

**Cathay Life Insurance Co., Ltd.**  
**Financial Statements**  
**As of September 30, 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.

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

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

Independent Auditors' Review Report

Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of September 30, 2008 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month periods ended September 30, 2008 and 2009 in order for them to be in conformity with requirements of the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Industry of Life Insurance, and accounting principles generally accepted in the Republic of China.

Ernst & Young  
Certified Public Accountants  
Taipei, Taiwan R.O.C.  
October 15, 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 September 30, 2008 and 2009**  
**(Expressed in thousands of dollars)**

Assets	Notes	September 30, 2008		September 30, 2009	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4,27	\$199,119,334	\$6,178,074	\$288,570,170	\$9,009,372
Financial assets at fair value through profit or loss - current	2,5,13,27	65,571,841	2,034,497	111,555,239	3,482,836
Available-for-sale financial assets - current	2,6,13	137,944,650	4,280,008	148,852,000	4,647,268
Held-to-maturity financial assets - current	2,13,27	3,010,609	93,410	28,272,408	882,685
Derivative financial assets for hedging - current	2,7	736,804	22,861	2,418,823	75,517
Investments in debt securities with no active market - current	2,13	3,422,799	106,199	6,476,754	202,209
Notes receivable - net of bad debt allowance	2	6,122,150	189,952	5,030,010	157,041
Prepaid reinsurance premium		265,121	8,226	4,697,496	146,659
Claims recoverable from reinsurers		15,596	484	6,908	216
Reinsurance accounts receivable		22,762	706	30,848	963
Other accounts receivable - net of bad debt allowance	2,27	23,083,051	716,198	30,959,528	966,579
Prepayments	27	55,613	1,725	44,057	1,375
Deferred income tax assets - current	2,25	6,881,010	213,497	-	-
Other current assets		169,657	5,264	132,883	4,149
Subtotal		<u>446,420,997</u>	<u>13,851,101</u>	<u>627,047,124</u>	<u>19,576,869</u>
<b>Loans</b>					
Policy loans	2,8,27	196,004,672	6,081,436	197,269,466	6,158,897
Secured loans - net of bad debt allowance		342,712,253	10,633,331	319,109,921	9,962,845
Subtotal		<u>538,716,925</u>	<u>16,714,767</u>	<u>516,379,387</u>	<u>16,121,742</u>
<b>Funds and investments</b>					
Available-for-sale financial assets - noncurrent	2,9,13	262,979,339	8,159,458	229,347,992	7,160,412
Held-to-maturity financial assets - noncurrent	2,10,13	646,024,421	20,044,195	651,418,484	20,337,761
Financial assets carried at cost - noncurrent	2,11	19,377,737	601,233	19,466,739	607,766
Investments in debt securities with no active market - noncurrent	2,12	66,312,240	2,057,469	135,436,984	4,228,442
Long-term investments under the equity method	2,14	6,327,937	196,337	5,889,253	183,867
Investments in real estate - net of accumulated depreciation and impairment	2,15	108,777,724	3,375,046	117,726,269	3,675,500
Other financial assets - noncurrent	27	12,100,000	375,427	29,300,000	914,767
Subtotal		<u>1,121,899,398</u>	<u>34,809,165</u>	<u>1,188,585,721</u>	<u>37,108,515</u>
<b>Property and equipment</b>					
Land	2,16,27	4,686,655	145,413	4,796,647	149,755
Buildings and construction		9,931,441	308,143	10,675,056	333,283
Computer equipment		1,829,706	56,770	2,133,832	66,620
Communication and transportation equipment		14,855	461	12,942	404
Other equipment		2,983,335	92,564	3,012,928	94,066
Revaluation increments		1,317	41	583	18
Less: Accumulated depreciation		(7,090,067)	(219,984)	(7,793,588)	(243,322)
Less: Accumulated impairment		(85,519)	(2,653)	(85,519)	(2,670)
Construction in progress and prepayment for equipment		269,350	8,357	32,693	1,021
Subtotal		<u>12,541,073</u>	<u>389,112</u>	<u>12,785,574</u>	<u>399,175</u>
<b>Intangible assets</b>					
Computer software cost	2	591,607	18,356	606,307	18,929
Deferred pension cost	17	-	-	155,201	4,846
Subtotal		<u>591,607</u>	<u>18,356</u>	<u>761,508</u>	<u>23,775</u>
<b>Other assets</b>					
Guarantee deposits paid	2,27,28	14,832,799	460,217	11,372,287	355,051
Deferred income tax assets - noncurrent	2,25	545,885	16,937	6,318,711	197,275
Other overdue receivables	2,18,27	279,219	8,664	498,618	15,567
Separate account product assets	2,32	240,168,550	7,451,708	274,869,357	8,581,622
Other assets - other	27	10,759,383	333,831	3,045,700	95,089
Subtotal		<u>266,585,836</u>	<u>8,271,357</u>	<u>296,104,673</u>	<u>9,244,604</u>
<b>Total assets</b>		<u>\$2,386,755,836</u>	<u>\$74,053,858</u>	<u>\$2,641,663,987</u>	<u>\$82,474,680</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2008 and 2009 were NT\$32.23 and NT\$32.03 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets - (continued)**  
**As of September 30, 2008 and 2009**  
**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	September 30, 2008		September 30, 2009	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Financial liabilities at fair value through profit or loss - current	2,19	\$38,397,213	\$1,191,350	\$2,048,122	\$63,944
Derivative financial liabilities for hedging - current	2,20	32,073	995	101,881	3,181
Notes payable		1,912	59	1,669	52
Commissions payable		926,078	28,733	1,643,186	51,301
Life insurance proceeds payable		8,078	251	4,391	137
Reinsurance accounts payable		179,084	5,557	2,137,253	66,727
Others payable	2,3,23,27	4,995,924	155,009	13,258,042	413,926
Accounts collected in advance		136,346	4,230	130,512	4,075
Deferred income tax liabilities - current	2,25	-	-	2,266,381	70,758
Subtotal		<u>44,676,708</u>	<u>1,386,184</u>	<u>21,591,437</u>	<u>674,101</u>
<b>Long-term liabilities</b>					
Reserve for land revaluation increment tax	2	3,581	111	3,487	109
Accrued pension liability	2,32	1,377,299	42,733	1,850,672	57,779
Preferred stock liability - noncurrent	2,21	-	-	15,000,000	468,311
Subtotal		<u>1,380,880</u>	<u>42,844</u>	<u>16,854,159</u>	<u>526,199</u>
<b>Reserve for operations and liabilities</b>	2				
Unearned premium reserve		11,041,290	342,578	10,552,428	329,455
Reserve for life insurance liabilities		1,994,176,997	61,873,317	2,187,456,189	68,293,980
Special reserve		15,828,067	491,097	15,660,394	488,929
Reserve for claims		1,395,793	43,307	1,574,472	49,156
Premium deficiency reserve		2,683,999	83,277	3,048,695	95,183
Subtotal		<u>2,025,126,146</u>	<u>62,833,576</u>	<u>2,218,292,178</u>	<u>69,256,703</u>
<b>Other liabilities</b>					
Guarantee deposits received	27	1,527,452	47,392	1,623,383	50,683
Separate account product liabilities	2,32	240,168,550	7,451,708	274,869,357	8,581,622
Other liabilities - other		3,151,330	97,777	2,583,059	80,645
Subtotal		<u>244,847,332</u>	<u>7,596,877</u>	<u>279,075,799</u>	<u>8,712,950</u>
<b>Total liabilities</b>		<u>2,316,031,066</u>	<u>71,859,481</u>	<u>2,535,813,573</u>	<u>79,169,953</u>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	2,22	52,686,158	1,634,693	52,686,158	1,644,900
Capital surplus	2	13,009,648	403,650	13,009,496	406,166
<b>Retained earnings</b>	2,23				
Legal reserve		23,535,758	730,244	20,328,674	634,676
Special reserve		19,169,006	594,757	20,402,545	636,982
Unappropriated retained earnings		(638,313)	(19,805)	1,192,703	37,237
<b>Equity adjustments</b>					
Unrealized losses on financial instruments	2,23	(37,253,027)	(1,155,849)	(1,529,491)	(47,752)
Unrealized revaluation increments	2	2,105	65	1,461	46
Cumulative conversion adjustments	2,14	213,435	6,622	23,172	724
Net loss not recognized as pension cost		-	-	(264,304)	(8,252)
Total stockholders' equity		<u>70,724,770</u>	<u>2,194,377</u>	<u>105,850,414</u>	<u>3,304,727</u>
<b>Total liabilities and stockholders' equity</b>		<u>\$2,386,755,836</u>	<u>\$74,053,858</u>	<u>\$2,641,663,987</u>	<u>\$82,474,680</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2008 and 2009 were NT\$32.23 and NT\$32.03 to US\$1.00)

