

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

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

Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, R.O.C.
Telephone: 886-2-2755-1399

Index to financial statements

	Page
Independent auditors' report	3
Balance sheets as of December 31, 2007 and 2008	4-5
Statements of income for the years ended December 31, 2007 and 2008	6
Statements of changes in stockholders' equity for the years ended December 31, 2007 and 2008	7
Statements of cash flows for the years ended December 31, 2007 and 2008	8-9
Notes to financial statements	10-76

English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

Cathay Life Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of December 31, 2007 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2008, and the results of its operations and cash flows for the years then ended in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C.

In addition, we have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2007 and 2008, on which we have expressed an unqualified opinion.

Ernst & Young
Taipei, Taiwan
The Republic of China
February 16, 2009

Notice to Readers

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

Cathay Life Insurance Co., Ltd.
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	\$196,913,663	\$6,071,960	\$221,966,913	\$6,775,547
Financial assets at fair value through profit or loss - current	2,5,12,26	93,557,180	2,884,896	75,253,336	2,297,110
Available-for-sale financial assets - current	2,6,12	181,373,065	5,592,756	107,359,797	3,277,161
Held-to-maturity financial assets - current	2,12,26	8,307,886	256,179	29,110,492	888,599
Derivative financial assets for hedging - current	2,7	252,645	7,790	2,770,036	84,555
Investments in debt securities with no active market - current	2	5,850,138	180,393	3,710,079	113,250
Notes receivable	2	8,506,107	262,291	5,922,597	180,788
Prepaid reinsurance premium		-	-	193,156	5,896
Claims recoverable from reinsurers		14,784	456	3,571	109
Reinsurance accounts receivable		10,706	330	30,901	943
Other accounts receivable	2,26	24,385,327	751,937	26,702,671	815,100
Other financial assets - current		4,000,000	123,343	-	-
Prepayments	26	33,430	1,031	30,240	923
Deferred income tax assets - current	2,24	3,671,103	113,201	3,081,779	94,072
Other current assets		307,497	9,482	169,487	5,174
Subtotal		<u>527,183,531</u>	<u>16,256,045</u>	<u>476,305,055</u>	<u>14,539,227</u>
Loans					
Policy loans	2,8,26	189,286,849	5,836,782	199,110,376	6,077,850
Secured loans		347,842,124	10,725,937	342,443,651	10,453,103
Subtotal		<u>537,128,973</u>	<u>16,562,719</u>	<u>541,554,027</u>	<u>16,530,953</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,12	229,265,818	7,069,560	272,242,609	8,310,214
Held-to-maturity financial assets - noncurrent	2,10,12	572,148,779	17,642,577	617,485,367	18,848,760
Financial assets carried at cost - noncurrent	2,11	19,053,344	587,522	18,964,245	578,884
Investments in debt securities with no active market - noncurrent	2,12	59,126,664	1,823,209	85,839,151	2,620,243
Long-term investments under the equity method	2,13	6,254,217	192,853	6,466,022	197,375
Investments in real estate	2,14	106,384,870	3,280,446	109,492,777	3,342,270
Other financial assets - noncurrent	26	19,400,000	598,211	6,100,000	186,203
Subtotal		<u>1,011,633,692</u>	<u>31,194,378</u>	<u>1,116,590,171</u>	<u>34,083,949</u>
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		1,813,343	55,916	2,053,747	62,691
Communication and transportation equipment		15,415	475	14,217	434
Other equipment		2,956,222	91,157	2,994,951	91,421
Revaluation increments		1,216	37	1,303	40
Less: Accumulated depreciation		(6,854,984)	(211,378)	(7,347,995)	(224,298)
Less: Accumulated impairment		(85,519)	(2,637)	(85,519)	(2,611)
Construction in progress and prepayment for equipment		150,994	4,656	88,209	2,692
Subtotal		<u>13,059,470</u>	<u>402,697</u>	<u>12,776,546</u>	<u>390,004</u>
Intangible assets					
Computer software cost	2,16	470,923	14,521	608,866	18,586
Deferred pension cost		-	-	155,201	4,737
Subtotal		<u>470,923</u>	<u>14,521</u>	<u>764,067</u>	<u>23,323</u>
Other assets					
Guarantee deposits paid	2,26,27	10,332,035	318,595	12,018,527	366,866
Deferred income tax assets - noncurrent	2,24	403,873	12,454	3,779,148	115,358
Other overdue receivables	2,17,26	40,807	1,258	287,754	8,784
Separate account products assets	2,31	253,787,276	7,825,695	193,140,993	5,895,635
Other assets - other	26	849,704	26,201	1,722,204	52,570
Subtotal		<u>265,413,695</u>	<u>8,184,203</u>	<u>210,948,626</u>	<u>6,439,213</u>
Total assets		<u>\$2,354,890,284</u>	<u>\$72,614,563</u>	<u>\$2,358,938,492</u>	<u>\$72,006,669</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)

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

Cathay Life Insurance Co., Ltd.
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					
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	3,128	122,368	3,735
Notes payable		2,311	71	1,822	56
Commissions payable		949,666	29,283	852,138	26,012
Life insurance proceeds payable		5,861	181	3,045	93
Reinsurance accounts payable		188,838	5,823	185,162	5,652
Other payable	2,3,22,26	8,219,354	253,449	5,027,284	153,458
Accounts collected in advance		113,080	3,487	111,692	3,409
Subtotal		<u>22,639,159</u>	<u>698,093</u>	<u>36,387,760</u>	<u>1,110,738</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	110	3,581	109
Accrued pension liability	2,31	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					
Unearned premium reserve	2	11,353,273	350,086	11,381,487	347,420
Reserve for life insurance liabilities		1,917,825,136	59,137,377	2,023,884,666	61,779,141
Special reserve		15,333,823	472,828	16,137,086	492,585
Reserve for claims		1,477,712	45,566	1,441,581	44,005
Premium deficiency reserve		2,821,488	87,003	2,691,338	82,153
Subtotal		<u>1,948,811,432</u>	<u>60,092,860</u>	<u>2,055,536,158</u>	<u>62,745,304</u>
Other liabilities					
Guarantee deposits received	26	1,488,192	45,889	1,542,898	47,097
Separate account products liabilities	2,31	253,787,276	7,825,695	193,140,993	5,895,635
Other liabilities - other		3,458,913	106,658	1,630,880	49,782
Subtotal		<u>258,734,381</u>	<u>7,978,242</u>	<u>196,314,771</u>	<u>5,992,514</u>
Total liabilities		<u>2,231,539,486</u>	<u>68,810,962</u>	<u>2,305,053,948</u>	<u>70,361,842</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)
Total stockholders' equity		<u>123,350,798</u>	<u>3,803,601</u>	<u>53,884,544</u>	<u>1,644,827</u>
Total liabilities and stockholders' equity		<u>\$2,354,890,284</u>	<u>\$72,614,563</u>	<u>\$2,358,938,492</u>	<u>\$72,006,669</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)

