sale financial assets - current	(37,160,610)	(1,137,454)	(6,146,451)	(190,706)
Decrease in held-to-maturity financial assets - current	5,389,924	164,981	5,297,278	164,359
(Increase) decrease in derivative financial assets for hedging - current	(166,200)	(5,087)	62,681	1,945
(Increase) decrease in investments in debt securities with no active market - current	(49,325)	(1,510)	2,427,339	75,313
Decrease in notes receivable	3,018,384	92,390	2,383,957	73,967
Increase in prepaid reinsurance premium	-	-	(265,121)	(8,226)
Increase in claims recoverable from reinsurers	-	-	(812)	(25)
Increase in reinsurance accounts receivable	(41,733)	(1,277)	(12,055)	(374)
(Increase) decrease in other accounts receivable	(3,193,342)	(97,745)	1,303,751	40,451
Decrease in other financial assets - current	3,000,000	91,827	4,000,000	124,108
Increase in prepayments	(28,351)	(868)	(22,184)	(688)
Decrease (increase) in deferred income tax assets - current	995,514	30,472	(3,209,907)	(99,594)
Decrease in other current assets	38,458	1,177	137,840	4,277
Decrease (increase) in deferred income tax assets - noncurrent	48,255	1,477	(142,012)	(4,406)
Increase in other assets - other	(185,266)	(5,671)	(9,871,085)	(306,270)
Increase in financial liabilities at fair value through profit or loss - current	4,978	152	-	-
Increase (decrease) in derivative financial liabilities for hedging - current	84,390	2,583	(69,357)	(2,152)
Decrease in notes payable	(761)	(23)	(399)	(12)
Decrease in commissions payable	(111,564)	(3,415)	(23,588)	(732)
Increase in life insurance proceeds payable	10,689	327	2,217	69
Decrease in reinsurance accounts payable	(13,465)	(412)	(9,754)	(303)
Increase (decrease) in other payable	6,361,779	194,728	(3,223,430)	(100,013)
Increase in accounts collected in advance	7,080	217	23,267	722
(Decrease) increase in accrued pension liability	(193,516)	(5,923)	26,366	818
Decrease in other liabilities - other	(3,983,502)	(121,931)	(307,582)	(9,543)
Net cash provided by operating activities	<u>107,654,795</u>	<u>3,295,219</u>	<u>123,348,903</u>	<u>3,827,145</u>
Cash flows from investing activities				
Increase in policy loans	(8,485,943)	(259,747)	(6,717,823)	(208,434)
(Increase) decrease in secured loans	(36,059,922)	(1,103,763)	4,681,320	145,247
Increase in available-for-sale financial assets - noncurrent	(48,062,357)	(1,471,147)	(32,599,873)	(1,011,476)
Increase in held-to-maturity financial assets - noncurrent	(29,038,864)	(888,854)	(73,875,642)	(2,292,139)
Decrease (increase) in financial assets carried at cost - noncurrent	73,893	2,262	(324,394)	(10,065)
Increase in investments in debt securities with no active market-noncurrent	(2,094,940)	(64,124)	(7,727,386)	(239,758)
Disinvestment of long-term equity investments	199,662	6,111	74,871	2,323
Increase in long-term investments under the equity method	-	-	(862,648)	(26,765)
Disposal of investments in real estate	1,994,110	61,038	199,870	6,201
Acquisition of investments in real estate	(6,505,101)	(199,115)	(3,244,934)	(100,680)
(Increase) decrease in other financial assets-noncurrent	(12,150,000)	(371,901)	7,300,000	226,497
Disposal of property and equipment	5,064	155	137	4
Acquisition of property and equipment	(261,423)	(8,002)	(243,837)	(7,565)
Acquisition of intangible assets	(149,359)	(4,572)	(261,452)	(8,112)
Decrease (increase) in guarantee deposits paid	55,483	1,698	(3,702,427)	(114,875)
Increase in other overdue receivables	(29,016)	(888)	(231,801)	(7,192)
Net cash used in investing activities	<u>(140,508,713)</u>	<u>(4,300,849)</u>	<u>(117,536,019)</u>	<u>(3,646,789)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 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, 2007 and 2008
(Expressed in thousands of dollars)

	January 1-September 30, 2007		January 1-September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase in guarantee deposits received	2,758	84	39,260	1,218
Capital increase by cash	-	-	15,000,000	465,405
Cash dividends	(10,962,644)	(335,557)	(18,625,315)	(577,888)
Bonus paid to employees	(11,838)	(362)	(13,058)	(405)
Remuneration paid to directors and supervisors	(8,100)	(248)	(8,100)	(251)
Net cash used in financing activities	<u>(10,979,824)</u>	<u>(336,083)</u>	<u>(3,607,213)</u>	<u>(111,921)</u>
Effects of exchange rate changes	54,058	1,655	-	-
(Decrease) increase in cash and cash equivalents	<u>(43,779,684)</u>	<u>(1,340,058)</u>	<u>2,205,671</u>	<u>68,435</u>
Cash and cash equivalents at the beginning of the periods	270,353,723	8,275,290	196,913,663	6,109,639
Cash and cash equivalents at the end of the periods	<u>\$226,574,039</u>	<u>6,935,232</u>	<u>\$199,119,334</u>	<u>\$6,178,074</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$6,014	\$184	\$4,375	\$136
Interest paid (excluding capitalized interest)	<u>\$6,014</u>	<u>\$184</u>	<u>\$4,375</u>	<u>\$136</u>
Income tax paid	<u>\$840,186</u>	<u>\$25,717</u>	<u>\$951,143</u>	<u>\$29,511</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2007 and 2008 were NT\$32.67 and NT\$32.23 to US\$1.00)

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

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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, 2007 and 2008

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act of the Republic of China (“R.O.C.”). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holding”) by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of September 30, 2007 and 2008, total numbers of employees of the Company were 28,779 and 30,478, respectively.

2. Summary of significant accounting policies

The Company prepares the financial statements in accordance with the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C. 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 equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they are subject to insignificant risk of changes in value from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less are considered cash equivalents.

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(3) Recognition of financial assets and liabilities

According to the Statements of Financial Accounting Standards of the R.O.C. (“R.O.C. SFAS”) No.34 “Accounting for Financial Instruments” 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 either “financial liabilities at fair value through profit or loss” or “derivative financial liabilities for hedging”. Upon their initial recognition, financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets.

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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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)

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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 in profit or loss when the investments in debt securities with no active market are derecognized or impaired.

D. Available-for-sale financial assets

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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

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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, 2007 and 2008

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

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If, in a subsequent period, the amount of the impairment loss decreases and the decrease is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

The Company engages in derivative financial instrument transactions, such as forward currency contracts and interest rate swaps, to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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Any gains or losses arising from changes in fair value of derivatives that no longer meets the criteria for hedge accounting are taken directly to profit or loss for the period.

Hedging relationships consist of three types:

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

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

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

Fair value hedges

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

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

The Company discontinues fair value hedge accounting when 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.

Cash flow hedges

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

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

If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the cumulative gain or loss that was previously recognized in equity remains in equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from equity to profit or loss.

Hedges of a net investment in a foreign operation

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

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(7) Allowance for bad and doubtful debts

The Company refers the “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises” pursuant to the second paragraph of Article 148-3 of the Insurance Act to assess its loan assets. In the assessment of its loan assets, the insurance enterprise shall consider the status and the overdue period of repayment of the loans and classify those into categories as follows:

Class I – normal loan assets;

Class II - overdue loan assets under notice;

Class III – overdue loan assets possible to be recovered;

Class IV – overdue loan assets difficult to be recovered;

Class V – overdue loan assets with no chance of recovery.

The insurance enterprise shall actually assess the loan assets and set aside minimum allowance for bad debts in the sum of 2% of claim balance of Class II loan assets, 10% of Class III, 50% of Class IV and entire claim balance of Class V loan assets.

Accordingly, the Company estimated the allowance for bad debts based upon above guidelines, and considerations for the repayment capability and security status of the rights of creditor as of each balance sheet date for its receivables, secured loans and overdue receivables.