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

## Cathay Life Insurance Co., Ltd.

## Unaudited statements of income

For the nine-month periods ended September 30, 2008 and 2009

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

Item	Notes	January 1-September 30, 2008		January 1-September 30, 2009	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,27				
Premiums income		\$253,519,094	\$7,865,935	\$297,076,016	\$9,274,930
Reinsurance commission earned		222,124	6,892	4,416,670	137,892
Claims recovered from reinsures		178,479	5,538	947,303	29,576
Recovered premium reserve		177,262,648	5,499,927	134,398,436	4,196,017
Recovered special reserve		128,232	3,978	1,001,952	31,282
Recovered claim reserve		81,919	2,542	-	-
Recovered premium deficiency reserve		208,986	6,484	-	-
Handling fees earned	32	4,920,611	152,672	3,297,461	102,949
Interest income		56,116,306	1,741,120	55,302,145	1,726,573
Gains from valuation on financial assets		8,900,831	276,166	16,613,406	518,683
Gains from valuation on financial liabilities		-	-	27,415,792	855,941
Gains on long-term equity investments	14	85,338	2,648	-	-
Gains on disposal of investments		8,332,736	258,540	-	-
Gains on investments - real estate		4,135,078	128,299	4,278,018	133,563
Separate account product revenues	32	184,253,002	5,716,817	113,191,084	3,533,908
Subtotal		698,345,384	21,667,558	657,938,283	20,541,314
Operating costs	2,27				
Reinsurance premiums ceded		(235,736)	(7,314)	(2,975,712)	(92,904)
Brokerage expenses	24	(21,086,214)	(654,242)	(20,332,820)	(634,805)
Commissions expenses		(81,211)	(2,520)	(292,091)	(9,119)
Insurance claim payments		(204,906,549)	(6,357,634)	(163,593,070)	(5,107,495)
Provision for premium reserve		(253,302,301)	(7,859,209)	(297,183,567)	(9,278,288)
Provision for special reserve		(622,475)	(19,314)	(525,260)	(16,399)
Contribution to the stabilization funds		(253,318)	(7,860)	(296,926)	(9,270)
Provision for claim reserve		-	-	(132,891)	(4,149)
Provision for premium deficiency reserve		(71,497)	(2,218)	(357,357)	(11,157)
Handling fees paid		(1,062,543)	(32,967)	(1,205,792)	(37,646)
Interest expenses		(32,345)	(1,004)	(26,156)	(817)
Losses from valuation on financial liabilities		(25,338,594)	(786,180)	-	-
Losses on long-term equity investments	14	-	-	(75,452)	(2,356)
Losses on foreign exchange		(2,862,896)	(88,827)	(14,832,883)	(463,093)
Losses on disposal of investments		-	-	(31,506,807)	(983,666)
Separate account product expenses	32	(184,253,002)	(5,716,817)	(113,191,084)	(3,533,908)
Other operating cost		(660,952)	(20,507)	(34,241)	(1,069)
Subtotal		(694,769,633)	(21,556,613)	(646,562,109)	(20,186,141)
Operating gross (loss) profit		3,575,751	110,945	11,376,174	355,173
Operating expenses	2,3,17,23,24,27				
Marketing expenses		(2,681,778)	(83,208)	(2,592,871)	(80,951)
Administrative and general expenses		(5,120,292)	(158,867)	(5,390,788)	(168,305)
Subtotal		(7,802,070)	(242,075)	(7,983,659)	(249,256)
Operating (loss) income		(4,226,319)	(131,130)	3,392,515	105,917
Non-operating revenues and gains	2,27				
Gains on disposal of property and equipment		43	1	75	2
Other non-operating revenues and gains		1,030,386	31,970	1,076,295	33,603
Subtotal		1,030,429	31,971	1,076,370	33,605
Non-operating expenses and losses	2,27				
Losses on disposal of property and equipment		(186)	(6)	(24)	(1)
Impairment loss		(541,809)	(16,811)	(735,000)	(22,947)
Dividend on preferred stock liabilities		-	-	(392,671)	(12,260)
Miscellaneous expenses		(4,875)	(151)	(3,847)	(120)
Subtotal		(546,870)	(16,968)	(1,131,542)	(35,328)
Income (loss) from continuing operations before income taxes		(3,742,760)	(116,127)	3,337,343	104,194
Income taxes benefit (expense)	2,25	3,104,447	96,322	(2,144,640)	(66,957)
Net (loss) income		\$(638,313)	\$(19,805)	\$1,192,703	\$37,237
Earnings per share (In dollars)	26				
Net (loss) income		\$(0.12)	\$-	\$0.23	\$0.01

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2008 and 2009 were NT\$32.23 and NT\$32.03 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 nine-month periods ended September 30, 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		Cumulative 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\$		
Balance on January 1, 2008	\$50,686,158	\$1,572,639	\$9,648	\$299	\$21,188,906	\$657,428	\$16,693,810	\$517,959	\$23,468,521	\$728,158	\$11,169,132	\$346,545	\$2,105	\$65	\$132,518	\$4,111	\$-	\$-	\$123,350,798	\$3,827,204
Appropriations and Distributions for 2007																				
Legal reserve	-	-	-	-	2,346,852	72,816	-	-	(2,346,852)	(72,816)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,475,196	76,798	(2,475,196)	(76,798)	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(18,625,315)	(577,888)	-	-	-	-	-	-	-	-	(18,625,315)	(577,888)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(251)	-	-	-	-	-	-	-	-	(8,100)	(251)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,058)	(405)	-	-	-	-	-	-	-	-	(13,058)	(405)
Capital increase by cash	2,000,000	62,054	13,000,000	403,351	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000,000	465,405
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(48,422,159)	(1,502,394)	-	-	-	-	-	-	(48,422,159)	(1,502,394)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	80,917	2,511	-	-	80,917	2,511
Net loss for the nine months ended September 30, 2008	-	-	-	-	-	-	-	-	(638,313)	(19,805)	-	-	-	-	-	-	-	-	(638,313)	(19,805)
Balance on September 30, 2008	<u>\$52,686,158</u>	<u>\$1,634,693</u>	<u>\$13,009,648</u>	<u>\$403,650</u>	<u>\$23,535,758</u>	<u>\$730,244</u>	<u>\$19,169,006</u>	<u>\$594,757</u>	<u>\$(638,313)</u>	<u>\$(19,805)</u>	<u>\$(37,253,027)</u>	<u>\$(1,155,849)</u>	<u>\$2,105</u>	<u>\$65</u>	<u>\$213,435</u>	<u>\$6,622</u>	<u>\$-</u>	<u>\$-</u>	<u>\$70,724,770</u>	<u>\$2,194,377</u>
Balance on January 1, 2009	\$52,686,158	\$1,644,900	\$13,009,648	\$406,171	\$23,535,758	\$734,804	\$19,169,006	\$598,470	\$(1,973,545)	\$(61,616)	\$(52,489,299)	\$(1,638,754)	\$2,105	\$66	\$209,017	\$6,526	\$(264,304)	\$(8,252)	\$53,884,544	\$1,682,315
Appropriations and Distributions for 2008																				
Legal reserve	-	-	-	-	(3,207,084)	(100,128)	-	-	3,207,084	100,128	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,233,539	38,512	(1,233,539)	(38,512)	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	50,959,808	1,591,002	-	-	-	-	-	-	50,959,808	1,591,002
Changes in unrealized revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(644)	(20)	-	-	-	-	(644)	(20)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(185,845)	(5,802)	-	-	(185,845)	(5,802)
Adjustment for merger of investees	-	-	(152)	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(152)	(5)
Net income for the nine months ended September 30, 2009	-	-	-	-	-	-	-	-	1,192,703	37,237	-	-	-	-	-	-	-	-	1,192,703	37,237
Balance on September 30, 2009	<u>\$52,686,158</u>	<u>\$1,644,900</u>	<u>\$13,009,496</u>	<u>\$406,166</u>	<u>\$20,328,674</u>	<u>\$634,676</u>	<u>\$20,402,545</u>	<u>\$636,982</u>	<u>\$1,192,703</u>	<u>\$37,237</u>	<u>\$(1,529,491)</u>	<u>\$(47,752)</u>	<u>\$1,461</u>	<u>\$46</u>	<u>\$23,172</u>	<u>\$724</u>	<u>\$(264,304)</u>	<u>\$(8,252)</u>	<u>\$105,850,414</u>	<u>\$3,304,727</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2008 and 2009 were NTS\$32.23 and NTS\$32.03 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of cash flows**  
**For the nine-month periods ended September 30, 2008 and 2009**  
**(Expressed in thousands of dollars)**

	January 1-September 30, 2008		January 1-September 30, 2009	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net (loss) income for the periods	\$(638,313)	\$(19,805)	\$1,192,703	\$37,237
Adjustments:				
Gains from valuation of financial assets	(8,900,831)	(276,166)	(16,613,406)	(518,683)
Losses (gains) from valuation of financial liabilities	25,338,594	786,180	(27,415,792)	(855,941)
Provision (recovered) bad debt	440,465	13,666	(230,377)	(7,193)
Depreciation	1,537,387	47,700	1,761,649	55,000
Amortization	140,768	4,367	152,489	4,761
Provision or recovered for each reserve	76,314,713	2,367,816	162,756,020	5,081,362
Losses (gains) on disposal of property and equipment	143	4	(52)	(2)
Gains on disposal of investments in real estate	(161,819)	(5,021)	(41,933)	(1,309)
Impairment loss	541,809	16,811	735,000	22,947
Gains on long-term equity investments in excess of cash dividends received	288,707	8,958	306,403	9,566
Decrease (increase) in financial assets at fair value through profit or loss - current	36,086,321	1,119,650	(20,383,000)	(636,372)
(Increase) decrease in available-for-sale financial assets - current	(6,146,451)	(190,706)	14,160,924	442,114
Decrease in held-to-maturity financial assets - current	5,297,278	164,359	838,083	26,166
Decrease (increase) in derivative financial assets for hedging - current	62,681	1,945	(587,741)	(18,350)
Decrease (increase) in investments in debt securities with no active market - current	2,427,339	75,313	(2,766,674)	(86,378)
Decrease in notes receivable	2,383,957	73,967	892,588	27,867
Increase in prepaid reinsurance premium	(265,121)	(8,226)	(4,504,340)	(140,629)
Increase in claims recoverable from reinsurers	(812)	(25)	(3,337)	(104)
(Increase) decrease in reinsurance accounts receivable	(12,055)	(374)	53	2
Decrease (increase) in other accounts receivable	1,303,751	40,451	(4,005,968)	(125,069)
Decrease in other financial assets - current	4,000,000	124,108	-	-
Increase in prepayments	(22,184)	(688)	(13,817)	(431)
(Increase) decrease in deferred income tax assets - current	(3,209,907)	(99,594)	3,081,779	96,215
Decrease in other current assets	137,840	4,277	36,603	1,143
Increase in deferred income tax assets - noncurrent	(142,012)	(4,406)	(2,539,564)	(79,287)
Increase in other assets - other	(9,871,085)	(306,270)	(1,323,496)	(41,320)
Decrease in derivative financial liabilities for hedging - current	(69,357)	(2,152)	(687,794)	(21,473)
Decrease in notes payable	(399)	(12)	(152)	(5)
(Decrease) increase in commissions payable	(23,588)	(732)	791,048	24,697
Increase in life insurance proceeds payable	2,217	69	1,346	42
(Decrease) increase in reinsurance accounts payable	(9,754)	(303)	1,952,092	60,946
(Decrease) increase in others payable	(3,223,430)	(100,013)	8,230,758	256,970
Increase in accounts collected in advance	23,267	722	18,820	588
Increase in deferred income tax liabilities - current	-	-	2,266,381	70,758
Increase in accrued pension liability	26,366	818	38,994	1,217
(Decrease) increase in other liabilities - other	(307,582)	(9,543)	952,180	29,728
Net cash provided by operating activities	<u>123,348,903</u>	<u>3,827,145</u>	<u>119,048,470</u>	<u>3,716,780</u>
Cash flows from investing activities				
(Increase) decrease in policy loans	(6,717,823)	(208,434)	1,840,910	57,475
Decrease in secured loans	4,681,320	145,247	23,566,953	735,778
(Increase) decrease in available-for-sale financial assets - noncurrent	(32,599,873)	(1,011,476)	38,239,726	1,193,872
Increase in held-to-maturity financial assets - noncurrent	(73,875,642)	(2,292,139)	(33,164,799)	(1,035,429)
Increase in financial assets carried at cost - noncurrent	(324,394)	(10,065)	(502,494)	(15,688)
Increase in investments in debt securities with no active market - noncurrent	(7,727,386)	(239,758)	(49,597,832)	(1,548,481)
Disinvestment of long-term equity investments	74,871	2,323	149,668	4,673
Increase in long-term investments under the equity method	(862,648)	(26,765)	-	-
Disposal of investments in real estate	199,870	6,201	65,835	2,055
Acquisition of investments in real estate	(3,244,934)	(100,680)	(9,835,474)	(307,071)
Decrease (increase) in other financial assets - noncurrent	7,300,000	226,497	(23,200,000)	(724,321)
Disposal of property and equipment	137	4	288	9
Acquisition of property and equipment	(243,837)	(7,565)	(193,572)	(6,043)
Acquisition of intangible assets	(261,452)	(8,112)	(149,930)	(4,681)
(Increase) decrease in guarantee deposits paid	(3,702,427)	(114,875)	719,624	22,467
Increase in other overdue receivables	(231,801)	(7,192)	(464,600)	(14,505)
Net cash used in investing activities	<u>(117,536,019)</u>	<u>(3,646,789)</u>	<u>(52,525,697)</u>	<u>(1,639,890)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2008 and 2009 were NT\$32.23 and NT\$32.03 to US\$1.00)