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

Cathay Life Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2007 and 2008

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

Item	Notes	January 1-December 31, 2007		January 1-December 31, 2008	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,26				
Premiums income		\$302,992,914	\$9,342,982	\$346,454,087	\$10,575,522
Reinsurance commission earned		164,353	5,068	229,599	7,008
Claims recovered from reinsurers		347,731	10,723	287,459	8,775
Recovered premiums reserve		176,894,219	5,454,648	248,418,869	7,582,994
Recovered special reserve		170,019	5,242	170,712	5,211
Recovered claims reserve		1,303,803	40,204	1,477,713	45,107
Recovered premium deficiency reserve		544,103	16,778	130,150	3,973
Handling fees earned	31	1,744,552	53,794	5,488,092	167,524
Interest income		69,496,790	2,142,978	76,394,361	2,331,940
Gains on long-term equity investments	13	260,423	8,030	-	-
Gains on foreign exchange		-	-	13,168,340	401,964
Gains on disposal of investments		28,586,264	881,476	-	-
Gains on investments - real estate	14	6,403,089	197,443	5,497,556	167,813
Separate account products revenues	31	228,560,307	7,047,805	237,523,474	7,250,411
Subtotal		<u>817,468,567</u>	<u>25,207,171</u>	<u>935,240,412</u>	<u>28,548,242</u>
Operating costs	2,26				
Reinsurance premiums ceded		(653,495)	(20,151)	(495,455)	(15,124)
Brokerage expenses	23	(30,018,781)	(925,648)	(26,428,394)	(806,728)
Commissions expenses		(102,454)	(3,159)	(108,850)	(3,323)
Insurance claims payment		(202,775,958)	(6,252,728)	(274,858,144)	(8,390,053)
Provision for premiums reserve		(309,379,667)	(9,539,922)	(354,506,249)	(10,821,314)
Provision for special reserve		(1,146,900)	(35,365)	(973,975)	(29,731)
Contribution to the stabilization funds		(302,748)	(9,335)	(346,186)	(10,567)
Provision for claims reserve		(1,477,713)	(45,566)	(1,441,581)	(44,004)
Handling fees paid		(1,541,436)	(47,531)	(1,542,406)	(47,082)
Interest expenses		(43,384)	(1,338)	(53,408)	(1,630)
Losses from valuation on financial assets		(3,301,920)	(101,817)	(6,650,568)	(203,009)
Losses from valuation on financial liabilities		(1,503,143)	(46,350)	(17,260,172)	(526,867)
Losses on long-term equity investments	13	-	-	(142,439)	(4,348)
Losses on foreign exchange		(1,726,493)	(53,238)	-	-
Losses on disposal of investments		-	-	(7,401,734)	(225,938)
Separate account products expenses	31	(228,560,307)	(7,047,805)	(237,523,474)	(7,250,411)
Other operating cost		(516,385)	(15,923)	(1,097,306)	(33,495)
Subtotal		<u>(783,050,784)</u>	<u>(24,145,876)</u>	<u>(930,830,341)</u>	<u>(28,413,624)</u>
Operating gross profit		<u>34,417,783</u>	<u>1,061,295</u>	<u>4,410,071</u>	<u>134,618</u>
Operating expenses	2,3,16,23,26,31				
Marketing expenses		(3,168,238)	(97,695)	(3,978,788)	(121,453)
Administrative and general expenses		(8,055,183)	(248,387)	(7,042,515)	(214,973)
Subtotal		<u>(11,223,421)</u>	<u>(346,082)</u>	<u>(11,021,303)</u>	<u>(336,426)</u>
Operating income (loss)		<u>23,194,362</u>	<u>715,213</u>	<u>(6,611,232)</u>	<u>(201,808)</u>
Non-operating revenues and gains	2,26				
Gains on disposal of property and equipment		2,299	71	44	1
Other non-operating revenues and gains		1,451,612	44,761	1,440,663	43,976
Subtotal		<u>1,453,911</u>	<u>44,832</u>	<u>1,440,707</u>	<u>43,977</u>
Non-operating expenses and losses	2,26				
Losses on disposal of property and equipment		(339)	(10)	(209)	(6)
Impairment loss		(242,621)	(7,481)	(805,883)	(24,600)
Dividend on preferred stock liabilities		-	-	(10,041)	(306)
Miscellaneous expenses		(55,961)	(1,726)	(6,017)	(184)
Subtotal		<u>(298,921)</u>	<u>(9,217)</u>	<u>(822,150)</u>	<u>(25,096)</u>
Income (loss) from continuing operations before income taxes		<u>24,349,352</u>	<u>750,828</u>	<u>(5,992,675)</u>	<u>(182,927)</u>
Income taxes (expense) benefit	2,24	<u>(880,831)</u>	<u>(27,161)</u>	<u>4,019,130</u>	<u>122,684</u>
Net income (loss)		<u>\$23,468,521</u>	<u>\$723,667</u>	<u>\$(1,973,545)</u>	<u>\$(60,243)</u>
Earnings per share (In dollars)	25				
Net income (loss)		<u>\$4.63</u>	<u>\$0.14</u>	<u>\$(0.38)</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)

