

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
As of December 31, 2007 and 2008
With Independent Auditors' Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the 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 consolidated 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' Report

Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2007 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of December 31, 2007 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with requirements of the 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
The Republic of China
February 16, 2009

Notice to Readers:

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of December 31, 2007 and 2008

(Expressed in thousands of dollars)

Assets	Notes	December 31, 2007		December 31, 2008	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4,26	\$201,557,524	\$6,215,156	\$225,740,844	\$6,890,746
Financial assets at fair value through profit or loss - current	2,5,12,26	94,032,933	2,899,566	76,037,152	2,321,037
Available-for-sale financial assets - current	2,6,12	182,604,284	5,630,721	107,653,519	3,286,127
Held-to-maturity financial assets - current	2,12,26	8,307,887	256,179	29,110,492	888,599
Derivative financial assets for hedging - current	2,7	252,645	7,791	2,770,036	84,555
Investments in debt securities with no active market - current	2	5,850,138	180,393	3,710,080	113,250
Notes receivable	2	8,510,086	262,414	5,924,700	180,852
Premiums receivable		8,071	249	-	-
Prepaid reinsurance premium		-	-	193,156	5,896
Claims recoverable from reinsurers		14,784	456	3,572	109
Reinsurance accounts receivable	2,26	10,706	330	30,901	943
Other accounts receivable		24,573,789	757,749	27,037,379	825,317
Other financial assets - current	26	4,095,936	126,301	-	-
Prepayments		14,588	450	50,995	1,557
Deferred income tax assets - current	2,24	3,534,293	108,982	2,941,826	89,799
Other current assets		315,915	9,741	176,962	5,402
Subtotal		533,683,579	16,456,478	481,381,614	14,694,189
Loans					
Policy loans	2,8,26	189,288,970	5,836,848	199,118,984	6,078,113
Secured loans		347,842,125	10,725,936	342,443,651	10,453,103
Subtotal		537,131,095	16,562,784	541,562,635	16,531,216
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,12	230,743,593	7,115,128	277,140,249	8,459,715
Held-to-maturity financial assets - noncurrent	2,10,12	572,545,445	17,654,809	617,918,505	18,861,981
Financial assets carried at cost - noncurrent	2,11	20,121,416	620,457	19,880,741	606,860
Investments in debt securities with no active market - noncurrent	2,12	60,690,367	1,871,426	87,410,279	2,668,201
Long-term investments in stocks under the equity method	2,13	1,952,472	60,206	2,338,702	71,389
Investments in real estate	2,14	106,384,870	3,280,446	109,492,777	3,342,270
Other financial assets - noncurrent		19,400,000	598,211	6,100,000	186,203
Subtotal		1,011,838,163	31,200,683	1,120,281,253	34,196,619
Property and equipment					
Land	2,15,26	4,796,289	147,897	4,763,422	145,404
Buildings and construction		10,266,494	316,574	10,294,211	314,231
Computer equipment		1,875,748	57,840	2,314,107	70,638
Communication and transportation equipment		16,162	498	14,965	457
Other equipment		3,477,864	107,242	3,511,920	107,201
Leasehold improvements		28,277	872	88,643	2,706
Revaluation increments		1,216	37	1,303	40
Less: Accumulated depreciation		(7,270,455)	(224,189)	(7,846,149)	(239,504)
Less: Accumulated impairment		(85,519)	(2,637)	(85,519)	(2,610)
Construction in progress and prepayment for equipment		150,994	4,656	108,971	3,326
Subtotal		13,257,070	408,790	13,165,874	401,889
Intangible assets					
Computer software cost	2	481,781	14,856	820,492	25,046
Deferred pension cost	16	-	-	155,200	4,737
Subtotal		481,781	14,856	975,692	29,783
Other assets					
Guarantee deposits paid	2,26,27	11,064,608	341,185	12,841,530	391,988
Deferred income tax assets - noncurrent	2,24	403,873	12,454	3,777,233	115,300
Other overdue receivables	2,17,26	40,807	1,258	22,543	688
Separate account products assets	2,31(2)	254,052,254	7,833,865	193,454,652	5,905,209
Other assets - other	26	864,607	26,661	1,768,828	53,994
Subtotal		266,426,149	8,215,423	211,864,786	6,467,179
Total assets		\$2,362,817,837	\$72,859,014	\$2,369,231,854	\$72,320,875

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated balance sheets - (continued)
As of December 31, 2007 and 2008
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2007		December 31, 2008	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Short-term debts		\$293,159	\$9,040	\$411,777	\$12,570
Financial liabilities at fair value through profit or loss - current	2,18	13,058,619	402,671	30,084,249	918,323
Derivative financial liabilities for hedging - current	2,19	101,430	3,127	122,368	3,735
Notes payable		4,008	123	1,822	56
Commissions payable		981,986	30,280	897,632	27,400
Life insurance proceeds payable		42,159	1,300	42,473	1,297
Reinsurance accounts payable		188,838	5,823	185,162	5,652
Other payable	2,3,22,26	8,407,669	259,256	5,319,499	162,378
Accounts collected in advance		221,064	6,817	237,157	7,239
Other current liabilities		17,824	550	11,248	343
Subtotal		<u>23,316,756</u>	<u>718,987</u>	<u>37,313,387</u>	<u>1,138,993</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	110	3,581	109
Accrued pension liability	2,31(1)	1,350,933	41,657	1,811,678	55,302
Preferred stock liability - noncurrent	2,20	-	-	15,000,000	457,875
Subtotal		<u>1,354,514</u>	<u>41,767</u>	<u>16,815,259</u>	<u>513,286</u>
Reserve for operations and liabilities	2				
Unearned premium reserve		11,400,589	351,544	11,470,193	350,128
Reserve for life insurance liabilities		1,921,767,262	59,258,935	2,030,456,905	61,979,759
Special reserve		15,333,823	472,828	16,137,810	492,607
Reserve for claims		1,499,265	46,231	1,517,688	46,328
Premium deficiency reserve		2,821,488	87,003	2,691,338	82,153
Subtotal		<u>1,952,822,427</u>	<u>60,216,541</u>	<u>2,062,273,934</u>	<u>62,950,975</u>
Other liabilities					
Guarantee deposits received	26	1,490,179	45,951	1,544,779	47,154
Separate account products liabilities	2,31(2)	254,052,254	7,833,865	193,454,652	5,905,209
Other liabilities - other		3,461,245	106,730	1,639,068	50,033
Subtotal		<u>259,003,678</u>	<u>7,986,546</u>	<u>196,638,499</u>	<u>6,002,396</u>
Total liabilities		<u>2,236,497,375</u>	<u>68,963,841</u>	<u>2,313,041,079</u>	<u>70,605,650</u>
Stockholders' equity					
Capital stock					
Common stock	2,21	50,686,158	1,562,940	52,686,158	1,608,247
Capital surplus	2	9,648	298	13,009,648	397,120
Retained earnings					
Legal reserve	2,22	21,188,906	653,374	23,535,758	718,430
Special reserve		16,693,810	514,764	19,169,006	585,134
Unappropriated retained earnings		23,468,521	723,667	(1,973,545)	(60,243)
Equity adjustment					
Unrealized gains (losses) on financial instruments	2,22	11,169,132	344,407	(52,489,299)	(1,602,237)
Unrealized revaluation increments	2	2,105	65	2,105	64
Cumulative conversion adjustments	2	132,518	4,086	209,017	6,380
Net loss not recognized as pension cost		-	-	(264,304)	(8,068)
Minority interests		2,969,664	91,572	2,306,231	70,398
Total stockholders' equity		<u>126,320,462</u>	<u>3,895,173</u>	<u>56,190,775</u>	<u>1,715,225</u>
Total liabilities and stockholders' equity		<u>\$2,362,817,837</u>	<u>\$72,859,014</u>	<u>\$2,369,231,854</u>	<u>\$72,320,875</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of income
For the years ended December 31, 2007 and 2008
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	2007		2008	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,26				
Premiums income		\$305,028,232	\$9,405,743	\$348,992,508	\$10,653,007
Reinsurance commission earned		164,353	5,068	229,599	7,008
Claims recovered from reinsurers		347,755	10,723	287,459	8,775
Recovered premiums reserve		177,210,431	5,464,398	249,879,311	7,627,574
Recovered special reserve		713,870	22,013	170,712	5,211
Recovered claims reserve		1,304,333	40,220	1,499,729	45,779
Recovered premium deficiency reserve		-	-	130,150	3,973
Handling fees earned	32(2)	1,744,552	53,794	5,488,092	167,524
Interest income		69,695,996	2,149,121	76,850,576	2,345,866
Gains on long-term equity investments	13	410,851	12,669	183,848	5,612
Gains on foreign exchange		-	-	13,166,306	401,902
Gains on disposal of investments		28,990,872	893,952	-	-
Gains on investments - real estate	14	6,386,844	196,942	5,480,576	167,295
Separate account products revenues	32(2)	228,817,864	7,055,747	237,945,785	7,263,302
Other operating income		798,546	24,624	944,084	28,818
Subtotal		<u>821,614,499</u>	<u>25,335,014</u>	<u>941,248,735</u>	<u>28,731,646</u>
Operating costs	2,26				
Reinsurance premiums ceded		(656,359)	(20,239)	(503,618)	(15,373)
Brokerage expenses	23	(30,018,781)	(925,649)	(26,428,394)	(806,728)
Commissions expenses		(206,954)	(6,382)	(350,183)	(10,689)
Insurance claims payment		(203,003,359)	(6,259,740)	(275,179,063)	(8,399,849)
Provision for premiums reserve		(311,464,935)	(9,604,222)	(358,166,544)	(10,933,045)
Provision for special reserve		(1,146,648)	(35,358)	(974,711)	(29,753)
Contribution to the stabilization funds		(302,748)	(9,335)	(346,186)	(10,567)
Provision for claims reserve		(1,498,661)	(46,212)	(1,513,286)	(46,193)
Handling fees paid		(1,588,950)	(48,996)	(1,605,534)	(49,009)
Interest expenses		(63,732)	(1,965)	(66,459)	(2,029)
Losses from valuation on financial assets		(3,211,407)	(99,026)	(6,756,423)	(206,240)
Losses from valuation on financial liabilities		(1,503,143)	(46,350)	(17,260,172)	(526,867)
Losses on foreign exchange		(1,746,745)	(53,862)	-	-
Losses on disposal of investments		-	-	(7,049,311)	(215,180)
Separate account products expenses	30	(228,817,864)	(7,055,747)	(237,945,785)	(7,263,302)
Other operating cost		(1,420,970)	(43,817)	(2,112,096)	(64,472)
Subtotal		<u>(786,651,256)</u>	<u>(24,256,900)</u>	<u>(936,257,765)</u>	<u>(28,579,296)</u>
Operating gross profit		<u>34,963,243</u>	<u>1,078,114</u>	<u>4,990,970</u>	<u>152,350</u>
Operating expenses	2,3,16,23,26,32(1)				
Marketing expenses		(3,252,155)	(100,282)	(4,223,594)	(128,925)
Administrative and general expenses		(8,400,889)	(259,047)	(7,736,045)	(236,143)
Research and development expenses		(6,652)	(205)	(20,335)	(621)
Subtotal		<u>(11,659,696)</u>	<u>(359,534)</u>	<u>(11,979,974)</u>	<u>(365,689)</u>
Operating income (loss)		<u>23,303,547</u>	<u>718,580</u>	<u>(6,989,004)</u>	<u>(213,339)</u>
Non-operating revenues and gains	2,26				
Gains on disposal of property and equipment		2,335	72	54	2
Other non-operating revenues and gains		1,460,679	45,041	1,502,886	45,875
Subtotal		<u>1,463,014</u>	<u>45,113</u>	<u>1,502,940</u>	<u>45,877</u>
Non-operating expenses and losses	2,26				
Losses on disposal of property and equipment		(342)	(11)	(264)	(8)
Impairment loss		(298,998)	(9,220)	(835,147)	(25,493)
Losses on obsolescence of property and equipment		(274)	(8)	(131)	(4)
Dividend on preferred stock liabilities		-	-	(10,041)	(306)
Miscellaneous expenses		(56,444)	(1,740)	(11,077)	(339)
Subtotal		<u>(356,058)</u>	<u>(10,979)</u>	<u>(856,660)</u>	<u>(26,150)</u>
Income (loss) from continuing operations before income taxes		<u>24,410,503</u>	<u>752,714</u>	<u>(6,342,724)</u>	<u>(193,612)</u>
Income taxes (expense) benefit	2,24	(1,027,045)	(31,670)	3,980,528	121,506
Consolidated income (loss)		<u>\$23,383,458</u>	<u>\$721,044</u>	<u>\$2,362,196</u>	<u>\$(72,106)</u>
Include:					
Parent company		\$23,468,521	\$723,667	\$(1,973,545)	\$(60,243)
Minority interests		(85,063)	(2,623)	(388,651)	(11,863)
Consolidated income (loss)		<u>\$23,383,458</u>	<u>\$721,044</u>	<u>\$2,362,196</u>	<u>\$(72,106)</u>
Earnings per share (In dollars)	25				
Consolidated income (loss)		<u>\$4.61</u>	<u>\$0.14</u>	<u>\$(0.46)</u>	<u>\$(0.01)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
For the years ended December 31, 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 gains (losses) of financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments		Net loss not recognized as pension cost		Minority interests			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		NT\$
Balance on January 1, 2007	\$50,686,158	\$1,562,940	\$9,648	\$298	\$19,684,163	\$606,974	\$14,133,703	\$435,822	\$15,047,432	\$463,997	\$20,222,726	\$623,581	\$2,105	\$65	\$34,973	\$1,078	\$-	\$-	\$2,846,736	\$87,781	\$122,667,644	\$3,782,536
Appropriations and Distributions for 2006																						
Legal reserve	-	-	-	-	1,504,743	46,400	-	-	(1,504,743)	(46,400)	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,560,107	78,942	(2,560,107)	(78,942)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,962,644)	(338,040)	-	-	-	-	-	-	-	-	-	-	(10,962,644)	(338,040)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(250)	-	-	-	-	-	-	-	-	-	-	(8,100)	(250)
Bonus paid to employees	-	-	-	-	-	-	-	-	(11,838)	(365)	-	-	-	-	-	-	-	-	-	-	(11,838)	(365)
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(9,053,594)	(279,174)	-	-	-	-	-	-	-	-	(9,053,594)	(279,174)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	97,545	3,008	-	-	-	-	-	97,545	3,008
Consolidated income for the year ended December 31, 2007	-	-	-	-	-	-	-	-	23,468,521	723,667	-	-	-	-	-	-	-	-	(85,063)	(2,623)	23,383,458	721,044
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	207,991	6,414	207,991	6,414
Balance on December 31, 2007	\$50,686,158	\$1,562,940	\$9,648	\$298	\$21,188,906	\$653,374	\$16,693,810	\$514,764	\$23,468,521	\$723,667	\$11,169,132	\$344,407	\$2,105	\$65	\$132,518	\$4,086	\$-	\$-	\$2,969,664	\$91,572	\$126,320,462	\$3,895,173
Balance on January 1, 2008	\$50,686,158	\$1,547,197	\$9,648	\$295	\$21,188,906	\$646,792	\$16,693,810	\$509,579	\$23,468,521	\$716,377	\$11,169,132	\$340,938	\$2,105	\$64	\$132,518	\$4,045	\$-	\$-	\$2,969,664	\$90,649	\$126,320,462	\$3,855,936
Appropriations and Distributions for 2007																						
Legal reserve	-	-	-	-	2,346,852	71,638	-	-	(2,346,852)	(71,638)	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,475,196	75,555	(2,475,196)	(75,555)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(18,625,315)	(568,538)	-	-	-	-	-	-	-	-	-	-	(18,625,315)	(568,538)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,058)	(399)	-	-	-	-	-	-	-	-	-	-	(13,058)	(399)
Capital increase by cash	2,000,000	61,050	13,000,000	396,825	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000,000	457,875
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(63,658,431)	(1,943,175)	-	-	-	-	-	-	-	-	(63,658,431)	(1,943,175)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	76,499	2,335	-	-	-	-	-	76,499	2,335
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(264,304)	(8,068)	-	-	(264,304)	(8,068)
Consolidated loss for the year ended December 31, 2008	-	-	-	-	-	-	-	-	(1,973,545)	(60,243)	-	-	-	-	-	-	-	-	(388,651)	(11,863)	(2,362,196)	(72,106)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(274,782)	(8,388)	(274,782)	(8,388)
Balance on December 31, 2008	\$52,686,158	\$1,608,247	\$13,009,648	\$397,120	\$23,535,758	\$718,430	\$19,169,006	\$585,134	\$(1,973,545)	\$(60,243)	\$(52,489,299)	\$(1,602,237)	\$2,105	\$64	\$209,017	\$6,380	\$(264,304)	\$(8,068)	\$2,306,231	\$70,398	\$56,190,775	\$1,715,225

