

**Cathay Life Insurance Co., Ltd.**  
**Financial Statements**  
**As of March 31, 2008 and 2009**  
**With Independent Auditors' Review Report**

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

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**English Translation of Report Originally Issued in Chinese**

Independent Auditors' Review Report

Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of March 31, 2008 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three-month periods ended March 31, 2008 and 2009 in order for them to be in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C.

Ernst & Young  
Taipei, Taiwan  
Republic of China  
April 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 jurisdiction. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets**  
**As of March 31, 2008 and 2009**  
**(Expressed in thousands of dollars)**

Assets	Notes	March 31, 2008		March 31, 2009	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4,26	\$239,336,589	\$7,880,691	\$209,878,086	\$6,196,578
Financial assets at fair value through profit or loss - current	2,5,12,26	124,007,177	4,083,213	135,649,763	4,005,012
Available-for-sale financial assets - current	2,6,12	162,016,570	5,334,757	121,988,785	3,601,677
Held-to-maturity financial assets - current	2,12,26	8,054,238	265,204	35,943,812	1,061,229
Derivative financial assets for hedging - current	2,7	338,641	11,151	2,102,486	62,075
Investments in debt securities with no active market - current	2,12	5,623,537	185,167	11,629,131	343,346
Notes receivable	2	5,512,501	181,511	4,398,302	129,858
Prepaid reinsurance premium		129,551	4,266	2,288,042	67,554
Claims recoverable from reinsurers		3,477	114	2,689	80
Reinsurance accounts receivable		-	-	32,252	952
Other accounts receivable	2,26	26,092,506	859,154	47,081,817	1,390,074
Other financial assets - current		1,000,000	32,927	8,000,000	236,197
Prepayments	26	76,312	2,513	93,382	2,757
Deferred income tax assets - current	2,24	11,076,977	364,734	-	-
Other current assets		260,350	8,573	162,516	4,798
Subtotal		<u>583,528,426</u>	<u>19,213,975</u>	<u>579,251,063</u>	<u>17,102,187</u>
<b>Loans</b>					
Policy loans	2,8,26	191,999,026	6,321,996	196,054,705	5,788,447
Secured loans		345,575,858	11,378,856	337,111,400	9,953,097
Subtotal		<u>537,574,884</u>	<u>17,700,852</u>	<u>533,166,105</u>	<u>15,741,544</u>
<b>Funds and investments</b>					
Available-for-sale financial assets - noncurrent	2,9,12	230,318,930	7,583,764	245,487,218	7,247,925
Held-to-maturity financial assets - noncurrent	2,10,12	538,242,267	17,722,827	592,097,799	17,481,482
Financial assets carried at cost - noncurrent	2,11	18,813,089	619,463	19,072,499	563,109
Investments in debt securities with no active market - noncurrent	2	56,471,277	1,859,443	108,286,322	3,197,116
Long-term investments under the equity method	2,13	5,846,982	192,525	6,716,768	198,310
Investments in real estate	2,14	106,393,300	3,503,237	114,811,515	3,389,770
Other financial assets - noncurrent	26	18,163,053	598,059	4,250,000	125,480
Subtotal		<u>974,248,898</u>	<u>32,079,318</u>	<u>1,090,722,121</u>	<u>32,203,192</u>
<b>Property and equipment</b>					
Land	2,15,26	4,755,724	156,593	4,751,206	140,278
Buildings and construction		10,117,769	333,150	10,329,315	304,969
Computer equipment		1,821,211	59,967	2,137,596	63,112
Communication and transportation equipment		15,415	508	12,942	382
Other equipment		2,960,130	97,469	3,004,228	88,699
Revaluation increments		1,317	44	1,303	38
Less: Accumulated depreciation		(6,968,630)	(229,458)	(7,478,340)	(220,795)
Less: Accumulated impairment		(85,519)	(2,816)	(85,519)	(2,525)
Construction in progress and prepayment for equipment		192,641	6,343	86,056	2,541
Subtotal		<u>12,810,058</u>	<u>421,800</u>	<u>12,758,787</u>	<u>376,699</u>
<b>Intangible assets</b>					
Computer software cost	2,16	479,912	15,802	609,392	17,992
Deferred pension cost		-	-	155,201	4,582
Subtotal		<u>479,912</u>	<u>15,802</u>	<u>764,593</u>	<u>22,574</u>
<b>Other assets</b>					
Guarantee deposits paid	2,26,27	10,699,939	352,319	11,632,382	343,442
Deferred income tax assets - noncurrent	2,24	406,297	13,378	10,023,233	295,932
Other overdue receivables	2,17,26	36,496	1,202	278,846	8,233
Separate account products assets	2,31	260,873,546	8,589,844	195,593,488	5,774,830
Other assets - other	26	3,524,618	116,056	3,167,724	93,526
Subtotal		<u>275,540,896</u>	<u>9,072,799</u>	<u>220,695,673</u>	<u>6,515,963</u>
<b>Total assets</b>		<u>\$2,384,183,074</u>	<u>\$78,504,546</u>	<u>\$2,437,358,342</u>	<u>\$71,962,159</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets - (continued)**  
**As of March 31, 2008 and 2009**  
**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	March 31, 2008		March 31, 2009	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Financial liabilities at fair value through profit or loss - current	2,18	\$17,925,574	\$590,239	\$22,039,951	\$650,722
Derivative financial liabilities for hedging - current	2,19	78,378	2,581	98,083	2,896
Notes payable		2,396	79	1,764	52
Commissions payable		1,535,384	50,556	951,447	28,091
Life insurance proceeds payable		3,763	124	2,200	65
Reinsurance accounts payable		164,479	5,416	1,087,222	32,100
Other payable	2,3,22,26	17,088,061	562,662	6,812,269	201,130
Accounts collected in advance		138,899	4,574	134,432	3,969
Deferred income tax liabilities - current	2,24	-	-	4,216,069	124,478
Subtotal		<u>36,936,934</u>	<u>1,216,231</u>	<u>35,343,437</u>	<u>1,043,503</u>
<b>Long-term liabilities</b>					
Reserve for land revaluation increment tax	2	3,581	118	3,581	106
Accrued pension liability	2,31	1,360,671	44,803	1,824,242	53,860
Preferred stock liability - noncurrent	2,20	-	-	15,000,000	442,870
Subtotal		<u>1,364,252</u>	<u>44,921</u>	<u>16,827,823</u>	<u>496,836</u>
<b>Reserve for operations and liabilities</b>					
Unearned premium reserve	2	11,067,831	364,433	11,248,977	332,122
Reserve for life insurance liabilities		1,946,164,607	64,081,811	2,091,851,840	61,761,200
Special reserve		15,576,936	512,906	16,206,844	478,501
Reserve for claims		1,438,513	47,366	1,476,374	43,589
Premium deficiency reserve		2,656,746	87,479	2,728,588	80,561
Subtotal		<u>1,976,904,633</u>	<u>65,093,995</u>	<u>2,123,512,623</u>	<u>62,695,973</u>
<b>Other liabilities</b>					
Guarantee deposits received	26	1,480,540	48,750	1,565,780	46,229
Separate account products liabilities	2,31	260,873,546	8,589,844	195,593,488	5,774,830
Other liabilities - other		881,615	29,029	968,080	28,582
Subtotal		<u>263,235,701</u>	<u>8,667,623</u>	<u>198,127,348</u>	<u>5,849,641</u>
Total liabilities		<u>2,278,441,520</u>	<u>75,022,770</u>	<u>2,373,811,231</u>	<u>70,085,953</u>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	2,21	50,686,158	1,668,955	52,686,158	1,555,541
Capital surplus	2	9,648	317	13,009,648	384,105
<b>Retained earnings</b>					
Legal reserve	2,22	21,188,906	697,692	23,535,758	694,885
Special reserve		16,693,810	549,681	19,169,006	565,958
Unappropriated retained earnings		16,731,191	550,912	1,629,481	48,110
<b>Equity adjustment</b>					
Unrealized gains (losses) on financial instruments	2,22	454,438	14,963	(46,524,333)	(1,373,615)
Unrealized revaluation increments	2	2,105	69	2,105	62
Cumulative conversion adjustments	2,13	(24,702)	(813)	303,592	8,963
Net loss not recognized as pension cost		-	-	(264,304)	(7,803)
Total stockholders' equity		<u>105,741,554</u>	<u>3,481,776</u>	<u>63,547,111</u>	<u>1,876,206</u>
Total liabilities and stockholders' equity		<u>\$2,384,183,074</u>	<u>\$78,504,546</u>	<u>\$2,437,358,342</u>	<u>\$71,962,159</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

