

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

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

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2008 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2008 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the Republic of China("R.O.C.").

Ernst & Young
Taipei, Taiwan
The Republic of China
February 24, 2010

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. and Subsidiaries
Consolidated balance sheets
As of December 31, 2008 and 2009
(Expressed in thousands of dollars)

Assets	Notes	December 31, 2008		December 31, 2009	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4,27	\$225,740,844	\$6,890,746	\$340,135,981	\$10,645,884
Financial assets at fair value through profit or loss - current	2,5,13,27,28	76,037,152	2,321,037	99,991,955	3,129,639
Available-for-sale financial assets - current	2,6,13,27	107,653,519	3,286,127	191,842,643	6,004,465
Held-to-maturity financial assets - current	2,13,28	29,110,492	888,599	13,274,664	415,482
Derivative financial assets for hedging - current	2,7	2,770,036	84,555	2,760,045	86,386
Investments in debt securities with no active market-current		3,710,080	113,250	5,162,576	161,583
Notes receivable	2	5,924,700	180,852	7,363,571	230,472
Premiums receivable	2	-	-	23,075	722
Prepaid reinsurance premium		193,156	5,896	6,514,143	203,886
Claims recoverable from reinsurers		3,572	109	10,963	343
Reinsurance accounts receivable		30,901	943	22,557	706
Other accounts receivable	2,27	27,037,379	825,317	38,378,390	1,201,202
Other financial assets - current		-	-	2,000,000	62,598
Prepayments		50,995	1,557	52,897	1,656
Deferred income tax assets - current	2,25	2,941,826	89,799	-	-
Other current assets		176,962	5,402	308,856	9,666
Subtotal		<u>481,381,614</u>	<u>14,694,189</u>	<u>707,842,316</u>	<u>22,154,690</u>
Loans	2,8,27				
Policy loans		199,118,984	6,078,113	195,193,636	6,109,347
Secured loans		342,443,651	10,453,103	310,951,882	9,732,453
Subtotal		<u>541,562,635</u>	<u>16,531,216</u>	<u>506,145,518</u>	<u>15,841,800</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,13	277,140,249	8,459,715	258,476,016	8,090,016
Held-to-maturity financial assets - noncurrent	2,10,13,28	617,918,505	18,861,981	651,988,070	20,406,512
Financial assets carried at cost - noncurrent	2,11	19,880,741	606,860	20,092,425	628,871
Investments in debt securities with no active market-noncurrent	2,12	87,410,279	2,668,201	146,351,445	4,580,640
Long-term investments in stocks under the equity method	2,14	2,338,702	71,389	2,136,371	66,866
Investments in real estate	2,15	109,492,777	3,342,270	117,275,507	3,670,595
Other financial assets - noncurrent	27	6,100,000	186,203	36,300,000	1,136,150
Subtotal		<u>1,120,281,253</u>	<u>34,196,619</u>	<u>1,232,619,834</u>	<u>38,579,650</u>
Property and equipment	2,16,27				
Land		4,763,422	145,404	4,780,581	149,627
Buildings and construction		10,294,211	314,231	10,671,821	334,016
Computer equipment		2,314,107	70,638	2,436,277	76,253
Communication and transportation equipment		14,965	457	16,503	517
Other equipment		3,511,920	107,201	3,588,543	112,317
Leasehold improvements		88,643	2,706	90,056	2,819
Revaluation increments		1,303	40	583	18
Less: Accumulated depreciation		(7,846,149)	(239,504)	(8,666,601)	(271,255)
Less: Accumulated impairment		(85,519)	(2,610)	(85,519)	(2,677)
Construction in progress and prepayment for equipment		108,971	3,326	20,636	646
Subtotal		<u>13,165,874</u>	<u>401,889</u>	<u>12,852,880</u>	<u>402,281</u>
Intangible assets	2				
Computer software cost	17	820,492	25,046	737,474	23,082
Deferred pension cost		155,200	4,737	-	-
Subtotal		<u>975,692</u>	<u>29,783</u>	<u>737,474</u>	<u>23,082</u>
Other assets					
Guarantee deposits paid	2,27,28	12,841,530	391,988	12,143,114	380,066
Deferred income tax assets - noncurrent	2,25	3,777,233	115,300	5,191,441	162,486
Other overdue receivables	2,18	22,543	688	6,822	214
Separate account products assets	2,32(2)	193,454,652	5,905,209	274,311,184	8,585,640
Other assets - other		1,768,828	53,994	1,883,167	58,941
Subtotal		<u>211,864,786</u>	<u>6,467,179</u>	<u>293,535,728</u>	<u>9,187,347</u>
Total assets		<u>\$2,369,231,854</u>	<u>\$72,320,875</u>	<u>\$2,753,733,750</u>	<u>\$86,188,850</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2008 and 2009 were NT\$32.76 and NT\$31.95 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated balance sheets - (continued)
As of December 31, 2008 and 2009
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2008		December 31, 2009	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Short-term debts		\$411,777	\$12,570	\$-	\$-
Financial liabilities at fair value through profit or loss - current	2,19	30,084,249	918,323	2,446,234	76,565
Derivative financial liabilities for hedging - current	2,20	122,368	3,735	28,722	899
Notes payable		1,822	56	1,799	56
Commissions payable		897,632	27,400	910,227	28,489
Life insurance proceeds payable		42,473	1,297	83,508	2,614
Reinsurance accounts payable		185,162	5,652	2,555,438	79,983
Other payable	2,3,23,27	5,319,499	162,378	12,634,353	395,441
Accounts collected in advance	27	237,157	7,239	250,941	7,854
Deferred income tax liabilities-current	2,25	-	-	1,407,046	44,039