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2007 and 2008
(Expressed in thousands of dollars)

	2007		2008	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Consolidated income (loss)	\$23,383,458	\$721,044	\$(2,362,196)	\$(72,106)
Adjustments:				
Losses from valuation on financial assets	3,211,407	99,026	6,756,423	206,240
Losses from valuation on financial liabilities	1,503,143	46,350	17,260,172	526,867
Property and equipment turn into contribution expenses	-	-	19	1
Provision bad debt	348,592	10,749	1,069,306	32,641
Depreciation	2,491,654	76,832	2,212,313	67,531
Amortization	145,766	4,495	235,990	7,204
Impairment loss	298,998	9,220	835,147	25,493
Provision or recovered for each reserve	135,062,925	4,164,752	109,451,506	3,341,011
Gains on disposal of long-term equity investments	(11)	-	-	-
(Gains) losses on disposal of property and equipment	(1,719)	(53)	340	10
Gains on disposal of investments in real estate	(1,240,106)	(38,239)	(161,818)	(4,940)
Gains on long-term equity investments (in excess of) less than cash dividends received	(152,202)	(4,693)	192,330	5,871
Effects of exchange rate changes	70,745	2,181	-	-
(Increase) decrease in financial assets at fair value through profit or loss - current	(269,134)	(8,299)	10,991,905	335,528
(Increase) decrease in available-for-sale financial assets - current	(30,978,632)	(955,246)	2,857,002	87,210
Decrease (increase) in held-to-maturity financial assets - current	5,047,123	155,631	(20,802,605)	(635,000)
(Increase) decrease in derivative financial assets for hedging - current	(209,799)	(6,469)	48,751	1,488
(Increase) decrease in investments in debt securities with no active market - current	(848,309)	(26,158)	2,140,058	65,325
Decrease in notes receivable	4,034,296	124,400	2,585,386	78,919
(Increase) decrease in premiums receivable	(6,984)	(215)	8,071	246
Increase in prepaid reinsurance premium	-	-	(193,156)	(5,896)
(Increase) decrease in claims recoverable from reinsurers	(14,784)	(456)	11,213	342
Decrease (increase) in reinsurance accounts receivable	8,523	263	(20,194)	(616)
Decrease (increase) in other accounts receivable	2,716,155	83,754	(2,699,287)	(82,396)
Decrease in other financial assets - current	2,949,208	90,941	4,095,936	125,029
Decrease (increase) in prepayments	22,343	689	(36,406)	(1,111)
(Increase) decrease in deferred income tax assets - current	(1,248,265)	(38,491)	592,467	18,085
Decrease in other current assets	86,926	2,680	138,952	4,241
Decrease (increase) in deferred income tax assets - noncurrent	56,175	1,732	(3,373,360)	(102,972)
Decrease (increase) in other assets - other	3,303,100	101,853	(867,647)	(26,485)
Decrease in financial liabilities at fair value through profit or loss - current	(20,001)	(617)	-	-
Increase (decrease) in derivative financial liabilities for hedging - current	77,563	2,392	(60,598)	(1,850)
Decrease in notes payable	(223)	(7)	(2,187)	(67)
Decrease in commissions payable	(8,080)	(249)	(84,354)	(2,575)
Increase in life insurance proceeds payable	24,947	769	314	10
Decrease in reinsurance accounts payable	(7,650)	(236)	(3,676)	(112)
Decrease in other payable	(6,834,492)	(210,746)	(3,088,169)	(94,266)
Increase in accounts collected in advance	11,706	361	16,094	491
Decrease in other current liabilities	(28,698)	(885)	(6,576)	(201)
(Decrease) increase in accrued pension liability	(332,249)	(10,245)	41,240	1,259
Decrease in other liabilities - other	(9,334,831)	(287,846)	(1,822,177)	(55,622)
Net cash provided by operating activities	<u>133,318,584</u>	<u>4,110,964</u>	<u>125,956,529</u>	<u>3,844,827</u>
Cash flows from investing activities				
Increase in policy loans	(13,516,615)	(416,794)	(9,830,014)	(300,062)
(Increase) decrease in secured loans	(41,010,329)	(1,264,580)	4,824,377	147,264
Increase in available-for-sale financial assets - noncurrent	(58,999,318)	(1,819,282)	(40,620,734)	(1,239,949)
Increase in held-to-maturity financial assets - noncurrent	(47,920,242)	(1,477,652)	(45,455,609)	(1,387,534)
Decrease in financial assets carried at cost - noncurrent	5,108	157	111,423	3,401
Increase in investments in debt securities with no active market	(16,725,085)	(515,729)	(27,261,723)	(832,165)
Disinvestment of long-term investments	199,662	6,157	149,866	4,575
Decrease (increase) in long-term investments under the equity method	58	2	(862,648)	(26,332)
Disposal of investments in real estate	1,994,110	61,490	199,870	6,101
Acquisition of investments in real estate	(6,924,924)	(213,535)	(4,502,472)	(137,438)
(Increase) decrease in other financial assets - noncurrent	(9,050,000)	(279,063)	13,300,000	405,983
Disposal of property and equipment	22,200	685	258	8
Acquisition of property and equipment	(576,895)	(17,789)	(786,466)	(24,007)
Acquisition of intangible assets	(298,624)	(9,208)	(563,804)	(17,210)
Increase in guarantee deposits paid	(356,914)	(11,005)	(1,765,524)	(53,893)
Increase in other overdue receivables	(27,667)	(853)	(241,250)	(7,364)
Net cash used in investing activities	<u>(193,185,475)</u>	<u>(5,956,999)</u>	<u>(113,304,450)</u>	<u>(3,458,622)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00, respectively)

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

Cathay life insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows - (continued)
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	2007		2008	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase in short-term debts	293,159	9,040	118,618	3,621
Increase in preferred stock liability	-	-	15,000,000	457,876
Increase in guarantee deposits received	25,087	773	54,600	1,667
Capital increase by cash	-	-	15,000,000	457,875
Cash dividends	(11,034,644)	(340,260)	(18,663,565)	(569,706)
Bonus paid to employees	(11,838)	(365)	(13,058)	(399)
Remuneration paid to directors and supervisors	(8,100)	(250)	(8,100)	(247)
Net cash (used in) provided by financing activities	<u>(10,736,336)</u>	<u>(331,062)</u>	<u>11,488,495</u>	<u>350,687</u>
Effects of exchange rate changes	84,242	2,598	42,746	1,305
(Decrease) increase in cash and cash equivalents	(70,518,985)	(2,174,499)	24,183,320	738,197
Cash and cash equivalents at the beginning of the periods	272,076,509	8,389,655	201,557,524	6,152,549
Cash and cash equivalents at the end of the periods	<u>\$201,557,524</u>	<u>\$6,215,156</u>	<u>\$225,740,844</u>	<u>\$6,890,746</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	<u>\$12,561</u>	<u>\$387</u>	<u>\$12,441</u>	<u>\$380</u>
Interest paid (excluding capitalized interest)	<u>\$12,561</u>	<u>\$387</u>	<u>\$12,441</u>	<u>\$380</u>
Income tax paid	<u>\$1,277,614</u>	<u>\$39,396</u>	<u>\$1,381,646</u>	<u>\$42,175</u>

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

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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 December 31, 2007 and 2008, total numbers of employees in the Company were 29,354 and 30,553, respectively.

2. Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with the 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) Principles of consolidation

A. According to the Statements of Financial Accounting Standards of the R.O.C. (“R.O.C. SFAS”) No.7 “Consolidated Financial Statements”, the consolidated financial statements include the Company and its subsidiaries (“Subsidiaries”) over which the Company holds more than 50% of the Subsidiaries’ voting rights or has a controlling interest. As of and for years ended December 31, 2007 and 2008, the consolidated financial statements included the following entities:

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Investors	Investees	Business	Ownership interest		Notes
			2007.12.31	2008.12.31	
The Company and Cathay Venture Capital Corp. (“Cathay Venture”)	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	100.00%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Act. Cathay Life and Cathay Venture each owns 60.12% and 39.88% interest in Symphox Information, respectively. As of December 31, 2007 and 2008, the total numbers of employees were 153 and 148, respectively.
The Company	Cathay Venture	Venture capital investment	25.00%	25.00%	Cathay Venture was incorporated in Taiwan on September 13, 2000. The Company has the actual ability of controlling over Cathay Venture.
The Company	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50.00%	50.00%	Cathay Life (Shanghai) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (Shanghai). As of December 31, 2007 and 2008, the total numbers of employees were 1,339 and 2,984, respectively.
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) acquired an operation license of an enterprise as a juristic person on November 21, 2007. As of December 31, 2008, the total number of employees was 2,017.

As of years ended December 31, 2007 and 2008, the consolidated financial statements excluded:

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Investors	Investees	Business	Ownership interest		Notes
			2007.12.31	2008.12.31	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class3 general business insurers and a Long-term insurer	100.00%	100.00%	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00%	100.00%	The consolidated financial statements do not include Cathay Securities Investment because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Insurance Company Limited (Shanghai) (“Cathay Insurance (Shanghai)”) (“Shanghai”)	Properties insurance	-	50.00%	Cathay Insurance (Shanghai) acquired an operation license of an enterprise as a juristic person on August 26, 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (Shanghai) in the consolidated financial statements.