## Cathay Life Insurance Co., Ltd.

## Unaudited statements of income

For the three months ended March 31, 2008 and 2009

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

Item	Notes	January 1-March 31, 2008		January 1-March 31, 2009	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,26				
Premiums income		\$68,043,174	\$2,240,473	\$97,280,271	\$2,872,166
Reinsurance commission earned		6,838	225	1,382,646	40,822
Claims recovered from reinsurers		48,537	1,598	126,574	3,737
Recovered premiums reserve		39,273,465	1,293,166	31,410,768	927,392
Recovered special reserve		42,993	1,416	42,480	1,254
Recovered claims reserve		39,199	1,291	-	-
Recovered premium deficiency reserve		208,930	6,880	-	-
Handling fees earned	31	2,663,781	87,711	391,895	11,571
Interest income		18,030,562	593,696	18,862,005	556,894
Gains from valuation on financial assets		15,512,185	510,773	120,883	3,569
Gains from valuation on financial liabilities		-	-	8,222,644	242,771
Gains on long-term equity investments	13	63,822	2,102	42,830	1,265
Gains on foreign exchange		-	-	23,906,575	705,834
Gains on disposal of investments		14,741,822	485,407	-	-
Gains on investments - real estate		1,398,078	46,035	1,532,217	45,238
Separate account products revenues	31	76,353,610	2,514,113	18,490,121	545,914
Subtotal		236,426,996	7,784,886	201,811,909	5,958,427
Operating costs	2,26				
Reinsurance premiums ceded		(42,241)	(1,391)	(370,967)	(10,953)
Brokerage expenses	23	(7,733,753)	(254,651)	(6,997,327)	(206,594)
Commissions expenses		(12,922)	(426)	(45,472)	(1,343)
Insurance claims payment		(47,579,598)	(1,566,664)	(41,438,748)	(1,223,465)
Provision for premiums reserve		(67,327,493)	(2,216,908)	(99,245,275)	(2,930,182)
Provision for special reserve		(286,107)	(9,421)	(112,239)	(3,314)
Contribution to the stabilization funds		(67,966)	(2,238)	(97,224)	(2,870)
Provision for claims reserve		-	-	(34,793)	(1,027)
Provision for premium deficiency reserve		(44,188)	(1,455)	(37,250)	(1,100)
Handling fees paid		(387,400)	(12,756)	(474,864)	(14,020)
Interest expenses		(10,141)	(334)	(9,763)	(288)
Losses from valuation on financial liabilities		(4,871,361)	(160,400)	-	-
Losses on foreign exchange		(41,653,728)	(1,371,542)	-	-
Losses on disposal of investments		-	-	(27,969,065)	(825,777)
Separate account products expenses	31	(76,353,610)	(2,514,113)	(18,490,121)	(545,914)
Other operating cost		(340,674)	(11,217)	(211,154)	(6,234)
Subtotal		(246,711,182)	(8,123,516)	(195,534,262)	(5,773,081)
Operating gross (loss) profit		(10,284,186)	(338,630)	6,277,647	185,346
Operating expenses	2,3,16,22,23,26				
Marketing expenses		(757,893)	(24,955)	(667,832)	(19,718)
Administrative and general expenses		(1,534,790)	(50,536)	(1,702,281)	(50,259)
Subtotal		(2,292,683)	(75,491)	(2,370,113)	(69,977)
Operating (loss) income		(12,576,869)	(414,121)	3,907,534	115,369
Non-operating revenues and gains	2,26				
Gains on disposal of property and equipment		1	-	75	2
Other non-operating revenues and gains		308,756	10,166	317,908	9,386
Subtotal		308,757	10,166	317,983	9,388
Non-operating expenses and losses	2,26				
Losses on disposal of property and equipment		(76)	(3)	(10)	-
Dividend on preferred stock liabilities		-	-	(129,452)	(3,822)
Miscellaneous expenses		(1,858)	(61)	(7,852)	(232)
Subtotal		(1,934)	(64)	(137,314)	(4,054)
(Loss) income from continuing operations before income taxes		(12,270,046)	(404,019)	4,088,203	120,703
Income taxes benefit (expense)	2,24	5,532,716	182,177	(485,177)	(14,325)
Net (loss) income		(\$6,737,330)	(\$221,842)	\$3,603,026	\$106,378
Earnings per share (In dollars)	25				
Net (loss) income		(\$1.33)	(\$0.04)	\$0.68	\$0.02

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of changes in stockholders' equity**  
**For the three months ended March 31, 2008 and 2009**  
**(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			
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2008	\$50,686,158	\$1,668,955	\$9,648	\$317	\$21,188,906	\$697,692	\$16,693,810	\$549,681	\$23,468,521	\$772,754	\$11,169,132	\$367,768	\$2,105	\$69	\$132,518	\$4,364	\$-	\$-	\$123,350,798	\$4,061,600
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(10,714,694)	(352,805)	-	-	-	-	-	-	(10,714,694)	(352,805)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(157,220)	(5,177)	-	-	(157,220)	(5,177)
Net loss for the three months ended March 31, 2008	-	-	-	-	-	-	-	-	(6,737,330)	(221,842)	-	-	-	-	-	-	-	-	(6,737,330)	(221,842)
Balance on March 31, 2008	\$50,686,158	\$1,668,955	\$9,648	\$317	\$21,188,906	\$697,692	\$16,693,810	\$549,681	\$16,731,191	\$550,912	\$454,438	\$14,963	\$2,105	\$69	\$(24,702)	\$(813)	\$-	\$-	\$105,741,554	\$3,481,776
Balance on January 1, 2009	\$52,686,158	\$1,555,541	\$13,009,648	\$384,105	\$23,535,758	\$694,885	\$19,169,006	\$565,958	\$(1,973,545)	\$(58,268)	\$(52,489,299)	\$(1,549,729)	\$2,105	\$62	\$209,017	\$6,171	\$(264,304)	\$(7,803)	\$53,884,544	\$1,590,922
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	5,964,966	176,114	-	-	-	-	-	-	5,964,966	176,114
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	94,575	2,792	-	-	94,575	2,792
Net income for the three months ended March 31, 2009	-	-	-	-	-	-	-	-	3,603,026	106,378	-	-	-	-	-	-	-	-	3,603,026	106,378
Balance on March 31, 2009	\$52,686,158	\$1,555,541	\$13,009,648	\$384,105	\$23,535,758	\$694,885	\$19,169,006	\$565,958	\$1,629,481	\$48,110	\$(46,524,333)	\$(1,373,615)	\$2,105	\$62	\$303,592	\$8,963	\$(264,304)	\$(7,803)	\$63,547,111	\$1,876,206

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NTS30.37 and NTS33.87 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of cash flows**  
**For the three months ended March 31, 2008 and 2009**  
**(Expressed in thousands of dollars)**

	January 1-March 31, 2008		January 1-March 31, 2009	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net (loss) income for the periods	\$(6,737,330)	\$(221,842)	\$3,603,026	\$106,378
Adjustments:				
Gains from valuation of financial assets	(15,512,185)	(510,773)	(120,883)	(3,569)
Losses (gains) from valuation of financial liabilities	4,871,361	160,400	(8,222,644)	(242,771)
Provision bad debt	193,269	6,364	107,970	3,188
Depreciation	431,952	14,223	575,027	16,977
Amortization	42,690	1,406	51,553	1,522
Provision or recovered for each reserve	28,093,200	925,031	67,976,465	2,006,982
Losses (gains) on disposal of property and equipment	75	2	(64)	(2)
Gains on disposal of investments in real estate	-	-	(14,683)	(433)
Gains on long-term equity investments excess than cash dividends received	(63,822)	(2,101)	(42,830)	(1,264)
Effects of exchange rate changes	(13,929)	(459)	-	-
Increase in financial assets at fair value through profit or loss - current	(15,132,368)	(498,267)	(60,249,775)	(1,778,854)
Decrease (increase) in available-for-sale financial assets - current	8,947,570	294,619	(5,792,729)	(171,028)
Decrease (increase) in held-to-maturity financial assets - current	253,649	8,352	(6,833,320)	(201,751)
Decrease in derivative financial assets for hedging - current	22,415	738	63,725	1,881
Decrease (increase) in investments in debt securities with no active market - current	226,602	7,461	(7,919,051)	(233,807)
Decrease in notes receivable	2,993,606	98,571	1,524,295	45,004
Increase in prepaid reinsurance premium	(129,551)	(4,266)	(2,094,886)	(61,851)
Decrease in claims recoverable from reinsurers	11,307	372	882	26
Decrease (increase) in reinsurance accounts receivable	10,706	353	(1,351)	(40)
Increase in other accounts receivable	(1,696,609)	(55,865)	(20,384,713)	(601,852)
Decrease (increase) in other financial assets - current	3,000,000	98,782	(8,000,000)	(236,197)
Increase in prepayments	(42,882)	(1,412)	(63,142)	(1,864)
(Increase) decrease in deferred income tax assets - current	(7,405,875)	(243,855)	3,081,779	90,988
Decrease in other current assets	47,146	1,552	6,971	206
Increase in deferred income tax assets - noncurrent	(2,424)	(80)	(6,244,085)	(184,354)
Increase in other assets - other	(2,674,914)	(88,077)	(1,445,520)	(42,678)
(Decrease) increase in derivative financial liabilities for hedging - current	(23,052)	(759)	1,055	31
Increase (decrease) in notes payable	85	3	(58)	(2)
Increase in commissions payable	585,718	19,286	99,309	2,932
Decrease in life insurance proceeds payable	(2,097)	(69)	(844)	(25)
(Decrease) increase in reinsurance accounts payable	(24,359)	(802)	902,060	26,633
Increase in other payable	8,868,707	292,022	1,784,985	52,701
Increase in accounts collected in advance	25,820	850	22,740	671
Increase in deferred income tax liabilities - current	-	-	4,216,068	124,478
Increase in accrued pension liability	9,738	321	12,564	371
Decrease in other liabilities - other	(2,577,298)	(84,863)	(662,800)	(19,569)
Net cash provided by (used in) operating activities	6,596,921	217,218	(44,062,904)	(1,300,942)
Cash flows from investing activities				
(Increase) decrease in policy loans	(2,712,177)	(89,305)	3,055,672	90,218
Decrease in secured loans	2,045,340	67,347	5,225,351	154,277
(Increase) decrease in available-for-sale financial assets - noncurrent	(1,146,468)	(37,750)	24,402,329	720,470
Decrease in held-to-maturity financial assets - noncurrent	33,906,511	1,116,447	25,334,051	747,979
Decrease (increase) in financial assets carried at cost - noncurrent	240,254	7,911	(108,253)	(3,196)
Decrease (increase) in investments in debt securities with no active market - noncurrent	2,655,387	87,435	(22,447,171)	(662,745)
Disposal of investments in real estate	-	-	28,577	844
Acquisition of investments in real estate	(113,924)	(3,751)	(5,781,431)	(170,695)
Decrease in other financial assets - noncurrent	1,229,962	40,499	1,850,000	54,621
Disposal of property and equipment	1	-	287	8
Acquisition of property and equipment	(77,123)	(2,539)	(108,692)	(3,209)
Acquisition of intangible assets	(51,679)	(1,702)	(52,079)	(1,538)
(Increase) decrease in guarantee deposits paid	(177,754)	(5,853)	539,151	15,918
Decrease in other overdue receivables	21,398	705	13,404	396
Net cash provided by investing activities	35,819,728	1,179,444	31,951,196	943,348