(8) Long-term investments under the equity method

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

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

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

The Company prepares semi-annual and annual consolidated financial statements including all subsidiaries over which the Company has a controlling interest, with the exception of subsidiaries whose total revenues and total assets are relatively immaterial to the Company.

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

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

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

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

(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. Upon revaluation, land and depreciable properties shall be reevaluated separately. Property increments shall be recorded in “unrealized reevaluation increments” under stockholders’ equity.

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

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Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

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

(11) Intangible assets

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

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

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

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

(12) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”, both of which are off balance sheet accounts. From January 1, 1993 to September 30, 2008, an aggregate of NT\$3,406,169 (US\$105,683) was appropriated to this fund.

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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, 2007 and 2008

(13) Accounting for assets impairment

Pursuant to R.O.C. SFAS No. 35, the Company evaluates whether indicators of impairment exist at each balance sheet date for all assets subject to guidelines set forth under the Statement. If impairment indicators exist, the Company shall perform impairment testing by comparing the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”). Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount which is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any evidence that the impairment loss may no longer exist or may have decreased. If there is any, the recoverable amount of the asset shall be subsequently re-evaluated. The impairment loss may be reversed to reflect the asset’s estimated increase in future service potential since the date of its last recognition of impairment loss. However, the carrying amount of the asset after the reversal of impairment loss shall not exceed the carrying amount of the asset that would have been, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

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

- A. first, reduce the carrying amount of the goodwill allocated to the CGU or group of CGUs; and
- B. then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the CGU or group of CGUs.

Recognized impairment loss for goodwill should not be reversed. Impairment loss (reversal) is classified as non-operating losses (income).

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(14) Real estate securitization

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

Once the process of sales is completed and the transferor has transferred its risk and returns 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 in a quantity that is 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 as 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 in a quantity that is over 20% of its outstanding shares within three months after the issue date, the subsequently acquired portion is not regarded as a sale and therefore gain or loss on disposal of real estate of the originator related to the subsequently acquired portion shall be deferred.

(15) Guaranteed depository insurance payment

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

(16) Reserve for operations

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

In addition, according to “Regulations for Reserve Funds of Insurance Enterprises” and related insurance regulations, when the accumulated provision for special reserves for fluctuation of risks is more than 30% of the retained earned premium for the current year, insurance enterprises may release the excess portion. However, the released reserves are appropriated as special reserve in equity and shall not be distributed or used for other purposes unless approved by the MOF.

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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, 2007 and 2008

As of September 30, 2008, the cumulative special reserves released from the special reserves for fluctuation of risks amounted to NT\$19,169,006 (US\$594,757).

(17) Insurance premium income and expenses

In accordance with “The General Accounting Systems for Insurance Companies” issued by the Finance Ministry of the R.O.C., 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 since 1972. Pension plan benefits are primarily based on participants’ compensation and the length of service period. The Company has established a pension fund committee in 1981 to independently administer the pension fund. Prior to the establishment of the pension fund committee, the Company had provided for 4% of the employees’ salaries into the pension fund; after the establishment of the committee, 8% were provided for.

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

In compliance with R.O.C. Securities and Futures Commissions (“SFC”) regulations, the Company adopted the R.O.C. SFAS No. 18, “Accounting for Pensions” to account for its pension plan. An actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets. When providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense as incurred.

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

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(19) Foreign currency transactions

A. Translation of foreign currency transactions

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

B. Translation of subsidiaries' financial statements in foreign currencies

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

(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. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, loss carry-forward and investment tax credits. A valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

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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 using the flow-through method.

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

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

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

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

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As of September 30, 2007 and 2008

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) Employee bonus and remuneration of directors and supervisors

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

(24) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2007 and 2008 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.67 and NT\$32.23 provided by Federal Reserve Bank of New York of September 30, 2007 and 2008 are used for the conversion.

3. Reasons and effects for changes in accounting principles

The company adopted the accounting principles prescribed in (96) Article 052 “Accounting for employee bonus and remuneration of directors” issued by the Accounting Research and Development Foundation on January 1, 2008.

The above change in accounting principles decreased the Company’s net income and earnings per share by NT\$15,000 (US\$465) thousands and NT\$0.003 (US\$-), respectively, for the nine months ended September 30, 2008.

4. Cash and cash equivalents

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$309,605	\$9,477	\$268,057	\$8,317
Cash in banks	37,657,796	1,152,672	36,245,861	1,124,600
Time deposits	173,186,479	5,301,086	144,890,318	4,495,511
Cash equivalents	15,420,159	471,997	17,715,098	549,646
Total	<u>\$226,574,039</u>	<u>\$6,935,232</u>	<u>\$199,119,334</u>	<u>\$6,178,074</u>

As of September 30, 2007 and 2008, the amounts of time deposits with maturities beyond one year were NT\$52,000 (US\$1,592) thousands and NT\$33,900 (US\$1,052) thousands, 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, 2007 and 2008

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

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$16,205,682	\$496,042	\$9,040,807	\$280,509
Overseas stocks	2,015,883	61,704	1,188,749	36,883
Beneficiary certificates	28,710,110	878,791	21,036,537	652,700
Exchange traded funds	219,326	6,713	78,444	2,434
Overseas bonds	18,376,497	562,488	10,319,456	320,182
Corporate bonds	3,434,113	105,115	4,101,159	127,247
Government bonds	3,159,628	96,714	868,943	26,961
Financial debentures	997,400	30,530	-	-
Derivative financial instruments	126,176	3,862	411,588	12,770
Structured time deposits	2,000,000	61,218	1,000,000	31,027
Subtotal	75,244,815	2,303,177	48,045,683	1,490,713
Add: Adjustment of valuation	25,535,611	781,623	17,526,158	543,784
Total	<u>\$100,780,426</u>	<u>\$3,084,800</u>	<u>\$65,571,841</u>	<u>\$2,034,497</u>

6. Available-for-sale financial assets - current

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$114,439,407	\$3,502,890	\$116,269,928	\$3,607,506
Overseas stocks	22,442,879	686,957	19,487,248	604,631
Beneficiary certificates	14,760,397	451,803	20,356,710	631,607
Collateralized loans obligation and collateralized bonds obligation	833,195	25,503	-	-
Exchange traded funds	4,101,003	125,528	4,175,790	129,562
Real estate investment trust	8,730,371	267,229	8,725,208	270,717
Financial debentures	3,300,000	101,010	6,100,000	189,265
Corporate bonds	3,699,590	113,241	550,000	17,065
Overseas bonds	1,409,395	43,141	1,349,152	41,860
Subtotal	173,716,237	5,317,302	177,014,036	5,492,213
Add (less) : Adjustment of valuation	21,569,299	660,217	(39,069,386)	(1,212,205)
Total	<u>\$195,285,536</u>	<u>\$5,977,519</u>	<u>\$137,944,650</u>	<u>\$4,280,008</u>

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7. Derivative financial assets for hedging - current

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	184,384	5,644	736,804	22,861
Total	<u>\$184,384</u>	<u>\$5,644</u>	<u>\$736,804</u>	<u>\$22,861</u>

8. Loans

(1) Policy loans

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

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

(2) Secured loans

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Secured loans	\$338,444,764	\$10,359,497	\$337,977,140	\$10,486,415
Secured loans-related parties	4,655,888	142,513	4,585,410	142,271
Less: Allowance for bad debts	(884,667)	(27,079)	(471,597)	(14,632)
Subtotal	<u>342,215,985</u>	<u>10,474,931</u>	<u>342,090,953</u>	<u>10,614,054</u>
Overdue receivables	1,263,810	38,684	2,071,000	64,257
Less: Allowance for bad debts	(430,823)	(13,187)	(1,449,700)	(44,980)
Subtotal	<u>832,987</u>	<u>25,497</u>	<u>621,300</u>	<u>19,277</u>
Total	<u>\$343,048,972</u>	<u>\$10,500,428</u>	<u>\$342,712,253</u>	<u>\$10,633,331</u>

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

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9. Available-for-sale financial assets – noncurrent