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

(2) 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.

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(3) 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.

(4) Recognition of financial assets and liabilities

According to the 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 and Subsidiaries commit 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.

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

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

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

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

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company and Subsidiaries have 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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C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Financial assets carried at cost

Financial assets carried at cost are investments in equity instruments to non-listed companies which the Company and Subsidiaries have 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.

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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.

(5) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset or a portion of a financial asset is derecognized when the Company and Subsidiaries lose 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 and Subsidiaries surrender 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 and Subsidiaries account for the transaction as a secured borrowing. In that case, the Company's and Subsidiaries' 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.

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(6) Accounting for impairment of financial assets

The Company and Subsidiaries assess 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.

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.

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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.

(7) Derivative financial instruments

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

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

Hedging relationships consist of three types:

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

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

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

Fair value hedges

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

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

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

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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.

(8) 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:

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- 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.

Allowance for bad debts on notes and accounts receivable, and loans of Symphox Information and Cathay Life (Vietnam) are determined based on the aging analysis of outstanding balances of such accounts and past experience.

Allowance for bad debts of Cathay Life (Shanghai) are accounted for using allowance method based on the recoverability of year end balances of receivables, such as premiums receivable, interest receivable and accounts receivable. The management uses aging analysis based on past experience and the financial conditions and actual operating of debtors to estimate the allowance for bad debts.

(9) Long-term investments under the equity method

Long-term investments in equity securities are accounted for under the equity method where the Company and Subsidiaries hold 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 and Subsidiaries' 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.

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

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

(10) 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.

(11) 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.

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

(12) Intangible assets

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

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

The intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets. The Company and Subsidiaries will reassess the useful lives and amortization methods for 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 and Subsidiaries are computer software and are amortized over the estimated useful lives of 3-5 years using the straight-line method.

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(13) 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 December 31, 2008, an aggregate of NT\$3,499,037 (US\$106,808) thousands was appropriated to this fund.

(14) Accounting for assets impairment

Pursuant to R.O.C. SFAS No. 35, the Company and Subsidiaries evaluate 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 and Subsidiaries 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 and Subsidiaries 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

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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).

(15) 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.

(16) Guaranteed depository insurance payment

A. The Company

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

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B. Cathay Life (Shanghai)

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

(17) Reserve for operations

A. The Company

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.

B. Cathay Life (Shanghai)

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

(18) 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.

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(19) Pension plan

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

The Labor Pension Act of R.O.C. (“the Act”), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or other pension mechanism under the Labor Standards Act. For employees subject to the Act, the Company and domestic subsidiaries 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.

(20) Research and development expenses

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

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

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- F. Its ability to measure reliably the expenditures attributable to the intangible asset during its development.

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

(21) Foreign currency transactions

A. Translation of foreign currency transactions

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

B. Translation of subsidiaries' financial statements in foreign currencies

Financial statements of foreign subsidiaries accounted for under the equity method are translated into NT dollars as follows: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate on the balance sheet date. Stockholders' equity items are translated at the historical rates except for the opening balance of retained earnings, which is carried forward directly from the 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.

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(22) Income taxes

The Company and Subsidiaries adopted SFAS No. 22, “Accounting for Income Taxes”, which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, loss carry-forward and investment tax credits. A valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The prior year’s income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

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 and Subsidiaries 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.

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Effective from January 1, 2006, the Company and its domestic subsidiaries adopted “Income Basic Tax Act” and “Enforcement Rules of Income Basic Tax Act” to estimate income basic tax.

(23) Capital expenditure expenses

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

(24) Separate account products

The Company and Cathay Life (Shanghai) sell 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.

The Company and Cathay Life (Shanghai) have 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”.

(25) Employee bonus and remuneration of directors and supervisors

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

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(26) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2007 and 2008 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.43 and NT\$32.76 provided by Federal Reserve Bank of New York of December 31, 2007 and 2008 are used for the conversion.

3. Reasons and effects for changes in accounting principles

(1) The Company and Subsidiaries 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. This change in accounting principles did not significantly affect the consolidated financial statements for 2008.

(2) Effective from July 1, 2008, the Company and Subsidiaries adopted the revised R.O.C. SFAS No.34 “Accounting for financial instrument”. This change in accounting principles did not affect the consolidated financial statements for 2008.

4. Cash and cash equivalents

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$300,564	\$9,268	\$258,676	\$7,896
Cash in banks	21,728,874	670,024	25,086,344	765,761
Time deposits	161,606,992	4,983,256	190,922,075	5,827,902
Cash equivalents	17,921,094	552,608	9,473,749	289,187
Total	\$201,557,524	\$6,215,156	\$225,740,844	\$6,890,746

As of December 31, 2007 and 2008, the amounts of time deposits with maturities beyond one year were NT\$1,095,823 (US\$33,790) thousands and NT\$2,481,872 (US\$75,759) thousands, respectively.

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

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$12,710,009	\$391,921	\$5,567,773	\$169,957
Overseas stocks	1,147,962	35,398	1,156,474	35,302
Beneficiary certificates	52,240,239	1,610,862	47,945,445	1,463,536
Exchange traded funds	261,234	8,055	139,322	4,253
Overseas bonds	11,364,954	350,446	11,465,618	349,988
Corporate bonds	3,718,685	114,668	3,939,303	120,247
Government bonds	1,021,138	31,488	2,291,101	69,936
Structured time deposits	2,000,000	61,671	1,000,000	30,525
Subtotal	84,464,221	2,604,509	73,505,036	2,243,744
Add: Adjustment of valuation	9,568,712	295,057	2,532,116	77,293
Total	<u>\$94,032,933</u>	<u>\$2,899,566</u>	<u>\$76,037,152</u>	<u>\$2,321,037</u>

As of December 31, 2007 and 2008, Symphox Information Co., Ltd. has pledged NT\$24,407 (US\$753) and NT\$26,820 (UD\$819), respectively as collaterals for its e-coupon transaction. Refer to Note 27(2) disclosure for pledged assets.

6. Available-for-sale financial assets - current

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$119,920,267	\$3,697,819	\$114,406,022	\$3,492,247
Overseas stocks	19,975,518	615,958	17,253,286	526,657
Beneficiary certificates	13,908,732	428,885	19,725,163	602,111
Financial debentures	3,300,000	101,758	5,049,796	154,145
Exchange traded funds	3,717,938	114,645	4,175,789	127,466
Real estate investment trust	8,725,399	269,053	8,725,208	266,337
Overseas bonds	1,384,445	42,690	22,520	688
Corporate bonds	1,700,000	52,420	550,000	16,789
Subtotal	172,632,299	5,323,228	169,907,784	5,186,440
Add (less) : Adjustment of valuation	9,971,985	307,493	(62,254,265)	(1,900,313)
Total	<u>\$182,604,284</u>	<u>\$5,630,721</u>	<u>\$107,653,519</u>	<u>\$3,286,127</u>

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7. Derivative financial assets for hedging - current

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	252,645	7,791	2,770,036	84,555
Total	\$252,645	\$7,791	\$2,770,036	\$84,555

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 the end of grace period for premium payment to request the insurance enterprise to automatically deduct the due premiums and interest of the premium loan (as well as the principal and interest of the policy loan, if applicable) from the policyholder's policy value reserve after the second installment becomes overdue in order to remain the insurance policy to be constantly in force. 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

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Secured loans	\$343,205,672	\$10,582,969	\$337,799,216	\$10,311,332
Secured loans-related parties	4,642,924	143,167	4,575,958	139,681
Less: Allowance for bad debts	(446,354)	(13,764)	(566,119)	(17,281)
Subtotal	347,402,242	10,712,372	341,809,055	10,433,732
Overdue receivables	1,466,275	45,213	2,115,319	64,570
Less: Allowance for bad debts	(1,026,392)	(31,649)	(1,480,723)	(45,199)
Subtotal	439,883	13,564	634,596	19,371
Total	\$347,842,125	\$10,725,936	\$342,443,651	\$10,453,103

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

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9. Available-for-sale financial assets – noncurrent

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$14,732,808	\$454,296	\$20,343,866	\$620,997
Government bonds	62,976,512	1,941,921	89,547,227	2,733,432
Financial debentures	110,148,896	3,396,512	127,381,664	3,888,329
Domestic stocks	170,203	5,248	259,330	7,916
Overseas stocks	52,642	1,623	-	-
Beneficiary certificates	39,979	1,233	85,499	2,610
Overseas bonds	34,172,903	1,053,744	29,490,651	900,203
Collateralized loans obligation and collateralized bonds obligation	7,339,215	226,310	4,404,148	134,437
Subtotal	229,633,158	7,080,887	271,512,385	8,287,924
Add: Adjustment of valuation	1,110,435	34,241	5,627,864	171,791
Total	<u>\$230,743,593</u>	<u>\$7,115,128</u>	<u>\$277,140,249</u>	<u>\$8,459,715</u>

10. Held-to-maturity financial assets – noncurrent

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$3,918,511	\$120,830	\$3,867,371	\$118,052
Government bonds	26,639,943	821,460	21,840,360	666,678
Financial debentures	10,780,110	332,412	10,333,138	315,419
Collateralized loans obligation and collateralized bonds obligation	22,128,715	682,353	15,465,882	472,096
Overseas bonds	517,120,715	15,945,751	574,748,877	17,544,227
Subtotal	580,587,994	17,902,806	626,255,628	19,116,472
Less: Securities serving as deposits paid - bonds	(8,042,549)	(247,997)	(8,337,123)	(254,491)
Total	<u>\$572,545,445</u>	<u>\$17,654,809</u>	<u>\$617,918,505</u>	<u>\$18,861,981</u>

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11. Financial assets carried at cost – noncurrent

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Domestic Stocks	\$21,145,580	\$652,038	\$20,502,139	\$625,828
Overseas stocks	218,707	6,744	203,300	6,206
Beneficiary certificates	-	-	477,587	14,578
Subtotal	21,364,287	658,782	21,183,026	646,612
Less: Accumulated impairment	(1,242,871)	(38,325)	(1,302,285)	(39,752)
Total	<u>\$20,121,416</u>	<u>\$620,457</u>	<u>\$19,880,741</u>	<u>\$606,860</u>

12. Structured notes

One of the financial assets investment structured notes amounted to NT\$81,963,207 (US\$2,527,388) thousands and NT\$83,645,916 (US\$2,553,294) thousands as of December 31, 2007 and 2008, respectively. The details of structured notes are listed below:

Item	December 31, 2007					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$1,467,251	\$45,244	\$565	\$17	\$1,467,816	\$45,261
Available-for-sale financial assets	12,028,632	370,911	(152,355)	(4,698)	11,876,277	366,213
Held-to-maturity financial assets	67,193,602	2,071,958	-	-	67,193,602	2,071,958
Investments in debt securities						
with no active market - current	1,425,512	43,956	-	-	1,425,512	43,956
Total	<u>\$82,114,997</u>	<u>\$2,532,069</u>	<u>\$(151,790)</u>	<u>\$(4,681)</u>	<u>\$81,963,207</u>	<u>\$2,527,388</u>

Item	December 31, 2008					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$651,500	\$19,887	\$3,749	\$114	\$655,249	\$20,001
Available-for-sale financial assets	10,638,640	324,744	(138,522)	(4,228)	10,500,118	320,516
Held-to-maturity financial assets	71,504,749	2,182,685	-	-	71,504,749	2,182,685
Investments in debt securities						
with no active market - current	985,800	30,092	-	-	985,800	30,092
Total	<u>\$83,780,689</u>	<u>\$2,557,408</u>	<u>\$(134,773)</u>	<u>\$(4,114)</u>	<u>\$83,645,916</u>	<u>\$2,553,294</u>

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13. Long-term investments under the equity method

Investee	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$424,375	\$13,086	\$300,311	\$9,167
Vista Technology Venture Capital Corp.	39,931	1,231	32,301	986
Omnitek Venture Capital Corp.	227,846	7,026	86,458	2,639
Wa Tech Venture Capital Co., Ltd.	176,115	5,431	89,506	2,732
IBT Venture Capital Corp.	420,234	12,958	249,589	7,619
Cathay Insurance (Bermuda) Co., Ltd.	88,345	2,724	94,904	2,897
Cathay Securities Investment Trust Co., Ltd.	408,289	12,590	402,985	12,301
Cathay Securities Investment Consulting Co., Ltd.	167,337	5,160	165,344	5,047
Cathay Insurance Company Limited. (Shanghai)	-	-	917,304	28,001
Total	\$1,952,472	\$60,206	\$2,338,702	\$71,389

14. Investments in real estate

Item	December 31, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$120,306,005	\$3,709,713	\$4,470	\$138	\$(15,411,620)	\$(475,227)	\$(195,923)	\$(6,042)	\$104,702,932	\$3,228,582
Construction	1,681,938	51,864	-	-	-	-	-	-	1,681,938	51,864
Total	\$121,987,943	\$3,761,577	\$4,470	\$138	\$(15,411,620)	\$(475,227)	\$(195,923)	\$(6,042)	\$106,384,870	\$3,280,446

Item	December 31, 2008									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$123,994,653	\$3,784,941	\$4,384	\$134	\$(17,021,605)	\$(519,585)	\$(195,923)	\$(5,981)	\$106,781,509	\$3,259,509
Construction	1,836,501	56,059	-	-	-	-	-	-	1,836,501	56,059
Prepayments for buildings and land	874,767	26,702	-	-	-	-	-	-	874,767	26,702
Total	\$126,705,921	\$3,867,702	\$4,384	\$134	\$(17,021,605)	\$(519,585)	\$(195,923)	\$(5,981)	\$109,492,777	\$3,342,270

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company 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\$36,803) thousands for the year ended December 31, 2007.