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



**Cathay life insurance Co., Ltd.**  
**Unaudited statements of cash flows - (continued)**  
**For the nine-month periods ended September 30, 2008 and 2009**  
**(Expressed in thousands of dollars)**

	January 1-September 30, 2008		January 1-September 30, 2009	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase in guarantee deposits received	39,260	1,218	80,484	2,513
Capital raising by cash	15,000,000	465,405	-	-
Cash dividends	(18,625,315)	(577,888)	-	-
Bonus paid to employees	(13,058)	(405)	-	-
Remuneration paid to directors and supervisors	(8,100)	(251)	-	-
Net cash (used in) provided by financing activities	<u>(3,607,213)</u>	<u>(111,921)</u>	<u>80,484</u>	<u>2,513</u>
(Decrease) increase in cash and cash equivalents	2,205,671	68,435	66,603,257	2,079,403
Cash and cash equivalents at the beginning of the periods	196,913,663	6,109,639	221,966,913	6,929,969
Cash and cash equivalents at the end of the periods	<u>\$199,119,334</u>	<u>\$6,178,074</u>	<u>\$288,570,170</u>	<u>\$9,009,372</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$4,375	\$136	\$10,159	\$317
Interest paid (excluding capitalized interest)	<u>\$4,375</u>	<u>\$136</u>	<u>\$10,159</u>	<u>\$317</u>
Income tax paid	<u>\$951,143</u>	<u>\$29,511</u>	<u>\$743,179</u>	<u>\$23,203</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2008 and 2009 were NT\$32.23 and NT\$32.03 to US\$1.00)

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

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

**Notes to unaudited financial statements**

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

**As of September 30, 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. in order to gain benefit of synergistic operation and enhance the Company’s competitiveness in the financial market.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of September 30, 2008 and 2009, total numbers of employees in the Company were 30,478 and 31,051, 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 Industry of Life Insurance, and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies is as 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 due to fluctuations of 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**

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(3) Recognition of financial assets and liabilities

According to the Statements of Financial Accounting Standards of the R.O.C. (“R.O.C. SFAS”) No.34 “Accounting for Financial Instruments” and “Guidelines Governing the Preparation of Financial Reports by Industry of Life Insurance”, 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**

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**As of September 30, 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**

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**As of September 30, 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**

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**As of September 30, 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 September 30, 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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**Note to unaudited financial statements-continued**

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

**As of September 30, 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 September 30, 2009, an aggregate of NT\$3,795,963 (US\$118,513) 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 years.

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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 Governing the Setting Aside of Various Reserves by Insurance Enterprises” and related insurance regulations, when the cumulative provisions for special risk-volatility reserve exceed 30% of the amount of retained earned premiums for the current year, that portion in excess may be retired and treated as income. However, the retired 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 September 30, 2009, the cumulative special reserves released from the special risk-volatility reserves amounted to NT\$20,402,545 (US\$636,982) thousands.

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(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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(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 September 30, 2008 and 2009 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.23 and NT\$32.03 provided by Federal Reserve Bank of New York of September 30, 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\$15,000 (US\$465) thousands and NT\$0.003 (US\$-), respectively, for the nine months ended September 30, 2008.

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4. Cash and cash equivalents

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$268,057	\$8,317	\$261,435	\$8,162
Cash in banks	36,245,861	1,124,600	1,7881,679	558,279
Time deposits	144,890,318	4,495,511	175,308,049	5,473,246
Cash equivalents	17,715,098	549,646	95,119,007	2,969,685
Total	<u>\$199,119,334</u>	<u>\$6,178,074</u>	<u>\$288,570,170</u>	<u>\$9,009,372</u>

As of September 30, 2008 and 2009, the amounts of time deposits with maturities beyond one year were NT\$33,900 (US\$1,052) thousands and NT\$9,514,500 (US\$297,050) thousands, respectively.

The cash equivalent usually includes commercial paper investment with maturity shorter than three months.

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

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$9,040,807	\$280,509	\$4,799,996	\$149,860
Overseas stocks	1,188,749	36,883	611,426	19,089
Beneficiary certificates	21,036,537	652,700	78,539,271	2,452,054
Exchange traded funds	78,444	2,434	-	-
Overseas bonds	10,319,456	320,182	3,940,306	123,019
Corporate bonds	4,101,159	127,247	3,212,683	100,302
Government bonds	868,943	26,961	976,501	30,487
Derivative financial instruments	411,588	12,770	28,998	905
Structured time deposits	1,000,000	31,027	1,000,000	31,221
Subtotal	48,045,683	1,490,713	93,109,181	2,906,937
Add: Adjustment of valuation	17,526,158	543,784	18,446,058	575,899
Total	<u>\$65,571,841</u>	<u>\$2,034,497</u>	<u>\$111,555,239</u>	<u>\$3,482,836</u>

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**As of September 30, 2008 and 2009**

6. Available-for-sale financial assets - current

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$116,269,928	\$3,607,506	\$103,076,190	\$3,218,114
Overseas stocks	19,487,248	604,631	15,681,710	489,594
Beneficiary certificates	20,356,710	631,607	23,237,686	725,498
Exchange traded funds	4,175,790	129,562	3,491,862	109,018
Real estate investment trust	8,725,208	270,717	8,725,208	272,407
Financial debentures	6,100,000	189,265	99,954	3,121
Corporate bonds	550,000	17,065	2,494,450	77,879
Overseas bonds	1,349,152	41,860	-	-
Subtotal	177,014,036	5,492,213	156,807,060	4,895,631
Less : Adjustment of valuation	(39,069,386)	(1,212,205)	(7,955,060)	(248,363)
Total	<u>\$137,944,650</u>	<u>\$4,280,008</u>	<u>\$148,852,000</u>	<u>\$4,647,268</u>

7. Derivative financial assets for hedging - current

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$672,980	\$21,011
Add: Adjustment of valuation	736,804	22,861	1,745,843	54,506
Total	<u>\$736,804</u>	<u>\$22,861</u>	<u>\$2,418,823</u>	<u>\$75,517</u>

8. Loans

(1) Policy loans

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

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

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(2) Secured loans

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Secured loans	\$337,977,140	\$10,486,415	\$314,318,498	\$9,813,253
Secured loans - related parties	4,585,410	142,271	4,435,385	138,476
Less: Allowance for bad debts	(471,597)	(14,632)	(294,859)	(9,206)
Subtotal	342,090,953	10,614,054	318,459,024	9,942,523
Overdue receivables	2,071,000	64,257	2,169,656	67,739
Less: Allowance for bad debts	(1,449,700)	(44,980)	(1,518,759)	(47,417)
Subtotal	621,300	19,277	650,897	20,322
Total	\$342,712,253	\$10,633,331	\$319,109,921	\$9,962,845

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

9. Available-for-sale financial assets – noncurrent

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$17,141,699	\$531,856	\$22,976,466	\$717,342
Government bonds	90,731,665	2,815,131	35,651,324	1,113,060
Financial debentures	123,631,230	3,835,905	134,882,195	4,211,121
Collateralized loans obligation and collateralized bonds obligation	4,608,271	142,981	2,178,472	68,014
Overseas bonds	25,619,187	794,886	31,364,047	979,208
Subtotal	261,732,052	8,120,759	227,052,504	7,088,745
Add: Adjustment of valuation	1,247,287	38,699	3,030,488	94,614
Less: Accumulated impairment	-	-	(735,000)	(22,947)
Total	\$262,979,339	\$8,159,458	\$229,347,992	\$7,160,412

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with collateralized loans obligation held by the Company. As of September 30, 2008 and 2009 the Company recognized impairment losses amounting to NT\$- (US\$-) and NT\$735,000 (US\$22,947) thousands, respectively.