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

Cathay Life Insurance Co., Ltd.
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 (losses) gains on financial instruments		Unrealized revaluation increments		conversion adjustments		Net loss not recognized as pension cost			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 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	\$-	\$-	\$119,820,908	\$3,694,755
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
Net income for the year ended December 31, 2007	-	-	-	-	-	-	-	-	23,468,521	723,667	-	-	-	-	-	-	-	-	23,468,521	723,667
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	\$-	\$-	\$123,350,798	\$3,803,601
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	\$-	\$-	\$123,350,798	\$3,765,287
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)
Net loss for the year ended december 31, 2008	-	-	-	-	-	-	-	-	(1,973,545)	(60,243)	-	-	-	-	-	-	-	-	(1,973,545)	(60,243)
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)	\$53,884,544	\$1,644,827

(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)

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

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

	January 1-December 31, 2007		January 1-December 31, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss) for the periods	\$23,468,521	\$723,667	\$(1,973,545)	\$(60,243)
Adjustments:				
Losses from valuation of financial assets	3,301,920	101,817	6,650,568	203,009
Losses from valuation of financial liabilities	1,503,143	46,350	17,260,172	526,867
Provision bad debt	347,956	10,729	804,093	24,545
Depreciation	2,422,939	74,713	2,126,240	64,904
Amortization	138,076	4,258	212,390	6,483
Provision or recovered for each reserve	133,092,137	4,103,982	106,724,726	3,257,776
Gains on disposal of long-term investments under the equity method	(11)	-	-	-
(Gains) loss on disposal of property and equipment	(1,961)	(61)	165	5
Gains on disposal of investments in real estate	(1,240,106)	(38,240)	(161,819)	(4,940)
Impairment loss	242,621	7,481	805,883	24,600
Gains on long-term equity investments less than cash dividends received	16,563	511	516,484	15,766
Cumulative effect of changes in accounting principles	-	-	-	-
(Increase) decrease in financial assets at fair value through profit or loss - current	(504,993)	(15,572)	11,405,824	348,163
(Increase) decrease in available-for-sale financial assets - current	(30,930,500)	(953,762)	2,445,215	74,640
Decrease (increase) in held-to-maturity financial assets - current	5,005,347	154,343	(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	4,035,899	124,450	2,583,510	78,862
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	8,522	263	(20,195)	(616)
Decrease (increase) in other accounts receivable	2,752,912	84,888	(2,553,073)	(77,933)
Decrease in other financial assets - current	3,000,000	92,507	4,000,000	122,100
(Increase) decrease in prepayments	(14,860)	(458)	3,190	97
(Increase) decrease in deferred income tax assets - current	(1,385,075)	(42,710)	589,324	17,989
Decrease in other current assets	57,654	1,778	138,010	4,213
Decrease (increase) in deferred income tax assets - noncurrent	56,175	1,732	(3,375,274)	(103,030)
Decrease (increase) in other assets - other	3,312,391	102,140	(833,906)	(25,455)
Decrease in financial liabilities at fair value through profit or loss - current	(48,424)	(1,493)	-	-
Increase (decrease) in derivative financial liabilities for hedging - current	105,986	3,268	(60,598)	(1,850)
Decrease in notes payable	(163)	(5)	(489)	(15)
Decrease in commissions payable	(39,992)	(1,233)	(97,528)	(2,977)
Increase (decrease) in life insurance proceeds payable	4,958	153	(2,816)	(86)
Decrease in reinsurance accounts payable	(7,649)	(236)	(3,677)	(112)
Decrease in other payable	(6,868,457)	(211,793)	(3,192,070)	(97,438)
Decrease in accounts collected in advance	(11,503)	(355)	(1,387)	(42)
(Decrease) increase in accrued pension liability	(332,249)	(10,245)	41,240	1,259
Decrease in other liabilities - other	(9,335,712)	(287,873)	(1,828,032)	(55,801)
Net cash provided by operating activities	131,149,791	4,044,088	123,406,886	3,766,999
Cash flows from investing activities				
Increase in policy loans	(13,514,940)	(416,742)	(9,823,528)	(299,864)
(Increase) decrease in secured loans	(41,010,329)	(1,264,580)	4,824,377	147,264
Increase in available-for-sale financial assets - noncurrent	(58,192,296)	(1,794,397)	(37,570,806)	(1,146,850)
Increase in held-to-maturity financial assets - noncurrent	(47,938,183)	(1,478,205)	(45,419,137)	(1,386,421)
Decrease (increase) in financial assets carried at cost - noncurrent	433,299	13,361	(10,890)	(332)
Increase in investments in debt securities with no active market-noncurrent	(16,452,106)	(507,311)	(27,254,297)	(831,938)
Disinvestment of long-term equity investments	199,662	6,157	149,866	4,575
Increase in long-term investments under the equity method	(1,940,080)	(59,824)	(862,648)	(26,332)
Disposal of long-term investments under the equity method	58	2	-	-
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	5,716	176	243	7
Acquisition of property and equipment	(546,264)	(16,844)	(525,805)	(16,050)
Acquisition of intangible assets	(279,010)	(8,603)	(350,333)	(10,694)
Increase in guarantee deposits paid	(318,302)	(9,815)	(1,675,094)	(51,132)
Increase in other overdue receivables	(26,937)	(831)	(241,215)	(7,363)
Net cash used in investing activities	(193,560,526)	(5,968,564)	(109,761,869)	(3,350,484)

(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)

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

Cathay life insurance Co., Ltd.
Statements of cash flows - (continued)
For the years ended December 31, 2007 and 2008
(Expressed in thousands of dollars)