15. Property and equipment

Item	December 31, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,796,289	147,897	\$1,216	\$37	\$-	\$-	\$(51,331)	\$(1,583)	\$4,746,174	\$146,351
Buildings and										
construction	10,266,494	316,574	-	-	(3,455,484)	(106,552)	(34,188)	(1,054)	6,776,822	208,968
Computer equipment	1,875,748	57,840	-	-	(1,346,938)	(41,534)	-	-	528,810	16,306
Communication and										
transportation										
equipment	16,162	498	-	-	(13,198)	(407)	-	-	2,964	91
Other equipment	3,477,864	107,242	-	-	(2,451,027)	(75,579)	-	-	1,026,837	31,663
Leasehold										
improvements	28,277	872	-	-	(3,808)	(117)	-	-	24,469	755
Subtotal	20,460,834	630,923	1,216	37	(7,270,455)	(224,189)	(85,519)	(2,637)	13,106,076	404,134
Construction in progress										
and prepayment for										
equipment	150,994	4,656	-	-	-	-	-	-	150,994	4,656
Total	\$20,611,828	\$635,579	\$1,216	\$37	\$(7,270,455)	\$(224,189)	\$(85,519)	\$(2,637)	\$13,257,070	\$408,790

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Item	December 31, 2008									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,763,422	\$145,404	\$1,303	\$40	\$-	\$-	\$(51,331)	\$(1,567)	\$4,713,394	\$143,877
Buildings and construction	10,294,210	314,231	-	-	(3,581,790)	(109,335)	(34,188)	(1,043)	6,678,232	203,853
Computer equipment	2,314,107	70,638	-	-	(1,542,516)	(47,085)	-	-	771,591	23,553
Communication and transportation equipment	14,965	457	-	-	(13,045)	(398)	-	-	1,920	59
Other equipment	3,511,920	107,201	-	-	(2,697,669)	(82,346)	-	-	814,251	24,855
Leasehold improvements	88,643	2,706	-	-	(11,128)	(340)	-	-	77,515	2,366
Subtotal	20,987,267	640,637	1,303	40	(7,846,148)	(239,504)	(85,519)	(2,610)	13,056,903	398,563
Construction in progress and prepayment for equipment	108,971	3,326	-	-	-	-	-	-	108,971	3,326
Total	\$21,096,238	\$643,963	\$1,303	\$40	\$(7,846,148)	\$(239,504)	\$(85,519)	\$(2,610)	\$13,165,874	\$401,889

No properties or equipment was pledged as collaterals as of December 31, 2007 and 2008.

16. Intangible assets

Item	January 1, 2007		Increase		Decrease		December 31, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$489,162	\$15,084	\$284,481	\$8,772	\$-	\$-	\$773,643	\$23,856
Amortized and impairment:								
Amortized	(148,590)	(4,582)	(143,272)	(4,418)	-	-	(291,862)	(9,000)
Book value	\$340,572	\$10,502	\$141,209	\$4,354	\$-	\$-	\$481,781	\$14,856
Item	January 1, 2008		Increase		Decrease		December 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$774,111	\$23,630	\$573,038	\$17,492	\$-	\$-	\$1,347,149	\$41,122
Amortized and impairment:								
Amortized	(292,067)	(8,915)	(234,590)	(7,161)	-	-	(526,657)	(16,076)
Book value	\$482,044	\$14,715	\$338,448	\$10,331	\$-	\$-	\$820,492	\$25,046

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17. Other overdue receivables

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$140,833	\$4,342	\$382,967	\$11,690
Less: Allowance for bad and doubtful debts	(100,026)	(3,084)	(360,424)	(11,002)
Total	<u>\$40,807</u>	<u>\$1,258</u>	<u>\$22,543</u>	<u>\$688</u>

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

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	13,058,619	402,671	30,084,249	918,323
Total	<u>\$13,058,619</u>	<u>\$402,671</u>	<u>\$30,084,249</u>	<u>\$918,323</u>

19. Derivative financial liabilities for hedging - current

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	101,430	3,127	122,368	3,735
Total	<u>\$101,430</u>	<u>\$3,127</u>	<u>\$122,368</u>	<u>\$3,735</u>

20. Preferred stock liabilities-noncurrent

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

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

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- (1) Issuance period covers from December 25, 2008, the issue date, to December 25, 2015, seven years in total.
- (2) Dividend yield is 3.5% per year based on the actual issue price of NT\$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- (3) The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- (4) Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the SFAS No. 36 "Financial Instruments: Disclosure and Presentation", the above mentioned Class A preferred stocks issued shall be categorized as a financial liability. Thus, the preferred stocks were reported as "preferred stock liabilities – noncurrent" under long-term liabilities as of December 31, 2008.

21. Capital 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 which was then approved by Ministry of Economic affairs on July 9, 2008, and the Insurance Bureau on July 21, 2008, respectively. The record date was set on June 27, 2008. As of December 31, 2007 and 2008, the total authorized thousand shares were 5,068,616 and 5,268,616 at par value of NT\$10 each.

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22. Retained earnings

(1) Legal reserve

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

Pursuant to the regulations established by the R.O.C. MOF, the after-tax amount of released provision for fluctuation of risks according to "Regulations for Reserve Funds of Insurance Enterprises" are appropriated as special reserve when approved by stockholders' meeting in the following year.

(3) Undistributed retained earnings

- A. According to the Company's articles of incorporation, 20% 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.
- B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the special reserve since 2007.

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D. The accrual of employee bonus and remuneration of directors is based on the average of actual distribution in the past three years or a percentage of net income according to the articles of incorporation, and then recognized as operating costs or expenses. The accrual of employee bonus and remuneration of directors for 2008 were immaterial to the consolidated financial statements. The difference between the accrued and actual distribution will be adjusted in 2009.

E. Details of the 2007 employees' bonus settlement and directors' and supervisors' remuneration are as follows:

	For the year ended December 31, 2007	
	NT\$	US\$
(A) Distribution		
Bonus paid to employees – Cash	\$13,058	\$403
Remuneration paid to directors and supervisors	8,100	250
(B) Effect on earnings per share		
Earnings per share (expressed in dollars)	\$4.63	\$0.14
Pro forma earnings per share (expressed in dollars)	4.63	0.14

$$\text{Pro forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

23. Personnel expense、depreciation and amortizations

Item	For the year ended December 31, 2007 NT\$			For the year ended December 31, 2007 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$27,405,168	\$2,455,629	\$29,860,797	\$845,056	\$75,721	\$920,777
Labor & health insurance expenses	1,187,490	177,726	1,365,216	36,617	5,480	42,097
Pension expenses	470,381	69,399	539,780	14,504	2,140	16,644
Other expenses	1,059,491	242,191	1,301,682	32,670	7,468	40,138
Depreciation	55,682	2,435,972	2,491,654	1,717	75,115	76,832
Amortizations	4,852	140,914	145,766	150	4,345	4,495

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Item	For the year ended December 31, 2008 NT\$			For the year ended December 31, 2008 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$23,664,884	\$1,968,811	\$25,633,695	\$722,371	\$60,098	\$782,469
Labor & health insurance expenses	1,224,977	207,020	1,431,997	37,393	6,319	43,712
Pension expenses	792,926	129,788	922,714	24,204	3,962	28,166
Other expenses	1,129,931	252,590	1,382,521	34,491	7,710	42,201
Depreciation	59,848	2,152,465	2,212,313	1,827	65,704	67,531
Amortizations	4,070	231,920	235,990	124	7,080	7,204

24. Estimated income taxes

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

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$4,090,910	\$126,146	\$10,128,619	\$309,176
Total deferred tax liabilities	\$(136,810)	\$(4,219)	\$(3,408,116)	\$(104,033)
Allowance for deferred assets	\$(15,934)	\$(491)	\$(1,444)	\$(44)
Temporary differences:				
Pension expense	\$337,733	\$10,414	\$348,043	\$10,624
Unrealized foreign exchange losses (gains)	356,780	11,001	(3,268,062)	(99,758)
Losses from valuation on financial assets and liabilities	1,092,068	33,675	6,173,997	188,462
Impairment loss	65,991	2,035	242,464	7,401
Unrealized bad debt losses	57	2	57,524	1,756
Loss carryforward	14,856	458	-	-
Other	8,252	254	6,589	201
Total	\$1,875,737	\$57,839	\$3,560,555	\$108,686
Tax effect under consolidated income tax system	\$2,062,893	\$63,611	\$3,131,067	\$95,576
Investment tax credits	\$15,470	\$477	\$28,881	\$881

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	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$3,672,181	\$113,234	\$6,349,142	\$193,807
Allowance for deferred tax assets - current	(1,078)	(33)	(1,444)	(44)
Net deferred tax assets - current	3,671,103	113,201	6,347,698	193,763
Deferred tax liabilities - current	(136,810)	(4,219)	(3,405,872)	(103,964)
Net offset balance of deferred tax assets - current	<u>\$3,534,293</u>	<u>\$108,982</u>	<u>\$2,941,826</u>	<u>\$89,799</u>
Deferred tax assets - noncurrent	\$418,729	\$12,912	\$3,779,477	\$115,369
Allowance for deferred tax assets - noncurrent	(14,856)	(458)	-	-
Net deferred tax assets - noncurrent	403,873	12,454	3,779,477	115,369
Deferred tax liabilities - noncurrent	-	-	(2,244)	(69)
Net balance of deferred tax assets - noncurrent	<u>\$403,873</u>	<u>\$12,454</u>	<u>\$3,777,233</u>	<u>\$115,300</u>

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

	For the years ended December 31			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$576,627	\$17,781	\$(2,954,591)	\$(90,189)
Add (less): Tax effects under consolidated income tax systems	(957,985)	(29,540)	374,942	11,445
Deferred income tax benefit from unrealized bad debt losses	(57)	(2)	(57,524)	(1,756)
Deferred income tax (benefit) expense from unrealized foreign exchange loss (gain)	(449,278)	(13,854)	3,622,598	110,580

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	For the years ended December 31			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Deferred income tax benefit from unrealized financial instruments valuation loss	(901,637)	(27,803)	(5,085,071)	(155,222)
Deferred income tax expense (benefit) from unrealized pension expense	83,062	2,561	(10,310)	(315)
Deferred income tax benefit from impairment loss	(26,738)	(824)	(176,474)	(5,387)
Others	3,240	100	8,642	264
Add: Separation tax	353,863	10,912	145,151	4,431
Additional tax assessed by the tax authority	4,559	140	-	-
Prior year adjustment	12,901	398	88,725	2,708
Withholding tax for overseas investments	37,130	1,145	73,079	2,231
Less: Income tax credit	(13,589)	(419)	(14,906)	(455)
Add: Alternative minimum tax payable	2,304,947	71,075	-	-
10% surtax on undistributed retained earnings	-	-	5,211	159
Total income tax expense (benefit)	<u>\$1,027,045</u>	<u>\$31,670</u>	<u>\$(3,980,528)</u>	<u>\$(121,506)</u>

(2) Income tax returns

	December 31, 2008
	Income tax returns assessed
The Company	Through 2003
Symphox Information	Through 2006
Cathay Venture	Through 2006
Cathay Life (Shanghai)	-
Cathay Life (Vietnam)	-

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(3) Information related to imputation

A. Balance of imputation credit account

	December 31			
	2007		2008	
	NT\$	US\$	NT\$	US\$
The Company	\$1,160,741	\$35,792	\$963,145	\$29,400
Symphox Information	-	-	-	-
Cathay Venture	1,027	32	15,404	470

B. Imputation credit account ratio

	For the years ended December 31,	
	2007	2008
	(Actual)	(Actual)
The Company	7.96%	5.62%
Symphox Information	-	-
Cathay Venture	32.56%	17.87%

(4) Related information on undistributed earnings – The Company

Year	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
After 1998	\$23,468,521	\$723,667	\$(1,973,545)	\$(60,243)

24. Earnings per share

	Amount (numerator)		Weighted average outstanding number of shares (denominator)	Earnings per share (In dollars)	
	Before tax	After tax	(thousand shares)	Before tax	After tax
	NT\$	NT\$		NT\$	NT\$
For the year ended December 31, 2007	\$24,410,503	\$23,383,458	5,068,616	\$4.82	\$4.61

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	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	(numerator)			Before tax	After tax
	Before tax	After tax		US\$	US\$
For the year ended December 31, 2007	US\$	US\$		US\$	US\$
Consolidated income	<u>\$752,714</u>	<u>\$721,044</u>	5,068,616	<u>\$0.15</u>	<u>\$0.14</u>

	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	(numerator)			Before tax	After tax
	Before tax	After tax		NT\$	NT\$
For the year ended December 31, 2008	NT\$	NT\$		NT\$	NT\$
Consolidated loss	<u>\$(6,342,724)</u>	<u>\$(2,362,196)</u>	5,171,348	<u>\$(1.23)</u>	<u>\$(0.46)</u>

	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	(numerator)			Before tax	After tax
	Before tax	After tax		US \$	US \$
For the year ended December 31, 2008	US\$	US \$		US \$	US \$
Consolidated loss	<u>\$(193,612)</u>	<u>\$(72,106)</u>	5,171,348	<u>\$(0.04)</u>	<u>\$(0.01)</u>

26. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture 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 Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company

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Name	Relationship
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.(2008.12.31 liquidation)
Cathay Insurance Company Limited. (Shanghai)	An equity-method investee
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
China Eastern Airlines Co., Ltd.	Affiliate
Other related parties	The directors, supervisors, managers, and their spouses, as well as their second immediate families

(2) Significant transactions with related parties

Transactions with related parties less than NT\$3,000 (US\$92) 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.