Other current liabilities		11,248	343	13,155	412
Subtotal		<u>37,313,387</u>	<u>1,138,993</u>	<u>20,331,423</u>	<u>636,352</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	109	3,487	109
Accrued pension liabilities	2,32(1)	1,811,678	55,302	1,438,340	45,018
Preferred stock liability - noncurrent	2,21	15,000,000	457,875	25,000,000	782,473
Subtotal		<u>16,815,259</u>	<u>513,286</u>	<u>26,441,827</u>	<u>827,600</u>
Reserve for operations and liabilities	2				
Unearned premium reserve		11,470,193	350,128	11,010,652	344,621
Reserve for life insurance liabilities		2,030,456,905	61,979,759	2,281,954,005	71,422,660
Special reserve		16,137,810	492,607	15,343,466	480,234
Reserve for claims		1,517,688	46,328	1,709,576	53,508
Premium deficiency reserve		2,691,338	82,153	3,558,227	111,369
Subtotal		<u>2,062,273,934</u>	<u>62,950,975</u>	<u>2,313,575,926</u>	<u>72,412,392</u>
Other liabilities					
Guarantee deposits received	27	1,544,779	47,154	1,621,493	50,751
Separate account products liabilities	2,32(2)	193,454,652	5,905,209	274,311,184	8,585,639
Other liabilities - other		1,639,068	50,033	3,180,452	99,545
Subtotal		<u>196,638,499</u>	<u>6,002,396</u>	<u>279,113,129</u>	<u>8,735,935</u>
Total liabilities		<u>2,313,041,079</u>	<u>70,605,650</u>	<u>2,639,462,305</u>	<u>82,612,279</u>
Stockholders' equity					
Capital stock					
Common stock	2,22	52,686,158	1,608,247	52,686,158	1,649,019
Capital surplus	2	13,009,648	397,120	13,009,649	407,188
Retained earnings	2,23				
Legal reserve		23,535,758	718,430	20,328,674	636,265
Special reserve		19,169,006	585,134	20,402,545	638,577
Unappropriated retained earnings		(1,973,545)	(60,243)	2,662,301	83,327
Equity adjustment					
Unrealized (losses) gains on financial instruments	2,23	(52,489,299)	(1,602,237)	4,081,157	127,736
Unrealized revaluation increments	2	2,105	64	1,462	46
Cumulative conversion adjustments	2	209,017	6,380	(42,249)	(1,322)
Net loss not recognized as pension cost		(264,304)	(8,068)	-	-
Minority interests		2,306,231	70,398	1,141,748	35,735
Total stockholders' equity		<u>56,190,775</u>	<u>1,715,225</u>	<u>114,271,445</u>	<u>3,576,571</u>
Total liabilities and stockholders' equity		<u>\$2,369,231,854</u>	<u>\$72,320,875</u>	<u>\$2,753,733,750</u>	<u>\$86,188,850</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2008 and 2009 were NT\$32.76 and NT\$31.95 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of income
For the years ended December 31, 2008 and 2009
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-December 31, 2008		January 1-December 31, 2009	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,27				
Premiums income		\$348,992,508	\$10,653,007	\$444,942,672	\$13,926,218
Reinsurance commission earned		229,599	7,008	7,782,604	243,587
Claims recovered from reinsures		287,459	8,775	2,070,107	64,792
Recovered premiums reserve		249,879,311	7,627,574	203,892,243	6,381,604
Recovered special reserve		170,712	5,211	1,515,416	47,431
Recovered claims reserve		1,499,729	45,779	1,518,048	47,513
Recovered premium deficiency reserve		130,150	3,973	-	-
Handling fees earned	32(2)	5,488,092	167,524	3,812,714	119,334
Interest income		76,850,576	2,345,866	73,927,787	2,313,859
Gains from valuation on financial assets		-	-	14,982,425	468,934
Gains from valuation on financial liabilities		-	-	28,302,061	885,824
Gains on long-term equity investments		183,848	5,612	127,265	3,983
Gains on foreign exchange		13,166,306	401,902	-	-
Gains on investments - real estate		5,480,576	167,295	6,621,921	207,259
Separate account products revenues	32(2)	237,945,785	7,263,302	144,514,945	4,523,159
Other operating income		944,084	28,818	1,105,992	34,616
Subtotal		<u>941,248,735</u>	<u>28,731,646</u>	<u>935,116,200</u>	<u>29,268,113</u>
Operating costs	2,27				
Reinsurance premiums ceded		(503,618)	(15,373)	(6,304,068)	(197,310)
Brokerage expenses	24	(26,428,394)	(806,728)	(27,040,808)	(846,348)
Commissions expenses		(350,183)	(10,689)	(965,886)	(30,231)
Insurance claims payment		(275,179,063)	(8,399,849)	(232,502,119)	(7,277,062)
Provision for premiums reserve		(358,166,544)	(10,933,045)	(455,277,763)	(14,249,695)
Provision for special reserve		(974,711)	(29,753)	(721,153)	(22,571)
Contribution to the stabilization funds		(346,186)	(10,567)	(441,854)	(13,829)
Provision for claims reserve		(1,513,286)	(46,193)	(1,714,878)	(53,674)
Provision for premium deficiency reserve		-	-	(866,889)	(27,133)
Handling fees paid		(1,605,534)	(49,009)	(1,525,415)	(47,744)
Interest expenses		(66,459)	(2,029)	(43,316)	(1,356)
Losses from valuation on financial assets		(6,756,423)	(206,240)	-	-
Losses from valuation on financial liabilities		(17,260,172)	(526,867)	-	-
Losses on foreign exchange		-	-	(19,187,755)	(600,556)
Losses on disposal of investments		(7,049,311)	(215,180)	(26,262,258)	(821,980)
Separate account products expenses	32(2)	(237,945,785)	(7,263,302)	(144,514,945)	(4,523,159)
Other operating cost		(2,112,096)	(64,472)	(1,168,078)	(36,560)
Subtotal		<u>(936,257,765)</u>	<u>(28,579,296)</u>	<u>(918,537,185)</u>	<u>(28,749,208)</u>
Operating gross profit (loss)		<u>4,990,970</u>	<u>152,350</u>	<u>16,579,015</u>	<u>518,905</u>
Operating expenses	2,3,17,23,24,27				
Marketing expenses		(4,223,594)	(128,925)	(4,497,498)	(140,766)