	January 1-December 31, 2007		January 1-December 31, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase in preferred stock liability	-	-	15,000,000	457,875
Increase in guarantee deposits received	23,875	736	54,706	1,670
Capital increase by cash	-	-	15,000,000	457,875
Cash dividends	(10,962,644)	(338,040)	(18,625,315)	(568,538)
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>(10,958,707)</u>	<u>(337,919)</u>	<u>11,408,233</u>	<u>348,236</u>
Effects of exchange rate changes	(70,618)	(2,177)	-	-
(Decrease) increase in cash and cash equivalents	<u>(73,440,060)</u>	<u>(2,264,572)</u>	<u>25,053,250</u>	<u>764,751</u>
Cash and cash equivalents at the beginning of the periods	<u>270,353,723</u>	<u>8,336,532</u>	<u>196,913,663</u>	<u>6,010,796</u>
Cash and cash equivalents at the end of the periods	<u>\$196,913,663</u>	<u>6,071,960</u>	<u>\$221,966,913</u>	<u>\$6,775,547</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$12,561	\$387	\$12,441	\$380
Interest paid (excluding capitalized interest)	\$12,561	\$387	\$12,441	\$380
Income tax paid	<u>\$1,366,981</u>	<u>\$42,152</u>	<u>\$1,367,110</u>	<u>\$41,731</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)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to financial statements

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

As of December 31, 2007 and 2008

1. Organizations and business scope

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

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of 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 Company prepares the financial statements in accordance with the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C. A summary of significant accounting policies follows:

(1) Current and non-current assets and liabilities

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

(2) Cash equivalents

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(3) Recognition of financial assets and liabilities

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

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

A. Financial assets at fair value through profit or loss

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

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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

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

B. Held-to-maturity financial assets

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

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

D. Available-for-sale financial assets

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

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

Hedging relationships consist of three types:

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

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

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

Fair value hedges

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(7) Allowance for bad and doubtful debts

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

Class I – normal loan assets;

Class II – overdue loan assets under notice;

Class III – overdue loan assets possible to be recovered;

Class IV – overdue loan assets difficult to be recovered;

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

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

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

(8) Long-term investments under the equity method

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

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

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

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

(10) Property and equipment

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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

(11) Intangible assets

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

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

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

(12) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”, both of which are off balance sheet accounts. From January 1, 1993 to December 31, 2008, an aggregate of NT\$3,499,037 (US\$106,808) was appropriated to this fund.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(13) Accounting for assets impairment

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

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(14) Real estate securitization

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

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

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

(15) Guaranteed depository insurance payment

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

(16) Reserve for operations

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

As of December 31, 2008, the cumulative special reserves released from the special reserves for fluctuation of risks amounted to NT\$19,169,006 (US\$585,134).

(17) Insurance premium income and expenses

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

(18) Pension plan

The Company has established a pension plan for all employees since 1972. Pension plan benefits are primarily based on participants’ compensation and the length of service period. The Company has established a pension fund committee in 1981 to independently administer the pension fund. Prior to the establishment of the pension fund committee, the Company had provided for 4% of the employees’ salaries into the pension fund; after the establishment of the committee, 8% were provided for.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(19) Foreign currency transactions

A. Translation of foreign currency transactions

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

B. Translation of subsidiaries' financial statements in foreign currencies

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

(20) Income taxes

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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

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

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

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

(21) Capital expenditure expenses

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

(22) Separate account products

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

(23) Employee bonus and remuneration of directors and supervisors

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

(24) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2007 and 2008 are for information only. The U.S. dollar/NT dollars noon buying rates of NT32.43 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 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 affect the Company’s net loss and earnings per share for the year ended December 31, 2008.

(2) Effective from July 1, 2008, the Company adopted the revised R.O.C. SFAS No.34 “Accounting for financial instrument”. This change in accounting principles did not affect the Company’s net loss and earnings per share for the year ended December 31, 2008.

4. Cash and cash equivalents

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$300,351	\$9,262	\$258,132	\$7,880
Cash in banks	18,424,972	568,146	24,480,701	747,274
Time deposits	160,267,246	4,941,944	187,754,331	5,731,207
Cash equivalents	17,921,094	552,608	9,473,749	289,186
Total	<u>\$196,913,663</u>	<u>\$6,071,960</u>	<u>\$221,966,913</u>	<u>\$6,775,547</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$12,710,009	\$391,922	\$5,567,773	\$169,956
Overseas stocks	1,147,962	35,398	1,156,474	35,301
Beneficiary certificates	51,952,305	1,601,983	47,431,751	1,447,856
Exchange traded funds	261,234	8,055	139,322	4,253
Overseas bonds	11,353,521	350,093	11,233,306	342,897
Corporate bonds	3,685,835	113,655	3,906,453	119,245
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	84,132,004	2,594,265	72,726,180	2,219,969
Add: Adjustment of valuation	9,425,176	290,631	2,527,156	77,141
Total	<u>\$93,557,180</u>	<u>\$2,884,896</u>	<u>\$75,253,336</u>	<u>\$2,297,110</u>

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	19,636,823	605,514	17,146,991	523,413
Beneficiary certificates	13,568,876	418,405	19,564,695	597,213
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
Financial debentures	3,300,000	101,758	5,049,796	154,145
Corporate bonds	1,700,000	52,421	550,000	16,789
Overseas bonds	1,384,445	42,690	22,520	687
Subtotal	171,953,748	5,302,305	169,641,021	5,178,297
Add (less) : Adjustment of valuation	9,419,317	290,451	(62,281,224)	(1,901,136)
Total	<u>\$181,373,065</u>	<u>\$5,592,756</u>	<u>\$107,359,797</u>	<u>\$3,277,161</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

7. Derivative financial assets for hedging - current

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	252,645	7,790	2,770,036	84,555
Total	<u>\$252,645</u>	<u>\$7,790</u>	<u>\$2,770,036</u>	<u>\$84,555</u>