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$14,728,282	\$450,820	\$17,141,699	\$531,856
Government bonds	43,432,358	1,329,426	90,731,665	2,815,131
Financial debentures	105,448,336	3,227,681	123,631,230	3,835,905
Collateralized loans obligation and collateralized bonds obligation	6,909,702	211,500	4,608,271	142,981
Overseas bonds	52,030,980	1,592,623	25,619,187	794,886
Subtotal	222,549,658	6,812,050	261,732,052	8,120,759
Add: Adjustment of valuation	611,422	18,715	1,247,287	38,699
Total	<u>\$223,161,080</u>	<u>\$6,830,765</u>	<u>\$262,979,339</u>	<u>\$8,159,458</u>

10. Held-to-maturity financial assets – noncurrent

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$4,267,105	\$130,612	\$3,918,098	\$121,567
Government bonds	26,671,814	816,401	26,038,970	807,911
Financial debentures	10,678,444	326,858	10,080,375	312,763
Collateralized loans obligation and collateralized bonds obligation	22,655,377	693,461	15,806,833	490,438
Overseas bonds	497,035,716	15,213,827	598,536,489	18,570,788
Subtotal	561,308,456	17,181,159	654,380,765	20,303,467
Less: Securities serving as deposits paid - bonds	(8,058,996)	(246,679)	(8,356,344)	(259,272)
Total	<u>\$553,249,460</u>	<u>\$16,934,480</u>	<u>\$646,024,421</u>	<u>\$20,044,195</u>

11. Financial assets carried at cost – noncurrent

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,655,621	\$632,250	\$20,310,785	\$630,183
Beneficiary certificates	-	-	271,058	8,410
Subtotal	20,655,621	632,250	20,581,843	638,593
Less: Accumulated impairment	(1,242,871)	(38,043)	(1,204,106)	(37,360)
Total	<u>\$19,412,750</u>	<u>\$594,207</u>	<u>\$19,377,737</u>	<u>\$601,233</u>

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12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$79,889,009 (US\$2,445,332) thousands and NT\$89,141,972 (US\$2,765,807) thousands as of September 30, 2007 and 2008, respectively. The details of structured notes are listed below:

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	<u>\$80,015,357</u>	<u>\$2,449,199</u>	<u>\$(126,348)</u>	<u>\$(3,867)</u>	<u>\$79,889,009</u>	<u>\$2,445,332</u>

Item	September 30, 2008					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$665,633	\$20,652	\$89,204	\$2,768	\$754,837	\$23,420
Available-for-sale financial assets	10,621,120	329,542	(186,308)	(5,781)	10,434,812	323,761
Held-to-maturity financial assets	76,988,423	2,388,719	-	-	76,988,423	2,388,719
Investments in debt securities						
with no active market - current	963,900	29,907	-	-	963,900	29,907
Total	<u>\$89,239,076</u>	<u>\$2,768,820</u>	<u>\$(97,104)</u>	<u>\$(3,013)</u>	<u>\$89,141,972</u>	<u>\$2,765,807</u>

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As of September 30, 2007 and 2008

13. Long-term investments under the equity method

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

Investee	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$459,445	\$14,063	\$333,701	\$10,354
Vista Technology Venture Capital Corp.	39,583	1,212	39,556	1,227
Omnitek Venture Capital Corp.	253,712	7,766	177,935	5,521
Wa Tech Venture Capital Co., Ltd.	222,175	6,801	123,779	3,840
IBT Venture Capital Corp.	461,721	14,133	255,474	7,927
Cathay Insurance (Bermuda) Co., Ltd.	84,893	2,599	91,427	2,837
Symphox Information Co., Ltd.	266,857	8,168	299,659	9,298
Cathay Securities Investment Trust Co., Ltd.	324,984	9,947	342,778	10,635
Cathay Venture Capital Corp.	437,357	13,387	394,060	12,226
Cathay Securities Investment Consulting Co., Ltd.	141,475	4,330	159,434	4,947
Cathay Life Insurance Ltd. (Shanghai)	1,726,578	52,849	1,290,593	40,043
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	1,929,376	59,863
Cathay Insurance Company Limited. (Shanghai)	-	-	890,165	27,619
Total	<u>\$4,418,780</u>	<u>\$135,255</u>	<u>\$6,327,937</u>	<u>\$196,337</u>

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

	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$4,290,720	\$131,335	\$6,254,217	\$194,049
Add (less) :				
Gains on long-term equity investments	288,165	8,820	85,338	2,648
Cumulative conversion adjustments	59,384	1,818	80,917	2,511
Unrealized gain or loss on financial instruments	257,159	7,871	(506,267)	(15,708)
Cash dividends	(276,987)	(8,478)	(374,045)	(11,605)
Disinvestment of long-term investments	(199,661)	(6,111)	(74,871)	(2,323)
Increment of investments	-	-	862,648	26,765
Balance as of September 30	<u>\$4,418,780</u>	<u>\$135,255</u>	<u>\$6,327,937</u>	<u>\$196,337</u>

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- (3) The recognized equity investment gains for the nine months ended September 30, 2007 and 2008 are listed below:

Investee	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$15,923	\$487	\$(4,191)	\$(130)
Vista Technology Venture Capital Corp.	(319)	(10)	(34)	(1)
Omnitek Venture Capital Corp.	19,648	601	18,572	576
Wa Tech Venture Capital Co., Ltd.	32,983	1,010	54	2
IBT Venture Capital Corp.	20,340	623	17,702	549
Cathay Insurance (Bermuda) Co., Ltd.	11,337	347	3,803	118
Symphox Information Co., Ltd.	3,894	119	28,100	872
Cathay Securities Investment Trust Co., Ltd.	128,882	3,945	128,240	3,979
Cathay Venture Capital Corp.	26,789	820	18,179	564
Cathay Securities Investment Consulting Co., Ltd.	44,396	1,359	74,774	2,320
Cathay Life Insurance Ltd. (Shanghai)	(15,708)	(481)	(198,317)	(6,153)
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	44,049	1,367
Cathay Insurance Company Limited. (Shanghai)	-	-	(45,593)	(1,415)
Total	<u>\$288,165</u>	<u>\$8,820</u>	<u>\$85,338</u>	<u>\$2,648</u>

The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the nine months ended September 30, 2007 and 2008, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd. were recognized based on 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 and 2008, were reviewed by other auditors. Unqualified review reports were issued for all above investee companies except the Cathay Venture Capital Corp., of which modified unqualified reviewed report was issued.

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14. Investments in real estate

Item	September 30, 2007									
	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	<u>\$121,671,441</u>	<u>\$3,724,255</u>	<u>\$4,632</u>	<u>\$142</u>	<u>\$(15,002,499)</u>	<u>\$(459,213)</u>	<u>\$(195,923)</u>	<u>\$(5,997)</u>	<u>\$106,477,651</u>	<u>\$3,259,187</u>

Item	September 30, 2008									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$123,892,173	\$3,844,001	\$4,370	\$136	\$(16,693,400)	\$(517,946)	\$(195,923)	\$(6,079)	\$107,007,220	\$3,320,112
Construction	1,770,504	54,934	-	-	-	-	-	-	1,770,504	54,934
Total	<u>\$125,662,677</u>	<u>\$3,898,935</u>	<u>\$4,370</u>	<u>\$136</u>	<u>\$(16,693,400)</u>	<u>\$(517,946)</u>	<u>\$(195,923)</u>	<u>\$(6,079)</u>	<u>\$108,777,724</u>	<u>\$3,375,046</u>

- (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 had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building to the trust in 2007. The accounting treatment of the transaction 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. As a result, the Company recognized a gain on disposal of real estates from this transaction amounted to NT\$1,193,535 (US\$36,533) thousands for the nine months ended September 30, 2007.