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(A) Significant transactions with related parties for the years ended December 31, 2007 and 2008 are listed below:

Name	Item	For the year ended December 31, 2007	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Lank Mark etc	\$37,486	\$1,156
Lin Yuan Property Management Co., Ltd.	International Building etc	288,975	8,911
	Total	<u>\$326,461</u>	<u>\$10,067</u>

Name	Item	For the year ended December 31, 2008	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Lank Mark etc	\$15,258	\$466
Lin Yuan Property Management Co., Ltd.	International Building etc	214,481	6,547
	Total	<u>\$229,739</u>	<u>\$7,013</u>

The total amounts of contracted projects for real estate as of December 31, 2007 and 2008 between the Company and San Ching Engineering Co., Ltd. were NT\$183,396 (US\$5,655) thousands and NT\$33,850 (US\$1,033) thousands, respectively.

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

Name	Rental income			
	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$17,332	\$534	\$22,326	\$681
Cathay Real Estate Development Co., Ltd.	16,927	522	19,522	596
Cathay United Bank	274,584	8,467	299,636	9,146
Cathay Century Insurance Co., Ltd.	72,040	2,221	84,615	2,583
Cathay General Hospital	159,997	4,934	172,621	5,269
San Ching Engineering Co., Ltd.	7,907	244	8,478	259
Cathay Securities Investment Trust Co., Ltd.	13,331	411	19,510	596
Cathay Securities Investment Consulting Co., Ltd.	3,679	114	7,367	225
Cathay Securities Co., Ltd.	17,880	551	20,781	634
Cathay Capital Management Inc.	2,180	67	-	-
Seaward Leasing Co., Ltd.	1,266	39	-	-
Taiwan Asset Management Corporation	12,289	379	-	-
Cathay Futures Co., Ltd.	736	23	-	-
Lin Yuan Investment Co., Ltd.	351	11	-	-
Total	<u>\$600,499</u>	<u>\$18,517</u>	<u>\$654,856</u>	<u>\$19,989</u>

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Name	Guarantee deposits received			
	December 31, 2007		December 31, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,945	\$122	\$4,886	\$149
Cathay United Bank	63,822	1,968	69,003	2,106
Cathay Century Insurance Co., Ltd.	18,994	586	20,572	628
Cathay General Hospital	9,114	281	11,079	338
San Ching Engineering Co., Ltd.	1,782	55	-	-
Cathay Securities Investment Trust Co., Ltd.	2,738	84	4,872	149
Cathay Securities Investment Consulting Co., Ltd.	1,055	32	-	-
Cathay Securities Co., Ltd.	4,710	145	4,710	144
Cathay Capital Management Inc.	638	20	-	-
Seaward Leasing Co., Ltd.	346	11	-	-
Taiwan Asset Management Corporation	3,477	107	-	-
Cathay Financial Holding Co., Ltd.	4,864	150	5,940	181
Total	<u>\$115,485</u>	<u>\$3,561</u>	<u>\$121,062</u>	<u>\$3,695</u>

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 years ended December 31,			
	2007		2008	
NT\$	US\$	NT\$	US\$	
Cathay Real Estate Development Co., Ltd.	\$30,681	\$946	\$30,363	\$927
Lin Yuan Investment Co., Ltd.	2,094	65	-	-
Cathay United Bank	7,470	230	10,972	335
Indovina Bank Limited	425	13	-	-
Total	<u>\$40,670</u>	<u>\$1,254</u>	<u>\$41,335</u>	<u>\$1,262</u>

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Name	Guarantee deposits paid			
	December 31, 2007		December 31, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,926	\$275	\$8,779	\$268
Lin Yuan Investment Co., Ltd.	628	19	-	-
Cathay United Bank	2,162	67	-	-
Indovina Bank Limited	110	3	-	-
Total	<u>\$11,826</u>	<u>\$364</u>	<u>\$8,779</u>	<u>\$268</u>

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

B. Cash in banks

		For the year ended December 31, 2007		
Name	Item	Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	Time deposit	\$57,974	1.15%-2.49%	\$5,002,086
	Cash in bank	3,577	0.02%-2.35%	3,610,176
Total		<u>\$61,551</u>		<u>\$8,612,262</u>

		For the year ended December 31, 2007		
Name	Item	Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	Time deposit	\$1,788	1.15%-2.49%	\$154,243
	Cash in bank	110	0.02%-2.35%	111,322
Total		<u>\$1,898</u>		<u>\$265,565</u>

		For the year ended December 31, 2008		
Name	Item	Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	Time deposit	\$104,609	1.00%-10.00%	\$7,047,333
	Cash in bank	3,286	0.02%-1.85%	2,724,459
Indovina Bank Limited	Time deposit	32,227	2.09%-17.00%	165,012
	Cash in bank	504	0.50%-2.40%	32,439
Total		<u>\$140,626</u>		<u>\$9,969,243</u>

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Name	Item	For the year ended December 31, 2008		
		Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	Time deposit	\$3,193	1.00%-10.00%	\$215,120
	Cash in bank	100	0.02%-1.85%	83,164
Indovina Bank Limited	Time deposit	984	2.09%-17.00%	5,037
	Cash in bank	16	0.50%-2.40%	990
Total		<u>\$4,293</u>		<u>\$304,311</u>

C. Other financial assets

Name	For the year ended December 31, 2007		
	Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	<u>\$90,679</u>	1.80%-3.32%	<u>\$4,300,000</u>

Name	For the year ended December 31, 2007		
	Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	<u>\$2,796</u>	1.80%-3.32%	<u>\$132,593</u>

Name	For the year ended December 31, 2008		
	Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	<u>\$75,609</u>	1.80%-4.06%	<u>\$500,000</u>

Name	For the year ended December 31, 2008		
	Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	<u>\$2,308</u>	1.80%-4.06%	<u>\$15,263</u>

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D. Secured loans

For the year ended December 31, 2007				
	Maximum amount	Interest income	Rate	Ending balance
Name	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,449,654	\$150,934	3.44%-3.73%	\$4,396,278
Other related parties	303,248	6,268	2.10%-5.87%	246,646
Total	\$4,752,902	\$157,202		\$4,642,924

For the year ended December 31, 2007				
	Maximum amount	Interest income	Rate	Ending balance
Name	US\$	US\$		US\$
Cathay General Hospital	\$137,208	\$4,654	3.44%-3.73%	\$135,562
Other related parties	9,351	193	2.10%-5.87%	7,605
Total	\$146,559	\$4,847		\$143,167

For the year ended December 31, 2008				
	Maximum amount	Interest income	Rate	Ending balance
Name	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,388,030	\$163,347	3.57%-3.91%	\$4,286,249
Other related parties	340,552	8,177	2.20%-5.67%	289,709
Total	\$4,728,582	\$171,524		\$4,575,958

For the year ended December 31, 2008				
	Maximum amount	Interest income	Rate	Ending balance
Name	US\$	US\$		US\$
Cathay General Hospital	\$133,945	\$4,986	3.57%-3.91%	\$130,838
Other related parties	10,395	250	2.20%-5.67%	8,843
Total	\$144,340	\$5,236		\$139,681

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

Name		December 31,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds.	Market value	\$7,490,929	\$230,988	\$5,312,599	\$162,167

F. Available-for-sale financial assets-current (Beneficiary Certificates)

Name		December 31,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds.	Market value	\$104,247	\$3,215	\$133,089	\$4,063

G. Other accounts receivable

Name		December 31,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay United Bank		\$13,397	\$413	\$52,254	\$1,595
Cathay Century Insurance Co., Ltd.		78,554	2,422	146,299	4,466
Cathay securities corporation Ltd.		677	21	-	-
Cathay Insurance (Bermuda) Co., Ltd.		12,658	390	9,341	285
Cathay Financial Holding Co., Ltd. (note)		541,486	16,697	3,232,375	98,668
Lin Yuan Property Management Co., Ltd.		3,770	116	-	-

Note : Receivables due to consolidated income tax.

H. Prepayments

Name		December 31,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Lin Yuan Investment Co., Ltd.		\$419	\$13	\$-	\$-

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I. Repurchase bonds

Name	For the year ended December 31, 2008		
	Interest	Rate	Ending
	income NT\$		balance NT\$
Cathay United Bank	\$13,210	0.3%-1.94%	\$431,473

Name	For the year ended December 31, 2008		
	Interest	Rate	Ending
	income US\$		balance US\$
Cathay United Bank	\$403	0.3%-1.94%	\$13,171

J. Guarantee deposits paid

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$560,751	\$17,291	\$731,062	\$22,316

As of December 31, 2007 and 2008, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$261 (US\$8) thousands and NT\$658 (US\$20) thousands, respectively.

K. Other payable

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$42,825	\$1,321	\$-	\$-
Lin Yuan Property Management Co., Ltd.	4,912	151	-	-
Cathay Real Estate Development Co., Ltd.	600	19	-	-
San Ching Engineering Co., Ltd.	7,237	223	10,288	314
Seaward Leasing Co., Ltd.	1,258	39	-	-
Cathay Financial Holding Co., Ltd.	960,038	29,603	10,041	307

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L. Accounts collected in advance

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,122	\$65	\$3,889	\$119
Taiwan Asset Management Corporation	2,542	78	-	-
Cathay United Bank	32,695	1,008	28,165	860
Cathay Securities Co., Ltd.	1,344	41	-	-
Cathay Futures Co., Ltd.	777	24	-	-
Lin Yuan Property Management Co., Ltd.	3,093	95	-	-

M. Premiums income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$459,751	\$14,177	\$555,658	\$16,961
Cathay Financial Holding Co., Ltd.	834	26	-	-
Cathay General Hospital	29,906	922	30,828	941
Cathay Real Estate Development Co., Ltd.	1,719	53	-	-
San Ching Engineering Co., Ltd.	1,269	39	-	-
Cathay Century Insurance Co., Ltd.	8,199	253	8,004	244
Cathay Securities Investment Trust Co., Ltd.	1,115	34	-	-
Cathay Securities Co., Ltd.	1,943	60	-	-
Cathay Futures Co., Ltd.	122	4	-	-
Cathay Securities Investment Consulting Co., Ltd	347	11	-	-
Cathay Lin Yuan Securities Co., Ltd.	338	10	-	-
Lin Yuan Property Management Co., Ltd.	2,384	73	-	-
China Eastern Airline Co., Ltd.	221,523	6,831	201,033	6,137
Other related parties	308,968	9,527	398,492	12,164
Total	\$1,038,418	\$32,020	\$1,194,015	\$36,447

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N. Insurance expense

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$130,679	\$4,030	\$49,272	\$1,504

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$10,185 (US\$314) thousands and NT\$9,877 (US\$301) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the years ended December 31, 2007 and 2008.