Administrative and general expenses		(7,736,045)	(236,143)	(8,051,554)	(252,005)
Research and development expenses		(20,335)	(621)	(19,709)	(617)
Subtotal		<u>(11,979,974)</u>	<u>(365,689)</u>	<u>(12,568,761)</u>	<u>(393,388)</u>
Operating income (loss)		<u>(6,989,004)</u>	<u>(213,339)</u>	<u>4,010,254</u>	<u>125,517</u>
Non-operating expenses and losses	2,27				
Gains on disposal of property and equipment		54	2	173	5
Other non-operating revenues and gains		1,502,886	45,875	1,585,873	49,636
Subtotal		<u>1,502,940</u>	<u>45,877</u>	<u>1,586,046</u>	<u>49,641</u>
Non-operating expenses and losses	2,27				
Losses on disposal of property and equipment		(264)	(8)	(65)	(2)
Impairment loss		(835,147)	(25,493)	(800,342)	(25,050)
Losses on obsolescence of property and equipment		(131)	(4)	(2)	-
Dividend on preferred stock liabilities		(10,041)	(306)	(537,712)	(16,830)
Miscellaneous expenses		(11,077)	(339)	(6,471)	(202)
Subtotal		<u>(856,660)</u>	<u>(26,150)</u>	<u>(1,344,592)</u>	<u>(42,084)</u>
Income (loss) from continuing operations before income taxes		<u>(6,342,724)</u>	<u>(193,612)</u>	<u>4,251,708</u>	<u>133,074</u>
Income taxes (expense) benefit	2,25	<u>3,980,528</u>	<u>121,506</u>	<u>(1,921,909)</u>	<u>(60,154)</u>
Consolidated income (loss)		<u>\$(2,362,196)</u>	<u>\$(72,106)</u>	<u>\$2,329,799</u>	<u>\$72,920</u>
Include:					
Parent company		\$(1,973,545)	\$(60,243)	\$2,662,301	\$83,327
Minority interests		(388,651)	(11,863)	(332,502)	(10,407)
Consolidated income (loss)		<u>\$(2,362,196)</u>	<u>\$(72,106)</u>	<u>\$2,329,799</u>	<u>\$72,920</u>
Earnings per share (In dollars)	26				
Consolidated income (loss)		<u>(\$0.46)</u>	<u>(\$0.01)</u>	<u>\$0.44</u>	<u>\$0.01</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2008 and 2009 were NT\$32.76 and NT\$31.95 to US\$1.00, respectively)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
For the years ended December 31, 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 gains (losses) of financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments		Net loss not recognized as pension cost		Minority interests			
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2008	\$50,686,158	\$1,547,197	\$9,648	\$295	\$21,188,906	\$646,792	\$16,693,810	\$509,579	\$23,468,521	\$716,377	\$11,169,132	\$340,938	\$2,105	\$64	\$132,518	\$4,045	\$-	\$-	\$2,969,664	\$90,649	\$126,320,462	\$3,855,936
Appropriations and Distributions for 2007																						
Legal reserve	-	-	-	-	2,346,852	71,638	-	-	(2,346,852)	(71,638)	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,475,196	75,555	(2,475,196)	(75,555)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(18,625,315)	(568,538)	-	-	-	-	-	-	-	-	-	-	(18,625,315)	(568,538)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,058)	(399)	-	-	-	-	-	-	-	-	-	-	(13,058)	(399)
Capital increase by cash	2,000,000	61,050	13,000,000	396,825	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000,000	457,875
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(63,658,431)	(1,943,175)	-	-	-	-	-	-	-	-	(63,658,431)	(1,943,175)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	76,499	2,335	-	-	-	-	-	76,499	2,335
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(264,304)	(8,068)	-	-	(264,304)	(8,068)
Consolidated income for the year ended December 31, 2008	-	-	-	-	-	-	-	-	(1,973,545)	(60,243)	-	-	-	-	-	-	-	-	(388,651)	(11,863)	(2,362,196)	(72,106)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(274,782)	(8,388)	(274,782)	(8,388)
Balance on December 31, 2008	\$52,686,158	\$1,608,247	\$13,009,648	\$397,120	\$23,535,758	\$718,430	\$19,169,006	\$585,134	\$(1,973,545)	\$(60,243)	\$(52,489,299)	\$(1,602,237)	\$2,105	\$64	\$209,017	\$6,380	\$(264,304)	\$(8,068)	\$2,306,231	\$70,398	\$56,190,775	\$1,715,225
Balance on January 1, 2009	\$52,686,158	\$1,649,019	\$13,009,648	\$407,188	\$23,535,758	\$736,643	\$19,169,006	\$599,969	\$(1,973,545)	\$(61,770)	\$(52,489,299)	\$(1,642,858)	\$2,105	\$66	\$209,017	\$6,542	\$(264,304)	\$(8,272)	\$2,306,231	\$72,183	\$56,190,775	\$1,758,710
Covering losses and appropriations for 2008																						
Legal reserve	-	-	-	-	(3,207,084)	(100,378)	-	-	3,207,084	100,378	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,233,539	38,608	(1,233,539)	(38,608)	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	56,570,456	1,770,593	-	-	-	-	-	-	-	-	56,570,456	1,770,593
Changes in land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(643)	(20)	-	-	-	-	-	-	(643)	(20)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(251,266)	(7,864)	-	-	-	-	-	(251,266)	(7,864)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264,304	8,272	-	-	264,304	8,272
Changes in capital surplus	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-
Consolidated income for the year ended December 31, 2009	-	-	-	-	-	-	-	-	2,662,301	83,327	-	-	-	-	-	-	-	-	(332,502)	(10,407)	2,329,799	72,920
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(831,981)	(26,040)	(831,981)	(26,040)
Balance on December 31, 2009	\$52,686,158	\$1,649,019	\$13,009,649	\$407,188	\$20,328,674	\$636,265	\$20,402,545	\$638,577	\$2,662,301	\$83,327	\$4,081,157	\$127,736	\$1,462	\$46	\$(42,249)	\$(1,322)	\$-	\$-	\$1,141,748	\$35,735	\$114,271,445	\$3,576,571