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15. Property and equipment

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

Item	September 30, 2008									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,686,655	\$145,413	\$1,317	\$41	\$-	\$-	\$(51,331)	\$(1,593)	\$4,636,641	\$143,861
Buildings and construction	9,931,441	308,143	-	-	(3,444,859)	(106,885)	(34,188)	(1,060)	6,452,394	200,198
Computer equipment	1,829,706	56,770	-	-	(1,433,221)	(44,468)	-	-	396,485	12,302
Communication and transportation equipment	14,855	461	-	-	(12,742)	(395)	-	-	2,113	66
Other equipment	2,983,335	92,564	-	-	(2,199,245)	(68,236)	-	-	784,090	24,328
Subtotal	19,445,992	603,351	1,317	41	(7,090,067)	(219,984)	(85,519)	(2,653)	12,271,723	380,755
Construction in progress and prepayment for equipment	269,350	8,357	-	-	-	-	-	-	269,350	8,357
Total	\$19,715,342	\$611,708	\$1,317	\$41	\$(7,090,067)	\$(219,984)	\$(85,519)	\$(2,653)	\$12,541,073	\$389,112

No properties or equipment was pledged as collaterals as of September 30, 2007 and 2008.

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16. Intangible assets

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	<u>\$329,989</u>	<u>\$10,101</u>	<u>\$51,962</u>	<u>\$1,590</u>	<u>\$-</u>	<u>\$-</u>	<u>\$381,951</u>	<u>\$11,691</u>

Item	January 1, 2008		Increase		Decrease		September 30, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$750,860	\$23,297	\$261,452	\$8,112	\$-	\$-	\$1,012,312	\$31,409
Amortized and impairment:								
Amortized	(279,937)	(8,686)	(140,768)	(4,367)	-	-	(420,705)	(13,053)
Book value	<u>\$470,923</u>	<u>\$14,611</u>	<u>\$120,684</u>	<u>\$(3,745)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$591,607</u>	<u>\$18,356</u>

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,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$142,911	\$4,374	\$372,633	\$11,562
Less: Allowance for bad and doubtful debts	(106,791)	(3,268)	(93,414)	(2,898)
Total	<u>\$36,120</u>	<u>\$1,106</u>	<u>\$279,219</u>	<u>\$8,664</u>

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

Item	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$53,401	\$1,634	\$-	\$-
Add: Adjustment of valuation	19,521,071	597,523	38,397,213	1,191,350
Total	<u>\$19,574,472</u>	<u>\$599,157</u>	<u>\$38,397,213</u>	<u>\$1,191,350</u>

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19. Derivative financial liabilities for hedging - current

Item	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	108,257	3,314	32,073	995
Total	<u>\$108,257</u>	<u>\$3,314</u>	<u>\$32,073</u>	<u>\$995</u>

20. Common stock

On June 3, 2008, the Company's Board of Directors resolved to issue 200,000 thousand shares of common stock at par value of NT\$10 (US\$0.33) which was then approved by the Insurance Bureau on June 20, 2008, and Ministry of Economic affairs on July 9, 2008, respectively. The record date was set on June 27, 2008. As of September 30, 2007 and 2008, the total authorized thousand shares were 5,068,616 and 5,268,616 at par value of NT\$10 each.

21. Retained earnings

(1) Legal reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. Prior to 2008, this legal reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act. Legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued shares capital, up to 50% of such excess may be capitalized if resolved by the Company's Board of Directors.

(2) Undistributed retained earnings

A. According to the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders' interests can be distributed to employees as employees' bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.

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- 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.
- 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 special reserve since 2007.
- E. The accrual of employee bonus and remuneration of directors for the nine months ended September 30, 2008, was NT\$15,000 (US\$465) thousands based on the average of actual distribution in the past three years and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2009 fiscal year.
- F. The Company's distribution of 2007 retained earnings of NT\$13,058 (US\$405) thousands and NT\$8,100 (US\$251) thousands to employee and directors, respectively, has been approved by the Board of Directors and the stockholders' meeting exercised by the Board of Directors. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

22. Personnel expense 、 depreciation and amortizations

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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Item	For the nine months ended September 30, 2008 NT\$			For the nine months ended September 30, 2008 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$18,709,867	\$1,380,109	\$20,089,976	\$580,511	\$42,821	\$623,332
Labor & health insurance expenses	893,143	145,090	1,038,233	27,711	4,502	32,213
Pension expenses	582,517	94,629	677,146	18,074	2,936	21,010
Other expenses	816,918	185,941	1,002,859	25,347	5,769	31,116
Depreciation	-	1,537,387	1,537,387	-	47,700	47,700
Amortizations	-	140,768	140,768	-	4,367	4,367

23. Estimated income taxes

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

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$2,409,418	\$73,750	\$7,813,687	\$242,435
Total deferred tax liabilities	\$(707,110)	\$(21,644)	\$-	\$-
Allowance for deferred assets	\$-	\$-	\$(386,792)	\$(12,001)
Temporary differences:				
Pension expense	\$1,489,666	\$45,597	\$1,377,299	\$42,733
Unrealized exchange losses (gains)	(993,640)	(30,414)	2,665,514	82,703
Losses (gains) from valuation on financial assets and liabilities	(1,834,803)	(56,162)	18,056,426	560,237
Impairment loss	157,012	4,806	805,772	25,001
Other	23,298	713	32,555	1,010
Total	\$(1,158,467)	\$(35,460)	\$22,937,566	\$711,684
Tax effect under consolidated income tax system	\$1,991,924	\$60,971	\$1,692,503	\$52,513

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	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$1,997,624	\$61,145	\$7,267,802	\$225,498
Allowance for deferred tax assets - current	-	-	(386,792)	(12,001)
Net deferred tax assets - current	1,997,624	61,145	6,881,010	213,497
Deferred tax liabilities - current	(707,110)	(21,644)	-	-
Net offset balance of deferred tax assets - current	\$1,290,514	\$39,501	\$6,881,010	\$213,497
Deferred tax assets - noncurrent	\$411,794	\$12,605	\$545,885	\$16,937
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	\$411,794	\$12,605	\$545,885	\$16,937

(2) Income tax (benefit) expense included the following:

	For the nine months ended September 30			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$(776,482)	\$(23,767)	\$(1,235,034)	\$(38,319)
Add (less): Tax effects under consolidated income tax systems	377,531	11,556	412,706	12,805
Amortization of deferred tax assets	-	-	386,792	12,001
Deferred income tax (benefit) expense from unrealized foreign exchange loss(gain)	155,912	4,772	(309,598)	(9,606)
Deferred income tax (benefit) expense from unrealized financial instruments valuation loss(gain)	785,942	24,057	(3,285,228)	(101,931)
Deferred income tax (benefit) expense from unrealized pension expense	48,379	1,481	(6,591)	(204)
Deferred income tax (benefit) expense from impairment loss	-	-	(135,452)	(4,203)
Others	(163)	(5)	32	1
Add: Separation tax	309,602	9,477	133,866	4,153
Additional tax assessed by the tax authority	5,938	182	-	-
Prior year adjustment	12,891	394	100,869	3,130
Withholding tax for overseas investments	4,759	146	-	-
Less: Income tax credit	(9,608)	(294)	(7,733)	(240)
Add: Alternative minimum tax payable	1,463,761	44,804	840,924	26,091
Total income tax (benefit) expense	\$2,378,462	\$72,803	\$(3,104,447)	\$(96,322)

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(3) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal 2003. The Company has filed applications for re-examination for fiscal years of 2002 and 2003 to the Tax Authorities.

(4) Information related to imputation

	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$981,143	\$30,032	\$596,252	\$18,500

	September 30,	
	2007	2008
Imputation credit account ratio – actual (May 15, 2007)	7.96%	-
Imputation credit account ratio – actual (May 15, 2008)	-	5.62%

(4) Information related to undistributed earnings

(5)

Year	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
After 1998	\$-	\$-	\$-	\$-

Undistributed earnings after 1998 did not include the net income from January 1 to September 30, 2007 and 2008.