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10. Held-to-maturity financial assets – noncurrent

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$3,918,098	\$121,567	\$4,180,437	\$130,516
Government bonds	26,038,970	807,911	98,390,651	3,071,828
Financial debentures	10,080,375	312,763	9,595,318	299,573
Collateralized loans obligation and collateralized bonds obligation	15,806,833	490,438	8,735,392	272,725
Overseas bonds	598,536,489	18,570,788	538,666,088	16,817,549
Subtotal	654,380,765	20,303,467	659,567,886	20,592,191
Less: Securities serving as deposits paid - bonds	(8,356,344)	(259,272)	(8,149,402)	(254,430)
Total	<u>\$646,024,421</u>	<u>\$20,044,195</u>	<u>\$651,418,484</u>	<u>\$20,337,761</u>

11. Financial assets carried at cost – noncurrent

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,310,785	\$630,183	\$19,715,234	\$615,524
Beneficiary certificates	271,058	8,410	1,053,790	32,900
Subtotal	20,581,843	638,593	20,769,024	648,424
Less: Accumulated impairment	(1,204,106)	(37,360)	(1,302,285)	(40,658)
Total	<u>\$19,377,737</u>	<u>\$601,233</u>	<u>\$19,466,739</u>	<u>\$607,766</u>

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. As of September 30, 2008 and 2009 the Company recognized impairment losses amounting to NT\$1,204,106 (US\$37,360) thousands and NT\$1,302,285 (US\$40,658) thousands, respectively.

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12. Investments in debt securities with no active market - noncurrent

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Stocks	\$-	\$-	\$316,000	\$9,866
Corporate bonds	10,000,000	310,270	14,500,000	452,701
Collateralized loans obligation and collateralized bonds obligation	426,273	13,226	-	-
Overseas bonds	56,427,777	1,750,784	121,039,584	3,778,944
Subtotal	66,854,050	2,074,280	135,855,584	4,241,511
Less: Accumulated impairment	(541,810)	(16,811)	(418,600)	(13,069)
Total	<u>\$66,312,240</u>	<u>\$2,057,469</u>	<u>\$135,436,984</u>	<u>\$4,228,442</u>

A CDO impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the overseas bonds held by the Company. As of September 30, 2008 and 2009, the Company recognized impairment losses amounting to NT\$541,810 (US\$16,811) NT\$418,600 (US\$13,069) thousands.

13. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT\$89,141,972 (US\$2,765,807) thousands and NT\$51,726,957 (US\$1,614,953) thousands as of September 30, 2008 and 2009, respectively. The details of structured notes are listed below:

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

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Item	September 30, 2009					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$596,731	\$18,630	\$8,089	\$253	\$604,820	\$18,883
Available-for-sale financial assets	8,900,000	277,865	(852)	(27)	8,899,148	277,838
Held-to-maturity financial assets	38,714,004	1,208,680	42,933	1,340	38,756,937	1,210,020
Investments in debt securities						
with no active						
market-noncurrent	3,466,052	108,212	-	-	3,466,052	108,212
Total	<u>\$51,676,787</u>	<u>\$1,613,387</u>	<u>\$50,170</u>	<u>\$1,566</u>	<u>\$51,726,957</u>	<u>\$1,614,953</u>

14. Long-term investments under the equity method

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

Investee	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$333,701	\$10,354	\$352,090	\$10,992
Vista Technology Venture Capital Corp.	39,556	1,227	31,994	999
Omnitek Venture Capital Corp.	177,935	5,521	85,782	2,678
Wa Tech Venture Capital Co., Ltd.	123,779	3,840	95,733	2,989
IBT Venture Capital Corp.	255,474	7,927	226,887	7,084
Cathay Insurance (Bermuda) Co., Ltd.	91,427	2,837	93,083	2,906
Symphox Information Co., Ltd.	299,659	9,298	331,535	10,351
Cathay Securities Investment Trust Co., Ltd.	342,778	10,635	329,052	10,273
Cathay Venture Capital Corp.	394,060	12,226	-	-
Cathay Pacific Venture Capital Co., Ltd.	-	-	277,163	8,653
Cathay Securities Investment Consulting Co., Ltd.	159,434	4,947	136,597	4,265
Cathay Life Insurance Ltd. (Shanghai)	1,290,593	40,043	1,011,723	31,587
Cathay Life Insurance (Vietnam) Co., Ltd.	1,929,376	59,863	2,050,477	64,017
Cathay Insurance Company Limited. (Shanghai)	890,165	27,619	867,137	27,073
Total	<u>\$6,327,937</u>	<u>\$196,337</u>	<u>\$5,889,253</u>	<u>\$183,867</u>



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As of August 10, 2009, the acquisition date, Cathay Venture Capital Corp., a subsidiary of the Company, merged with Cathay Pacific Venture Capital Co., Ltd. with a stock exchange ratio of 1.06359 to 1 in accordance with resolution of the Board of Directors' meeting of Cathay Financial Holding Co., Ltd.. Cathay Pacific Venture Capital Co., Ltd. is the surviving company.

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

	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$6,254,217	\$194,049	\$6,466,022	\$201,874
Add (less) :				
Gains (losses) on long-term equity				
investments	85,338	2,648	(75,452)	(2,356)
Cumulative conversion adjustments	80,917	2,511	(185,844)	(5,802)
Unrealized gain or loss on financial				
instruments	(506,267)	(15,708)	65,299	2,039
Additional Paid-in Capital	-	-	(153)	(5)
Cash dividends	(374,045)	(11,605)	(230,951)	(7,210)
Disinvestment of long-term investments	(74,871)	(2,323)	(149,668)	(4,673)
Increment of investments	862,648	26,765	-	-
Balance as of September 30	<u>\$6,327,937</u>	<u>\$196,337</u>	<u>\$5,889,253</u>	<u>\$183,867</u>

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- (3) The recognized equity investment gains for the nine months ended September 30, 2008 and 2009 are listed below:

Investee	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$(4,191)	\$(130)	\$7,577	\$237
Vista Technology Venture Capital Corp.	(34)	(1)	(4)	-
Omnitek Venture Capital Corp.	18,572	576	(341)	(11)
Wa Tech Venture Capital Co., Ltd.	54	2	(19,600)	(612)
IBT Venture Capital Corp.	17,702	549	43,722	1,365
Cathay Insurance (Bermuda) Co., Ltd.	3,803	118	88	3
Symphox Information Co., Ltd.	28,100	872	30,691	958
Cathay Securities Investment Trust Co., Ltd.	128,240	3,979	98,657	3,080
Cathay Venture Capital Corp.	18,179	564	(38,905)	(1,215)
Cathay Pacific Venture Capital Co., Ltd.	-	-	3,964	124
Cathay Securities Investment Consulting Co., Ltd.	74,774	2,320	27,253	851
Cathay Life Insurance Ltd. (Shanghai)	(198,317)	(6,153)	(197,323)	(6,161)
Cathay Life Insurance (Vietnam) Co., Ltd.	44,049	1,367	1,009	32
Cathay Insurance Company Limited. (Shanghai)	(45,593)	(1,415)	(32,240)	(1,007)
Total	<u>\$85,338</u>	<u>\$2,648</u>	<u>\$(75,452)</u>	<u>\$(2,356)</u>

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

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B. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the nine months ended September 30, 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 nine months ended September 30, 2009, were reviewed by other auditors. Unqualified review reports were issued for all above investee companies except the Symphox Information Co., Ltd. and Cathay Pacific Venture Capital Corp., of which modified unqualified reviewed reports were issued.

15. Investments in real estate

September 30, 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	\$123,892,173	\$3,844,001	\$4,370	\$136	\$(16,693,400)	\$(517,946)	\$(195,923)	\$(6,079)	\$107,007,220	\$3,320,112
Construction	1,770,504	54,934	-	-	-	-	-	-	1,770,504	54,934
<b>Total</b>	<b>\$125,662,677</b>	<b>\$3,898,935</b>	<b>\$4,370</b>	<b>\$136</b>	<b>\$(16,693,400)</b>	<b>\$(517,946)</b>	<b>\$(195,923)</b>	<b>\$(6,079)</b>	<b>\$108,777,724</b>	<b>\$3,375,046</b>

September 30, 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	\$132,806,507	\$4,146,316	\$4,366	\$136	\$(18,270,617)	\$(570,422)	\$(195,594)	\$(6,106)	\$114,344,662	\$3,569,924
Construction	2,572,247	80,307	-	-	-	-	-	-	2,572,247	80,307
Prepayments for										
buildings and land	809,360	25,269	-	-	-	-	-	-	809,360	25,269
<b>Total</b>	<b>\$136,188,114</b>	<b>\$4,251,892</b>	<b>\$4,366</b>	<b>\$136</b>	<b>\$(18,270,617)</b>	<b>\$(570,422)</b>	<b>\$(195,594)</b>	<b>\$(6,106)</b>	<b>\$117,726,269</b>	<b>\$3,675,500</b>

(1) The real estate investments are held mainly for lease business.

(2) All the lease agreements of the Company's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.

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

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(4) No investments in real estate were pledged as collateral.

**16. Property and equipment**

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

Item	September 30, 2009									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,796,647	\$149,755	\$583	\$18	\$-	\$-	\$(51,331)	\$(1,603)	\$4,745,899	\$148,170
Buildings and construction	10,675,056	333,283	-	-	(3,820,467)	(119,278)	(34,188)	(1,067)	6,820,401	212,938
Computer equipment	2,133,832	66,620	-	-	(1,583,617)	(49,442)	-	-	550,215	17,178
Communication and transportation equipment	12,942	404	-	-	(11,731)	(366)	-	-	1,211	38
Other equipment	3,012,928	94,066	-	-	(2,377,773)	(74,236)	-	-	635,155	19,830
Subtotal	20,631,405	644,128	583	18	(7,793,588)	(243,322)	(85,519)	(2,670)	12,752,881	398,154
Construction in progress and prepayment for equipment	32,693	1,021	-	-	-	-	-	-	32,693	1,021
Total	\$20,664,098	\$645,149	\$583	\$18	\$(7,793,588)	\$(243,322)	\$(85,519)	\$(2,670)	\$12,785,574	\$399,175

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No properties or equipment was pledged as collaterals as of September 30, 2008 and 2009.