8. Loans

(1) Policy loans

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

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

(2) Secured loans

	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)	(13,763)	(566,119)	(17,281)
Subtotal	<u>347,402,242</u>	<u>10,712,373</u>	<u>341,809,055</u>	<u>10,433,732</u>
Overdue receivables	1,466,274	45,213	2,115,319	64,570
Less: Allowance for bad debts	(1,026,392)	(31,649)	(1,480,723)	(45,199)
Subtotal	<u>439,882</u>	<u>13,564</u>	<u>634,596</u>	<u>19,371</u>
Total	<u>\$347,842,124</u>	<u>\$10,725,937</u>	<u>\$342,443,651</u>	<u>\$10,453,103</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

9. Available-for-sale financial assets – noncurrent

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$14,732,808	\$454,296	\$20,343,867	\$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
Collateralized loans obligation and collateralized bonds obligation	7,339,215	226,310	4,404,148	134,437
Overseas bonds	33,010,591	1,017,903	25,298,973	772,252
Subtotal	228,208,022	7,036,942	266,975,879	8,149,447
Add: Adjustment of valuation	1,057,796	32,618	5,266,730	160,767
Total	<u>\$229,265,818</u>	<u>\$7,069,560</u>	<u>\$272,242,609</u>	<u>\$8,310,214</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	332,411	9,900,000	302,198
Collateralized loans obligation and collateralized bonds obligation	22,128,715	682,353	15,465,882	472,096
Overseas bonds	516,724,049	15,933,520	574,748,877	17,544,227
Subtotal	580,191,328	17,890,574	625,822,490	19,103,251
Less: Securities serving as deposits paid - bonds	(8,042,549)	(247,997)	(8,337,123)	(254,491)
Total	<u>\$572,148,779</u>	<u>\$17,642,577</u>	<u>\$617,485,367</u>	<u>\$18,848,760</u>

11. Financial assets carried at cost – noncurrent

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,296,215	\$625,847	\$19,788,943	\$604,058
Beneficiary certificates	-	-	477,587	14,578
Subtotal	20,296,215	625,847	20,266,530	618,636
Less: Accumulated impairment	(1,242,871)	(38,325)	(1,302,285)	(39,752)
Total	<u>\$19,053,344</u>	<u>\$587,522</u>	<u>\$18,964,245</u>	<u>\$578,884</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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	\$1,467,251	\$45,244	\$565	\$17	\$1,467,816	\$45,261
through profit or loss - current						
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	1,425,512	43,956	-	-	1,425,512	43,956
with no active market - current						
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	\$651,500	\$19,887	\$3,749	\$114	\$655,249	\$20,001
through profit or loss - current						
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	985,800	30,092	-	-	985,800	30,092
with no active market - current						
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>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd.
Note to financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2007 and 2008

13. Long-term investments under the equity method

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

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.	39,554	1,220	31,995	976
Omnitek Venture Capital Corp.	227,846	7,026	86,458	2,639
Wa Tech Venture Capital Co., Ltd.	176,115	5,430	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
Symphox Information Co., Ltd.	271,559	8,374	308,444	9,415
Cathay Securities Investment Trust Co., Ltd.	373,293	11,511	368,443	11,247
Cathay Venture Capital Corp.	424,281	13,083	362,294	11,059
Cathay Securities Investment Consulting Co., Ltd.	167,337	5,160	165,344	5,047
Cathay Life Insurance Ltd. (Shanghai)	1,694,698	52,257	1,219,351	37,221
Cathay Life Insurance (Vietnam) Co., Ltd.	1,946,580	60,024	2,272,079	69,355
Cathay Insurance Company Limited. (Shanghai)	-	-	917,304	28,001
Total	<u>\$6,254,217</u>	<u>\$192,853</u>	<u>\$6,466,022</u>	<u>\$197,375</u>

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

	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$4,290,720	\$132,307	\$6,254,217	\$190,911
Add (less) :				
Gains (losses) on long-term equity investments	260,423	8,030	(142,439)	(4,348)
Cumulative conversion adjustments	97,545	3,008	76,499	2,335
Unrealized gain or loss on financial instruments	142,143	4,383	(60,992)	(1,862)
Cash dividends	(276,986)	(8,541)	(374,045)	(11,418)
Disinvestment of long-term investments	(199,662)	(6,157)	(149,866)	(4,575)
Increment of investments	1,940,080	59,824	862,648	26,332
Disposal of investments	(46)	(1)	-	-
Balance as of December 31	<u>\$6,254,217</u>	<u>\$192,853</u>	<u>\$6,466,022</u>	<u>\$197,375</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

- (3) The recognized equity investment gains (losses) for the years ended December 31, 2007 and 2008 are listed below:

Investee	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$35,370	\$1,091	\$(23,633)	\$(721)
Vista Technology Venture Capital Corp.	(360)	(11)	(7,482)	(228)
Omnitek Venture Capital Corp.	44,112	1,360	11,895	363
Wa Tech Venture Capital Co., Ltd.	29,454	908	(18,463)	(564)
IBT Venture Capital Corp.	23,072	711	12,932	395
Cathay Insurance (Bermuda) Co., Ltd.	15,145	467	5,205	159
Symphox Information Co., Ltd.	8,596	265	36,885	1,126
Cathay Securities Investment Trust Co., Ltd.	177,191	5,464	153,905	4,698
Cathay Venture Capital Corp.	28,642	883	6,338	193
Cathay Securities Investment Consulting Co., Ltd.	70,258	2,167	80,684	2,463
Cathay Life Insurance Ltd. (Shanghai)	(171,057)	(5,275)	(407,648)	(12,443)
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	52,496	1,602
Cathay Insurance Company Limited. (Shanghai)	-	-	(45,553)	(1,391)
Total	<u>\$260,423</u>	<u>\$8,030</u>	<u>\$(142,439)</u>	<u>\$(4,348)</u>

- A. The equity investment gains (losses) were recognized based on investees' audited financial statements for the years ended December 31, 2007 and 2008. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the years ended December 31, 2007 and 2008 were audited by other auditors. Unqualified audit reports were issued for all above investee companies except for the Cathay Venture Capital Corp., of which modified unqualified audited report was issued.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