O. Insurance claim payment

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
China Eastern Airline Co., Ltd.	\$5,534	\$171	\$14,516	\$443

P. Indemnity income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$11,989	\$370	\$6,535	\$199

Q. Reinsurance income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$137,010	\$4,225	\$140,639	\$4,293

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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 years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$7,748	\$237

S. Reinsurance handing fee income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$3	\$-	\$8,793	\$268

T. Reinsurance service expenses

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,156	\$221	\$10,215	\$312

U. Reinsurance claims payment

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$28,824	\$889	\$104,739	\$3,197

V. Reinsurance commission expense

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$12,580	\$388	\$6,238	\$190

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W. Other operating income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property management Co., Ltd.	\$5,231	\$161	\$4,849	\$148
Cathay Century Insurance Co., Ltd.	15,570	480	17,063	521
Cathay General Hospital	6,706	207	4,155	127
Cathay United Bank	415,613	12,816	464,670	14,184
Cathay Securities Investment Trust Co., Ltd.	5,064	156	-	-
Cathay Securities Co., Ltd.	3,503	108	3,112	95
Cathay Financial Holding Co., Ltd.	1,301	40	-	-
Cathay Real Estate Development Co., Ltd.	1,846	57	-	-
Cathay Securities Investment Consulting Co., Ltd.	420	13	3,002	91
Cathay Futures Co., Ltd.	2,586	80	-	-
San Ching Engineering Co., Ltd.	684	21	-	-
Seaward Leasing Co., Ltd.	521	16	-	-
Total	\$459,045	\$14,155	\$496,851	\$15,166

X. Miscellaneous income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$759,006	\$23,405	\$890,063	\$27,169
Cathay United Bank	106,119	3,272	127,741	3,899
Cathay Securities Investment Trust Co., Ltd.	4,541	140	40,394	1,233
Cathay General Hospital	4,735	146	5,430	166
Cathay Securities Co., Ltd.	1,960	60	-	-
Cathay Real Estate Development Co., Ltd.	1,517	47	-	-
Cathay Financial Holding Co., Ltd.	1,355	42	-	-
Taiwan Asset Management Corporation	1,092	34	-	-
Cathay Securities Investment Consulting Co., Ltd.	325	10	-	-
San Ching Engineering Co., Ltd.	596	18	-	-
Total	\$881,246	\$27,174	\$1,063,628	\$32,467

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

Y. Commissions expenses

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$23,721	\$731	\$24,287	\$741

Z. Operating expenses

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$208,451	\$6,428	\$3,659	\$112
Lin Yuan Property Management Co., Ltd.	605,814	18,681	596,636	18,212
Cathay Securities Investment Consulting Co., Ltd.	52,500	1,619	30,135	920
San Ching Engineering Co., Ltd.	6,110	188	7,408	226
Cathay Real Estate Development Co., Ltd.	7,305	225	6,947	212
Cathay Capital Management Inc.	52,563	1,621	50,126	1,530
Seaward Leasing Co., Ltd.	10,097	311	10,845	331
Seaward Card Co., Ltd.	4,960	153	66,452	2,028
Cathay Futures Co., Ltd.	3,778	116	4,123	126
Cathay United Bank	661,862	20,409	1,117,006	34,097
Cathay Lin Yuan Security Co., Ltd.	476	15	-	-
Cathay Financial Holding Co., Ltd.	-	-	10,041	307
Total	<u>\$1,613,916</u>	<u>\$49,766</u>	<u>\$1,903,378</u>	<u>\$58,101</u>

AA. Cost of disposal real estate

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$21,115	\$651	\$-	\$-

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AB. Other

(A) As of December 31, 2007 and 2008, the nominal amount of the financial instruments transactions with Cathay United Bank are listed below:

Item	December 31,	
	2007	2008
Forward foreign exchange contracts	USD160,362	USD768,858
CS contracts	USD1,315,000	USD1,110,000
Financial debentures	NTD200,000 (USD6,167)	-

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$1,030,000 (US\$31,761) thousands and NT\$4,480,000 (US\$136,752) thousands during the years ended December 31, 2007 and 2008, respectively.

AC. Information about key management personnel compensation:

Item	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Remunerations including wages, awards, bonus, and etc.	\$64,883	\$2,001	\$76,970	\$2,350

The management of the Company and Subsidiaries includes directors, supervisors, vice general managers and the above. Please refer to the report for annual stockholders' meeting for details of total remunerations paid to above management.

27. Pledged assets

(1) The company

As of December 31, 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".

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Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
- Government bonds	\$8,042,549	\$247,997	\$8,337,123	\$254,491
Guarantee deposits paid - Time deposits	195,160	6,018	109,650	3,347
Guarantee deposits paid - others	70,745	2,181	61,441	1,875
Total	<u>\$8,308,454</u>	<u>\$256,196</u>	<u>\$8,508,214</u>	<u>\$259,713</u>

Pledged assets are summarized based on the carrying amounts.

(2) Symphox Information

As of December 31, 2007 and 2008, the pledged property details are as follows:

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss - current	<u>\$24,407</u>	<u>\$753</u>	<u>\$26,820</u>	<u>\$819</u>

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

(3) Cathay Life (Shanghai)

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	<u>\$710,688</u>	<u>\$21,915</u>	<u>\$770,576</u>	<u>\$23,522</u>

According to the requirement of the China Insurance Regulatory Commission, the amount of "Guaranteed Depository Insurance" is equal to 20% of the capital and deposited in the form of time deposits.

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28. Other important matters and contingent liabilities

None.

29. Serious damages

None.

30. Subsequent events

None.

31. Others

(1) Pension related information

A. The Company

The Company recognized a net pension cost of NT\$(79,014) (US\$(2,436)) thousands and NT\$255,772 (US\$7,807) thousands for the years ended December 31, 2007 and 2008, respectively. The amount of NT\$253,234 (US\$7,809) thousands and NT\$214,532 (US\$6,549) thousands were contributed to the pension fund for the years ended December 31, 2007 and 2008, respectively.

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(6,717,446)	\$(207,137)	\$(6,125,652)	\$(186,986)
② Non-vested benefit obligation	(3,015,262)	(92,978)	(2,488,515)	(75,962)
③ Accumulated benefit obligation	(9,732,708)	(300,115)	(8,614,167)	(262,948)
④ Effect from projected salary increase	(1,965,760)	(60,615)	(1,046,627)	(31,948)
⑤ Projected benefit obligation	(11,698,468)	(360,730)	(9,660,794)	(294,896)
⑥ Fair value of plan assets	10,869,594	335,171	6,802,489	207,646
⑦ Funded status = ⑤ + ⑥	(828,874)	(25,559)	(2,858,305)	(87,250)
⑧ Unrecognized transitional net net assets	(1,136,097)	(35,032)	(757,398)	(23,120)
⑨ Unrecognized prior service cost	206,934	6,381	155,201	4,737
⑩ Unrecognized pension loss	407,104	12,553	2,068,329	63,136
⑪ Adjustment required to recognize minimum pension liability	-	-	(419,505)	(12,805)
⑫ Accrued pension liability recognized = ⑦				
+ ⑧ + ⑨ + ⑩ + ⑪	<u>\$(1,350,933)</u>	<u>\$(41,657)</u>	<u>\$(1,811,678)</u>	<u>\$(55,302)</u>

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The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2007	2008
① Discount rate	3.00%	3.00%
② Rate of salary increase:		
Office workers	3.00%	1.50%
Field workers	Based on service period	Based on service period
③ Expected return on plan assets	3.00%	3.00%

B. Symphox Information

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(3,072)	\$(95)	\$(3,143)	\$(96)
② Non-vested benefit obligation	(2,612)	(81)	(3,143)	(96)
③ Accumulated benefit obligation	(5,684)	(175)	(6,286)	(192)
④ Effect from projected salary increase	(1,392)	(43)	(1,451)	(44)
⑤ Projected benefit obligation	(7,076)	(218)	(7,737)	(236)
⑥ Fair value of plan assets	9,031	278	9,848	300
⑦ Vested benefit	4,621	142	4,843	148
⑧ Funded status = ⑤ + ⑥	1,955	60	2,111	64
⑨ Unrecognized transitional net net assets	293	9	274	8
⑩ Unrecognized prior service cost	-	-	-	-
⑪ Unrecognized pension gain (loss)	(911)	(28)	(1,214)	(37)
⑫ Adjustment required to recognize minimum pension liability	-	-	-	-
⑬ Accrued pension liability recognized = ⑧ + ⑨ + ⑩ + ⑪ + ⑫	\$1,337	\$41	\$1,171	\$35

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The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2007	2008
① Discount rate	3.00%	3.00%
② Rate of salary increase :	2.00%	2.00%
③ Expected return on plan assets	3.00%	3.00%

(2) Separate account insurance products related information

A. The Company

① Separate account insurance products-assets and liabilities

Assets			Liabilities		
Item	December 31, 2007		Item	December 31, 2007	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$7,045	\$217	Other payable	\$811,394	\$25,020
Financial assets at fair value through profit or loss	251,118,284	7,743,395	Reserve for separate account	252,975,775	7,800,672
Interests receivable	11,109	343	Adjustments	107	3
Other receivable	2,650,838	81,740			
Total	\$253,787,276	\$7,825,695	Total	\$253,787,276	\$7,825,695

Assets			Liabilities		
Item	December 31, 2008		Item	December 31, 2008	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$8,224	\$251	Other payable	\$1,890,979	\$57,722
Financial assets at fair value through profit or loss	191,013,773	5,830,701	Reserve for separate account	191,250,013	5,837,913
Interests receivable	193	6	Adjustments	1	-
Other receivable	2,118,803	64,677			
Total	\$193,140,993	\$5,895,635	Total	\$193,140,993	\$5,895,635

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② Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1-December 31, 2007		Item	January 1-December 31, 2007	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$1,558,972	\$48,072	Premiums income	\$138,688,126	\$4,276,538
Cash surrender value	59,479,618	1,834,092	Recovered separate	67,973,277	2,096,000
Dividends	5,788	179	account reserve		
Provision for separate			Interest income	24,887	767
account reserve	163,857,316	5,052,646	Gains from valuation		
Losses on disposal of			on financial assets	16,302,575	502,701
investments	143,686	4,431	Gains on foreign		
Administrative expenses	3,514,820	108,382	exchange	5,571,441	171,799
Adjustments	107	3	Adjustments	1	-
Total	\$228,560,307	\$7,047,805	Total	\$228,560,307	\$7,047,805

Expnses			Revenues		
Item	January 1-December 31, 2008		Item	January 1-December 31, 2008	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$1,225,549	\$37,410	Premiums income	\$92,884,488	\$2,835,302
Cash surrender value	48,316,421	1,474,860	Recovered separate		
Dividends	5,180	158	account reserve	144,347,515	4,406,212
Provision for separate			Interest income	287,899	8,788
account reserve	82,621,752	2,522,032	Miscellaneous income	3,465	106
Losses from valuation on			Adjustments	107	3
financial assets	55,398,195	1,691,032			
Losses on disposal of					
investments	24,980,819	762,540			
Losses on foreign exchange	20,093,058	613,341			
Administrative expenses	4,882,499	149,038			
Adjustments	1	-			
Total	\$237,523,474	\$7,250,411	Total	\$237,523,474	\$7,250,411

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- ③ The commission earned for the sales of separate account insurance products from counterparties for the years ended December 31, 2007 and 2008 were NT\$652,012 (US\$20,105) thousands and NT\$4,063,801 (US\$124,048) thousands, respectively.

B. Cathay Life (Shanghai)

- ① Separate account insurance products-assets and liabilities

Assets			Liabilities		
Item	December 31,2007		Item	December 31,2007	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$36,111	\$1,114	Other account payable	\$63	\$2
Financial assets at fair value through profit or loss	228,858	7,057	Reserve for separate account	264,915	8,169
Interests receivable	9	-			
Total	\$264,978	\$8,171	Total	\$264,978	\$8,171

Assets			Liabilities		
Item	December 31,2008		Item	December 31,2008	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$19,055	\$581	Other account payable	\$773	\$23
Financial assets at fair value through profit or loss	294,307	8,984	Reserve for separate account	312,886	9,551
Interests receivable	297	9			
Total	\$313,659	\$9,574	Total	\$313,659	\$9,574

- ② Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1- December 31,2007		Item	January 1- December 31,2007	
	NT\$	US\$		NT\$	US\$
Provision for separate account reserve	\$257,496	\$7,940	Premiums income	\$257,557	\$7,942
Administrative expenses	61	2			
Total	\$257,557	\$7,942	Total	\$257,557	\$7,942

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Expenses			Revenues		
Item	January 1- December 31,2008		Item	January 1- December 31,2008	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$29,014	\$886	Premiums income	\$197,637	\$6,033
Provision for separate account reserve	248,837	7,596	Recovered separate Account reserve	224,674	6,858
Loss on financial assets valuation	90,428	2,760			
Loss on disposal of investment	54,032	1,649			
Total	\$422,311	\$12,891	Total	\$422,311	\$12,891

(3) Discretionary account management

Item	December 31, 2007			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$12,199,314	\$376,174	\$12,199,314	\$376,174
Repurchase bonds	7,759,126	239,258	7,759,126	239,258
Cash in banks	556,323	17,154	556,323	17,154
Total	\$20,514,763	\$632,586	\$20,514,763	\$632,586

Item	December 31, 2008			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,226,557	\$98,491	\$3,226,557	\$98,491
Repurchase bonds	9,272,659	283,048	9,272,659	283,048
Cash in banks	149,675	4,569	149,675	4,569
Total	\$12,648,891	\$386,108	\$12,648,891	\$386,108

As of December 31, 2007 and 2008, the Company entered into discretionary account management contracts in the amounts of NT\$17,450,000 (US\$538,082) thousands and NT\$14,200,000 (US\$433,455) thousands, respectively.