17. Computer software cost

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

Item	January 1, 2009		Increase		Decrease		September 30, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$1,101,193	\$34,380	\$149,930	\$4,681	\$-	\$-	\$1,251,123	\$39,061
Amortized and impairment:								
Amortized	(492,327)	(15,371)	(152,489)	(4,761)	-	-	(644,816)	(20,132)
Book value	<u>\$608,866</u>	<u>\$19,009</u>	<u>\$(2,559)</u>	<u>\$(80)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$606,307</u>	<u>\$18,929</u>

18. Other overdue receivables

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$372,633	\$11,562	\$846,649	\$26,433
Less: Allowance for doubtful accounts	(93,414)	(2,898)	(348,031)	(10,866)
Total	<u>\$279,219</u>	<u>\$8,664</u>	<u>\$498,618</u>	<u>\$15,567</u>

Allowance for doubtful accounts is evaluated and recorded based on the collectibility of each overdue receivable in pursuant to “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”.

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

Item	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	38,397,213	1,191,350	2,048,122	63,944
Total	<u>\$38,397,213</u>	<u>\$1,191,350</u>	<u>\$2,048,122</u>	<u>\$63,944</u>

20. Derivative financial liabilities for hedging - current

Item	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	32,073	995	101,881	3,181
Total	<u>\$32,073</u>	<u>\$995</u>	<u>\$101,881</u>	<u>\$3,181</u>

21. Preferred stock liabilities - noncurrent

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

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

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

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- (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.

22. 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 September 30, 2008 and 2009, the total authorized thousand shares were 5,268,616 and at par value of NT\$10 each.

23. 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.

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On April 29, 2009, the Company's Board of Directors resolved to use the legal reserves to offset the cumulative deficits amounting to NT\$3,207,084 (US\$100,128) thousands.

(2) Special reserve

Pursuant to the regulations established by the R.O.C. MOF, the after-tax amount of released provision from the special claim reserves for contingency according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" are appropriated as special reserve when approved by stockholders' meeting in the following year. The retired reserves amounting to NT\$2,475,196 (US\$75,764) thousands and NT\$1,233,539 (US\$38,273) thousands for 2007 and 2008, respectively, were resolved by the Company's Board of Directors.

(3) Undistributed retained earnings

- A. According to the Company's articles of incorporation, 20% of the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders' interests can be distributed to employees as employees' bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.
- B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the special reserve since 2007.
- D. The employee bonus and remuneration of directors for the nine months ended September 30, 2008 and 2009, amounting to NT\$15,000 (US\$465) thousands and NT\$15,000 (US\$468) thousands, respectively, was accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.



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E. On April 29, 2009, the Company's Board of Directors resolved not to distribute employee bonus and remuneration of directors due to the Company's net loss for year 2008. The resolution has no difference from the estimated amount in 2008. Please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation for related information.

24. Personnel expense 、 depreciation and amortizations

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

Item	For the nine months ended September 30, 2009 (NT\$)			For the nine months ended September 30, 2009 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$17,816,050	\$1,340,559	\$19,156,609	\$556,230	\$41,853	\$598,083
Labor & health insurance expenses	936,321	150,424	1,086,745	29,233	4,696	33,929
Pension expenses	604,243	97,075	701,318	18,865	3,031	21,896
Other expenses	884,361	159,262	1,043,623	27,611	4,972	32,583
Depreciation	-	1,761,649	1,761,649	-	55,000	55,000
Amortizations	-	152,489	152,489	-	4,761	4,761

25. Estimated income taxes

The applicable income tax rate of the Company is 25%. Pursuant to the amended "Income tax Act" issued on May 27, 2009, the applicable income tax rate will be changed to 20% effective

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from January 2010.

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

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$7,813,687	\$242,435	\$7,927,170	\$247,492
Total deferred tax liabilities	\$-	\$-	\$(3,874,840)	\$(120,975)
Allowance for deferred assets	\$(386,792)	\$(12,001)	\$-	\$-
Temporary differences:				
Pension expense	\$1,377,299	\$42,733	\$1,431,167	\$44,682
Unrealized foreign exchange losses (gains)	2,665,514	82,703	7,161,992	223,603
(Gains) losses from valuation on financial assets and liabilities	18,056,426	560,237	(15,499,361)	(483,901)
Impairment loss	805,772	25,001	567,936	17,731
Unrealized bad debt losses			229,865	7,177
Other	32,555	1,010	19,997	624
Total	\$22,937,566	\$711,684	\$(6,088,404)	\$(190,084)
Loss carryforwards	\$2,153,590	\$66,819	\$7,877,603	\$245,945
Tax effect under consolidated income tax system	\$(461,087)	\$(14,306)	\$(2,004,781)	\$(62,591)
Investment tax credits	\$-	\$-	\$39,976	\$1,248
September 30,				
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$7,267,802	\$225,498	\$1,608,459	\$50,217
Allowance for deferred tax assets-current	(386,792)	(12,001)	-	-
Net deferred tax assets - current	6,881,010	213,497	1,608,459	50,217
Deferred tax liabilities - current	-	-	(3,874,840)	(120,975)
Net offset balance of deferred tax assets (liabilities) - current	\$6,881,010	\$213,497	\$(2,266,381)	\$(70,758)

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**As of September 30, 2008 and 2009**

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - noncurrent	\$545,885	\$16,937	\$6,318,711	\$197,275
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	<u>\$545,885</u>	<u>\$16,937</u>	<u>\$6,318,711</u>	<u>\$197,275</u>

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

	For the nine months ended September 30			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$-	\$-	\$-	\$-
Add (less): Tax effects under integrated income tax systems	(394,349)	(12,235)	75,951	2,371
Amortization of deferred tax assets	386,792	12,001	-	-
Deferred income tax (benefit) expense from unrealized foreign exchange loss (gain)	(309,598)	(9,606)	(5,056,417)	(157,865)
Deferred income tax (benefit) expense from unrealized financial instruments valuation loss (gain)	(3,285,228)	(101,931)	10,188,790	318,101
Deferred income tax (benefit) from unrealized pension expense	(6,591)	(204)	(9,748)	(304)
Deferred income tax (benefit) expense from impairment loss	(135,452)	(4,203)	100,480	3,137
Deferred income tax benefit from loss carryforwards	(427,979)	(13,279)	(4,831,713)	(150,850)
Adjustments to the deferred tax liabilities or assets for the change in income tax rate	-	-	1,460,374	45,594
Others	32	1	(26)	-
Add: Separation tax	133,866	4,153	53,437	1,668
Prior year adjustment	100,869	3,130	169,638	5,296
Less: Income tax credit	(7,733)	(240)	(6,126)	(191)
Add: Alternative minimum tax payable	840,924	26,091	-	-
Total income tax expense (benefit)	<u>\$(3,104,447)</u>	<u>\$(96,322)</u>	<u>\$2,144,640</u>	<u>\$66,957</u>

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(3) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal year 2005. The Company has filed or will file applications for re-examination for fiscal years of 2002 through 2005 to the Tax Authorities.

(4) Information related to imputation

	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$596,252	\$18,500	\$2,361,941	\$73,742

	September 30,	
	2008	2009
Imputation credit account ratio – actual (May 15, 2008)	5.62%	-
Imputation credit account ratio – actual	-	-(Note)

Note : The imputation credit account ratio was inapplicable due to the Company's cumulative deficits as of December 31, 2008.

(5) Information related to undistributed earnings

Year	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
After 1998	\$-	\$-	\$-	\$-

Net (loss) income for the nine months ended September 30, 2008 and 2009 were excluded from the undistributed earnings after year 1998.

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

Regulation	Deductible items	Amount of deductible income tax		Remaining balance		Expiry Year
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$16,403	\$512	\$16,403	\$512	2011
Statute for Upgrading Industries	Education training	12,478	390	12,478	390	2012
Statute for Upgrading Industries	Education training	6,126	191	6,126	191	2013
Statute for Upgrading Industries	Investment in newly emerging, important and strategic industries	4,969	155	4,969	155	2011
Total		<u>\$39,976</u>	<u>\$1,248</u>	<u>\$39,976</u>	<u>\$1,248</u>	

26. Earnings per share

	For the nine months ended September 30, 2008			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(3,742,760)</u>	<u>\$(116,127)</u>	<u>\$(638,313)</u>	<u>\$(19,805)</u>
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,138,689	5,138,689	5,138,689	5,138,689
Earnings per share (a) / (c) (dollars)				
Net loss	<u>\$(0.73)</u>	<u>\$(0.02)</u>	<u>\$(0.12)</u>	<u>\$-</u>
	For the nine months ended September 30, 2009			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$3,337,343</u>	<u>\$104,194</u>	<u>\$1,192,703</u>	<u>\$37,237</u>
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,268,616	5,268,616	5,268,616	5,268,616
Earnings per share (a) / (c) (dollars)				
Net income	<u>\$0.63</u>	<u>\$0.02</u>	<u>\$0.23</u>	<u>\$0.01</u>

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27. 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 (merged with Cathay Pacific Venture on August 10, 2009)
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
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
Cathay General Hospital	Same chairman
Cathay Real Estate Development Co., Ltd.	Related party disclosed according to SFAS No. 6

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Name	Relationship
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
Other related parties	The directors, supervisors, managers, and their spouses, as well as their second immediate families

(2) Significant transactions with related parties

Transactions with related parties less than NT\$3,000 thousands (US\$93 thousands and US\$94 thousands as of September 30, 2008 and 2009, respectively) have no longer been disclosed since year 2008.