(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	\$24,136	\$739	\$16,403	\$509	2011

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24. Earnings per share

	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 period (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>

	For the nine months ended September 30, 2008			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(3,742,760)</u>	<u>\$(116,127)</u>	<u>\$(638,313)</u>	<u>\$(19,805)</u>
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,138,689	5,138,689	5,138,689	5,138,689
Earnings per share (a) / (c) (dollars)				
Net loss	<u>\$(0.73)</u>	<u>\$(0.02)</u>	<u>\$(0.12)</u>	<u>\$-</u>

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25. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Cathay Insurance Company Limited. (Shanghai)	Subsidiary of Cathay Century Insurance Co., Ltd. and the Company.
Indovina Bank Limited	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Property Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Pacific Partners Co., Ltd.	Subsidiary of Cathay Capital Management Inc.
Cathay Securities Investment Trust Co., Ltd.	An equity-method investee
Cathay General Hospital	Same chairman
Lin Yuan Investment Co., Ltd.	The company's chairman is an immediate family member of the Company's chairman
Taiwan Asset Management Corporation	The company's chairman is an appointed director by Cathay United Bank
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to SFAS No. 6
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to SFAS No. 6
Seaward Leasing Co., Ltd.	Related Party disclosed according to SFAS No. 6
San Ching Engineering Co., Ltd.	Related Party disclosed according to SFAS No. 6
Cathay Lin Yuan Security Co., Ltd.	Related Party disclosed according to SFAS No. 6
Other related parties	The directors, supervisors, managers, and their spouses, as well as their second immediate families

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(2) Significant transactions with related parties

Transactions with related parties greater than NT\$3,000 (US\$93) thousands will no longer be disclosed after the first quarter of 2008.

A. Property transactions

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

(A) Significant transactions with related parties for the nine months ended September 30, 2007 and 2008 are listed below:

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>
Name	Item	For the nine months ended September 30, 2008	
		NT\$	US\$
Lin Yuan Property Management Co., Ltd.	International Building etc	<u>\$167,265</u>	<u>\$5,190</u>

The total amounts of contracted projects for real estate as of September 30, 2007 and 2008 between the Company and San Ching Engineering Co., Ltd. were NT\$39,388 (US\$1,206) thousands and NT\$33,130 (US\$1,028) thousands, respectively.

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

Name	Rental income			
	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$12,678	\$388	\$16,293	\$505
Cathay Real Estate Development Co., Ltd.	12,733	390	14,126	438
Cathay United Bank	205,547	6,292	221,856	6,884
Cathay Century Insurance Co., Ltd.	52,173	1,597	62,576	1,942
Cathay General Hospital	88,591	2,712	97,005	3,010
San Ching Engineering Co., Ltd.	5,930	181	6,318	196
Symphox Information Co., Ltd.	12,179	373	12,645	392
Cathay Securities Investment Trust Co., Ltd.	9,786	299	14,181	440
Cathay Securities Investment Consulting Co., Ltd.	2,646	81	5,088	158
Cathay Securities Co., Ltd.	12,835	393	15,482	480
Cathay Capital Management Inc.	1,601	49	-	-
Seaward Leasing Co., Ltd.	949	29	-	-
Taiwan Asset Management Corporation	11,029	337	-	-
Cathay Futures Co., Ltd.	546	17	-	-
Total	<u>\$429,223</u>	<u>\$13,138</u>	<u>\$465,570</u>	<u>\$14,445</u>

Name	Guarantee deposits received			
	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,774	\$115	\$4,886	\$151
Cathay United Bank	63,822	1,954	69,003	2,141
Cathay Century Insurance Co., Ltd.	17,359	531	19,655	610
Cathay General Hospital	8,564	262	11,079	344
San Ching Engineering Co., Ltd.	1,709	52	-	-
Cathay Securities Investment Trust Co., Ltd.	2,738	84	4,872	151
Cathay Securities Investment Consulting Co., Ltd.	877	27	-	-
Cathay Securities Co., Ltd.	4,644	142	4,710	146
Cathay Capital Management Inc.	479	15	-	-
Seaward Leasing Co., Ltd.	346	11	-	-
Taiwan Asset Management Corporation	3,477	106	-	-
Cathay Financial Holding Co., Ltd.	4,864	149	5,940	184
Symphox Information Co., Ltd.	84	3	3,824	119
Total	<u>\$112,737</u>	<u>\$3,451</u>	<u>\$123,969</u>	<u>\$3,846</u>

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

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

Name	Rental expense			
	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$23,003	\$704	\$22,802	\$708
Lin Yuan Investment Co., Ltd.	1,465	45	-	-
Cathay United Bank	5,354	164	8,200	254
Total	<u>\$29,822</u>	<u>\$913</u>	<u>\$31,002</u>	<u>\$962</u>

Name	Guarantee deposits paid			
	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,929	\$273	\$8,779	\$272
Lin Yuan Investment Co., Ltd.	628	19	-	-
Cathay United Bank	2,078	64	-	-
Total	<u>\$11,635</u>	<u>\$356</u>	<u>\$8,779</u>	<u>\$272</u>

According to contracts, periods of leases generally were 3 years, and rents were paid monthly.

B. Cash in banks

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>

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

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		For the nine months ended September 30, 2008		
		Interest income		Ending balance
Name	Item	NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$49,495	2.25%-4.50%	\$5,338,601
	Cash in bank	2,990	0.04%-1.85%	2,716,522
Total		<u>\$52,485</u>		<u>\$8,055,123</u>

		For the nine months ended September 30, 2008		
		Interest income		Ending balance
Name	Item	US\$	Rate	US\$
Cathay United Bank	Time deposit	\$1,535	2.25%-4.50%	\$165,641
	Cash in bank	93	0.10%-1.85%	84,285
Total		<u>\$1,628</u>		<u>\$249,926</u>

C. Other financial assets

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

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

		For the nine months ended September 30, 2008		
		Interest income		Ending balance
Name		NT\$	Rate	NT\$
Cathay United Bank		<u>\$63,504</u>	1.80%-4.06%	<u>\$1,500,000</u>

		For the nine months ended September 30, 2008		
		Interest income		Ending balance
Name		US\$	Rate	US\$
Cathay United Bank		<u>\$1,970</u>	1.80%-4.06%	<u>\$46,540</u>

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D. Secured loans

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	2.10%-5.87%	234,923
Total	<u>\$4,722,429</u>	<u>\$115,875</u>		<u>\$4,655,888</u>

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	2.10%-5.87%	7,191
Total	<u>\$144,549</u>	<u>\$3,547</u>		<u>\$142,513</u>

Name	For the nine months ended September 30, 2008			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,388,030	\$122,212	3.57%-3.85%	\$4,317,275
Other related parties	310,925	5,990	2.20%-5.67%	268,135
Total	<u>\$4,698,955</u>	<u>\$128,202</u>		<u>\$4,585,410</u>

Name	For the nine months ended September 30, 2008			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$136,147	\$3,792	3.57%-3.85%	\$133,952
Other related parties	9,647	186	2.20%-5.67%	8,319
Total	<u>\$145,794</u>	<u>\$3,978</u>		<u>\$142,271</u>

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

Name		September 30,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds.	Market value	<u>\$7,499,121</u>	<u>\$229,542</u>	<u>\$6,332,055</u>	<u>\$196,465</u>
	Cost	<u>\$6,687,114</u>	<u>\$204,687</u>	<u>\$6,318,240</u>	<u>\$196,036</u>

F. Other accounts receivable

Name		September 30,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.		\$96,857	\$2,965	\$114,682	\$3,558
Cathay Insurance (Bermuda) Co., Ltd.		10,994	337	8,825	274
Cathay Financial Holding Co., Ltd. (note)		68,719	2,103	1,348,657	41,845
Cathay Securities Investment Consulting Co., Ltd.		13,125	402	-	-
Cathay General Hospital		100	3	-	-
Cathay United Bank		8,725	267	-	-

Note : Receivables due to consolidated income tax.