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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



**Cathay life insurance Co., Ltd.**  
**Unaudited statements of cash flows - (continued)**  
**For the three months ended March 31, 2008 and 2009**  
**(Expressed in thousands of dollars)**

	January 1-March 31, 2008		January 1-March 31, 2009	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
(Decrease) increase in guarantee deposits received	(7,652)	(252)	22,881	676
Net cash (used in) provided by financing activities	(7,652)	(252)	22,881	676
Effects of exchange rate changes	13,929	459	-	-
Increase (decrease) in cash and cash equivalents	42,422,926	1,396,869	(12,088,827)	(356,918)
Cash and cash equivalents at the beginning of the periods	196,913,663	6,483,822	221,966,913	6,553,496
Cash and cash equivalents at the end of the periods	<u>\$239,336,589</u>	<u>7,880,691</u>	<u>\$209,878,086</u>	<u>\$6,196,578</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$1,167	\$38	\$4,560	\$135
Interest paid (excluding capitalized interest)	\$1,167	\$38	\$4,560	\$135
Income tax paid	<u>\$306,273</u>	<u>\$10,085</u>	<u>\$328,330</u>	<u>\$9,694</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

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**Cathay Life Insurance Co., Ltd.**

**Notes to unaudited financial statements**

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

**As of March 31, 2008 and 2009**

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 March 31, 2008 and 2009, total numbers of employees in the Company were 29,833 and 30,712, respectively.

2. Summary of significant accounting policies

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

(1) Current and non-current assets and liabilities

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

(2) Cash equivalents

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

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**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of March 31, 2008 and 2009**

(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.

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**Note to unaudited financial statements-continued**

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

**As of March 31, 2008 and 2009**

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.

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**Note to unaudited financial statements-continued**

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

**As of March 31, 2008 and 2009**

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.

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**Note to unaudited financial statements-continued**

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

**As of March 31, 2008 and 2009**

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

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

Where an existing financial liability is replaced by another one from the same creditor with substantially different terms of agreement, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

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**Note to unaudited financial statements-continued**

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

**As of March 31, 2008 and 2009**

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

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(6) Derivative financial instruments

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

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

Hedging relationships consist of three types:

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

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



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

Fair value hedges

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

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

The Company 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.

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

**Hedges of a net investment in a foreign operation**

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

**(7) Allowance for bad and doubtful debts**

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.

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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.

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.

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

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

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

**(10) Property and equipment**

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

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

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

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

**(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.

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**As of March 31, 2008 and 2009**

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 March 31, 2009, an aggregate of NT\$3,596,261 (US\$106,178) thousands was appropriated to this fund.

(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 three months.

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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).

(14) 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”.

(15) 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 R.O.C Ministry of Finance (the “MOF”).

As of March 31, 2009, the cumulative special reserves released from the special reserves for fluctuation of risks amounted to NT\$19,169,006 (US\$565,958) thousands.

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**Note to unaudited financial statements-continued**

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**As of March 31, 2008 and 2009**

(16) 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.

(17) Pension plan

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

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

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

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

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**Note to unaudited financial statements-continued**

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**As of March 31, 2008 and 2009**

(18) 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.

(19) Income taxes

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



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

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

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

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

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

(20) 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.

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(21) 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.

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”.

(22) 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.

(23) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of March 31, 2008 and 2009 are for information only. The U.S. dollar/NT dollars noon buying rates of NT30.37 and NT\$33.87 provided by Federal Reserve Bank of New York of March 31, 2008 and 2009 are used for the conversion.

3. Reasons and effects for changes in accounting principles

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

The above change in accounting principles decreased the Company’s net income and earnings per share by NT\$5,000 (US\$165) thousands and NT\$0.001 (US\$-), respectively, for the three months ended March 31, 2008.

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**As of March 31, 2008 and 2009**

4. Cash and cash equivalents

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$292,093	\$9,618	\$278,669	\$8,228
Cash in banks	15,440,522	508,414	15,098,450	445,777
Time deposits	200,795,068	6,611,625	172,361,872	5,088,924
Cash equivalents	22,808,906	751,034	22,139,095	653,649
Total	<u>\$239,336,589</u>	<u>\$7,880,691</u>	<u>\$209,878,086</u>	<u>\$6,196,578</u>

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

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$11,751,029	\$386,929	\$8,742,549	\$258,121
Overseas stocks	1,460,016	48,074	1,192,894	35,220
Beneficiary certificates	68,524,160	2,256,311	98,671,932	2,913,254
Exchange traded funds	169,362	5,577	4,058,596	119,829
Overseas bonds	10,915,018	359,401	11,459,789	338,346
Corporate bonds	3,516,722	115,796	3,369,834	99,493
Government bonds	868,943	28,612	4,438,135	131,034
Derivative financial instruments	59,123	1,947	42,227	1,247
Structured time deposits	2,000,000	65,854	1,000,000	29,525
Subtotal	99,264,373	3,268,501	132,975,956	3,926,069
Add: Adjustment of valuation	24,742,804	814,712	2,673,807	78,943
Total	<u>\$124,007,177</u>	<u>\$4,083,213</u>	<u>\$135,649,763</u>	<u>\$4,005,012</u>

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**As of March 31, 2008 and 2009**

6. Available-for-sale financial assets - current

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$97,118,148	\$3,197,832	\$125,084,254	\$3,693,069
Overseas stocks	19,999,168	658,517	15,901,822	469,496
Beneficiary certificates	16,686,517	549,441	22,272,879	657,599
Collateralized loans obligation and collateralized bonds obligation	830,932	27,360	-	-
Exchange traded funds	6,559,823	215,997	4,175,790	123,289
Real estate investment trust	8,725,208	287,297	8,725,208	257,609
Financial debentures	7,950,000	261,772	99,848	2,948
Corporate bonds	1,950,000	64,208	-	-
Overseas bonds	1,718,561	56,587	-	-
Subtotal	161,538,357	5,319,011	176,259,801	5,204,010
Add (less) : Adjustment of valuation	478,213	15,746	(54,271,016)	(1,602,333)
Total	<u>\$162,016,570</u>	<u>\$5,334,757</u>	<u>\$121,988,785</u>	<u>\$3,601,677</u>

7. Derivative financial assets for hedging - current

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	338,641	11,151	2,102,486	62,075
Total	<u>\$338,641</u>	<u>\$11,151</u>	<u>\$2,102,486</u>	<u>\$62,075</u>

8. Loans

(1) Policy loans

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

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- 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

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Secured loans	\$341,006,811	\$11,228,410	\$332,389,819	\$9,813,694
Secured loans - related parties	4,629,215	152,427	4,533,505	133,850
Less: Allowance for bad debts	(550,220)	(18,117)	(514,469)	(15,189)
Subtotal	345,085,806	11,362,720	336,408,855	9,932,355
Overdue receivables	1,633,504	53,787	2,341,818	69,141
Less: Allowance for bad debts	(1,143,452)	(37,651)	(1,639,273)	(48,399)
Subtotal	490,052	16,136	702,545	20,742
Total	\$345,575,858	\$11,378,856	\$337,111,400	\$9,953,097

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

9. Available-for-sale financial assets – noncurrent

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$14,187,278	\$467,148	\$20,762,235	\$612,998
Government bonds	75,297,149	2,479,327	66,225,010	1,955,271
Financial debentures	108,199,277	3,562,703	128,181,834	3,784,524
Collateralized loans obligation and collateralized bonds obligation	5,508,284	181,372	2,858,605	84,399
Overseas bonds	26,176,706	861,926	24,398,670	720,362
Subtotal	229,368,694	7,552,476	242,426,354	7,157,554
Add: Adjustment of valuation	950,236	31,288	3,060,864	90,371
Total	\$230,318,930	\$7,583,764	\$245,487,218	\$7,247,925

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**As of March 31, 2008 and 2009**

10. Held-to-maturity financial assets – noncurrent

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$4,217,522	\$138,871	\$4,021,254	\$118,726
Government bonds	26,558,138	874,486	42,590,549	1,257,472
Financial debentures	10,279,076	338,462	9,900,000	292,294
Collateralized loans obligation and collateralized bonds obligation	19,597,520	645,292	13,749,532	405,950
Overseas bonds	485,616,160	15,989,995	529,883,820	15,644,636
Subtotal	546,268,416	17,987,106	600,145,155	17,719,078
Less: Securities serving as deposits				
paid - bonds	(8,026,149)	(264,279)	(7,877,782)	(232,589)
Accumulated impairment	-	-	(169,574)	(5,007)
Total	<u>\$538,242,267</u>	<u>\$17,722,827</u>	<u>\$592,097,799</u>	<u>\$17,481,482</u>

11. Financial assets carried at cost – noncurrent

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,017,195	\$659,111	\$19,815,943	\$585,059
Beneficiary certificates	-	-	558,841	16,499
Subtotal	20,017,195	659,111	20,374,784	601,558
Less: Accumulated impairment	(1,204,106)	(39,648)	(1,302,285)	(38,449)
Total	<u>\$18,813,089</u>	<u>\$619,463</u>	<u>\$19,072,499</u>	<u>\$563,109</u>

12. Structured notes

One of the financial assets investment structured notes amounted to NT\$73,480,536 (US\$2,419,511) thousands and NT\$ 37,701,169(US\$1,113,114) thousands as of March 31, 2008 and 2009, respectively. The details of structured notes are listed below:

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**As of March 31, 2008 and 2009**

Item	March 31, 2008					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$2,036,013	\$67,040	\$124,745	\$4,108	\$2,160,758	\$71,148
Available-for-sale financial assets	11,679,720	384,581	(116,493)	(3,836)	11,563,227	380,745
Held-to-maturity financial assets	58,420,512	1,923,626	-	-	58,420,512	1,923,626
Investments in debt securities						
with no active market - current	1,336,039	43,992	-	-	1,336,039	43,992
<b>Total</b>	<b>\$73,472,284</b>	<b>\$2,419,239</b>	<b>\$8,252</b>	<b>\$272</b>	<b>\$73,480,536</b>	<b>\$2,419,511</b>