A. Property transactions

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

(A) Significant transactions with related parties for the nine months ended September 30, 2008 and 2009 are listed below:

Name	For the nine months ended September 30, 2008		
	Item	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	International Building etc	\$167,265	\$5,190
For the nine months ended September 30, 2009			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Land Mark etc	\$18,917	\$590
Lin Yuan Property Management Co., Ltd.	International Building etc	82,278	2,569
Total		\$101,195	\$3,159

The total amounts of contracted projects for real estate as of September 30, 2008 and 2009, between the Company and San Ching Engineering Co., Ltd. were NT\$33,130 (US\$1,028) thousands and NT\$76,224 (US\$2,380) thousands, respectively.

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

Name	Rental income			
	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$16,293	\$505	\$19,434	\$607
Cathay Real Estate Development Co., Ltd.	14,126	438	16,583	518
Cathay United Bank	221,856	6,884	248,913	7,771
Cathay Century Insurance Co., Ltd.	62,576	1,942	67,199	2,098
Cathay General Hospital	97,005	3,010	99,766	3,115
San Ching Engineering Co., Ltd.	6,318	196	7,283	227
Symphox Information Co., Ltd.	12,645	392	13,655	426
Cathay Securities Investment Trust Co., Ltd.	14,181	440	16,726	522
Cathay Securities Co., Ltd.	15,482	480	16,018	500
Cathay Securities Investment Consulting Co., Ltd.	5,088	158	6,941	217
Total	<u>\$465,570</u>	<u>\$14,445</u>	<u>\$512,518</u>	<u>\$16,001</u>

Name	Guarantee deposits received			
	September 30, 2008		September 30, 2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,886	\$151	\$4,886	\$153
Cathay United Bank	69,003	2,141	68,143	2,127
Cathay Century Insurance Co., Ltd.	19,655	610	20,810	650
Cathay General Hospital	11,079	344	11,305	353
Cathay Securities Investment Trust Co., Ltd.	4,872	151	4,948	155
Cathay Securities Co., Ltd.	4,710	146	4,710	147
Cathay Financial Holding Co., Ltd.	5,940	184	5,964	186
Symphox Information Co., Ltd.	3,824	119	3,824	119
Total	<u>\$123,969</u>	<u>\$3,846</u>	<u>\$124,590</u>	<u>\$3,890</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 nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$22,802	\$708	\$22,838	\$713
Cathay United Bank	8,200	254	8,103	253
Total	\$31,002	\$962	\$30,941	\$966

Name	Guarantee deposits paid			
	September 30, 2008		September 30, 2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,779	\$272	\$8,779	\$274

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

B. Cash in banks

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

Name	Item	For the nine months ended September 30, 2008		
		Interest income	Rate	Ending balance
		US\$		US\$
Cathay United Bank	Time deposit	\$1,535	2.25%-4.50%	\$165,641
	Cash in bank	93	0.04%-1.85%	84,285
Total		\$1,628		\$249,926

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**As of September 30, 2008 and 2009**

		For the nine months ended September 30, 2009		
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$37,909	0.10%-2.42%	\$15,393,950
	Cash in bank	4,318	0.02%-1.00%	5,627,029
Total		<u>\$42,227</u>		<u>\$21,020,979</u>

		For the nine months ended September 30, 2009		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$1,183	0.10%-2.42%	\$480,610
	Cash in bank	135	0.02%-1.00%	175,680
Total		<u>\$1,318</u>		<u>\$656,290</u>

C. Other financial assets

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

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

		For the nine months ended September 30, 2009		
Name		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank		<u>\$5,327</u>	3.17%-3.73%	<u>\$-</u>

		For the nine months ended September 30, 2009		
Name		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank		<u>\$166</u>	3.17%-3.73%	<u>\$-</u>

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D. Secured loans

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

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

For the nine months ended September 30, 2009				
	Maximum	Interest		Ending
	amount	income		balance
Name	NT\$	NT\$	Rate	NT\$
Cathay General Hospital	\$4,286,249	\$755,522	1.85%-3.91%	\$4,093,260
Other related parties	393,090	4,758	1.01%-5.37%	342,125
Total		<u>\$760,280</u>		<u>\$4,435,385</u>

For the nine months ended September 30, 2009				
	Maximum	Interest		Ending
	amount	income		balance
Name	US\$	US\$	Rate	US\$
Cathay General Hospital	\$133,820	\$23,588	1.85%-3.91%	\$127,795
Other related parties	12,273	148	1.01%-5.37%	10,681
Total		<u>\$23,736</u>		<u>\$138,476</u>

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

Name		September 30,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment	Market value	\$6,332,055	\$196,465	\$3,982,953	\$124,351
Trust Co., Ltd managed	Cost	\$6,318,240	\$196,036	\$3,900,864	\$121,788
	funds.				

F. Other accounts receivable

Name		September 30,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.		\$114,682	\$3,558	\$194,763	\$6,081
Cathay Insurance (Bermuda) Co., Ltd.		8,825	274	27,615	862
Cathay Financial Holding Co., Ltd. (note)		1,348,657	41,845	4,460,845	139,271

Note : Receivables are refundable tax due to consolidated income tax system.

G. Prepayments

Name		September 30,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.		\$32,288	\$1,002	\$-	\$-

H. Other overdue receivable

Name		September 30,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)		\$265,211	\$8,229	\$265,211	\$8,280

The overdue receivable is consisted of other receivables for out-of-pocket IT system expenses.

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I. Other assets – other

Name	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance (Vietnam) Co., Ltd.	\$62,091	\$1,926	\$-	\$-

The other assets are consisted of other receivables for out-of-pocket IT system expenses.

J. Repurchase bonds

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

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

K. Guarantee deposits paid

Name	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$1,080,090	\$33,512	\$299,992	\$9,366

As of September 30, 2008 and 2009, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$409 (US\$13) thousands and NT\$316 (US\$10) thousands, respectively.

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L. Other payable

Name	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$27,991	\$868	\$33,166	\$1,035
Lin Yuan Property Management Co., Ltd.	78,878	2,447	36,462	1,138
San Ching Engineering Co., Ltd.	5,009	155	-	-
Seaward Card Co., Ltd.	5,399	168	-	-
Cathay Financial Holding Co., Ltd. (Note)	-	-	402,712	12,573
Cathay Century Insurance Co., Ltd.	-	-	9,499	297

Note: Payables due to interest expense accrued from preferred stock.

M. Premiums income

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$409,874	\$12,717	\$435,953	\$13,611
Cathay General Hospital	23,155	719	21,130	660
Cathay Century Insurance Co., Ltd.	6,582	204	6,716	209
Other related parties	281,345	8,729	214,257	6,689
Total	<u>\$720,956</u>	<u>\$22,369</u>	<u>\$678,056</u>	<u>\$21,169</u>

N. Insurance expense

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$44,749</u>	<u>\$1,388</u>	<u>\$93,080</u>	<u>\$2,906</u>

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$8,046 (US\$250) thousands and NT\$8,511 (US\$266) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the nine months ended September 30, 2008 and 2009, respectively.

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O. Indemnity income

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$6,341	\$197	\$7,233	\$226

P. Reinsurance income

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$108,292	\$3,360	\$71,321	\$2,227

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 nine months ended September 30, 2008 and 2009, the Company assumed 90% and 60% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd, respectively.

Q. Reinsurance commission income

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$5,709	\$177	\$-	\$-

R. Reinsurance handing fee income

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$6,485	\$201	\$-	\$-

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S. Reinsurance service expenses

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$8,400	\$261	\$7,416	\$232

T. Reinsurance claims payment

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$94,737	\$2,939	\$103,625	\$3,235

U. Reinsurance commission expense

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$5,138	\$159	\$-	\$-

V. Miscellaneous income

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$671,584	\$20,837	\$759,540	\$23,713
Cathay United Bank	93,826	2,911	64,926	2,027
Cathay Securities Investment Trust Co., Ltd.	53,496	1,660	64,769	2,022
Cathay General Hospital	3,547	110	3,809	119
Total	\$822,453	\$25,518	\$893,044	\$27,881

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



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W. Commissions expenses

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$18,478	\$573	\$22,092	\$690

X. Operating expenses

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$190,153	\$5,900	\$179,092	\$5,591
Lin Yuan Property Management Co., Ltd.	456,466	14,163	449,050	14,020
Cathay Securities Investment Consulting Co., Ltd.	24,465	759	17,010	531
San Ching Engineering Co., Ltd.	3,813	118	-	-
Seaward Card Co., Ltd.	48,308	1,499	43,987	1,373
Cathay Real Estate Development Co., Ltd.	5,121	159	-	-
Cathay Capital Management Inc.	16,410	509	-	-
Seaward Leasing Co., Ltd.	6,977	216	8,719	272
Cathay United Bank	734,515	22,790	845,829	26,407
Cathay Pacific Venture Capital Co., Ltd.	-	-	20,000	625
Cathay General Hospital	-	-	3,540	111
Total	\$1,486,228	\$46,113	\$1,567,227	\$48,930

Y. Non-operating expenses and losses

Name	For the nine months ended September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$-	\$-	\$392,671	\$12,259

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

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Z. Other

(A) As of September 30, 2008 and 2009, the nominal amounts of the financial instruments transactions with Cathay United Bank are listed below:

Item	September 30,	
	2008	2009
Forward foreign exchange contracts	USD1,235,410	USD550,000
CS contracts	USD1,169,937	USD3,771,000
Financial debentures	NTD200,000 (USD6,205)	NTD- (USD-)

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$2,480,000 (US\$76,947) thousands and NT\$800,000 (US\$24,977) thousands during the nine months ended September 30, 2008 and 2009, respectively.

28. Pledged assets

As of September 30, 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	September 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
- Government bonds	\$8,356,344	\$259,272	\$9,418,421	\$294,050
Guarantee deposits paid - Time deposits	114,950	3,567	92,150	2,877
Guarantee deposits paid - others	74,773	2,320	24,831	775
Total	<u>\$8,546,067</u>	<u>\$265,159</u>	<u>\$9,535,402</u>	<u>\$297,702</u>

Pledged assets are summarized based on the carrying amounts.

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29. Other important commitment and contingent liabilities

None.

30. Serious disaster damages

None.

31. Significant subsequent events

None.