B. Effective from January 1, 2005, the Company adopted R.O.C. SFAS No. 7 “Consolidated Financial Statements” revised on December 9, 2004. The adoption resulted in removal of the requirement that a subsidiary may be excluded from consolidation if its total assets and operating revenues are less than 10% of the parent’s. In addition, the consolidated financial statements would not need to retroactively apply the revision of the Statement. Due to the insignificance of their total assets and operating revenues, Cathay Insurance (Bermuda) Co., Ltd., and Cathay Securities Investment Consulting Co., Ltd. were excluded from the consolidated financial statements of the Company as of and for the years ended December 31, 2007 and 2008. Cathay Insurance Company Limited. (Shanghai), a subsidiary acquired in 2008, was also excluded from the consolidation due to the Company’s lack of control over the entity.

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	<u>\$121,987,943</u>	<u>\$3,761,577</u>	<u>\$4,470</u>	<u>\$138</u>	<u>\$(15,411,620)</u>	<u>\$(475,227)</u>	<u>\$(195,923)</u>	<u>\$(6,042)</u>	<u>\$106,384,870</u>	<u>\$3,280,446</u>

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	<u>\$126,705,921</u>	<u>\$3,867,702</u>	<u>\$4,384</u>	<u>\$134</u>	<u>\$(17,021,605)</u>	<u>\$(519,585)</u>	<u>\$(195,923)</u>	<u>\$(5,981)</u>	<u>\$109,492,777</u>	<u>\$3,342,270</u>

(1) The real estate investments are held mainly to generate rental revenue.

(2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

- (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	1,813,343	55,916	-	-	(1,331,660)	(41,063)	-	-	481,683	14,853
Communication and transportation equipment	15,415	475	-	-	(12,561)	(387)	-	-	2,854	88
Other equipment	2,956,222	91,157	-	-	(2,055,279)	(63,376)	-	-	900,943	27,781
Subtotal	19,847,763	612,019	1,216	37	(6,854,984)	(211,378)	(85,519)	(2,637)	12,908,476	398,041
Construction in progress and prepayment for equipment	150,994	4,656	-	-	-	-	-	-	150,994	4,656
Total	\$19,998,757	\$616,675	\$1,216	\$37	\$(6,854,984)	\$(211,378)	\$(85,519)	\$(2,637)	\$13,059,470	\$402,697

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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	10,294,211	314,231	-	-	(3,581,790)	(109,334)	(34,188)	(1,044)	6,678,233	203,853
Computer equipment	2,053,747	62,691	-	-	(1,494,489)	(45,620)	-	-	559,258	17,071
Communication and transportation equipment	14,217	434	-	-	(12,383)	(378)	-	-	1,834	56
Other equipment	2,994,951	91,421	-	-	(2,259,333)	(68,966)	-	-	735,618	22,455
Subtotal	20,120,548	614,181	1,303	40	(7,347,995)	(224,298)	(85,519)	(2,611)	12,688,337	387,312
Construction in progress and prepayment for equipment	88,209	2,692	-	-	-	-	-	-	88,209	2,692
Total	\$20,208,757	\$616,873	\$1,303	\$40	\$(7,347,995)	\$(224,298)	\$(85,519)	\$(2,611)	\$12,776,546	\$390,004

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	\$471,850	\$14,550	\$279,010	\$8,603	\$-	\$-	\$750,860	\$23,153
Amortized and impairment:								
Amortized	(141,861)	(4,374)	(138,076)	(4,258)	-	-	(279,937)	(8,632)
Book value	\$329,989	\$10,176	\$140,934	\$4,345	\$-	\$-	\$470,923	\$14,521

Item	January 1, 2008		Increase		Decrease		December 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$750,860	\$22,920	\$350,333	\$10,694	\$-	\$-	\$1,101,193	\$33,614
Amortized and impairment:								
Amortized	(279,937)	(8,545)	(212,390)	(6,483)	-	-	(492,327)	(15,028)
Book value	\$470,923	\$14,375	\$137,943	\$4,211	\$-	\$-	\$608,866	\$18,586

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

17. Other overdue receivables

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$140,833	\$4,343	\$382,048	\$11,662
Less: Allowance for bad and doubtful debts	(100,026)	(3,085)	(94,294)	(2,878)
Total	<u>\$40,807</u>	<u>\$1,258</u>	<u>\$287,754</u>	<u>\$8,784</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	3,128	122,368	3,735
Total	<u>\$101,430</u>	<u>\$3,128</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:

(1) Issuance period covers from December 25, 2008, the issue date, to December 25, 2015,

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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. Common stock

On June 3, 2008, the Company's Board of Directors resolved to issue 200,000 thousand shares of common stock at par value of NT\$10 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.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(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.

D. The accrual of employee bonus and remuneration of directors is based on the average of actual distribution in the past three years and recognized as operating costs or expenses. However, the Company did not accrue any employee bonus and remuneration of directors due to its net loss for the year ended December 31, 2008.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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	\$27,184,636	\$2,307,630	\$29,492,266	\$838,256	\$71,157	\$909,413
Labor & health insurance expenses	1,177,213	165,129	1,342,342	36,300	5,092	41,392
Pension expenses	468,081	65,658	533,739	14,433	2,025	16,458
Other expenses	1,051,474	236,081	1,287,555	32,423	7,280	39,703
Depreciation	-	2,422,939	2,422,939	-	74,713	74,713
Amortizations	-	138,076	138,076	-	4,258	4,258

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	\$23,198,994	\$1,761,190	\$24,960,184	\$708,150	\$53,760	\$761,910
Labor & health insurance expenses	1,196,834	191,641	1,388,475	36,533	5,850	42,383
Pension expenses	791,252	126,697	917,949	24,153	3,867	28,020
Other expenses	1,116,074	243,412	1,359,486	34,068	7,430	41,498
Depreciation	-	2,126,240	2,126,240	-	64,904	64,904
Amortizations	-	212,390	212,390	-	6,483	6,483