Item	March 31, 2009					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$668,744	\$19,745	\$(7,156)	\$(212)	\$661,588	\$19,533
Available-for-sale financial assets	8,900,000	262,769	(11,323)	(334)	8,888,677	262,435
Held-to-maturity financial assets	28,150,904	831,146	-	-	28,150,904	831,146
<b>Total</b>	<b>\$37,719,648</b>	<b>\$1,113,660</b>	<b>\$(18,479)</b>	<b>\$(546)</b>	<b>\$37,701,169</b>	<b>\$1,113,114</b>

13. Long-term investments under the equity method

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

Investee	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$405,545	\$13,354	\$317,658	\$9,379
Vista Technology Venture Capital Corp.	39,550	1,302	31,995	945
Omnitek Venture Capital Corp.	218,951	7,209	88,431	2,611
Wa Tech Venture Capital Co., Ltd.	176,342	5,806	95,784	2,828
IBT Venture Capital Corp.	387,847	12,771	262,450	7,749
Cathay Insurance (Bermuda) Co., Ltd.	85,298	2,809	97,718	2,885
Symphox Information Co., Ltd.	284,578	9,370	319,307	9,427
Cathay Securities Investment Trust Co., Ltd.	417,077	13,733	393,236	11,610
Cathay Venture Capital Corp.	418,103	13,767	369,925	10,922
Cathay Securities Investment Consulting Co., Ltd.	192,542	6,340	171,396	5,060
Cathay Life Insurance Ltd. (Shanghai)	1,381,891	45,502	1,265,168	37,354
Cathay Life Insurance (Vietnam) Co., Ltd.	1,839,258	60,562	2,363,766	69,789
Cathay Insurance Company Limited. (Shanghai)	-	-	939,934	27,751
<b>Total</b>	<b>\$5,846,982</b>	<b>\$192,525</b>	<b>\$6,716,768</b>	<b>\$198,310</b>

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

	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$6,254,217	\$205,934	\$6,466,022	\$190,907
Add (less) :				
Gains on long-term equity investments	63,822	2,101	42,830	1,265
Cumulative conversion adjustments	(150,235)	(4,947)	94,575	2,792
Unrealized gain or loss on financial instruments	(320,822)	(10,563)	113,341	3,346
Balance as of March 31	<u>\$5,846,982</u>	<u>\$192,525</u>	<u>\$6,716,768</u>	<u>\$198,310</u>

(3) The recognized equity investment gains for the three months ended March 31, 2008 and 2009 are listed below:

Investee	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$(3,470)	\$(114)	\$6,271	\$185
Vista Technology Venture Capital Corp.	(16)	-	(1)	-
Omnitek Venture Capital Corp.	(1,800)	(59)	(466)	(14)
Wa Tech Venture Capital Co., Ltd.	(1,120)	(37)	(17,082)	(504)
IBT Venture Capital Corp.	6,937	228	14,382	425
Cathay Insurance (Bermuda) Co., Ltd.	2,595	85	(227)	(7)
Symphox Information Co., Ltd.	13,019	429	10,863	321
Cathay Securities Investment Trust Co., Ltd.	43,784	1,442	24,793	732
Cathay Venture Capital Corp.	5,480	180	(2,933)	(87)
Cathay Securities Investment Consulting Co., Ltd.	25,205	830	6,051	179
Cathay Life Insurance Ltd. (Shanghai)	(30,301)	(998)	(944)	(28)
Cathay Life Insurance (Vietnam) Co., Ltd.	3,509	115	7,253	214
Cathay Insurance Company Limited. (Shanghai)	-	-	(5,130)	(151)
Total	<u>\$63,822</u>	<u>\$2,101</u>	<u>\$42,830</u>	<u>\$1,265</u>



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- A. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the three months ended March 31, 2008, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd. were recognized based on unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the three months ended March 31, 2008, were reviewed by other auditors. Unqualified review reports were issued for all above investee companies.
- B. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the three months ended March 31, 2009, except for WK Technology Fund VI Co., Ltd., Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. were recognized based on unreviewed financial statements. The financial statements of Omnitek Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the three months ended March 31, 2009, were reviewed by other auditors. Unqualified review reports were issued for all above investee companies except the Symphox Information Co., Ltd. and Cathay Venture Capital Corp., of which modified unqualified reviewed reports were issued.

14. Investments in real estate

March 31, 2008										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real										
estate	\$120,681,753	\$3,973,716	\$4,369	\$144	\$(15,718,168)	\$(517,556)	\$(195,923)	\$(6,451)	\$104,772,031	\$3,449,853
Construction	1,621,269	53,384	-	-	-	-	-	-	1,621,269	53,384
Total	<u>\$122,303,022</u>	<u>\$4,027,100</u>	<u>\$4,369</u>	<u>\$144</u>	<u>\$(15,718,168)</u>	<u>\$(517,556)</u>	<u>\$(195,923)</u>	<u>\$(6,451)</u>	<u>\$106,393,300</u>	<u>\$3,503,237</u>
March 31, 2009										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real										
estate	\$127,721,445	\$3,770,932	\$4,384	\$129	\$(17,458,168)	\$(515,446)	\$(195,594)	\$(5,775)	\$110,072,067	\$3,249,840
Construction	2,261,912	66,782	-	-	-	-	-	-	2,261,912	66,782
Prepayments for										
buildings and land	2,477,536	73,148	-	-	-	-	-	-	2,477,536	73,148
Total	<u>\$132,460,893</u>	<u>\$3,910,862</u>	<u>\$4,384</u>	<u>\$129</u>	<u>\$(17,458,168)</u>	<u>\$(515,446)</u>	<u>\$(195,594)</u>	<u>\$(5,775)</u>	<u>\$114,811,515</u>	<u>\$3,389,770</u>

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.

15. Property and equipment

Item	March 31, 2008									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,755,724	\$156,593	\$1,317	\$44	\$-	\$-	\$(51,331)	\$(1,691)	\$4,705,710	\$154,946
Buildings and construction	10,117,769	333,150	-	-	(3,481,094)	(114,623)	(34,188)	(1,125)	6,602,487	217,402
Computer equipment	1,821,211	59,967	-	-	(1,375,260)	(45,283)	-	-	445,951	14,684
Communication and transportation equipment	15,415	508	-	-	(12,793)	(422)	-	-	2,622	86
Other equipment	2,960,130	97,469	-	-	(2,099,483)	(69,130)	-	-	860,647	28,339
Subtotal	19,670,249	647,687	1,317	44	(6,968,630)	(229,458)	(85,519)	(2,816)	12,617,417	415,457
Construction in progress and prepayment for equipment	192,641	6,343	-	-	-	-	-	-	192,641	6,343
Total	\$19,862,890	\$654,030	\$1,317	\$44	\$(6,968,630)	\$(229,458)	\$(85,519)	\$(2,816)	\$12,810,058	\$421,800

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**As of March 31, 2008 and 2009**

Item	March 31, 2009									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Land	\$4,751,206	\$140,278	\$1,303	\$38	\$-	\$-	\$(51,331)	\$(1,516)	\$4,701,178	\$138,800
Buildings and construction	10,329,315	304,969	-	-	(3,628,738)	(107,137)	(34,188)	(1,009)	6,666,389	196,823
Computer equipment	2,137,596	63,112	-	-	(1,536,363)	(45,361)	-	-	601,233	17,751
Communication and transportation equipment	12,942	382	-	-	(11,457)	(338)	-	-	1,485	44
Other equipment	3,004,228	88,699	-	-	(2,301,782)	(67,959)	-	-	702,446	20,740
Subtotal	20,235,287	597,440	1,303	38	(7,478,340)	(220,795)	(85,519)	(2,525)	12,672,731	374,158
Construction in progress and prepayment for equipment	86,056	2,541	-	-	-	-	-	-	86,056	2,541
Total	\$20,321,343	\$599,981	\$1,303	\$38	\$(7,478,340)	\$(220,795)	\$(85,519)	\$(2,525)	\$12,758,787	\$376,699

No properties or equipment was pledged as collaterals as of March 31, 2008 and 2009.

**16. Intangible assets**

Item	January 1, 2008		Increase		Decrease		March 31, 2008	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Acquired Cost:								
Computer software	\$750,860	\$24,724	\$51,679	\$1,702	\$-	\$-	\$802,539	\$26,425
Amortized and impairment:								
Amortized	(279,937)	(9,218)	(42,690)	(1,406)	-	-	(322,627)	(10,623)
Book value	\$470,923	\$15,506	\$8,989	\$296	\$-	\$-	\$479,912	\$15,802
Item	January 1, 2009		Increase		Decrease		March 31, 2009	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Acquired Cost:								
Computer software	\$1,101,193	\$32,512	\$52,079	\$1,538	\$-	\$-	\$1,153,272	\$34,050
Amortized and impairment:								
Amortized	(492,327)	(14,536)	(51,553)	(1,522)	-	-	(543,880)	(16,058)
Book value	\$608,866	\$17,976	\$526	\$16	\$-	\$-	\$609,392	\$17,992

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17. Other overdue receivables

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$119,435	\$3,933	\$368,644	\$10,884
Less: Allowance for bad and doubtful debts	(82,939)	(2,731)	(89,798)	(2,651)
Total	<u>\$36,496</u>	<u>\$1,202</u>	<u>\$278,846</u>	<u>\$8,233</u>

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	17,925,574	590,239	22,039,951	650,722
Total	<u>\$17,925,574</u>	<u>\$590,239</u>	<u>\$22,039,951</u>	<u>\$650,722</u>

19. Derivative financial liabilities for hedging - current

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	78,378	2,581	98,083	2,896
Total	<u>\$78,378</u>	<u>\$2,581</u>	<u>\$98,083</u>	<u>\$2,896</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.