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2008 and 2009 were NTS32.76 and NTS31.95 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2008 and 2009
(Expressed in thousands of dollars)

	January 1-December 31, 2008		January 1-December 31, 2009	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Consolidated income (loss)	\$(2,362,196)	\$(72,106)	\$2,329,799	\$72,920
Adjustments:				
Losses (gains) from valuation on financial assets	6,756,423	206,240	(14,982,425)	(468,934)
Losses (gains) from valuation on financial liabilities	17,260,172	526,867	(28,302,061)	(885,824)
Property and equipment turn into contribution expenses	19	1	-	-
Provision (recovered) bad debt	1,069,306	32,641	(568,980)	(17,808)
Depreciation	2,212,313	67,531	2,622,741	82,089
Amortization	235,990	7,204	272,756	8,537
Impairment loss	835,147	25,493	800,342	25,050
Provision for each reserve	109,451,506	3,341,011	251,301,993	7,865,477
Losses on disposal of long-term equity investments	-	-	9,251	290
Losses (gains) on disposal of property and equipment	340	10	(107)	(3)
Gains on disposal of investments in real estate	(161,818)	(4,940)	(956,305)	(29,931)
Gains on long-term equity investments less than cash dividends received	192,330	5,871	96,086	3,007
Decrease (increase) in financial assets at fair value through profit or loss - current	10,991,905	335,528	(8,892,047)	(278,311)
Decrease (increase) in available-for-sale financial assets - current	2,857,002	87,210	(22,179,505)	(694,194)
(Increase) decrease in held-to-maturity financial assets - current	(20,802,605)	(635,000)	15,835,828	495,644
Decrease (increase) in derivative financial assets for hedging - current	48,751	1,488	(1,261,270)	(39,476)
Decrease (increase) in investments in debt securities with no active market - current	2,140,058	65,325	(1,452,496)	(45,462)
Decrease (increase) in notes receivable	2,585,386	78,919	(1,438,870)	(45,035)
Decrease (increase) in premiums receivable	8,071	246	(23,075)	(722)
Increase in prepaid reinsurance premium	(193,156)	(5,896)	(6,320,987)	(197,840)
Decrease (increase) in claims recoverable from reinsurers	11,213	342	(7,391)	(231)
(Increase) decrease in reinsurance accounts receivable	(20,194)	(616)	8,343	261
Increase in other accounts receivable	(2,699,287)	(82,396)	(11,105,492)	(347,590)
Decrease (increase) in other financial assets - current	4,095,936	125,029	(2,000,000)	(62,598)
Increase in prepayments	(36,406)	(1,111)	(1,903)	(60)
Decrease in deferred income tax assets - current	592,467	18,085	2,941,826	92,076
Decrease (increase) in other current assets	138,952	4,241	(131,893)	(4,128)
Increase in deferred income tax assets - noncurrent	(3,373,360)	(102,972)	(1,414,207)	(44,263)
Increase in other assets - other	(867,647)	(26,485)	(115,529)	(3,616)
Increase in financial liabilities at fair value through profit or loss - current	-	-	456,427	14,286
Decrease in derivative financial liabilities for hedging - current	(60,598)	(1,850)	(21,465)	(672)
Decrease in notes payable	(2,187)	(67)	(23)	(1)
(Decrease) increase in commissions payable	(84,354)	(2,575)	12,595	394
Increase in life insurance proceeds payable	314	10	41,035	1,284
(Decrease) increase in reinsurance accounts payable	(3,676)	(112)	2,370,276	74,187
(Decrease) increase in other payable	(3,088,169)	(94,266)	7,314,854	228,947
Increase in accounts collected in advance	16,094	491	13,784	431
Increase in deferred income tax liabilities - current	-	-	1,407,046	44,039
(Decrease) increase in other current liabilities	(6,576)	(201)	1,906	60
Decrease in land value reserve	-	-	(94)	(3)
Increase in accrued pension liability	41,240	1,259	46,167	1,445
(Decrease) increase in other liabilities - other	(1,822,177)	(55,622)	1,541,384	48,244
Net cash provided by operating activities	<u>125,956,529</u>	<u>3,844,827</u>	<u>188,248,314</u>	<u>5,891,966</u>
Cash flows from investing activities				
(Increase) decrease in policy loans	(9,830,014)	(300,062)	3,925,348	122,859
Decrease in secured loans	4,824,377	147,264	32,021,594	1,002,241
(Increase) decrease in available-for-sale financial assets - noncurrent	(40,620,734)	(1,239,949)	13,548,576	424,056
Increase in held-to-maturity financial assets - noncurrent	(45,455,609)	(1,387,534)	(33,879,259)	(1,060,384)
Decrease (increase) in financial assets carried at cost - noncurrent	111,423	3,401	(277,027)	(8,671)
Increase in investments in debt securities with no active market	(27,261,723)	(832,165)	(59,119,175)	(1,850,365)
Disinvestment of long-term investments	149,866	4,575	294,455	9,216
Increase in long-term investments under the equity method	(862,648)	(26,332)	(327,447)	(10,249)
Disposal of long-term investments	-	-	271,315	8,492
Disposal of investments in real estate	199,870	6,101	1,256,328	39,322
Acquisition of investments in real estate	(4,502,472)	(137,438)	(10,090,433)	(315,820)
Decrease (Increase) in other financial assets - noncurrent	13,300,000	405,983	(30,200,000)	(945,227)
Disposal of property and equipment	258	8	521	16
Acquisition of property and equipment	(786,466)	(24,007)	(299,547)	(9,375)
Acquisition of intangible assets	(563,804)	(17,210)	(196,501)	(6,150)
Increase (decrease) in guarantee deposits paid	(1,765,524)	(53,893)	861,106	26,952
Increase in other overdue receivables	(241,250)	(7,364)	(180,644)	(5,654)
Net cash used in investing activities	<u>(113,304,450)</u>	<u>(3,458,622)</u>	<u>(82,390,790)</u>	<u>(2,578,741)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2008 and 2009 were NT\$32.76 and NT\$31.95 to US\$1.00, respectively)