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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	\$4,074,976	\$125,655	\$10,126,846	\$309,122
Total deferred tax liabilities	\$-	\$-	\$(3,265,919)	\$(99,692)
Temporary differences:				
Pension expense	\$1,350,933	\$41,657	\$1,392,174	\$42,496
Unrealized foreign exchange losses (gains)	1,427,120	44,006	(13,063,677)	(398,769)
Losses from valuation on financial assets and liabilities	4,915,513	151,573	25,255,798	770,934
Impairment loss	263,963	8,139	969,857	29,605
Unrealized bad debt losses	-	-	229,865	7,017
Other	32,684	1,008	19,895	607
Total	\$7,990,213	\$246,383	\$14,803,912	\$451,890
Tax effect under consolidated income tax system	\$2,062,893	\$63,611	\$3,131,067	\$95,576
Investment tax credits	\$14,530	\$448	\$28,881	\$882
	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$3,671,103	\$113,201	\$6,347,698	\$193,764
Deferred tax liabilities - current	-	-	(3,265,919)	(99,692)
Net offset balance of deferred tax assets - current	\$3,671,103	\$113,201	\$3,081,779	\$94,072
Deferred tax assets - noncurrent	\$403,873	\$12,454	\$3,779,148	\$115,358
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	\$403,873	\$12,454	\$3,779,148	\$115,358

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(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	\$450,283	\$13,885	\$(2,985,125)	\$(91,121)
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	-	-	(57,466)	(1,754)
Deferred income tax (benefit) expense from unrealized foreign exchange loss (gain)	(449,277)	(13,854)	3,622,699	110,583
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	(2,509)	(77)	3,198	98
Add: Separation tax	353,863	10,912	145,151	4,431
Additional tax assessed by the tax authority	5,938	183	-	-
Prior year adjustment	12,890	397	88,725	2,708
Withholding tax for overseas investments	37,130	1,145	73,079	2,231
Less: Income tax credit	(14,530)	(448)	(12,478)	(381)
Add: Alternative minimum tax payable	2,290,341	70,624	-	-
Total income tax expense (benefit)	<u>\$880,831</u>	<u>\$27,161</u>	<u>\$(4,019,130)</u>	<u>\$(122,684)</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

2003 to the Tax Authorities.

(4) Information related to imputation

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$1,160,741	\$35,792	\$963,145	\$29,400

	December 31,	
	2007	2008
Imputation credit account ratio – actual (May 15, 2007)	7.96%	-
Imputation credit account ratio – actual (May 15, 2008)	-	5.62%

(4) Information related to undistributed earnings

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

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

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$16,403	\$501	\$16,403	\$501	2011
		12,478	381	12,478	381	2012
		\$28,881	\$882	\$28,881	\$882	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

25. Earnings per share

	For the year ended December 31, 2007			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$24,349,352</u>	<u>\$750,828</u>	<u>\$23,468,521</u>	<u>\$723,667</u>
Outstanding number of thousand shares at end of period (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Net income	<u>\$4.80</u>	<u>\$0.15</u>	<u>\$4.63</u>	<u>\$0.14</u>
	For the year ended December 31, 2008			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(5,992,675)</u>	<u>\$(182,927)</u>	<u>\$(1,973,545)</u>	<u>\$(60,243)</u>
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,171,348	5,171,348	5,171,348	5,171,438
Earnings per share (a) / (c) (dollars)				
Net loss	<u>\$(1.16)</u>	<u>\$(0.04)</u>	<u>\$(0.38)</u>	<u>\$(0.01)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

26. Related party transactions

(1) Related parties

<u>Name</u>	<u>Relationship</u>
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
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
Other related parties	The directors, supervisors, managers, and their spouses, as well as their second immediate families

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(2) Significant transactions with related parties

Transactions with related parties greater 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.

(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\$
Lin Yuan Property Management Co., Ltd.	International Building etc	\$15,258	\$466
San Ching Engineering Co., Ltd.	Cathay Lank Mark 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.

English Translation of Financial Statements Originally Issued in Chinese**Cathay Life Insurance Co., Ltd.****Note to financial statements-continued**

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

As of December 31, 2007 and 2008

(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	\$682
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
Symphox Information Co., Ltd.	16,246	501	16,980	518
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>\$616,745</u>	<u>\$19,018</u>	<u>\$671,836</u>	<u>\$20,508</u>

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
Symphox Information Co., Ltd.	421	13	3,824	117
Total	<u>\$115,906</u>	<u>\$3,574</u>	<u>\$124,886</u>	<u>\$3,812</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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>

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

Name	Item	For the year ended December 31, 2007		
		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$55,965	1.15%-2.49%	\$4,722,950
	Cash in bank	3,475	0.02%-2.35%	3,576,961
Total		<u>\$59,440</u>		<u>\$8,299,911</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

		For the year ended December 31, 2007		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$1,726	1.15%-2.49%	\$145,635
	Cash in bank	107	0.02%-2.35%	110,298
Total		<u>\$1,833</u>		<u>\$255,933</u>

		For the year ended December 31, 2008		
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$79,855	1.24%-4.50%	\$6,432,052
	Cash in bank	3,224	0.02%-1.85%	2,719,316
Total		<u>\$83,079</u>		<u>\$9,151,368</u>

		For the year ended December 31, 2008		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$2,438	1.24%-4.50%	\$196,339
	Cash in bank	98	0.02%-1.85%	83,007
Total		<u>\$2,536</u>		<u>\$279,346</u>

C. Other financial assets

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

D. Secured loans

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

Name	For the year ended December 31, 2008			
	Maximum	Interest		Ending
	amount	income	Rate	balance
	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	<u>\$144,340</u>	<u>\$5,236</u>		<u>\$139,681</u>

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	<u>\$7,455,267</u>	<u>\$229,888</u>	<u>\$5,267,637</u>	<u>\$160,795</u>
	Cost	<u>\$6,737,114</u>	<u>\$207,743</u>	<u>\$5,564,649</u>	<u>\$169,861</u>

F. Other accounts receivable

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$77,960	\$2,404	\$146,299	\$4,466
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

Note : Receivables due to consolidated income tax.