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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, 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 March 31, 2009.

## 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 March 31, 2008 and 2009, the total authorized thousand shares were 5,068,616 and 5,268,616 at par value of NT\$10 each.

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22. Retained earnings

(1) Legal reserve

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

(2) Special reserve

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

(3) Undistributed retained earnings

- A. According to the Company's articles of incorporation, 20% of the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders' interests can be distributed to employees as employees' bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.
- B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the special reserve since 2007.

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- D. The accrual of employee bonus and remuneration of directors for the three months ended March 31, 2008 and 2009, were NT\$5,000 (US\$165) thousands and NT\$5,000 (US\$148) thousands, respectively, based on the average of actual distribution in the past three years and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in the following fiscal year.
- E. The Board of Directors has recommended not distribute employee bonus and remuneration of directors due to the Company's net loss for year 2008. As of March 31, 2009 the recommendation has not been approved by the stockholders' meeting exercised by the Board of Directors. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

23. Personnel expense 、 depreciation and amortizations

Item	For the three months ended March 31, 2008 NT\$			For the three months ended March 31, 2008 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$6,994,916	\$414,314	\$7,409,230	\$230,323	\$13,642	\$243,965
Labor & health insurance expenses	297,968	41,710	339,678	9,811	1,374	11,185
Pension expenses	192,732	26,979	219,711	6,346	888	7,234
Other expenses	219,253	51,195	270,448	7,219	1,686	8,905
Depreciation	-	431,952	431,952	-	14,223	14,223
Amortizations	-	42,690	42,690	-	1,406	1,406

Item	For the three months ended March 31, 2009 NT\$			For the three months ended March 31, 2009 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$6,213,579	\$419,069	\$6,632,648	\$183,454	\$12,373	\$195,827
Labor & health insurance expenses	303,672	49,747	353,419	8,966	1,469	10,435
Pension expenses	192,291	31,501	223,792	5,677	930	6,607
Other expenses	258,721	55,862	314,583	7,639	1,649	9,288
Depreciation	-	575,027	575,027	-	16,977	16,977
Amortizations	-	51,553	51,553	-	1,522	1,522

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24. Estimated income taxes

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

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$13,265,436	\$436,794	\$14,838,345	\$438,096
Total deferred tax liabilities	\$(1,653,231)	\$(54,436)	\$(9,031,181)	\$(266,642)
Allowance for deferred assets	\$(128,931)	\$(4,246)	\$-	\$-
Temporary differences:				
Pension expense	\$1,360,671	\$44,803	\$1,404,738	\$41,474
Unrealized foreign exchange losses (gains)	43,094,777	1,418,992	(36,124,724)	(1,066,570)
(Gains) losses from valuation on financial assets and liabilities	(6,612,923)	(217,745)	19,099,360	563,902
Impairment loss	263,963	8,691	732,021	21,613
Unrealized bad debt losses	-	-	229,865	6,787
Other	32,642	1,075	19,851	586
Total	\$38,139,130	\$1,255,816	\$(14,638,889)	\$(432,208)
Loss carryforwards	\$1,596,680	\$52,574	\$11,593,584	\$342,297
Tax effect under consolidated income tax system	\$351,812	\$11,584	\$(2,162,102)	\$(63,835)
Investment tax credits	\$-	\$-	\$35,405	\$1,045

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$12,859,139	\$423,416	\$4,815,112	\$142,164
Allowance for deferred tax assets-current	(128,931)	(4,246)	-	-
Net deferred tax assets - current	12,730,208	419,170	4,815,112	142,164
Deferred tax liabilities - current	(1,653,231)	(54,436)	(9,031,181)	(266,642)
Net offset balance of deferred tax assets (liabilities) - current	\$11,076,977	\$364,734	\$(4,216,069)	\$(124,478)



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**As of March 31, 2008 and 2009**

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - noncurrent	\$406,297	\$13,378	\$10,023,233	\$295,932
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	<u>\$406,297</u>	<u>\$13,378</u>	<u>\$10,023,233</u>	<u>\$295,932</u>

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

	For the three months ended March 31			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$1,276,405	\$42,028	\$(6,882,848)	\$(203,214)
Add (less): Amortization of deferred tax assets	128,931	4,246	-	-
Deferred income tax (benefit) expense from unrealized foreign exchange loss (gain)	(10,416,914)	(343,000)	5,765,262	170,217
Deferred income tax expense from unrealized financial instruments valuation loss	2,882,109	94,900	1,539,109	45,442
Deferred income tax benefit from unrealized pension expense	(2,435)	(80)	(3,141)	(93)
Deferred income tax expense from impairment loss	-	-	59,459	1,756
Others	11	-	11	-
Add: Separation tax	59,832	1,970	6,228	184
Withholding tax for overseas investments	-	-	7,621	225
Less: Income tax credit	(1,795)	(59)	(6,524)	(192)
Tax effects under income basic tax systems	541,140	17,818	-	-
Total income tax expense (benefit)	<u>\$(5,532,716)</u>	<u>\$(182,177)</u>	<u>\$485,177</u>	<u>\$14,325</u>

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

(4) Information related to imputation

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$1,208,909</u>	<u>\$39,806</u>	<u>\$1,094,333</u>	<u>\$32,310</u>

	March 31,	
	2008	2009
Imputation credit account ratio – actual (May 15, 2008)	5.62%	-
Imputation credit account ratio – estimate	-	33.33%

(5) Information related to undistributed earnings

Year	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
After 1998	<u>\$23,468,521</u>	<u>\$772,754</u>	<u>\$(1,973,545)</u>	<u>\$(58,268)</u>

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

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$16,403	\$484	\$16,403	\$484	2011
Statute for Upgrading Industries	Education training	12,478	368	12,478	368	2012
Statute for Upgrading Industries	Education training	1,555	46	1,555	46	2013
Statute for Upgrading Industries	Investment in newly emerging, important and strategic industries	4,969	147	4,969	147	2011
Total		<u>\$35,405</u>	<u>\$1,045</u>	<u>\$35,405</u>	<u>\$1,045</u>	

25. Earnings per share

	For the three months ended March 31, 2008			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(12,270,046)</u>	<u>\$(404,019)</u>	<u>\$(6,737,330)</u>	<u>\$(221,842)</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 loss	<u>\$(2.42)</u>	<u>\$(0.08)</u>	<u>\$(1.33)</u>	<u>\$(0.04)</u>

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	For the three months ended March 31, 2009			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	\$4,088,203	\$120,703	\$3,603,026	\$106,378
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)	5,268,616	5,268,616	5,268,616	5,268,616
Earnings per share (a) / (c) (dollars)				
Net income	\$0.78	\$0.02	\$0.68	\$0.02

26. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay 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 Insurance Company Limited. (Shanghai)	An equity-method investee
Cathay Securities Investment Trust Co., Ltd.	An equity-method investee

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<u>Name</u>	<u>Relationship</u>
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

(2) Significant transactions with related parties

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 three months ended March 31, 2008 and 2009 are listed below:

<u>Name</u>	<u>Item</u>	<u>For the three months ended March 31, 2008</u>	
		<u>NT\$</u>	<u>US\$</u>
San Ching Engineering Co., Ltd.	Cathay Lank Mark etc	\$-	\$-
Lin Yuan Property Management Co., Ltd.	International Building etc	77,842	2,563
	Total	<u>\$77,842</u>	<u>\$2,563</u>
<u>For the three months ended March 31, 2009</u>			
<u>Name</u>	<u>Item</u>	<u>NT\$</u>	<u>US\$</u>
Lin Yuan Property Management Co., Ltd.	International Building etc	<u>\$28,657</u>	<u>\$846</u>

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The total amounts of contracted projects for real estate as of March 31, 2008 and 2009 between the Company and San Ching Engineering Co., Ltd. were NT\$32,445 (US\$1,068) thousands and NT\$76,224 (US\$2,250) thousands, respectively.

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

Name	Rental income			
	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$4,611	\$152	\$6,120	\$181
Cathay Real Estate Development Co., Ltd.	4,275	141	5,528	163
Cathay United Bank	71,348	2,349	82,269	2,429
Cathay Century Insurance Co., Ltd.	20,463	674	22,277	658
Cathay General Hospital	40,675	1,339	43,756	1,292
Symphox Information Co., Ltd.	4,066	134	4,335	128
Cathay Securities Investment Trust Co., Ltd.	4,242	140	5,555	164
Cathay Securities Co., Ltd.	5,114	168	5,292	156
Total	<u>\$154,794</u>	<u>\$5,097</u>	<u>\$175,132</u>	<u>\$5,171</u>

Name	Guarantee deposits received			
	March 31, 2008		March 31, 2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,945	\$130	\$4,886	\$144
Cathay United Bank	64,528	2,125	68,143	2,012
Cathay Century Insurance Co., Ltd.	19,379	638	20,633	609
Cathay General Hospital	9,114	300	11,097	328
Cathay Securities Investment Trust Co., Ltd.	3,743	123	4,948	146
Cathay Securities Co., Ltd.	4,710	155	4,710	139
Cathay Financial Holding Co., Ltd.	5,014	165	5,964	176
Symphox Information Co., Ltd.	-	-	3,824	113
Total	<u>\$110,433</u>	<u>\$3,636</u>	<u>\$124,205</u>	<u>\$3,667</u>

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

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

Name	Rental expense			
	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,678	\$253	\$7,592	\$224

Name	Guarantee deposits paid			
	March 31, 2008		March 31, 2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$-	\$-	\$8,779	\$259

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

B. Cash in banks

Name	Item	For the three months ended March 31, 2008		
		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$9,177	1.24%-2.65%	\$1,902,150
	Cash in bank	1,139	0.04%-1.80%	3,916,168
Total		\$10,316		\$5,818,318

Name	Item	For the three months ended March 31, 2008		
		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$302	1.24%-2.65%	\$62,632
	Cash in bank	38	0.04%-1.80%	128,949
Total		\$340		\$191,581