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

Cathay life insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows - (continued)
For the years ended December 31, 2008 and 2009
(Expressed in thousands of dollars)

	January 1-December 31, 2008		January 1-December 31, 2009	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase (decrease) in short-term debts	118,618	3,621	(411,776)	(12,888)
Increase in preferred stock liability	15,000,000	457,876	10,000,000	312,989
Increase in guarantee deposits received	54,600	1,667	76,713	2,401
Capital increase by cash	15,000,000	457,875	-	-
Cash dividends	(18,663,565)	(569,706)	(5,042)	(158)
Bonus paid to employees	(13,058)	(399)	-	-
Remuneration paid to directors and supervisors	(8,100)	(247)	-	-
Minority interests adjustment	-	-	(882,277)	(27,614)
Net cash provided in financing activities	11,488,495	350,687	8,777,618	274,730
Effects of exchange rate changes	42,746	1,305	(240,005)	(7,512)
Increase in cash and cash equivalents	24,183,320	738,197	114,395,137	3,580,443
Cash and cash equivalents at the beginning of the periods	201,557,524	6,152,549	225,740,844	7,065,441
Cash and cash equivalents at the end of the periods	<u>\$225,740,844</u>	<u>\$6,890,746</u>	<u>\$340,135,981</u>	<u>\$10,645,884</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$12,441	\$380	\$12,356	\$387
Interest paid (excluding capitalized interest)	\$12,441	\$380	\$12,356	\$387
Income tax paid	<u>\$1,381,646</u>	<u>\$42,175</u>	<u>\$1,174,164</u>	<u>\$36,750</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2008 and 2009 were NT\$32.76 and NT\$31.95 to US\$1.00, respectively)

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

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1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act of the Republic of China (“R.O.C.”). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holding”) by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C. 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 December 31, 2008 and 2009, total numbers of employees in the Company were 30,553 and 31,167, respectively.

2. Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries and accounting principles generally accepted in the R.O.C. A summary of significant accounting policies follows:

(1) Principles of consolidation

- A. According to the Statements of Financial Accounting Standards of the R.O.C. (“R.O.C. SFAS”) No.7 “Consolidated Financial Statements”, the consolidated financial statements include the Company and its subsidiaries (“Subsidiaries”) over which the Company holds more than 50% of the Subsidiaries’ voting rights or has a controlling interest. As of and for years ended December 31, 2008 and 2009, the consolidated financial statements included the following entities:

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Investors	Investees	Business	Ownership interest		Notes
			2008.12.31	2009.12.31	
The Company and Cathay Venture Capital Corp. (“Cathay Venture”)	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	100.00%	60.12%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Act. As of December 31 2009, The Company owns 60.12% of interest in Symphox Information, while as of December 31 2008, The Company and Cathay Venture each owns 60.12% and 39.88% of interest in Symphox Information, respectively. As of December 31, 2008 and 2009, the total numbers of employees were 148 and 152, respectively.
The Company	Cathay Venture	Venture capital investment	25.00%	-	Cathay Venture was incorporated in Taiwan on September 13, 2000. The Company had the actual ability of controlling over Cathay Venture in 2008. On Oct. 14, 2009, the Company has disposed all of its equity investment in Cathay Venture Capital to its parent company – Cathay Financial Holding. Hence, Cathay Venture Capital is no longer a subsidiary of the Company as at Dec. 31, 2009.
The Company	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50.00%	50.00%	Cathay Life (Shanghai) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (Shanghai). As of December 31, 2008 and 2009, the total numbers of employees were 2,984 and 3,552, respectively.