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- (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. The Company

(a) Fair value

Item	December 31, 2007			
	NT\$		US\$	
	Carrying		Carrying	
	Amount	Fair value	amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$196,913,663	\$196,913,663	\$6,071,960	\$6,071,960
Notes and accounts receivable	32,916,924	32,916,924	1,015,015	1,015,015
Financial assets at fair value through profit or loss - current	86,981,385	86,981,385	2,682,127	2,682,127
Available-for-sale financial assets - current	181,373,065	181,373,065	5,592,756	5,592,756
Held-to-maturity financial assets - current	8,307,886	8,303,803	256,179	256,053
Investments in debt securities with no active market - current	5,850,138	5,853,746	180,393	180,504

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Item	December 31, 2007			
	NT\$		US\$	
	Carrying Amount	Fair value	Carrying amount	Fair value
Other financial assets - current	4,000,000	4,000,000	123,343	123,343
Available-for-sale financial assets - noncurrent	229,265,818	229,265,818	7,069,560	7,069,560
Held-to-maturity financial assets - noncurrent	572,148,779	561,032,468	17,642,577	17,299,799
Financial assets carried at cost - noncurrent	19,053,344	-	587,522	-
Investments in debt securities with no active market - noncurrent	59,126,664	54,880,852	1,823,209	1,692,287
Long-term investments under the equity method	6,254,217	6,254,217	192,853	192,853
Other financial assets – noncurrent	19,400,000	19,400,000	598,211	598,211
Guarantee deposits paid	10,332,035	10,332,035	318,595	318,595
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	9,366,030	9,366,030	288,807	288,807
Guarantee deposits received	1,488,192	1,488,192	45,889	45,889
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	6,478,602	6,478,602	199,772	199,772
IRS, CDS	97,193	97,193	2,997	2,997
Derivative financial assets for hedging - current				
IRS	252,645	252,645	7,790	7,790
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	13,009,518	13,009,518	401,157	401,157
IRS, CDS	49,101	49,101	1,514	1,514
Derivative financial liabilities for hedging - current				
IRS	101,430	101,430	3,128	3,128

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Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$221,966,913	\$221,966,913	\$6,775,547	\$6,775,547
Notes and accounts receivable	32,659,740	32,659,740	996,940	996,940
Financial assets at fair value through profit or loss - current	68,013,261	68,013,261	2,076,107	2,076,107
Available-for-sale financial assets - current	107,359,797	107,359,797	3,277,161	3,277,161
Held-to-maturity financial assets - current	29,110,492	26,790,843	888,599	817,791
Investments in debt securities with no active market - current	3,710,079	3,660,373	113,250	111,733
Available-for-sale financial assets - noncurrent	272,242,609	272,242,609	8,310,214	8,310,214
Held-to-maturity financial assets - noncurrent	617,485,367	621,007,617	18,848,760	18,956,276
Financial assets carried at cost - noncurrent	18,964,245	-	578,884	-
Investments in debt securities with no active market - noncurrent	85,839,151	66,151,654	2,620,243	2,019,281
Long-term investments under the equity method	6,466,022	6,466,022	197,376	197,376
Other financial assets – noncurrent	6,100,000	6,100,000	186,203	186,203
Guarantee deposits paid	12,018,527	12,018,527	366,866	366,866
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	6,069,451	6,069,451	185,271	185,271
Guarantee deposits received	1,542,898	1,542,898	47,097	47,097
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	6,753,736	6,753,736	206,158	206,158
IRS, CDS	486,339	486,339	14,845	14,845
Derivative financial assets for hedging - current				
IRS	2,770,036	2,770,036	84,555	84,555
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	29,888,321	29,888,321	912,342	912,342
IRS, CDS	195,928	195,928	5,981	5,981
Derivative financial liabilities for hedging - current				
IRS, CDS	122,368	122,368	3,735	3,735

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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.
- 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:

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Financial instruments	December 31, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$178,992,569	\$5,519,352	\$17,921,094	\$552,608
Notes and accounts receivable	-	-	32,916,924	1,015,014
Financial assets at fair value through profit or loss -				
current	81,791,799	2,522,103	5,189,586	160,024
Available-for-sale financial assets - current	181,373,019	5,592,754	46	2
Held-to-maturity financial assets - current	6,219,703	191,788	2,084,100	64,265
Investments in debt securities with no active market -	2,848,883	87,847	3,004,863	92,657
current				
Other financial assets-current	-	-	4,000,000	123,343
Available-for-sale financial assets - noncurrent	226,180,672	6,974,427	3,085,146	95,133
Held-to-maturity financial assets - noncurrent	93,706,241	2,889,493	467,326,227	14,410,306
Investments in debt securities with no active market -				
noncurrent	-	-	54,880,852	1,692,287
Long-term investments in stocks under the equity				
method	-	-	6,254,217	192,853
Other financial assets - noncurrent	-	-	19,400,000	598,211
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	-	-	9,366,030	288,807
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss -				
current				
Forward, CS, CCS	-	-	6,478,602	199,772
IRS, CDS	-	-	97,193	2,997
Derivative financial assets for hedging - current				
IRS	-	-	252,645	7,790
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss				
- current				
Forward, CS, CCS	-	-	13,009,518	401,157
IRS, CDS	-	-	49,101	1,514
Derivative financial liabilities for hedging - current				
IRS	-	-	101,430	3,128

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Financial instruments	December 31, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$212,493,164	\$6,486,361	\$9,473,749	\$289,186
Notes and accounts receivable	-	-	32,659,740	996,940
Financial assets at fair value through profit or loss - current	64,544,414	1,970,220	3,468,847	105,887
Available-for-sale financial assets - current	107,259,749	3,274,107	100,048	3,054
Held-to-maturity financial assets - current	1,197,093	36,541	25,593,750	781,250
Investments in debt securities with no active market - current	-	-	3,660,373	111,733
Available-for-sale financial assets - noncurrent	270,944,378	8,270,585	1,298,231	39,629
Held-to-maturity financial assets - noncurrent	83,646,781	2,553,320	537,360,836	16,402,956
Investment in debt securities with no active market - noncurrent	-	-	66,151,654	2,019,281
Long-term investments under the equity method	-	-	6,466,022	197,376
Other financial assets - noncurrent	-	-	6,100,000	186,203
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	6,069,451	185,271
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	-	-	6,753,736	206,158
IRS, CDS	-	-	486,339	14,845
Derivative financial assets for hedging - current				
IRS	-	-	2,770,036	84,555
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	-	-	29,888,321	912,342
IRS, CDS	-	-	195,928	5,981
Derivative financial liabilities for hedging - current				
IRS, CDS	-	-	122,368	3,735

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(b) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at December 31, 2007 and 2008:

① December 31, 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	\$1,491,509	\$45,992	\$48,607	\$1,499	\$136,838	\$4,219	\$2,339,819	\$72,150
Available-for-sale financial assets	1,221,375	37,662	839,026	25,872	3,388,714	104,493	7,704,260	237,566
Held-to-maturity financial assets	6,327,347	195,108	12,685,460	391,164	5,091,188	156,990	16,188,132	499,172
Investments in debt securities with								
no active market	905,388	27,918	167,125	5,153	1,149,522	35,446	2,432,787	75,017

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	\$1,330,590	\$41,030	\$6,141,408	\$189,374	\$11,488,771	\$354,264
Available-for-sale financial assets	11,126,920	343,106	93,751,564	2,890,890	118,031,859	3,639,589
Held-to-maturity financial assets	7,891,044	243,325	446,625,898	13,771,998	494,809,069	15,257,757
Investments in debt securities with						
no active market	455,602	14,049	48,821,596	1,505,446	53,932,020	1,663,029

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	\$7,081,537	\$218,364	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	117,567,011	3,625,255	-	-	-	-	-	-
Held-to-maturity financial assets	85,647,596	2,640,999	-	-	-	-	-	-
Investments in debt securities with								
no active market	11,044,782	340,573	-	-	-	-	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,081,537	\$218,364
Available-for-sale financial assets	-	-	-	-	117,567,011	3,625,255
Held-to-maturity financial assets	-	-	-	-	85,647,596	2,640,999
Investments in debt securities with						
no active market	-	-	-	-	11,044,782	340,573

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	\$20	\$1	\$41,637	\$1,284	\$13,235	\$408	\$4,630	\$143
Derivative financial assets for								
hedging	2,661	82	953	29	46,839	1,444	12,851	396
Financial liabilities at fair value								
through profit or loss	5,280	163	17,758	547	26,063	804	-	-
Derivative financial liabilities for								
hedging	24,630	760	8,838	273	40,259	1,241	4,154	128

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	\$10,698	\$330	\$26,992	\$832	\$97,212	\$2,998
Derivative financial assets for						
hedging	-	-	189,341	5,839	252,645	7,790
Financial liabilities at fair value						
through profit or loss	-	-	-	-	49,101	1,514
Derivative financial liabilities for						
hedging	-	-	23,549	726	101,430	3,128

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② December 31, 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	\$2,358,389	\$71,990	\$1,659,977	\$50,671	\$716,038	\$21,857	\$1,287,247	\$39,293
Available-for-sale financial assets	992,179	30,286	2,949,408	90,031	5,064,835	154,604	9,299,769	283,876
Held-to-maturity financial assets	192,294,852	5,869,806	12,865,998	392,735	16,277,738	496,878	12,303,721	375,572
Investments in debt securities with								
no active market	384,303	11,731	1,982,735	60,523	2,857,632	87,229	3,083,542	94,125

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	\$869,426	\$26,539	\$8,579,911	\$261,902	\$15,470,988	\$472,252
Available-for-sale financial assets	18,750,024	572,345	117,627,151	3,590,572	154,683,366	4,721,714
Held-to-maturity financial assets	10,890,521	332,434	306,996,235	9,371,069	551,629,065	16,838,494
Investments in debt securities with						
no active market	4,064,709	124,076	55,921,414	1,707,003	68,294,335	2,084,687

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	\$3,162,104	\$96,523	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	123,173,963	3,759,889	-	-	-	-	-	-
Held-to-maturity financial assets	94,966,793	2,898,864	-	-	-	-	-	-
Investments in debt securities with								
no active market	21,254,896	648,806	-	-	-	-	-	-

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Item	Due in 4-5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$3,162,104	\$96,523
Available-for-sale financial assets	-	-	-	-	123,173,963	3,759,889
Held-to-maturity financial assets	-	-	-	-	94,966,793	2,898,864
Investments in debt securities with						
no active market	-	-	-	-	21,254,896	648,806

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	\$34,694	\$1,059	\$39,875	\$1,217	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	2,472	75	36,283	1,108	4,889	149	-	-
Financial liabilities at fair value								
through profit or loss	25,665	783	78,379	2,393	-	-	-	-
Derivative financial liabilities for								
hedging	647	20	24,415	745	15,770	481	-	-

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	\$-	\$-	\$91,189	\$2,784	\$165,758	\$5,060
Derivative financial assets for						
hedging	873,193	26,654	1,853,199	56,569	2,770,036	84,555
Financial liabilities at fair value						
through profit or loss	-	-	-	-	104,044	3,176
Derivative financial liabilities for						
hedging	-	-	-	-	40,832	1,246

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(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 December 31, 2007 and 2008:

① December 31, 2007

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$9,251	5.35%-6ml	Half year	2008/1/8
300,000	9,251	180DCP + 40bps	Half year	2008/3/24
500,000	15,418	4%-12ml	Yearly	2008/6/5
300,000	9,251	180DCP	Half year	2008/6/12
200,000	6,167	4.003%-6ml	Half year	2008/6/13
200,000	6,167	180DCP+18bps	Half year	2008/7/11
2,000,000	61,671	90DCP+75bps	Each quarter	2008/7/19
250,000	7,709	90DCP	Each quarter	2008/8/10
450,000	13,876	90DCP	Each quarter	2008/8/22
330,000	10,176	90DCP	Each quarter	2008/8/24
1,150,000	35,461	90DCP+30bps	Each quarter	2008/9/17
350,000	10,792	If 6ml<0.9%, 6ml If 0.9%<6ml<2.0%, 3.05% If 2.0%<6ml, Max (4.0005%-6ml)	Yearly	2008/9/26
100,000	3,084	180DCP+30bps	Half year	2008/12/18
300,000	9,251	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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,167	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	6,167	5.85%-6ml	Half year	2009/1/13
50,000	1,542	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	9,559	ARMS	Each quarter	2009/3/24
900,000	27,752	90DCP+100bps	Each quarter	2009/5/20
200,000	6,167	4.000%-6ml	Half year	2010/4/7
300,000	9,251	4.0002%-6ml	Half year	2010/4/7
500,000	15,418	4.0006%-6ml	Half year	2010/4/7
500,000	15,418	4.0007%-6ml	Half year	2010/4/7
200,000	6,167	4.0003%-6ml	Half year	2010/4/7
300,000	9,251	4.3%-12ml	Yearly	2010/6/20
900,000	27,752	90DCP	Each quarter	2010/8/18
600,000	18,501	90DCP	Each quarter	2010/8/19
200,000	6,167	6.3%-6ml	Yearly	2010/11/27
300,000	9,251	5.37%-6ml	Yearly	2011/3/15
200,000	6,167	3.0%, if 6ml 2005/9/19~2006/9/19:1.0%-2.5% 2006/9/19~2007/9/19:1.0%-3.0% 2007/9/19~2008/9/19:1.0%-3.5% 2008/9/19~2009/9/19:1.0%-4.0% 2009/9/19~2010/9/19:1.0%-4.5% 2010/9/19~2011/3/19:1.0%-5.0%	Half year	2011/3/19
500,000	15,418	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
2,700,000	83,256	90DCP+25bps	Each quarter	2013/8/24
3,000,000	92,507	90DCP+26.5bps	Yearly	2013/11/03
2,000,000	61,671	90DCP	Yearly	2013/11/03