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		For the three months ended March 31, 2009		
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$16,919	0.1%-2.42%	\$7,343,524
	Cash in bank	472	0.02%-1.00%	3,388,964
Total		<u>\$17,391</u>		<u>\$10,732,488</u>

		For the three months ended March 31, 2009		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$499	0.1%-2.42%	\$216,815
	Cash in bank	14	0.02%-1.00%	100,058
Total		<u>\$513</u>		<u>\$316,873</u>

C. Other financial assets

		For the three months ended March 31, 2008		
Name		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank		<u>\$31,929</u>	3.17%-4.06%	<u>\$1,800,000</u>

		For the three months ended March 31, 2008		
Name		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank		<u>\$1,051</u>	3.17%-4.06%	<u>\$59,269</u>

		For the three months ended March 31, 2009		
Name		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank		<u>\$4,621</u>	3.17%-3.73%	<u>\$-</u>



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Name	For the three months ended March 31, 2009		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$136	3.17%-3.73%	\$-

D. Secured loans

Name	For the three months ended March 31, 2008			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,388,030	\$40,534	3.57%-3.80%	\$4,371,530
Other related parties	272,697	1,838	2.20%-4.73%	257,685
Total	\$4,660,727	\$42,372		\$4,629,215

Name	For the three months ended March 31, 2008			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$144,486	\$1,335	3.57%-3.80%	\$143,942
Other related parties	8,979	60	2.20%-4.73%	8,485
Total	\$153,465	\$1,395		\$152,427

Name	For the three months ended March 31, 2009			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,286,249	\$32,976	2.50%-3.91%	\$4,225,483
Other related parties	333,381	1,755	1.16%-5.37%	308,022
Total	\$4,619,630	\$34,731		\$4,533,505

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Name	For the three months ended March 31, 2009			
	Maximum	Interest		Ending
	amount	income	Rate	balance
	US\$	US\$		US\$
Cathay General Hospital	\$126,550	\$973	2.50%-3.91%	\$124,756
Other related parties	9,843	52	1.16%-5.37%	9,094
Total	<u>\$136,393</u>	<u>\$1,025</u>		<u>\$133,850</u>

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

Name		March 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment	Market value	<u>\$7,048,232</u>	<u>\$232,079</u>	<u>\$4,306,555</u>	<u>\$127,150</u>
Trust Co., Ltd managed	Cost	<u>\$6,675,225</u>	<u>\$219,797</u>	<u>\$4,485,342</u>	<u>\$132,428</u>
	funds.				

F. Other accounts receivable

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$95,076	\$3,131	\$164,958	\$4,870
Cathay Insurance (Bermuda) Co., Ltd.	9,630	317	14,539	429
Cathay Financial Holding Co., Ltd. (note)	541,486	17,830	4,132,320	122,005
Cathay General Hospital	29,415	969	31,825	940

Note : Receivables due to consolidated income tax.

G. Prepayments

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$28,883</u>	<u>\$951</u>	<u>\$45,260</u>	<u>\$1,336</u>

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H. Other overdue receivable

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)	\$-	\$-	\$265,211	\$7,830

I. Other assets - other

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)	\$298,343	\$9,824	\$-	\$-

J. Repurchase bonds

Name	For the three months ended March 31, 2009		
	Interest		Ending
	income NT\$	Rate	balance NT\$
Cathay United Bank	\$93	0.1%-0.37%	\$80,001

Name	For the three months ended March 31, 2009		
	Interest		Ending
	income US\$	Rate	balance US\$
Cathay United Bank	\$3	0.1%-0.37%	\$2,362

K. Guarantee deposits paid

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$502,152	\$16,534	\$453,680	\$13,395

As of March 31, 2008 and 2009, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$131 (US\$4) thousands and NT\$121 (US\$4) thousands, respectively.

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L. Other payable

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$41,443	\$1,365	\$28,878	\$853
Lin Yuan Property Management Co., Ltd.	47,246	1,556	39,146	1,156
San Ching Engineering Co., Ltd.	7,237	238	6,330	187
Cathay Financial Holding Co., Ltd.	960,038	31,611	139,493	4,118

M. Premiums income

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$126,576	\$4,168	\$147,098	\$4,343
Cathay General Hospital	7,805	257	5,235	155
Other related parties	206,517	6,800	153,675	4,537
Total	<u>\$340,898</u>	<u>\$11,225</u>	<u>\$306,008</u>	<u>\$9,035</u>

N. Insurance expense

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$39,023</u>	<u>\$1,285</u>	<u>\$81,569</u>	<u>\$2,408</u>

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$2,675 (US\$88) thousands and NT\$2,454 (US\$72) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the three months ended March 31, 2008 and 2009.

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O. Reinsurance income

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$38,872	\$1,280	\$21,442	\$633

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the three months ended March 31, 2008 and 2009, the Company assumed 90% and 60% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd, respectively.

P. Reinsurance service expenses

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$3,416	\$112	\$3,444	\$102

Q. Reinsurance claims payment

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$16,484	\$543	\$15,483	\$457

R. Miscellaneous income

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$277,149	\$9,126	\$304,852	\$9,001
Cathay United Bank	23,258	766	25,531	754
Cathay Securities Investment Trust Co., Ltd.	-	-	14,209	419
Total	\$300,407	\$9,892	\$344,592	\$10,174

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

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S. Commissions expenses

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$3,243	\$107	\$5,554	\$164

T. Operating expenses

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$70,273	\$2,314	\$54,749	\$1,617
Lin Yuan Property Management Co., Ltd.	166,602	5,486	153,169	4,522
Cathay Securities Investment Consulting Co., Ltd.	13,125	432	5,670	167
Seaward Card Co., Ltd.	-	-	17,298	511
Cathay Capital Management Inc.	6,410	211	10,000	295
Cathay United Bank	219,772	7,236	312,302	9,221
Cathay Securities Co., Ltd.	11,501	379	-	-
Total	\$487,683	\$16,058	\$553,188	\$16,333

U. Non-operating expenses and losses

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$-	\$-	\$129,452	\$3,822

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

V. Other

(A) As of March 31, 2008 and 2009, the nominal amounts of the financial instruments transactions with Cathay United Bank are listed below:

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**As of March 31, 2008 and 2009**

Item	March 31,	
	2008	2009
Forward foreign exchange contracts	USD 40,000	USD 718,858
CS contracts	USD 1,285,000	USD 1,470,000
Financial debentures	NTD 200,000 (USD 6,585)	NTD -

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$1,000,000 (US\$32,927) thousands and NT\$- (US\$-) thousands during the three months ended March 31, 2008 and 2009, respectively.

27. Pledged assets

As of March 31, 2008 and 2009, the Company provided cash and time deposits to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. 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	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
- Government bonds	\$8,026,149	\$264,279	\$8,840,677	\$261,018
Guarantee deposits paid - Time deposits	199,060	6,554	121,650	3,591
Guarantee deposits paid - others	84,817	2,793	60,244	1,779
Total	<u>\$8,310,026</u>	<u>\$273,626</u>	<u>\$9,022,571</u>	<u>\$266,388</u>

Pledged assets are summarized based on the carrying amounts.

28. Other important matters and contingent liabilities

None.

29. Serious damages

None.

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**As of March 31, 2008 and 2009**

30. Subsequent events

None.

31. Others

(1) Pension related information

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

(2) Separate account insurance products related information

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	March 31, 2008		Item	March 31, 2008	
	NT\$	US\$		NT\$	US\$
Financial assets at fair value through profit or loss	\$259,613,921	\$8,548,368	Other payable	\$3,047,457	\$100,344
Interests receivable	20,082	661	Reserve for separate account	257,825,921	8,489,494
Other receivable	1,239,543	40,815	Adjustments	168	6
Total	\$260,873,546	\$8,589,844	Total	\$260,873,546	\$8,589,844

Assets			Liabilities		
Item	March 31, 2009		Item	March 31, 2009	
	NT\$	US\$		NT\$	US\$
Financial assets at fair value through profit or loss	\$194,635,764	\$5,746,553	Other payable	\$1,908,834	\$56,358
Other receivable	957,724	28,277	Reserve for separate account	193,684,589	5,718,470
			Adjustments	65	2
Total	\$195,593,488	\$5,774,830	Total	\$195,593,488	\$5,774,830



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B. Separate account insurance products - revenues and expenses

Expenses			Revenues		
Item	January 1-March 31, 2008		Item	January 1-March 31, 2008	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$278,042	\$9,155	Premiums income	\$47,995,777	\$1,580,368
Cash surrender value	13,402,764	441,316	Recovered separate		
Dividends	1,210	40	account reserve	28,095,495	925,107
Provision for separate			Interest income	262,338	8,638
account reserve	32,945,641	1,084,809			
Losses from valuation on					
financial assets	13,828,994	455,350			
Losses on disposal of					
investments	1,277,607	42,068			
Losses on foreign exchange	13,455,990	443,069			
Administrative expenses	1,163,302	38,304			
Adjustments	60	2			
<b>Total</b>	<b>\$76,353,610</b>	<b>\$2,514,113</b>	<b>Total</b>	<b>\$76,353,610</b>	<b>\$2,514,113</b>

Expenses			Revenues		
Item	January 1-March 31, 2009		Item	January 1-March 31, 2009	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$226,772	\$6,695	Premiums income	\$5,638,026	\$166,461
Cash surrender value	4,802,221	141,784	Recovered separate		
Dividends	913	27	account reserve	7,142,121	210,869
Provision for separate			Interest income	1,287	38
account reserve	9,576,696	282,749	Gains on foreign		
Losses from valuation on			exchange	5,707,183	168,502
financial assets	1,060,434	31,309	Miscellaneous income	1,504	44
Losses on disposal of					
investments	1,831,261	54,067			
Administrative expenses	991,759	29,281			
Adjustments	65	2			
<b>Total</b>	<b>\$18,490,121</b>	<b>\$545,914</b>	<b>Total</b>	<b>\$18,490,121</b>	<b>\$545,914</b>

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C. The commission earned for the sales of separate account insurance products from counterparties for the three months ended March 31, 2008 and 2009 were NT\$2,314,009 (US\$76,194) thousands and NT\$106,217 (US\$3,136) thousands, respectively.