G. Prepayments

Name		September 30,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.		\$32,496	\$995	\$32,288	\$1,002
Lin Yuan Investment Co., Ltd.		419	13	-	-

H. Other overdue receivable

Name		September 30,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)		<u>\$-</u>	<u>\$-</u>	<u>\$265,211</u>	<u>\$8,229</u>

I. Other assets-other

Name		September 30,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance (Vietnam) Co., Ltd.		<u>\$-</u>	<u>\$-</u>	<u>\$62,091</u>	<u>\$1,926</u>

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J. Repurchase bonds

Name	For the nine months ended September 30, 2008		
	Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	<u>\$11,109</u>	1.70%-1.76%	<u>\$682,531</u>

Name	For the nine months ended September 30, 2008		
	Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	<u>\$345</u>	1.70%-1.76%	<u>\$21,177</u>

K. Guarantee deposits paid

Name	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$364,700</u>	<u>\$11,163</u>	<u>\$1,080,090</u>	<u>\$33,512</u>

As of September 30, 2007 and 2008, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$156 (US\$5) thousands and NT\$409 (US\$13) thousands, respectively.

L. Other payable

Name	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,891	\$88	\$-	\$-
Symphox Information Co., Ltd.	42,711	1,307	27,991	868
Lin Yuan Property Management Co., Ltd.	64,242	1,966	78,878	2,447
Cathay Real Estate Development Co., Ltd.	1,200	37	-	-
Cathay Securities Co., Ltd.	336	10	-	-
Seaward Card Co., Ltd.	-	-	5,399	168
San Ching Engineering Co., Ltd.	504	15	5,009	155
Cathay Securities Investment Consulting Co., Ltd.	13,125	402	-	-
Seaward Leasing Co., Ltd.	837	26	-	-

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M. Accounts collected in advance

Name	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Taiwan Asset Management Corporation	\$2,542	\$78	\$-	\$-

N. Premiums income

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$343,035	\$10,500	\$409,874	\$12,717
Cathay General Hospital	22,303	683	23,155	719
Cathay Securities Investment Trust Co., Ltd.	826	25	-	-
San Ching Engineering Co., Ltd.	945	29	-	-
Cathay Century Insurance Co., Ltd.	6,082	186	6,582	204
Cathay Securities Co., Ltd.	1,383	42	-	-
Symphox Information Co., Ltd	1,007	31	-	-
Cathay Financial Holding Co., Ltd.	685	21	-	-
Cathay Real Estate Development Co., Ltd.	1,312	40	-	-
Cathay Futures Co., Ltd.	93	3	-	-
Other related parties	308,231	9,435	281,345	8,729
Total	\$685,902	\$20,995	\$720,956	\$22,369

O. Insurance expense

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$89,904	\$2,752	\$44,749	\$1,388

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$8,403 (US\$257) thousands and NT\$8,046 (US\$250) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the nine months ended September 30, 2007 and 2008.

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P. Indemnity income

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$6,041	\$185	\$6,341	\$197

Q. Reinsurance income

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$90,291	\$2,764	\$108,292	\$3,360

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. The Company assumes 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

R. Reinsurance commission income

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$5,709	\$177

S. Reinsurance handling fee income

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$2,644	\$81	\$6,485	\$201

T. Reinsurance service expenses

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$8,400	\$261

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U. Reinsurance claims payment

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$3,843	\$118	\$94,737	\$2,939

V. Reinsurance commission expense

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,188	\$36	\$5,138	\$159

W. Miscellaneous income

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$548,806	\$16,798	\$671,584	\$20,837
Cathay United Bank	93,040	2,848	93,826	2,911
Cathay securities Investment Trust Co., Ltd.	3,905	120	53,496	1,660
Cathay General Hospital	3,222	99	3,547	110
Cathay Securities Co., Ltd.	1,569	48	-	-
Symphox Information Co., Ltd.	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	\$654,507	\$20,034	\$822,453	\$25,518

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

X. Commissions expenses

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$18,595	\$569	\$18,478	\$573

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Y. Operating expenses

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$185,033	\$5,664	\$190,153	\$5,900
Cathay General Hospital	3,855	118	-	-
Lin Yuan Property Management Co., Ltd.	460,224	14,087	456,466	14,163
Cathay Securities Investment Consulting Co., Ltd.	39,375	1,205	24,465	759
San Ching Engineering Co., Ltd.	4,075	125	3,813	118
Cathay Futures Co., Ltd.	3,047	93	-	-
Seaward Card Co., Ltd.	3,150	96	48,308	1,499
Cathay Real Estate Development Co., Ltd.	4,274	131	5,121	159
Cathay Capital Management Inc.	13,721	420	16,410	509
Seaward Leasing Co., Ltd.	6,345	194	6,977	216
Cathay United Bank	474,036	14,510	734,515	22,790
Cathay Lin Yuan Security Co., Ltd.	600	18	-	-
Total	<u>\$1,197,735</u>	<u>\$36,661</u>	<u>\$1,486,228</u>	<u>\$46,113</u>

Z. Cost of disposal real estate

Name	For the nine months ended September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	<u>\$21,115</u>	<u>\$646</u>	<u>\$-</u>	<u>\$-</u>

AA. Other

(A) As of September 30, 2007 and 2008, the nominal amount of the financial instruments transactions with Cathay United Bank are listed below:

Item	September 30,	
	2007	2008
Forward foreign exchange contracts	USD 773,623	USD1,235,410
CS contracts	USD 1,352,782	USD1,169,937
Financial debentures	NTD 200,000	NTD200,000
	(USD 6,122)	(USD6,205)

(B) During the nine months ended September 30, 2007 and 2008, the Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$1,030,000 (US\$31,527) thousands and NT\$2,480,000 (US\$76,947) thousands, respectively.

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26. Pledged assets

As of September 30, 2007 and 2008, the Company provided time deposits to its lessees as guarantees for the guarantee deposits received and bonds pledged with courts in legal as guarantee of litigations. Furthermore, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the “Guaranteed Depository Insurance”.

Item	September 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Guarantee deposits	\$8,058,996	\$246,679	\$8,356,344	\$259,272
paid-Government bonds				
Guarantee deposits paid-Time				
deposits	216,460	6,625	114,950	3,567
Total	<u>\$8,275,456</u>	<u>\$253,304</u>	<u>\$8,471,294</u>	<u>\$262,839</u>

Pledged assets are summarized based on the carrying amounts.

27. Other important matters and contingent liabilities

None.

28. Serious damages

None.

29. Subsequent events

None.

30. Others

(1) Pension related information

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

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(2) Separate account insurance products related information

A. Separate account insurance products-assets and liabilities

Assets			Liabilities		
Item	September 30,2007		Item	September 30,2007	
	NT\$	US\$		NT\$	US\$
Financial assets at fair value through profit or loss	\$237,595,213	\$7,272,581	Other payable	\$3,828,817	\$117,197
Interests receivable	8,669	265	Reserve for separate account	241,813,128	7,401,687
Other receivable	8,038,072	246,038	Adjustments	9	-
Total	\$245,641,954	\$7,518,884	Total	\$245,641,954	\$7,518,884

Assets			Liabilities		
Item	September 30,2008		Item	September 30,2008	
	NT\$	US\$		NT\$	US\$
Financial assets at fair value through profit or loss	\$230,655,593	\$7,156,550	Other payable	\$10,323,494	\$320,307
Interests receivable	193	6	Reserve for separate account	229,845,056	7,131,401
Other receivable	9,512,764	295,152			
Total	\$240,168,550	\$7,451,708	Total	\$240,168,550	\$7,451,708

B. Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1-September 30,2007		Item	January 1-September 30,2007	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$694,192	\$21,249	Premiums income	\$104,289,248	\$3,192,202
Cash surrender value	43,698,188	1,337,563	Recovered separate account reserve	51,338,156	1,571,416
Dividends	4,131	126	Interest income	13,931	427
Provision for separate account reserve	136,059,547	4,164,663	Gains from valuation on financial assets	21,599,813	661,151
Losses on disposal of investments	66,377	2,032	Gains on foreign exchange	5,645,186	172,794
Administrative expenses	2,363,892	72,357	Adjustments	1	-
Adjustments	8	-			
Total	\$182,886,335	\$5,597,990	Total	\$182,886,335	\$5,597,990

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Expenses			Revenues		
Item	January 1-September 30, 2008		Item	January 1-September 30, 2008	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$546,364	\$16,952	Premiums income	\$86,804,486	\$2,693,282
Cash surrender value	36,300,346	1,126,291	Recovered separate		
Dividends	3,143	97	account reserve	97,169,625	3,014,882
Provision for separate			Interest income	277,302	8,604
account reserve	74,038,906	2,297,205	Miscellaneous income	1,326	41
Losses from valuation on			Adjustments	263	8
financial assets	50,548,052	1,568,354			
Losses on disposal of					
investments	6,218,613	192,945			
Losses on foreign exchange	12,974,430	402,558			
Administrative expenses	3,623,148	112,415			
Total	\$184,253,002	\$5,716,817	Total	\$184,253,002	\$5,716,817

C. The commission earned for the sales of separate account insurance products from counterparties for the nine months ended September 30, 2007 and 2008 were NT\$532,664 (US\$16,304) thousands and NT\$3,856,088 (US\$119,643) thousands, respectively.