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$500,000	\$15,418	90DCP+23bps	Yearly	2013/12/14
1,000,000	30,836	90DCP+26.5bps	Yearly	2013/12/14
1,500,000	46,253	90DCP+23bps	Yearly	2013/12/16
1,000,000	30,836	90DCP+26.5bps	Yearly	2013/12/16
1,300,000	40,086	90DCP+45bps	Each quarter	2013/12/27
3,200,000	98,674	90DCP	Yearly	2014/9/27
1,500,000	46,253	90DCP	Yearly	2014/9/29
-	24,000	6ml	Half year	2013/9/20
-	14,000	6ml	Half year	2014/3/20
-	24,000	6ml	Half year	2014/3/24

② December 31, 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$9,158	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	6,105	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	6,105	5.85%-6ml	Half year	2009/1/13
50,000	1,526	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	7,555	ARMS	Each quarter	2009/3/24
900,000	27,473	90DCP+100bps	Each quarter	2009/5/20
200,000	6,105	4.000%-6ml	Half year	2010/4/7
300,000	9,158	4.0002%-6ml	Half year	2010/4/7
500,000	15,263	4.0006%-6ml	Half year	2010/4/7
500,000	15,263	4.0007%-6ml	Half year	2010/4/7
200,000	6,105	4.0003%-6ml	Half year	2010/4/7

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$9,158	4.3%-12ml	Yearly	2010/6/20
900,000	27,473	90DCP	Each quarter	2010/8/18
600,000	18,315	90DCP	Each quarter	2010/8/19
200,000	6,105	6.3%-6ml	Yearly	2010/11/27
300,000	9,158	5.37%-6ml	Yearly	2011/3/15
500,000	15,263	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	61,050	90DCP	Yearly	2013/3/26
2,700,000	82,418	90DCP+25bps	Each quarter	2013/8/24
3,000,000	91,575	90DCP+26.5bps	Yearly	2013/11/3
2,000,000	61,050	90DCP	Yearly	2013/11/3
1,000,000	30,525	90DCP+26.5bps	Yearly	2013/12/14
500,000	15,263	90DCP+23bps	Yearly	2013/12/14
1,500,000	45,788	90DCP+23bps	Yearly	2013/12/16
1,000,000	30,525	90DCP+26.5bps	Yearly	2013/12/16
900,000	27,473	90DCP	Yearly	2014/3/12
1,000,000	30,525	90DCP	Yearly	2014/6/12
2,000,000	61,050	90DCP	Yearly	2014/6/29
5,000,000	152,625	90DCP	Yearly	2014/8/23
1,000,000	30,525	90DCP	Yearly	2014/9/20
3,200,000	97,680	90DCP	Yearly	2014/9/27
2,000,000	61,050	90DCP	Each quarter	2014/9/28
1,500,000	45,788	90DCP	Yearly	2014/9/29
2,500,000	76,313	90DCP	Yearly	2014/12/20
2,000,000	61,050	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 on these financial instruments recognized in equity are NT\$218,631 (US\$6,742) thousands and NT\$2,783,260 (US\$84,959) thousands as of December 31, 2007 and 2008.

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Fair value hedges

The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at December 31, 2007 and 2008:

① December 31, 2007

None.

② December 31, 2008

Par value		Hedge item	Maturity date
NT\$	US\$		
\$-	\$45,000	CDO	2012/9/20

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

The Company's credit default swap agreements are considered to be highly effective fair value hedges. Unrealized losses on these financial instruments recognized in profit or loss are NT\$81,536 (US\$2,489) thousands as of December 31, 2008.

B. Symphox Information

Item	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$312,232	\$312,232	\$9,628	\$9,628
Financial assets at fair value through profit and loss - current	141,993	141,993	4,378	4,378
Receivables	84,842	84,842	2,616	2,616
Guarantee deposits paid	7,518	7,518	232	232
<u>Liabilities-non-derivative</u>				
Payables	106,658	106,658	3,289	3,289
Guarantee deposits received	79	79	2	2

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Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$473,540	\$473,540	\$14,455	\$14,455
Financial assets at fair value through profit and loss - current	69,673	69,673	2,127	2,127
Receivables	130,016	130,016	3,969	3,969
Guarantee deposits paid	10,483	10,483	320	320
<u>Liabilities - non-derivative</u>				
Payables	120,646	120,646	3,683	3,683
Guarantee deposits received	80	80	2	2

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

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Symphox Information predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Symphox Information's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Symphox Information.

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C. Cathay Venture

(a) Information of fair value

Item	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$473	\$473	\$15	\$15
Financial assets at fair value through profit or loss-current	33,506	33,506	1,033	1,033
Available-for-sale financial assets- current	104,247	104,247	3,215	3,215
Available-for-sale financial assets- noncurrent	292,284	292,284	9,013	9,013
Financial assets carried at cost – noncurrent	1,068,072	-	32,935	-
Long-term investments under the equity method			6,580	
<u>Liabilities - non-derivative</u>				
Payables	14,845	14,845	458	458
December 31, 2008				
Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$27,005	\$27,005	\$824	\$824
Financial assets at fair value through profit or loss-current	29,580	29,580	903	903
Available-for-sale financial assets- current	133,089	133,089	4,063	4,063
Receivables	1,266	1,266	39	39
Available-for-sale financial assets- noncurrent	106,847	106,847	3,262	3,262
Financial assets carried at cost – noncurrent	916,496	-	27,976	-
Long-term investments under the equity method	239,449	239,449	7,309	7,309
<u>Liabilities - non-derivative</u>				
Payables	4,558	4,558	139	139

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(b) The methods and assumptions used to estimate the fair value of the financial instruments are as following:

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.
- ② Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Cathay Venture's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Cathay Venture.
- ③ The fair value of the Cathay Venture'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.

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

Item	December 31, 2007			
	Based on the quoted		Based on pricing models	
	market price			
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$473	\$15	\$-	\$-
Financial assets at fair value through profit or loss-current	33,506	1,033	-	-
Available-for-sale financial assets- current	104,247	3,215	-	-
Available-for-sale financial assets- noncurrent	292,284	9,013	-	-
Long-term investments under the equity method	-	-	213,386	6,580
<u>Liabilities - non-derivative</u>				
Payables	-	-	14,845	458

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Item	December 31, 2008			
	Based on the quoted		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$27,005	\$824	\$-	\$-
Financial assets at fair value through profit or loss-current	29,580	903	-	-
Available-for-sale financial assets-current	133,089	4,063	-	-
Receivables	-	-	1,266	39
Available-for-sale financial assets-noncurrent	106,847	3,262	-	-
Long-term investments under the equity method	-	-	239,449	7,309
<u>Liabilities - non-derivative</u>				
Payables	-	-	4,558	139

D. Cathay Life (Shanghai)

Item	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$2,384,576	\$2,384,576	\$73,530	\$73,530
Financial assets at fair value through profit and loss - current	300,253	300,253	9,258	9,258
Available-for-sale financial assets - current	1,126,972	1,126,972	34,751	34,751
Receivables	128,539	128,539	3,964	3,964
Other financial assets – current	95,936	95,936	2,958	2,958
Available-for-sale financial assets - noncurrent	1,185,491	1,185,491	36,555	36,555
Held-to-maturity financial assets - noncurrent	396,666	396,666	12,231	12,231
Investment in debt securities with no active market – noncurrent	1,563,702	1,563,702	48,218	48,218
Guarantee deposits paid	725,476	725,476	22,371	22,371
<u>Liabilities-non-derivative</u>				
Short-term debt	293,159	293,159	9,040	9,040
Payables	97,552	97,552	3,008	3,008
Guarantee deposits received	2,328	2,328	72	72

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Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$2,853,823	\$2,853,823	\$87,113	\$87,113
Financial assets at fair value through profit and loss - current	684,563	684,563	20,896	20,896
Available-for-sale financial assets - current	160,633	160,633	4,903	4,903
Receivables	149,445	149,445	4,562	4,562
Available-for-sale financial assets - noncurrent	3,100,496	3,100,496	94,643	94,643
Held-to-maturity financial assets - noncurrent	433,139	433,139	13,322	13,322
Investment in debt securities with no active market - noncurrent	1,571,128	1,571,128	47,959	47,959
Guarantee deposits paid	770,576	770,576	23,522	23,522
<u>Liabilities - non-derivative</u>				
Short-term debt	411,777	411,777	12,570	12,570
Payables	421,406	421,406	12,863	12,863
Guarantee deposits received	5,625	5,625	172	172

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

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.
- ② Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Cathay Life (Shanghai). Cathay Life (Shanghai) 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.
- ③ The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life (Shanghai) predicts the future cash inflow or outflow will be of similar amount to the carrying value.

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④ The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

Item	December 31, 2007			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$2,384,576	\$73,530	\$-	\$-
Financial assets at fair value through profit or loss-current	300,253	9,258	-	-
Available-for-sale financial assets-current	1,126,972	34,751	-	-
Receivables	-	-	128,539	3,964
Other financial assets-current	-	-	95,936	2,958
Available-for-sale financial assets-noncurrent	1,185,491	36,555	-	-
Held-to-maturity financial assets-noncurrent	-	-	396,666	12,231
Investment in debt securities with no active market-noncurrent	-	-	1,563,702	48,218
<u>Liabilities - non-derivative</u>				
Short-term debt	-	-	293,159	9,040
Payables	-	-	97,552	3,008
December 31, 2008				
Item	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$2,853,823	\$87,113	\$-	\$-
Financial assets at fair value through profit or loss-current	448,309	13,684	236,254	7,212
Available-for-sale financial assets-current	160,633	4,903	-	-
Receivables	-	-	149,445	4,562
Available-for-sale financial assets-noncurrent	87,587	2,674	3,012,909	91,969
Held-to-maturity financial assets-noncurrent	-	-	433,139	13,222
Investment in debt securities with no active market-noncurrent	-	-	1,571,128	47,959
<u>Liabilities - non-derivative</u>				
Short-term debt	-	-	411,777	12,570
Payables	-	-	421,406	12,863

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E. Cathay Life (Vietnam)

Item	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$1,946,580	\$1,946,580	\$60,024	\$60,024
Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$419,562	\$419,562	\$12,807	\$12,807
Receivables	74,470	74,470	2,273	2,273
Available-for-sale financial assets - noncurrent	1,690,297	1,690,297	51,596	51,596
Guarantee deposits paid	45,768	45,768	1,397	1,397
<u>Liabilities - non-derivative</u>				
Payables	26,401	26,401	806	806

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

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.
- ② Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Cathay Life (Vietnam). Cathay Life (Vietnam) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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- ③ The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life (Vietnam) predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- ④ The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

Item	December 31, 2007			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$1,946,580	\$60,024	\$-	\$-
December 31, 2008				
Item	December 31, 2008			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$419,562	\$12,807	\$-	\$-
Receivables	-	-	74,470	2,273
Available-for-sale financial assets - noncurrent	1,690,297	51,596	-	-
<u>Liabilities - non-derivative</u>				
Payables	-	-	26,401	806

(7) Presentation of financial statements

Certain accounts in the financial statements for the year ended December 31, 2007 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2008.

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(8) Eliminated intercompany transactions

A. Eliminated intercompany transactions for the year of 2007

Transactions	Companies and amounts									
	The Company		Symphox Information		Cathay Venture		Cathay Life (Shanghai)		Cathay Life (Vietnam)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Eliminations of long-term investments under equity method and stockholders' equity										
Eliminations of investment gains/losses on subsidiaries	\$(128,183)	\$(3,953)	\$14,232	\$439	\$28,642	\$883	\$(171,057)	\$(5,275)	\$-	\$-
Eliminations of stockholders' equity on subsidiaries	4,515,131	139,227	451,695	13,928	1,697,124	52,332	3,389,396	104,514	1,946,580	60,024

Note: The intercompany elimination differences of 2007 are minority interests: NT\$2,969,664 (US\$91,572).

B. Eliminated intercompany transactions for the year of 2008

Transactions	Companies and amounts									
	The Company		Symphox Information		Cathay Venture		Cathay Life (Shanghai)		Cathay Life (Vietnam)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Eliminations of long-term investments under equity method and stockholders' equity										
Eliminations of investment gains/losses on subsidiaries	\$(287,445)	\$(8,774)	\$61,369	\$1,873	\$6,338	\$193	\$(407,648)	\$(12,443)	\$52,496	\$1,602
Eliminations of stockholders' equity on subsidiaries	4,366,769	133,296	513,047	15,661	1,449,174	44,236	2,438,701	74,441	2,272,078	69,355

Note: The intercompany elimination differences for year of 2008 are minority interests: NT\$2,306,231 (US\$70,398).

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32. 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 December 31, 2008, 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 December 31, 2008, the Company's remittances to this general insurance company totaled approximately US\$28,140 thousands.

33. Segment Information

None.