32. Others matters

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

Assets			Liabilities		
Item	September 30, 2009		Item	September 30, 2009	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$9,498	\$297	Other payable	\$2,712,837	\$84,697
Financial assets at fair value through profit or loss	271,280,335	8,469,570	Reserve for separate account	272,156,520	8,496,925
Interests receivable	-	-			
Other receivable	3,579,524	111,755			
<b>Total</b>	<b>\$274,869,357</b>	<b>\$8,581,622</b>	<b>Total</b>	<b>\$274,869,357</b>	<b>\$8,581,622</b>

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B. Separate account insurance products - revenues and expenses

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

Expenses			Revenues		
Item	January 1-September 30, 2009		Item	January 1-September 30, 2009	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$2,769,940	\$86,480	Premiums income	\$41,034,502	\$1,281,127
Cash surrender value	16,526,845	515,980	Recovered separate		
Dividends	1,927	60	account reserve	7,635,113	238,374
Provision for separate			Interest income	7,408	231
account reserve	88,223,637	2,754,406	Gain from valuation on		
Losses on disposal of			financial assets	48,636,015	1,518,452
investments	2,440,422	76,192	Gains on foreign		
Administrative expenses	3,228,313	100,790	exchange	15,872,923	495,564
			Miscellaneous income	5,051	158
			Adjustments	72	2
<b>Total</b>	<b>\$113,191,084</b>	<b>\$3,533,908</b>	<b>Total</b>	<b>\$113,191,084</b>	<b>\$3,533,908</b>

C. The commission earned for the sales of separate account insurance products from counterparties for the nine months ended September 30, 2008 and 2009 were NT\$3,856,088 (US\$119,643) thousands and NT\$2,376,266 (US\$74,189) thousands, respectively.

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**As of September 30, 2008 and 2009**

(3) Discretionary account management

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

  

Item	September 30, 2009			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,337,127	\$166,629	\$5,337,127	\$166,629
Repurchase bonds	4,436,891	138,523	4,436,891	138,523
Cash in banks	871,371	27,205	871,371	27,205
Total	<u>\$10,645,389</u>	<u>\$332,357</u>	<u>\$10,645,389</u>	<u>\$332,357</u>

As of September 30, 2008 and 2009, the Company entered into discretionary account management contracts in the amounts of NT\$16,700,000 (US\$518,151) thousands and NT\$9,300,000 (US\$290,353) thousands, respectively.

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

(5) Financial risk management objectives and policies

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

The Company also enters into derivative transactions such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, 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.

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

**Market Risk**

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

**Credit Risk**

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

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

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

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

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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.

Sovereign Risk

Sovereign 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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**As of September 30, 2008 and 2009**

(6) Financial instruments related information

A. Fair value

Item	September 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$199,119,334	\$199,119,334	\$6,178,074	\$6,178,074
Notes and accounts receivable	29,243,559	29,243,559	907,340	907,340
Financial assets at fair value through profit or loss - current	44,012,846	44,012,846	1,365,586	1,365,586
Available-for-sale financial assets - current	137,944,650	137,944,650	4,280,008	4,280,008
Held-to-maturity financial assets - current	3,010,609	2,940,897	93,410	91,247
Investments in debt securities with no active market - current	3,422,799	3,422,799	106,199	106,199
Available-for-sale financial assets - noncurrent	262,979,339	262,979,339	8,159,458	8,159,458
Held-to-maturity financial assets - noncurrent	646,024,421	617,743,593	20,044,195	19,166,725
Financial assets carried at cost - noncurrent	19,377,737	-	601,233	-
Investments in debt securities with no active market - noncurrent	66,312,240	53,025,460	2,057,469	1,645,221
Long-term investments under the equity method	6,327,937	6,327,937	196,337	196,337
Other financial assets – noncurrent	12,100,000	12,100,000	375,427	375,427
Guarantee deposits paid	14,832,799	14,832,799	460,217	460,217
<b><u>Liabilities - non-derivative</u></b>				
Notes and accounts payable	6,111,076	6,111,076	189,608	189,608
Guarantee deposits received	1,527,452	1,527,452	47,392	47,392
<b><u>Assets - derivative</u></b>				
Financial assets at fair value through profit or loss - current				
Option	566,580	566,580	17,579	17,579
Forward, CS, and CCS	20,843,387	20,843,387	646,708	646,708
IRS and CDS	149,028	149,028	4,624	4,624
Derivative financial assets for hedging - current				
IRS and CDS	736,804	736,804	22,861	22,861



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**As of September 30, 2008 and 2009**

Item	September 30, 2008			
	NT\$		US\$	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<b><u>Liabilities - derivative</u></b>				
Financial liabilities at fair value through profit or loss -				
current				
Forward , CS, and CCS	38,310,767	38,310,767	1,188,668	1,188,668
IRS and CDS	86,446	86,446	2,682	2,682
Derivative financial liabilities for hedging - current				
IRS and CDS	32,073	32,073	995	995
September 30, 2009				
Item	NT\$		US\$	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$288,570,170	\$288,570,170	\$9,009,372	\$9,009,372
Notes and accounts receivable	36,027,294	36,027,294	1,124,799	1,124,799
Financial assets at fair value through profit or loss - current	93,583,291	93,583,291	2,921,739	2,921,739
Available-for-sale financial assets - current	148,852,000	148,852,000	4,647,268	4,647,268
Held-to-maturity financial assets - current	28,272,408	25,917,017	882,685	809,148
Investments in debt securities with no active market -				
current	6,476,754	6,428,523	202,209	200,703
Available-for-sale financial assets - noncurrent	229,347,992	229,347,992	7,160,412	7,160,412
Held-to-maturity financial assets - noncurrent	651,418,484	653,902,011	20,337,761	20,415,299
Financial assets carried at cost - noncurrent	19,466,739	-	607,766	-
Investments in debt securities with no active market -				
noncurrent	135,436,984	132,369,658	4,228,442	4,132,677
Long-term investments under the equity method	5,889,253	5,889,253	183,867	183,867
Other financial assets – noncurrent	29,300,000	29,300,000	914,767	914,767
Guarantee deposits paid	11,372,287	11,372,287	355,051	355,051
<b><u>Liabilities - non-derivative</u></b>				
Notes and accounts payable	17,044,541	17,044,541	532,143	532,143
Preferred stock liability –noncurrent	15,000,000	15,690,060	468,311	489,855
Guarantee deposits received	1,623,383	1,623,383	50,683	50,683

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**As of September 30, 2008 and 2009**

Item	September 30, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - derivative</u></b>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	17,867,870	17,867,870	557,848	557,848
IRS, CDS	104,078	104,078	3,249	3,249
Derivative financial assets for hedging - current				
IRS, CDS	2,418,823	2,418,823	75,517	75,517
<b><u>Liabilities - derivative</u></b>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS, CCS	1,662,559	1,662,559	51,906	51,906
IRS, CDS	385,563	385,563	12,038	12,038
Derivative financial liabilities for hedging - current				
IRS, CDS	101,881	101,881	3,181	3,181

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

- ① The fair value of the Company's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as the Company predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to the Company. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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**As of September 30, 2008 and 2009**

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

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**As of September 30, 2008 and 2009**

Financial instruments	September 30, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	566,580	17,579	-	-
Forward, CS, and CCS	-	-	20,843,387	646,708
IRS	-	-	149,028	4,624
Derivative financial assets for hedging – current				
IRS	-	-	736,804	22,861
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, and CCS	-	-	38,310,767	1,188,668
IRS	-	-	86,446	2,682
Derivative financial liabilities for hedging - current				
IRS	-	-	32,073	995
Financial instruments	September 30, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$193,451,163	\$6,039,687	\$95,119,007	\$2,969,685
Notes and accounts receivable	-	-	36,027,294	1,124,799
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - current	148,194,776	4,626,749	657,224	20,519
Held-to-maturity financial assets - current	4,846,193	151,302	21,070,824	657,846
Investments in debt securities with no active market - current				
Available-for-sale financial assets - noncurrent	221,113,797	6,903,334	8,234,195	257,078
Held-to-maturity financial assets - noncurrent	37,925,923	1,184,075	615,976,088	19,231,224
Investment in debt securities with no active market – noncurrent				
Long-term investments under the equity method	-	-	5,889,253	183,867
Other financial assets - noncurrent	-	-	29,300,000	914,767

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**As of September 30, 2008 and 2009**

Financial instruments	September 30, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	17,044,541	532,143
Preferred stock liability - noncurrent	-	-	15,690,060	489,855
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, and CCS	-	-	17,867,870	557,848
IRS and CDS	-	-	104,078	3,249
Derivative financial assets for hedging – current				
IRS and CDS	-	-	2,418,823	75,517
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, and CCS	-	-	1,662,559	51,906
IRS and CDS	-	-	385,563	12,038
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	101,881	3,181

**B. Risk of interest rate**

The following table summarizes the maturities of the Company's financial instruments at September 30, 2008 and 2009:

① September 30, 2008

**Non-derivative financial instruments of fixed interest rate**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$479,878	\$14,889	\$1,715,561	\$53,229	\$-	\$-	\$3,513,279	\$109,006
Available-for-sale financial assets	2,352,774	73,000	688,252	21,354	7,432,589	230,611	7,208,930	223,671
Held-to-maturity financial assets	187,004,199	5,802,178	11,580,752	359,316	9,729,673	301,883	9,435,515	292,756
Investments in debt securities with								
no active market	522,799	16,221	1,134,309	35,194	959,079	29,757	1,837,590	57,015

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**As of September 30, 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	\$1,107,096	\$34,350	\$6,200,335	\$192,378	\$13,016,149	\$403,852
Available-for-sale financial assets	18,146,554	563,033	110,503,046	3,428,577	146,332,145	4,540,246
Held-to-maturity financial assets	3,873,281	120,176	329,931,499	10,236,782	551,554,919	17,113,091
Investments in debt securities with						
no active market	6,115,810	189,755	39,197,214	1,216,172	49,766,801	1,544,114