(3) Discretionary account management

Item	March 31, 2008			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$10,949,392	\$360,533	\$10,949,392	\$360,533
Repurchase bonds	10,716,398	352,861	10,716,398	352,861
Cash in banks	1,750,586	57,642	1,750,586	57,642
Total	<u>\$23,416,376</u>	<u>\$771,036</u>	<u>\$23,416,376</u>	<u>\$771,036</u>

  

Item	March 31, 2009			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,272,484	\$96,619	\$3,272,484	\$96,619
Repurchase bonds	5,085,544	150,149	5,085,544	150,149
Cash in banks	348,937	10,302	348,937	10,302
Total	<u>\$8,706,965</u>	<u>\$257,070</u>	<u>\$8,706,965</u>	<u>\$257,070</u>

As of March 31, 2008 and 2009, the Company entered into discretionary account management contracts in the amounts of NT\$19,950,000 (US\$656,898) thousands and NT\$9,300,000 (US\$274,579) 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.

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

The primary risks involved in financial instruments are market risk, credit risk, operational risk, liquidity risk and 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.

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

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

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

**Operational Risk**

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

**Liquidity Risk**

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

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(6) Financial instruments related information

A. Fair value

Item	March 31, 2008			
	NT\$		US\$	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$239,336,589	\$239,336,589	\$7,880,691	\$7,880,691
Notes and accounts receivable	31,608,484	31,608,484	1,040,779	1,040,779
Financial assets at fair value through profit or loss - current	99,993,343	99,993,343	3,292,504	3,292,504
Available-for-sale financial assets - current	162,016,570	162,016,570	5,334,757	5,334,757
Held-to-maturity financial assets - current	8,054,238	8,012,982	265,204	263,845
Investments in debt securities with no active market - current	5,623,537	5,623,537	185,167	185,167
Other financial assets - current	1,000,000	1,000,000	32,927	32,927
Available-for-sale financial assets - noncurrent	230,318,930	230,318,930	7,583,764	7,583,764
Held-to-maturity financial assets - noncurrent	538,242,267	531,264,785	17,722,827	17,493,078
Financial assets carried at cost - noncurrent	18,813,089	-	619,463	-
Investments in debt securities with no active market - noncurrent	56,471,277	49,213,907	1,859,443	1,620,478
Long-term investments under the equity method	5,846,982	5,846,982	192,525	192,525
Other financial assets – noncurrent	18,163,053	18,163,053	598,059	598,059
Guarantee deposits paid	10,699,939	10,699,939	352,319	352,319
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	18,794,083	18,794,083	618,837	618,837
Guarantee deposits received	1,480,540	1,480,540	48,750	48,750
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	32,775	32,775	1,079	1,079
Forward, CS, CCS	23,790,632	23,790,632	783,360	783,360
IRS	190,427	190,427	6,270	6,270
Derivative financial assets for hedging - current				
IRS	338,641	338,641	11,151	11,151

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Item	March 31, 2008			
	NT\$		US\$	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss -				
current				
Forward, CS, CCS	17,810,450	17,810,450	586,449	586,449
IRS	115,124	115,124	3,790	3,790
Derivative financial liabilities for hedging - current				
IRS	78,378	78,378	2,581	2,581
Item	March 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$209,878,086	\$209,878,086	\$6,196,578	\$6,196,578
Notes and accounts receivable	51,515,060	51,515,060	1,520,964	1,520,964
Financial assets at fair value through profit or loss - current	130,514,004	130,514,004	3,853,380	3,853,380
Available-for-sale financial assets - current	121,988,785	121,988,785	3,601,677	3,601,677
Held-to-maturity financial assets - current	35,943,812	32,514,239	1,061,229	959,972
Investments in debt securities with no active market -				
current	11,629,131	11,643,904	343,346	343,782
Other financial assets - current	8,000,000	8,000,000	236,197	236,197
Available-for-sale financial assets - noncurrent	245,487,218	245,487,218	7,247,925	7,247,925
Held-to-maturity financial assets - noncurrent	592,097,799	590,205,448	17,481,482	17,425,611
Financial assets carried at cost - noncurrent	19,072,499	-	563,109	-
Investments in debt securities with no active market -				
noncurrent	108,286,322	87,594,942	3,197,116	2,586,210
Long-term investments under the equity method	6,716,768	6,716,768	198,310	198,310
Other financial assets – noncurrent	4,250,000	4,250,000	125,480	125,480
Guarantee deposits paid	11,632,382	11,632,382	343,442	343,442

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Item	March 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	8,854,902	8,854,902	261,438	261,438
Preferred stock liability –noncurrent	15,000,000	15,381,210	442,870	454,125
Guarantee deposits received	1,565,780	1,565,780	46,229	46,229
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	4,680,859	4,680,859	138,201	138,201
IRS, CDS	454,900	454,900	13,431	13,431
Derivative financial assets for hedging - current				
IRS, CDS	2,102,486	2,102,486	62,075	62,075
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	21,909,072	21,909,072	646,858	646,858
IRS, CDS	130,879	130,879	3,864	3,864
Derivative financial liabilities for hedging - current				
IRS, CDS	98,083	98,083	2,896	2,896

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.

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- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of 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 As of March 31, 2008 and 2009, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	March 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	\$216,527,683	\$7,129,657	\$22,808,906	\$751,034
Notes and accounts receivable	-	-	31,608,484	1,040,779
Financial assets at fair value through profit or loss - current	95,150,777	3,133,052	4,842,566	159,452
Available-for-sale financial assets - current	162,016,570	5,334,757	-	-
Held-to-maturity financial assets - current	5,106,551	168,144	2,906,431	95,701
Investments in debt securities with no active market - current	-	-	5,623,537	185,167
Other financial assets-current	-	-	1,000,000	32,927
Available-for-sale financial assets - noncurrent	228,889,503	7,536,697	1,429,427	47,067
Held-to-maturity financial assets - noncurrent	106,957,272	3,521,807	424,307,513	13,971,271



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Financial instruments	March 31, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
Investments in debt securities with no active market - noncurrent	-	-	49,213,907	1,620,478
Long-term investments in stocks under the equity method	-	-	5,846,982	192,525
Other financial assets - noncurrent	-	-	18,163,053	598,059
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	-	-	18,794,083	618,837
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	32,775	1,079	-	-
Forward, CS, CCS	-	-	23,790,632	783,360
IRS	-	-	190,427	6,270
Derivative financial assets for hedging - current				
IRS	-	-	338,641	11,151
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	-	-	17,810,450	586,449
IRS	-	-	115,124	3,790
Derivative financial liabilities for hedging - current				
IRS	-	-	78,378	2,581
Financial instruments	March 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$187,738,991	\$5,542,929	\$22,139,095	\$653,649
Notes and accounts receivable	-	-	51,515,060	1,520,964
Financial assets at fair value through profit or loss - current	127,040,936	3,750,839	3,473,068	102,541

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**As of March 31, 2008 and 2009**

Financial instruments	March 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets - current	121,888,492	3,598,716	100,293	2,961
Held-to-maturity financial assets - current	1,027,698	30,343	31,486,541	929,629
Investments in debt securities with no active market - current	-	-	11,643,904	343,782
Other financial assets-current	-	-	8,000,000	236,197
Available-for-sale financial assets - noncurrent	244,159,693	7,208,730	1,327,525	39,195
Held-to-maturity financial assets - noncurrent	94,392,121	2,786,895	495,813,327	14,638,716
Investment in debt securities with no active market – noncurrent	631,980	18,659	86,962,962	2,567,551
Long-term investments under the equity method	-	-	6,716,768	198,310
Other financial assets - noncurrent	-	-	4,250,000	125,480
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	8,854,902	261,438
Preferred stock liability - noncurrent	-	-	15,381,210	454,125
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	-	-	4,680,859	138,201
IRS, CDS	-	-	454,900	13,431
Derivative financial assets for hedging – current				
IRS, CDS	-	-	2,102,486	62,075
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	-	-	21,909,072	646,858
IRS, CDS	-	-	130,879	3,864
Derivative financial liabilities for hedging - current				
IRS, CDS	-	-	98,083	2,896

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**As of March 31, 2008 and 2009**

**B. Risk of interest rate**

The following table summarizes the maturities of the Company's financial instruments at March 31, 2008 and 2009:

① March 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	\$3,299,867	\$108,655	\$921,039	\$30,327	\$44,115	\$1,453	\$2,309,442	\$76,044
Available-for-sale financial assets	1,572,004	51,762	153,564	5,056	3,370,973	110,997	10,808,503	355,894
Held-to-maturity financial assets	5,657,561	186,288	12,189,266	401,359	12,144,014	399,869	7,184,770	236,574
Investments in debt securities with								
no active market	723,536	23,824	-	-	1,076,040	35,431	2,232,886	73,523

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$1,215,879	\$40,036	\$6,147,074	\$202,406	\$13,937,416	\$458,921
Available-for-sale financial assets	9,888,324	325,595	104,764,194	3,449,595	130,557,562	4,298,899
Held-to-maturity financial assets	7,717,986	254,132	425,160,866	13,999,370	470,054,463	15,477,592
Investments in debt securities with						
no active market	1,078,469	35,511	46,140,658	1,519,284	51,251,589	1,687,573

**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	\$3,613,871	\$118,995	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	112,173,671	3,693,568	-	-	-	-	-	-
Held-to-maturity financial assets	76,242,042	2,510,439	-	-	-	-	-	-
Investments in debt securities with								
no active market	10,843,225	357,037	-	-	-	-	-	-

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**As of March 31, 2008 and 2009**