(3) Discretionary account management

Item	September 30, 2007			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$18,286,105	\$559,722	\$18,286,105	\$559,722
Repurchase bonds	9,589,219	293,517	9,589,219	293,517
Short-term notes	318,578	9,751	318,578	9,751
Cash in banks	748,031	22,897	748,031	22,897
Total	\$28,941,933	\$885,887	\$28,941,933	\$885,887

Item	September 30, 2008			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$6,606,414	\$204,977	\$6,606,414	\$204,977
Repurchase bonds	9,594,560	297,690	9,594,560	297,690
Cash in banks	430,456	13,356	430,456	13,356
Total	\$16,631,430	\$516,023	\$16,631,430	\$516,023

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As of September 30, 2007 and 2008, the Company entered into discretionary account management contracts in the amounts of NT\$21,950,000 (US\$671,870) thousands and NT\$16,700,000 (US\$518,151) thousands, respectively.

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

(5) Financial risk management objectives and policies

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

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

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

Market Risk

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

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Credit Risk

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

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

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

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

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

Operational Risk

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

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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 primarily sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

Country Risk

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

(6) Financial instruments related information

A. Fair value

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 and accounts receivable	39,927,718	39,927,718	1,222,153	1,222,153
Financial assets at fair value through profit or loss - current	81,802,435	81,802,435	2,503,901	2,503,901
Available-for-sale financial assets - current	195,285,536	195,285,536	5,977,519	5,977,519
Held-to-maturity financial assets - current	7,923,309	7,921,427	242,526	242,468
Investments in debt securities with no active market - current	5,051,153	5,052,472	154,611	154,652
Other financial assets - current	4,000,000	4,000,000	122,436	122,436
Available-for-sale financial assets - noncurrent	223,161,080	223,161,080	6,830,765	6,830,765
Held-to-maturity financial assets - noncurrent	553,249,460	532,063,365	16,934,480	16,285,992
Financial assets carried at cost - noncurrent	19,412,750	-	594,207	-
Investments in debt securities with no active market - noncurrent	44,877,125	41,432,433	1,373,650	1,268,210
Long-term investments under the equity method	4,418,780	4,418,780	135,255	135,255
Other financial assets - noncurrent	22,500,000	22,500,000	688,705	688,705
Guarantee deposits paid	9,948,248	9,948,248	304,507	304,507

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Item	September 30, 2007			
	NT\$		US\$	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	22,524,010	22,524,010	689,440	689,440
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				
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
Item	September 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$199,119,334	\$199,119,334	\$6,178,074	\$6,178,074
Notes and accounts receivable	29,243,559	29,243,559	907,340	907,340
Financial assets at fair value through profit or loss - current	44,012,846	44,012,846	1,365,586	1,365,586
Available-for-sale financial assets - current	137,944,650	137,944,650	4,280,008	4,280,008
Held-to-maturity financial assets - current	3,010,609	2,940,897	93,410	91,247
Investments in debt securities with no active market - current				
	3,422,799	3,422,799	106,199	106,199
Available-for-sale financial assets - noncurrent	262,979,339	262,979,339	8,159,458	8,159,458
Held-to-maturity financial assets - noncurrent	646,024,421	617,743,593	20,044,195	19,166,725
Financial assets carried at cost - noncurrent	19,377,737	-	601,233	-
Investments in debt securities with no active market - noncurrent				
	66,312,240	53,025,460	2,057,469	1,645,221
Long-term investments under the equity method	6,327,937	6,327,937	196,337	196,337
Other financial assets – noncurrent	12,100,000	12,100,000	375,427	375,427
Guarantee deposits paid	14,832,799	14,832,799	460,217	460,217

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Item	September 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	6,111,076	6,111,076	189,608	189,608
Guarantee deposits received	1,527,452	1,527,452	47,392	47,392
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	566,580	566,580	17,579	17,579
Forward	20,843,387	20,843,387	646,708	646,708
IRS	149,028	149,028	4,624	4,624
Derivative financial assets for hedging - current				
IRS	736,804	736,804	22,861	22,861
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward	38,310,767	38,310,767	1,188,668	1,188,668
IRS	86,446	86,446	2,682	2,682
Derivative financial liabilities for hedging - current				
IRS	32,073	32,073	995	995

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 as the Company predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- 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 those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to the Company. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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- ④ The fair value of the Company's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.
- ⑤ If no quoted market prices exist for the Company's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- ⑥ The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	September 30, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$211,153,880	\$6,463,235	\$15,420,159	\$471,997
Notes and accounts receivable	-	-	39,927,718	1,222,153
Financial assets at fair value through profit and loss - current	72,230,803	2,210,922	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
Investment in debt securities with no active market - current	-	-	5,052,472	154,652
Other financial assets - current	-	-	4,000,000	122,436
Available-for-sale financial assets - noncurrent	208,834,151	6,392,230	14,326,929	438,535
Held-to-maturity financial assets - noncurrent	92,674,227	2,836,677	439,389,138	13,449,315
Investment in debt securities with no active market - noncurrent	3,450,296	105,610	37,982,137	1,162,600
Long-term investments under the equity method	-	-	4,418,780	135,255
Other financial assets - noncurrent	-	-	22,500,000	688,705
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	-	-	22,524,010	689,440
<u>Assets - derivative</u>				
Financial assets at fair value through profit and loss - current				
Option	4,125	126	41,774	1,279
Forward	-	-	18,804,085	575,576
IRS	-	-	128,007	3,918
Derivative financial assets for hedging - current				
IRS	-	-	184,384	5,644

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Financial instruments	September 30, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit and 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
Financial instruments	September 30, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$181,404,236	\$5,628,428	\$17,715,098	\$549,646
Notes and accounts receivable	-	-	29,243,559	907,340
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - current	40,528,909	1,257,490	3,483,937	108,096
Held-to-maturity financial assets - current	137,944,650	4,280,008	-	-
Investments in debt securities with no active market - current	1,311,144	40,681	1,629,753	50,566
Available-for-sale financial assets - noncurrent	-	-	3,422,799	106,199
Held-to-maturity financial assets - noncurrent	261,665,782	8,118,702	1,313,557	40,756
Investment in debt securities with no active market - noncurrent	76,530,602	2,374,514	541,212,991	16,792,211
Long-term investments under the equity method	-	-	53,025,460	1,645,221
Other financial assets - noncurrent	-	-	6,327,937	196,337
Other financial assets - noncurrent	-	-	12,100,000	375,427
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	6,111,076	189,608
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	566,580	17,579	-	-
Forward	-	-	20,843,387	646,708
IRS	-	-	149,028	4,624
Derivative financial assets for hedging - current				
IRS	-	-	736,804	22,861

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Financial instruments	September 30, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward	-	-	38,310,767	1,188,668
IRS	-	-	86,446	2,682
Derivative financial liabilities for hedging - current				
IRS	-	-	32,073	995

B. Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at September 30, 2007 and 2008:

① 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	15,498	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	302,623	432,108,038	13,226,448	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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As of September 30, 2007 and 2008

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
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		