G. Prepayments

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$31,376	\$968	\$-	\$-
Lin Yuan Investment Co., Ltd.	419	13	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

H. Other overdue receivable

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)	\$-	\$-	\$265,211	\$8,096

I. Other assets-other

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance (Vietnam) Co., Ltd.	\$298,343	\$9,200	\$-	\$-

J. 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

K. 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

L. Other payable

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$42,825	\$1,321	\$-	\$-
Symphox Information Co., Ltd.	13,916	429	19,422	593
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

M. Accounts collected in advance

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Taiwan Asset Management Corporation	\$2,542	\$78	\$-	\$-

N. Premiums income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$459,751	\$14,177	\$555,658	\$16,962
Cathay General Hospital	29,906	922	30,828	941
Cathay Securities Investment Trust Co., Ltd.	1,115	34	-	-
San Ching Engineering Co., Ltd.	1,269	39	-	-
Cathay Century Insurance Co., Ltd.	8,199	253	8,004	244
Cathay Securities Co., Ltd.	1,943	60	-	-
Symphox Information Co., Ltd.	1,337	41	-	-
Cathay Financial Holding Co., Ltd.	834	26	-	-
Cathay Real Estate Development Co., Ltd.	1,719	53	-	-
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	74	-	-
Other related parties	308,968	9,527	398,492	12,164
Total	\$818,232	\$25,231	\$992,982	\$30,311

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

O. 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.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

W. Miscellaneous income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$759,006	\$23,404	\$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	-	-
Symphox Information Co., Ltd.	1,297	40	-	-
Cathay Real Estate Development Co., Ltd.	1,517	47	-	-
Cathay Financial Holding Consulting Co., Ltd.	1,355	42	-	-
Taiwan Asset Management Corporation	1,092	34	-	-
Cathay Securities Investment Consulting Co., Ltd.	325	18	-	-
San Ching Engineering Co., Ltd.	596	10	-	-
Total	\$882,543	\$27,213	\$1,063,628	\$32,467

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

X. 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

Y. Operating expenses

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$238,290	\$7,348	\$252,004	\$7,692
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 Futures Co., Ltd.	3,778	117	4,123	126
Seaward Card Co., Ltd.	4,503	139	66,452	2,028
Cathay Real Estate Development Co., Ltd.	7,305	225	6,947	212
Cathay Capital Management Inc.	23,721	731	21,410	654
Seaward Leasing Co., Ltd.	10,097	311	10,845	331
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	\$1,822,907	\$56,211	\$2,126,666	\$64,917

Z. 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	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

AA. 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.

AB. 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.	\$61,038	\$1,882	\$70,693	\$2,158

The management of the Company 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

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".

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$8,042,549	\$247,997	\$8,337,123	\$254,491
- Government bonds				
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	\$8,308,454	\$256,196	\$8,508,214	\$259,713

Pledged assets are summarized based on the carrying amounts.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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 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.

B. 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	155,200	4,737
⑩ Unrecognized pension loss	407,104	12,553	2,068,329	63,136
⑪ Adjustment required to recognize minimum pension liability	-	-	(419,504)	(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>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

C. 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%

(2) Separate account insurance products related information

A. 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

B. 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 account reserve	67,973,277	2,096,000
Dividends	5,788	179	Interest income	24,887	767
Provision for separate account reserve	163,857,316	5,052,646	Gains from valuation on financial assets	16,302,575	502,701
Losses on disposal of investments	143,686	4,431	Gains on foreign exchange	5,571,441	171,799
Administrative expenses	3,514,820	108,382	Adjustments	1	-
Adjustments	107	3			
Total	\$228,560,307	\$7,047,805	Total	\$228,560,307	\$7,047,805

Expenses			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 account reserve	144,347,515	4,406,212
Dividends	5,180	158	Interest income	287,899	8,788
Provision for separate account reserve	82,621,752	2,522,032	Miscellaneous income	3,465	106
Losses from valuation on financial assets	55,398,195	1,691,032	Adjustments	107	3
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

C. 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(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	<u>\$20,514,763</u>	<u>\$632,586</u>	<u>\$20,514,763</u>	<u>\$632,586</u>

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	<u>\$12,648,891</u>	<u>\$386,108</u>	<u>\$12,648,891</u>	<u>\$386,108</u>

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.

(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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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.

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

Operational Risk

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

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

(6) Financial instruments related information

A. 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	\$196,913,663	\$196,913,663	\$6,071,960	\$6,071,960
Notes and accounts receivable	32,916,924	32,916,924	1,015,014	1,015,014
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
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, CCS, 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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 - current	2,848,883	87,847	3,004,863	92,657
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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	-	-	2,770,039	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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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	\$1,491,509	\$45,992	\$48,607	\$1,499	\$136,838	\$4,219	\$2,339,819	\$72,150
through profit or loss								
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	905,388	27,918	167,125	5,153	1,149,522	35,446	2,432,787	75,017
no active market								

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$1,330,590	\$41,030	\$6,141,408	\$189,374	\$11,488,771	\$354,264
through profit or loss						
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	455,602	14,049	48,821,596	1,505,446	53,932,020	1,663,029
no active market						

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	\$7,081,537	\$218,364	\$-	\$-	\$-	\$-	\$-	\$-
through profit or loss								
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	11,044,782	340,573						
no active market								

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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	-	-	-	-	-	-

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	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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

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
		The fourth and fifth years, 7.6%-90 BACP		
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
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
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
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
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
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
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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.

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:

①December 31, 2007

None.

②December 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.

(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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2007 and 2008

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\$28,144 thousands.

33. Segment Information

None.