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	\$-	\$-	\$-	\$-	\$3,613,871	\$118,995
Available-for-sale financial assets	-	-	-	-	112,173,671	3,693,568
Held-to-maturity financial assets	-	-	-	-	76,242,042	2,510,439
Investments in debt securities with						
no active market	-	-	-	-	10,843,225	357,037

**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	\$-	\$-	\$33,499	\$1,103	\$20,686	\$681	\$109,456	\$3,604
Derivative financial assets for								
hedging	3,617	119	-	-	24,632	811	4,743	156
Financial liabilities at fair value								
through profit or loss	5,000	164	18,554	611	62,894	2,071	-	-
Derivative financial liabilities for								
hedging	16,249	535	3,995	132	46,651	1,536	-	-

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	\$-	\$-	\$26,786	\$882	\$190,427	\$6,270
Derivative financial assets for						
hedging	-	-	305,649	10,065	338,641	11,151
Financial liabilities at fair value						
through profit or loss	-	-	28,676	944	115,124	3,790
Derivative financial liabilities for						
hedging	-	-	11,483	378	78,378	2,581

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**As of March 31, 2008 and 2009**

② March 31, 2009

**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	\$2,524,000	\$74,520	\$658,633	\$19,446	\$431,020	\$12,726	\$2,736,163	\$80,784
Available-for-sale financial assets	760,097	22,442	3,024,863	89,308	6,183,375	182,562	15,194,530	448,613
Held-to-maturity financial assets	208,432,776	6,153,905	18,092,153	534,164	12,463,522	367,981	12,506,179	369,241
Investments in debt securities with								
no active market	8,358,515	246,782	5,165,314	152,504	2,946,917	87,007	3,184,983	94,036
Preferred stock liability	-	-	-	-	-	-	-	-

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	\$3,340,360	\$98,623	\$7,547,186	\$222,828	\$17,237,362	\$508,927
Available-for-sale financial assets	21,368,279	630,891	83,413,543	2,462,756	129,944,687	3,836,572
Held-to-maturity financial assets	12,223,953	360,908	310,910,607	9,179,528	574,629,190	16,965,727
Investments in debt securities with						
no active market	4,249,499	125,465	73,780,517	2,178,344	97,685,745	2,884,138
Preferred stock liability	-	-	15,000,000	442,870	15,000,000	442,870

**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	\$3,166,227	\$93,482	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	115,642,824	3,414,314	-	-	-	-	-	-
Held-to-maturity financial assets	53,412,421	1,576,983	-	-	-	-	-	-
Investments in debt securities with								
no active market	22,229,708	656,324	-	-	-	-	-	-

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**As of March 31, 2008 and 2009**

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	\$-	\$-	\$-	\$-	\$3,166,227	\$93,482
Available-for-sale financial assets	-	-	-	-	115,642,824	3,414,314
Held-to-maturity financial assets	-	-	-	-	53,412,421	1,576,983
Investments in debt securities with						
no active market	-	-	-	-	22,229,708	656,324

**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	\$32,385	\$956	\$41,662	\$1,230	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	1,522	45	25,426	751	3,399	100	95,316	2,814
Financial liabilities at fair value								
through profit or loss	1,309	39	105,812	3,124	-	-	-	-
Derivative financial liabilities for								
hedging	-	-	41,887	1,237	-	-	-	-

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	\$-	\$-	\$-	\$-	\$74,047	\$2,186
Derivative financial assets for						
hedging	620,936	18,333	1,277,095	37,706	2,023,694	59,749
Financial liabilities at fair value						
through profit or loss	-	-	-	-	107,121	3,163
Derivative financial liabilities for						
hedging	-	-	-	-	41,887	1,237

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**As of March 31, 2008 and 2009**

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 March 31, 2008 and 2009:

① March 31, 2008

Par value		Exchange rate	Frequency	Maturity date
NTS	US\$			
\$500,000	\$16,464	4%-12ml	Yearly	2008.6.5
300,000	9,878	180DCP	Half year	2008.6.12
200,000	6,585	4.003%-6ml	Half year	2008.6.13
200,000	6,585	180DCP+18bps	Half year	2008.7.11
2,000,000	65,854	90DCP+75bps	Each quarter	2008.7.19
250,000	8,232	90DCP	Each quarter	2008.8.10
450,000	14,817	90DCP	Each quarter	2008.8.22
330,000	10,866	90DCP	Each quarter	2008.8.24
1,150,000	37,866	90DCP+30bps	Each quarter	2008.9.17
350,000	11,525	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	3,293	180DCP+30bps	Half year	2008.12.18
300,000	9,878	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	6,585	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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	6,585	5.85%-6ml	Half year	2009.1.13
50,000	1,646	If 6ml $\leq$ 1%,6ml+0.2% If 1% < 6ml < 2%,3.15% If 6ml $\geq$ 2%, 4.15%-6ml	Half year	2009.1.16
310,000	10,207	ARMS	Each quarter	2009.3.24
900,000	29,635	90DCP+100bps	Each quarter	2009.5.20
200,000	6,585	4.000%-6ml	Half year	2010.4.7
300,000	9,878	4.0002%-6ml	Half year	2010.4.7
200,000	6,585	4.0003%-6ml	Half year	2010.4.7
500,000	16,464	4.0006%-6ml	Half year	2010.4.7
500,000	16,464	4.0007%-6ml	Half year	2010.4.7
300,000	9,878	4.3%-12ml	Yearly	2010.6.20
900,000	29,635	90DCP	Each quarter	2010.8.18
600,000	19,756	90DCP	Each quarter	2010.8.19
200,000	6,585	6.3%-6ml	Yearly	2010.11.27
300,000	9,878	5.37%-6ml	Yearly	2011.3.15
200,000	6,585	3.0%, if 6ml 2005.9.19~2006.9.19:1.0%-2.5% 2006.9.19~2007.9.19:1.0%-3.0% 2007.9.19~2008.9.19:1.0%-3.5% 2008.9.19~2009.9.19:1.0%-4.0% 2009.9.19~2010.9.19:1.0%-4.5% 2010.9.19~2011.3.19:1.0%-5.0%	Half year	2011.3.19
500,000	16,464	If 6ml < 1.1%,6ml If 1.1% $\leq$ 6ml $\leq$ 2.0%,3.8% If 6ml > 2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,700,000	88,904	90DCP+25bps	Each quarter	2013.8.24
3,000,000	98,782	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	65,854	90DCP	Yearly	2013.11.3
1,000,000	32,927	90DCP+26.5bps	Yearly	2013.12.14
500,000	16,464	90DCP+23bps	Yearly	2013.12.14
1,500,000	49,391	90DCP+23bps	Yearly	2013.12.16



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Par value		Exchange rate	Frequency	Maturity date
NTS	US\$			
1,000,000	32,927	90DCP+26.5bps	Yearly	2013.12.16
1,300,000	42,805	90DCP+45bps	Each quarter	2013.12.27
900,000	29,635	90DCP	Yearly	2014.3.12
2,500,000	82,318	90DCP	Yearly	2014.9.27
1,350,000	44,452	90DCP	Each quarter	2014.9.28
1,500,000	49,391	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 March 31, 2009

Par value		Exchange rate	Frequency	Maturity date
NTS	US\$			
\$900,000	\$26,572	90DCP+100bps	Each quarter	2009.5.20
200,000	5,905	4.000%-6ml	Half year	2010.4.7
300,000	8,857	4.0002%-6ml	Half year	2010.4.7
500,000	14,762	4.0006%-6ml	Half year	2010.4.7
500,000	14,762	4.0007%-6ml	Half year	2010.4.7
200,000	5,905	4.0003%-6ml	Half year	2010.4.7
300,000	8,857	4.3%-12ml	Yearly	2010.6.20
900,000	26,572	90DCP	Each quarter	2010.8.18
600,000	17,715	90DCP	Each quarter	2010.8.19
200,000	5,905	6.3%-6ml	Yearly	2010.11.27
300,000	8,857	5.37%-6ml	Yearly	2011.3.15
500,000	14,762	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	59,049	90DCP	Yearly	2013.3.26
2,700,000	79,717	90DCP+25bps	Each quarter	2013.8.24
3,000,000	88,574	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	59,049	90DCP	Yearly	2013.11.3
1,000,000	29,525	90DCP+26.5bps	Yearly	2013.12.14

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**As of March 31, 2008 and 2009**

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
500,000	14,762	90DCP+23bps	Yearly	2013.12.14
1,500,000	44,287	90DCP+23bps	Yearly	2013.12.16
1,000,000	29,525	90DCP+26.5bps	Yearly	2013.12.16
900,000	26,572	90DCP	Yearly	2014.3.12
1,000,000	29,525	90DCP	Yearly	2014.6.12
2,000,000	59,049	90DCP	Yearly	2014.6.29
5,000,000	147,623	90DCP	Yearly	2014.8.23
1,000,000	29,525	90DCP	Yearly	2014.9.20
3,200,000	94,479	90DCP	Yearly	2014.9.27
2,000,000	59,049	90DCP	Each quarter	2014.9.28
1,500,000	44,287	90DCP	Yearly	2014.9.29
2,500,000	73,812	90DCP	Yearly	2014.12.20
2,000,000	59,049	90DCP	Yearly	2014.12.24

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

The Company's interest rate swap agreements are considered to be highly effective cash flow hedges. Unrealized gains on these financial instruments recognized in equity are NT\$327,042 (US\$10,769) thousands and NT\$2,151,689 (US\$63,528) thousands as of March 31, 2008 and 2009.

Fair value hedges

The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at March 31, 2008 and 2009:

① March 31, 2008

None.

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② March 31, 2009

Par value		Hedge item	Maturity date
NT\$	US\$		
-	45,000	CDO	2012.09.20
-	7,000	Structured notes	2014.03.20

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\$- (US\$-) thousands and NT\$53,087 (US\$1,567) thousands as of March 31, 2008 and 2009.

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 March 31, 2009, 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 March 31, 2009, the Company's remittances to this general insurance company totaled approximately US\$28,144 thousands.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of March 31, 2008 and 2009**

33. Segment Information

Not applicable.