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② September 30, 2008

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	\$479,878	\$14,889	\$1,715,561	\$53,229	\$-	\$-	\$3,513,279	\$109,006
Available-for-sale financial assets	2,352,774	73,000	688,252	21,354	7,432,589	230,611	7,208,930	223,671
Held-to-maturity financial assets	187,004,199	5,802,178	11,580,752	359,316	9,729,673	301,883	9,435,515	292,756
Investments in debt securities with no active market	522,799	16,221	1,134,309	35,194	959,079	29,757	1,837,590	57,015

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$1,107,096	\$34,350	\$6,200,335	\$192,378	\$13,016,149	\$403,852
Available-for-sale financial assets	18,146,554	563,033	110,503,046	3,428,577	146,332,145	4,540,246
Held-to-maturity financial assets	3,873,281	120,176	329,931,499	10,236,782	551,554,919	17,113,091
Investments in debt securities with no active market	6,115,810	189,755	39,197,214	1,216,172	49,766,801	1,544,114

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	\$3,077,032	\$95,471	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	124,637,295	3,867,121	-	-	-	-	-	-
Held-to-maturity financial assets	97,480,110	3,024,514	-	-	-	-	-	-
Investments in debt securities with no active market	19,968,238	619,554	-	-	-	-	-	-

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	\$-	\$-	\$-	\$-	\$3,077,032	\$95,471
Available-for-sale financial assets	-	-	-	-	124,637,295	3,867,121
Held-to-maturity financial assets	-	-	-	-	97,480,110	3,024,514
Investments in debt securities with no active market	-	-	-	-	19,968,238	619,554

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Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$12,755	\$396	\$8	\$-	\$17,789	\$552	\$-	\$-
Derivative financial assets for								
hedging	953	30	36,789	1,141	6,213	193	-	-
Financial liabilities at fair value								
through profit or loss	11,395	354	-	-	52,743	1,636	-	-
Derivative financial liabilities for								
hedging	3,789	118	11,539	358	16,745	519	-	-

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	\$81,072	\$2,515	\$37,404	\$1,161	\$149,028	\$4,624
Derivative financial assets for						
hedging	43,285	1,343	649,564	20,154	736,804	22,861
Financial liabilities at fair value						
through profit or loss	18,790	583	3,518	109	86,446	2,682
Derivative financial liabilities for						
hedging	-	-	-	-	32,073	995

C. Credit risk

The Company's exposure to credit risk is minimal.

D. Hedged accounting disclosures

Cash flow hedges – IRS

The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at September 30, 2007 and 2008:

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$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	5.1%-6ml	Half year	2007/12/19
300,000	9,183	5.5%-6ml	Half year	2007/12/26
300,000	9,183	5.35%-6ml	Half year	2008/1/8
300,000	9,183	180DCP + 40bps	Half year	2008/3/24
500,000	15,305	4%-12ml	Yearly	2008/6/5
300,000	9,183	180DCP	Half year	2008/6/12
200,000	6,122	4.003%-6ml	Half year	2008/6/13
200,000	6,122	180DCP+18bps	Half year	2008/7/11
2,000,000	61,218	90DCP+75bps	Each quarter	2008/7/19
250,000	7,652	90DCP	Each quarter	2008/8/10
450,000	13,774	90DCP	Each quarter	2008/8/22
330,000	10,101	90DCP	Each quarter	2008/8/24
1,150,000	35,200	90DCP+30bps	Each quarter	2008/9/17
350,000	10,713	4.0005%-6ml	Half year	2008/9/26
100,000	3,061	180DCP+30bps	Half year	2008/12/18
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	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
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
310,000	9,489	ARMS	Each quarter	2009/3/24
900,000	27,548	90DCP+100bps	Each quarter	2009/5/20

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	6,122	4.000%-6ml	Half year	2010/4/7
300,000	9,183	4.0002%-6ml	Half year	2010/4/7
500,000	15,305	4.0006%-6ml	Half year	2010/4/7
500,000	15,305	4.0007%-6ml	Half year	2010/4/7
200,000	6,122	4.0003%-6ml	Half year	2010/4/7
300,000	9,183	4.3%-12ml	Yearly	2010/6/20
900,000	27,548	90DCP	Each quarter	2010/8/18
600,000	18,365	90DCP	Each quarter	2010/8/19
200,000	6,122	6.3%-6ml	Yearly	2010/11/27
300,000	9,183	5.37%-6ml	Yearly	2011/3/15
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
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
2,700,000	82,645	90DCP+25bps	Each quarter	2013/8/24
3,000,000	91,827	90DCP+26.5bps	Yearly	2013/11/03
500,000	15,305	90DCP+23bps	Yearly	2013/12/14
1,000,000	30,609	90DCP+26.5bps	Yearly	2013/12/14
1,500,000	45,914	90DCP+23bps	Yearly	2013/12/16
1,000,000	30,609	90DCP+26.5bps	Each quarter	2013/12/16
1,300,000	39,792	90DCP+45bps	Each quarter	2013/12/27

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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, 2007 and 2008

② September 30, 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$100,000	\$3,103	180DCP+30bps	Half year	2008/12/18
300,000	9,308	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	6,205	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
200,000	6,205	5.85%-6ml	Half year	2009/1/13
50,000	1,551	If 6ml ≤ 1%,6ml+0.2% If 1%<6ml<2%,3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009/1/16
247,500	7,679	ARMS	Each quarter	2009/3/24
900,000	27,924	90DCP+100bps	Each quarter	2009/5/20
200,000	6,205	4.000%-6ml	Half year	2010/4/7
300,000	9,308	4.0002%-6ml	Half year	2010/4/7
500,000	15,513	4.0006%-6ml	Half year	2010/4/7
500,000	15,513	4.0007%-6ml	Half year	2010/4/7
200,000	6,205	4.0003%-6ml	Half year	2010/4/7
300,000	9,308	4.3%-12ml	Yearly	2010/6/20
900,000	27,924	90DCP	Each quarter	2010/8/18
600,000	18,616	90DCP	Each quarter	2010/8/19
200,000	6,205	6.3%-6ml	Yearly	2010/11/27
300,000	9,308	5.37%-6ml	Yearly	2011/3/15
500,000	15,513	If 6ml<1.1%,6ml If 1.1% ≤ 6ml ≤ 2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011/6/30
2,000,000	62,054	90DCP	Yearly	2013/3/26
2,700,000	83,773	90DCP+25bps	Each quarter	2013/8/24
3,000,000	93,081	90DCP+26.5bps	Yearly	2013/11/3
2,000,000	62,054	90DCP	Yearly	2013/11/3

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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, 2007 and 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
1,000,000	31,027	90DCP+26.5bps	Yearly	2013/12/14
500,000	15,513	90DCP+23bps	Yearly	2013/12/14
1,500,000	46,540	90DCP+23bps	Yearly	2013/12/16
1,000,000	31,027	90DCP+26.5bps	Yearly	2013/12/16
900,000	27,924	90DCP	Yearly	2014/3/12
1,000,000	31,027	90DCP	Yearly	2014/6/12
2,000,000	62,054	90DCP	Yearly	2014/6/29
5,000,000	155,135	90DCP	Yearly	2014/8/23
1,000,000	31,027	90DCP	Yearly	2014/9/20
3,200,000	99,286	90DCP	Yearly	2014/9/27
2,000,000	62,054	90DCP	Each quarter	2014/9/28
1,500,000	46,540	90DCP	Yearly	2014/9/29
2,500,000	77,567	90DCP	Yearly	2014/12/20
2,000,000	62,054	90DCP	Yearly	2014/12/24
-	24,000	6ml	Half year	2014/3/24

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

The Company's interest rate swap agreements are considered to be highly effective cash flow hedges. Unrealized gains (losses) on these financial instruments recognized in equity are NT\$125,322 (US\$3,836) thousands and NT\$763,958 (US\$23,703) thousands as of September 30, 2007 and 2008.

(7) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2007 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 30, 2008.

English Translation of Financial Statements Originally Issued in Chinese

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, 2007 and 2008

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 thousands and US\$27,150 thousands, 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 thousands.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. The Company and Cathay Century Insurance subsidiary, Cathay Insurance Company Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on August 26, 2008. As of September 30, 2008, the Company's remittances to this general insurance company totaled approximately US\$28,144 thousands.

32. Segment Information

None.