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The Company	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) acquired an operation license of an enterprise as a juristic person on November 21, 2007. As of December 31, 2008 and 2009, the total number of employees were 101 and 206, respectively.
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As of years ended December 31, 2008 and 2009, the consolidated financial statements exclude the followings:

Investors	Investees	Business	Ownership interest		Notes
			2008.12.31	2009.12.31	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class3 general business insurers and a Long-term insurer	100.00%	100.00%	The consolidated financial statements do not include Cathay Insurance (Bermuda) due to its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00%	100.00%	The consolidated financial statements do not include Cathay Securities Investment because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Insurance Company Limited (Shanghai) (“Cathay Insurance (Shanghai)”)	Properties insurance	50.00%	50.00%	Cathay Insurance (Shanghai) acquired an operation license of an enterprise as a juristic person on August 26, 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (Shanghai) in the consolidated financial statements.

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

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(2) Current and non-current assets and liabilities

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

(3) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they are subject to insignificant risk of changes in value 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.

(4) Recognition of financial assets and liabilities

According to the R.O.C. SFAS No.34 “Accounting for Financial Instruments” and “Guidelines Governing the Preparation of Financial Reports by 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 and Subsidiaries 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

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

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

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

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company and Subsidiaries have both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized or impaired. The amortized cost is computed as the cost amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate arising from the difference between the cost and the maturity amount, and minus

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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.

D. Available-for-sale financial assets

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

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

E. Financial assets carried at cost

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

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F. Derivative financial assets for hedging

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

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

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

(5) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

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(6) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

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

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any impairment loss previously recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall be reversed through equity, rather than through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed through profit or loss.

(7) Derivative financial instruments

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

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

Hedging relationships consist of three types:

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

At the inception of a hedge relationship, the Company and Subsidiaries formally designate and documents hedge relationship to which the Company and Subsidiaries wish to apply hedge accounting, the risk management objective and strategy for undertaking the hedge.

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

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

Fair value hedges

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

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

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

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

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

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

Hedges of a net investment in a foreign operation

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

(8) Allowance for bad and doubtful debts

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

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.

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

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

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

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

(9) Long-term investments under the equity method

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

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

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

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(10) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

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

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

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

(11) Property and equipment

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

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

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

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

Fixed assets of Cathay life (Shanghai) are assets with useful life over a year, such as houses, buildings, machines, equipment and vehicles. These assets are recorded at cost and depreciated

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using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of those fixed assets are 10% of their costs estimated based on their nature and conditions of usage.

(12) Intangible assets

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

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

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

(13) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”, both of which are off balance sheet accounts. From January 1, 1993 to December 31, 2009, an aggregate of NT\$3,940,891 (US\$123,346) thousands was appropriated to this fund.

(14) Accounting for assets impairment

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

For previously recognized losses, the Company and Subsidiaries shall assess, at each

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

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

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

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

(15) Guaranteed depository insurance payment

A. The Company

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

B. Cathay Life (Shanghai)

According to the requirement of the China Insurance Regulatory Commission, an amount

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equal to 20% of the capital must be deposited in the form of time deposits as the “Guaranteed Depository Insurance”.

(16) Reserve for operations

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

In addition, according to “Regulations 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 December 31, 2009, the cumulative special reserves released from the special risk-volatility reserves amounted to NT\$20,402,545 (US\$638,577) thousands.

(17) Insurance premium income and expenses

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

(18) Pension plan

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

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

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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.

(19) Research and development expenses

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

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

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

(20) 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.

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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.

(21) Income taxes

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

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

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

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

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

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

(22) 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.

(23) Separate account products

The Company and Cathay Life (Shanghai) 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 and Cathay Life (Shanghai) have established special journals for assets,

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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”.

(24) 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.

(25) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2008 and 2009 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.76 and NT\$31.95 provided by Federal Reserve Bank of New York of December 31, 2008 and 2009 are used for the conversion.

3. Reasons and effects for changes in accounting principles

The Company adopted the accounting principles prescribed in (96) Article 052 “Accounting for employee bonus and remuneration of directors” issued by the Accounting Research and Development Foundation on January 1, 2008. This change in accounting principles did not significantly affect the consolidated financial statements for 2008.

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

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4. Cash and cash equivalents

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$258,676	\$7,896	\$239,629	\$7,500
Cash in banks	25,086,344	765,761	21,067,184	659,380
Time deposits	190,922,075	5,827,902	230,186,427	7,204,583
Cash equivalents	9,473,749	289,187	88,642,741	2,774,421
Total	<u>\$225,740,844</u>	<u>\$6,890,746</u>	<u>\$340,135,981</u>	<u>\$10,645,884</u>

(1)As of December 31, 2008 and 2009, the amounts of time deposits with maturities beyond one year were NT\$2,481,872 (US\$75,759) thousands and NT\$11,832,341 (US\$370,339) thousands, respectively.

(2)The cash equivalent usually includes commercial paper and repurchase agreement with maturity shorter than three months.