**Non-derivative financial instruments of float interest rate**

Item	Less than one year		Due in 1-2 years		Due in 2-3 years		Due in 3-4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$3,077,032	\$95,471	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	124,637,295	3,867,121	-	-	-	-	-	-
Held-to-maturity financial assets	97,480,110	3,024,514	-	-	-	-	-	-
Investments in debt securities with								
no active market	19,968,238	619,554	-	-	-	-	-	-

Item	Due in 4-5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$3,077,032	\$95,471
Available-for-sale financial assets	-	-	-	-	124,637,295	3,867,121
Held-to-maturity financial assets	-	-	-	-	97,480,110	3,024,514
Investments in debt securities with						
no active market	-	-	-	-	19,968,238	619,554

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**As of September 30, 2008 and 2009**

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$12,755	\$396	\$8	\$-	\$17,789	\$552	\$-	\$-
Derivative financial assets for								
hedging	953	30	36,789	1,141	6,213	193	-	-
Financial liabilities at fair value								
through profit or loss	11,395	354	-	-	52,743	1,636	-	-
Derivative financial liabilities for								
hedging	3,789	118	11,539	358	16,745	519	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value								
through profit or loss	\$81,072	\$2,515	\$37,404	\$1,161	\$149,028	\$4,624		
Derivative financial assets for								
hedging	43,285	1,343	649,564	20,154	736,804	22,861		
Financial liabilities at fair value								
through profit or loss	18,790	583	3,518	109	86,446	2,682		
Derivative financial liabilities for								
hedging	-	-	-	-	32,073	995		

② September 30, 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	\$760,005	\$23,728	\$1,139,991	\$35,591	\$2,399,936	\$74,928	\$3,198,340	\$99,854
Available-for-sale financial assets	344,543	10,757	7,834,280	244,592	5,950,266	185,772	19,312,826	602,961
Held-to-maturity financial assets	205,279,298	6,408,970	18,029,251	562,886	13,955,646	435,705	24,047,471	750,780
Investments in debt securities with								
no active market	6,007,899	187,571	6,252,011	195,192	14,439,997	450,827	6,832,809	213,325
Preferred stock liability	-	-	-	-	-	-	-	-

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**As of September 30, 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	\$9,519	\$297	\$1,603,058	\$50,049	\$9,110,849	\$284,447
Available-for-sale financial assets	12,405,447	387,307	68,619,899	2,142,363	114,467,261	3,573,752
Held-to-maturity financial assets	28,850,654	900,738	321,373,279	10,033,509	611,535,599	19,092,588
Investments in debt securities with						
no active market	3,409,736	106,455	83,290,592	2,600,393	120,233,044	3,753,763
Preferred stock liability	-	-	15,000,000	468,311	15,000,000	468,311

**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	\$82,961	\$2,590	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	117,454,979	3,667,030	-	-	-	-	-	-
Held-to-maturity financial assets	68,155,294	2,127,858	-	-	-	-	-	-
Investments in debt securities with								
no active market	21,680,694	676,887	-	-	-	-	-	-

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	\$-	\$-	\$-	\$-	\$82,961	\$2,590
Available-for-sale financial assets	-	-	-	-	117,454,979	3,667,030
Held-to-maturity financial assets	-	-	-	-	68,155,294	2,127,858
Investments in debt securities with						
no active market	-	-	-	-	21,680,694	676,887



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Derivative financial instruments

Item	Less than one year		Due in 1-2 years		Due in 2-3 years		Due in 3-4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$-	\$-	\$33,552	\$1,048	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	18,485	577	19,879	621	12,732	397	195,786	6,113
Financial liabilities at fair value								
through profit or loss	20,247	632	122,620	3,828	-	-	-	-
Derivative financial liabilities for								
hedging	16,322	509	22,576	705	-	-	-	-

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	\$-	\$-	\$-	\$-	\$33,552	\$1,048
Derivative financial assets for						
hedging	1,234,369	38,538	364,819	11,390	1,846,070	57,636
Financial liabilities at fair value						
through profit or loss	20,456	639	-	-	163,323	5,099
Derivative financial liabilities for						
hedging	-	-	-	-	38,898	1,214

C. Credit risk

The Company doesn't expose to concentrations of credit risk.

D. Hedged accounting disclosures

Cash flow hedges – IRS

The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at September 30, 2008 and 2009:

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① September 30, 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$100,000	\$3,103	180DCP+30bps	Half year	2008.12.18
300,000	9,308	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml, 4.8%-6ml	Half year	2009.1.7
200,000	6,205	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml, 4.8%-6ml	Half year	2009.1.9
200,000	6,205	5.85%-6ml	Half year	2009.1.13
50,000	1,551	If 6ml ≤ 1%,6ml+0.2% If 1%<6ml<2%,3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009.1.16
247,500	7,679	ARMS	Each quarter	2009.3.24
900,000	27,924	90DCP+100bps	Each quarter	2009.5.20
200,000	6,205	4.000%-6ml	Half year	2010.4.7
300,000	9,308	4.0002%-6ml	Half year	2010.4.7
500,000	15,513	4.0006%-6ml	Half year	2010.4.7
500,000	15,513	4.0007%-6ml	Half year	2010.4.7
200,000	6,205	4.0003%-6ml	Half year	2010.4.7
300,000	9,308	4.3%-12ml	Yearly	2010.6.20
900,000	27,924	90DCP	Each quarter	2010.8.18
600,000	\$18,616	90DCP	Each quarter	2010.8.19
200,000	6,205	6.3%-6ml	Yearly	2010.11.27
300,000	9,308	5.37%-6ml	Yearly	2011.3.15
500,000	15,513	If 6ml<1.1%,6ml If 1.1% ≤ 6ml ≤ 2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	62,054	90DCP	Yearly	2013.3.26
2,700,000	83,773	90DCP+25bps	Each quarter	2013.8.24
3,000,000	93,081	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	62,054	90DCP	Yearly	2013.11.3

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
1,000,000	31,027	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,513	90DCP+23bps	Yearly	2013.12.14
1,500,000	46,540	90DCP+23bps	Yearly	2013.12.16
1,000,000	31,027	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,924	90DCP	Yearly	2014.3.12
1,000,000	31,027	90DCP	Yearly	2014.6.12
2,000,000	62,054	90DCP	Yearly	2014.6.29
5,000,000	155,135	90DCP	Yearly	2014.8.23
1,000,000	31,027	90DCP	Yearly	2014.9.20
3,200,000	99,286	90DCP	Yearly	2014.9.27
2,000,000	62,054	90DCP	Each quarter	2014.9.28
1,500,000	46,540	90DCP	Yearly	2014.9.29
2,500,000	77,567	90DCP	Yearly	2014.12.20
2,000,000	62,054	90DCP	Yearly	2014.12.24
-	24,000	6ml	Half year	2014.3.24

② September 30, 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,244	4.000%-6ml	Half year	2010.4.7
300,000	9,366	4.0002%-6ml	Half year	2010.4.7
500,000	15,610	4.0006%-6ml	Half year	2010.4.7
500,000	15,610	4.0007%-6ml	Half year	2010.4.7
200,000	6,244	4.0003%-6ml	Half year	2010.4.7
300,000	9,366	4.3%-12ml	Yearly	2010.6.20
900,000	28,099	90DCP	Each quarter	2010.8.18
600,000	18,732	90DCP	Each quarter	2010.8.19
200,000	6,244	6.3%-6ml	Yearly	2010.11.27
300,000	9,366	5.37%-6ml	Yearly	2011.3.15
500,000	15,610	If 6ml<1.1%,6ml If 1.1% ≤ 6ml ≤ 2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	62,441	90DCP	Each quarter	2011.9.9
1,000,000	31,221	90DCP	Each quarter	2012.6.26

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
2,000,000	62,441	90DCP	Each quarter	2012.9.9
2,000,000	62,441	90DCP	Each quarter	2012.10.11
2,000,000	62,441	90DCP	Yearly	2013.3.26
2,700,000	84,296	90DCP+25bps	Each quarter	2013.8.24
3,000,000	93,662	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	62,441	90DCP	Yearly	2013.11.3
1,000,000	31,221	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,610	90DCP+23bps	Yearly	2013.12.14
1,500,000	46,831	90DCP+23bps	Yearly	2013.12.16
1,000,000	31,221	90DCP+26.5bps	Yearly	2013.12.16
900,000	28,099	90DCP	Yearly	2014.3.12
1,000,000	31,221	90DCP	Yearly	2014.6.12
2,000,000	62,441	90DCP	Yearly	2014.6.29
5,000,000	156,104	90DCP	Yearly	2014.8.23
1,000,000	31,221	90DCP	Yearly	2014.9.20
3,200,000	99,906	90DCP	Yearly	2014.9.27
2,000,000	62,441	90DCP	Each quarter	2014.9.28
1,500,000	46,831	90DCP	Yearly	2014.9.29
2,500,000	78,052	90DCP	Yearly	2014.12.20
2,000,000	62,441	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. As of September 30, 2008 and 2009, unrealized gains (losses) on these financial instruments recognized in equity were NT\$763,958 (US\$23,703) thousands and NT\$1,944,534 (US\$60,710) thousands, respectively.

Fair value hedges

The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at September 30, 2008 and 2009:

①September 30, 2008

None.

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**As of September 30, 2008 and 2009**

②September 30, 2009

Par value		Hedge item	Maturity date
NT\$	US\$		
\$-	\$30,000	CDO	2010.09.23
-	20,000	CDO	2012.06.20
-	7,000	Structured notes	2014.03.20
-	3,000	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. As of September 30, 2009, unrealized losses on these financial instruments recognized in profit and (loss) were NT\$(767,535) (US\$(23,963)) thousands recorded as losses from valuation on financial assets by NT\$100,228 (US\$3,129) thousands and losses from valuation on financial liabilities by NT\$667,307 (US\$20,834) thousands, respectively.

**33. Information regarding investment in Mainland China**

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 thousands and US\$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30, 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

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Century Insurance subsidiary, Cathay Insurance Company Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on August 26, 2008. As of September 30, 2009, the Company's remittances to this general insurance company totaled approximately US\$28,140 thousands.

34. Segment Information

Not applicable.