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

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,567,773	\$169,957	\$6,928,870	\$216,866
Overseas stocks	1,156,474	35,302	610,333	19,103
Beneficiary certificates	47,945,445	1,463,536	65,607,470	2,053,442
Exchange traded funds	139,322	4,253	237,784	7,442
Overseas bonds	11,465,618	349,988	2,227,219	69,709
Corporate bonds	3,939,303	120,247	3,257,683	101,962
Government bonds	2,291,101	69,936	2,428,957	76,024
Derivative financial instruments	-	-	99,005	3,099
Structured time deposits	1,000,000	30,525	1,000,000	31,299
Subtotal	73,505,036	2,243,744	82,397,321	2,578,946
Add: Adjustment of valuation	2,532,116	77,293	17,594,634	550,693
Total	<u>\$76,037,152</u>	<u>\$2,321,037</u>	<u>\$99,991,955</u>	<u>\$3,129,639</u>

As of December 31, 2008 and 2009, Symphox Information Co., Ltd. has pledged NT\$26,820 (US\$819) and NT\$30,228 (UD\$946), respectively as collaterals for its e-coupon transaction. Refer to Note 28(2) disclosure for pledged assets.

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6. Available-for-sale financial assets - current

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$114,406,022	\$3,492,247	\$119,921,624	\$3,753,416
Overseas stocks	17,253,286	526,657	12,996,824	406,786
Beneficiary certificates	19,725,163	602,111	29,317,504	917,606
Financial debentures	5,049,796	154,145	1,450,000	45,383
Exchange traded funds	4,175,789	127,466	4,430,659	138,675
Real estate investment trust	8,725,208	266,337	8,725,208	273,090
Overseas bonds	22,520	688	9,601,626	300,520
Corporate bonds	550,000	16,789	6,196,332	193,938
Government bonds	-	-	102,547	3,210
Subtotal	169,907,784	5,186,440	192,742,324	6,032,624
Less : Adjustment of valuation	(62,254,265)	(1,900,313)	(899,681)	(28,159)
Total	<u>\$107,653,519</u>	<u>\$3,286,127</u>	<u>\$191,842,643</u>	<u>\$6,004,465</u>

7. Derivative financial assets for hedging - current

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$1,351,666	\$42,305
Add: Adjustment of valuation	2,770,036	84,555	1,408,379	44,081
Total	<u>\$2,770,036</u>	<u>\$84,555</u>	<u>\$2,760,045</u>	<u>\$86,386</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

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Secured loans	\$337,799,216	\$10,311,332	\$306,293,654	\$9,586,656
Secured loans - related parties	4,575,958	139,681	4,349,177	136,124
Less: Allowance for bad debts	(566,119)	(17,281)	(238,769)	(7,473)
Subtotal	341,809,055	10,433,732	310,404,062	9,715,307
Overdue receivables	2,115,319	64,570	1,826,068	57,154
Less: Allowance for bad debts	(1,480,723)	(45,199)	(1,278,248)	(40,008)
Subtotal	634,596	19,371	547,820	17,146
Total	\$342,443,651	\$10,453,103	\$310,951,882	\$9,732,453

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

9. Available-for-sale financial assets – noncurrent

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$20,343,866	\$620,997	\$19,973,916	\$625,162
Government bonds	89,547,227	2,733,432	34,496,011	1,079,687
Financial debentures	127,381,664	3,888,329	143,116,633	4,479,394
Domestic stocks	259,330	7,916	-	-
Beneficiary certificates	85,499	2,610	195,608	6,122
Overseas bonds	29,490,651	900,203	56,438,570	1,766,466
Collateralized loans obligation and collateralized bonds obligation	4,404,148	134,437	2,157,013	67,512
Subtotal	271,512,385	8,287,924	256,377,751	8,024,343
Add: Adjustment of valuation	5,627,864	171,791	2,833,265	88,678
Less: Accumulated impairment	-	-	(735,000)	(23,005)
Total	\$277,140,249	\$8,459,715	\$258,476,016	\$8,090,016

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 December 31, 2008 and 2009, the Company recognized impairment losses amounting to NT\$- (US\$-) and NT\$735,000 (US\$23,005) thousands, respectively.

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10. Held-to-maturity financial assets – noncurrent

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$3,867,371	\$118,052	\$6,974,974	\$218,309
Government bonds	21,840,360	666,678	98,040,953	3,068,574
Financial debentures	10,333,138	315,419	9,596,110	300,348
Collateralized loans obligation and collateralized bonds obligation	15,465,882	472,096	8,734,298	273,374
Overseas bonds	574,912,962	17,549,236	537,021,179	16,808,175
Subtotal	626,419,713	19,121,481	660,367,514	20,668,780
Less: Securities serving as deposits paid - bonds	(8,337,123)	(254,491)	(8,379,444)	(262,268)
Less: Accumulated impairment	(164,085)	(5,009)	-	-
Total	<u>\$617,918,505</u>	<u>\$18,861,981</u>	<u>\$651,988,070</u>	<u>\$20,406,512</u>

As of December 31, 2008 and 2009, the Company recognized impairment losses amounting to NT\$164,085 (US\$5,009) thousands and NT\$- (US\$-), respectively, on its CDO investment due to there were objective evidences of impairment associated with overseas bonds held by the Company.

11. Financial assets carried at cost – noncurrent

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Domestic Stocks	\$20,502,139	\$625,828	\$19,648,101	\$614,964
Overseas stocks	203,300	6,206	-	-
Beneficiary certificates	477,587	14,578	1,797,311	56,254
Subtotal	21,183,026	646,612	21,445,412	671,218
Less: Accumulated impairment	(1,302,285)	(39,752)	(1,352,987)	(42,347)
Total	<u>\$19,880,741</u>	<u>\$606,860</u>	<u>\$20,092,425</u>	<u>\$628,871</u>

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company and the Subsidiary, Cathay Venture. As of December 31, 2008 and 2009 the Company recognized impairment losses amounting to NT\$1,302,285 (US\$39,752) thousands and NT\$1,352,987 (US\$42,347) thousands, respectively.

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

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Stocks	\$316,000	\$9,646	\$1,108,000	\$34,679
Corporate bonds	10,000,000	305,250	14,500,000	453,834
Collateralized loans obligation and collateralized bonds obligation	392,465	11,980	-	-
Overseas bonds	77,351,252	2,361,149	131,159,835	4,105,159
Subtotal	88,059,717	2,688,025	146,767,835	4,593,672
Less: Accumulated impairment	(649,438)	(19,824)	(416,390)	(13,032)
Total	<u>\$87,410,279</u>	<u>\$2,668,201</u>	<u>\$146,351,445</u>	<u>\$4,580,640</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 December 31, 2008 and 2009, the Company recognized impairment losses amounting to NT\$649,438 (US\$19,824) and NT\$416,390 (US\$13,032) thousands.

13. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT\$83,645,916 (US\$2,553,294) thousands and NT\$52,035,068 (US\$1,628,641) thousands as of December 31, 2008 and 2009, respectively. The details of structured notes are listed below:

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

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Item	December 31, 2009					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$595,598	\$18,642	\$6,063	\$190	\$601,661	\$18,832
Available-for-sale financial assets	8,900,000	278,560	3,678	115	8,903,678	278,675
Held-to-maturity financial assets	39,142,948	1,225,132	67,938	2,126	39,210,886	1,227,258
Investments in debt securities						
with no active market - current	3,448,564	107,936	(129,721)	(4,060)	3,318,843	103,876
Total	<u>\$52,087,110</u>	<u>\$1,630,270</u>	<u>\$(52,042)</u>	<u>\$(1,629)</u>	<u>\$52,035,068</u>	<u>\$1,628,641</u>

14. Long-term investments under the equity method

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

Investee	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$300,311	\$9,167	\$358,464	\$11,220
Vista Technology Venture Capital Corp.	32,301	986	28,510	892
Omnitek Venture Capital Corp.	86,458	2,639	63,074	1,974
Wa Tech Venture Capital Co., Ltd.	89,506	2,732	101,798	3,186
IBT Venture Capital Corp.	249,589	7,619	114,099	3,571
Cathay Insurance (Bermuda) Co., Ltd.	94,904	2,897	99,646	3,119
Cathay Securities Investment Trust Co., Ltd.	402,985	12,301	364,180	11,399
Cathay Securities Investment Consulting Co., Ltd.	165,344	5,047	152,952	4,787
Cathay Insurance Company Limited. (Shanghai)	917,304	28,001	853,648	26,718
Total	<u>\$2,338,702</u>	<u>\$71,389</u>	<u>\$2,136,371</u>	<u>\$66,866</u>

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15. Investments in real estate

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

December 31, 2009										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$133,555,993	\$4,180,156	\$4,366	\$137	\$(18,749,777)	\$(586,847)	\$(195,594)	\$(6,122)	\$114,614,988	\$3,587,324
Construction	2,657,404	83,174	-	-	-	-	-	-	2,657,404	83,174
Prepayments for buildings and land	3,115	97	-	-	-	-	-	-	3,115	97
Total	\$136,216,512	\$4,263,427	\$4,366	\$137	\$(18,749,777)	\$(586,847)	\$(195,594)	\$(6,122)	\$117,275,507	\$3,670,595

- (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.
- (4) As of December 31, 2008 and 2009, no investments in real estate were pledged as collateral.

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16. Property and equipment

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

Item	December 31, 2009									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,780,581	\$149,627	\$583	\$18	\$-	\$-	\$(51,331)	\$(1,607)	\$4,729,833	\$148,038
Buildings and construction	10,671,821	334,016	-	-	(3,864,201)	(120,945)	(34,188)	(1,070)	6,773,432	212,001
Computer equipment	2,436,277	76,253	-	-	(1,814,882)	(56,804)	-	-	621,395	19,449
Communication and transportation equipment	16,503	517	-	-	(12,189)	(382)	-	-	4,314	135
Other equipment	3,588,543	112,317	-	-	(2,943,003)	(92,112)	-	-	645,540	20,205
Leasehold improvements	90,056	2,819	-	-	(32,326)	(1,012)	-	-	57,730	1,807
Subtotal	21,583,781	675,549	583	18	(8,666,601)	(271,255)	(85,519)	(2,677)	12,832,244	401,635
Construction in progress and prepayment for equipment	20,636	646	-	-	-	-	-	-	20,636	646
Total	\$21,604,417	\$676,195	\$583	\$18	\$(8,666,601)	\$(271,255)	\$(85,519)	\$(2,677)	\$12,852,880	\$4,402,281

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

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17. Computer software cost

Item	January 1, 2008		Increase		Decrease		December 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$774,111	\$23,630	\$573,038	\$17,492	\$-	\$-	\$1,347,149	\$41,122
Amortized and impairment:								
Amortized	(292,067)	(8,915)	(234,590)	(7,161)	-	-	(526,657)	(16,076)
Book value	<u>\$482,044</u>	<u>\$14,715</u>	<u>\$338,448</u>	<u>\$10,331</u>	<u>\$-</u>	<u>\$-</u>	<u>\$820,492</u>	<u>\$25,046</u>

Item	January 1, 2009		Increase		Decrease		December 31, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$1,335,579	\$41,802	\$196,335	\$6,145	\$-	\$-	\$1,531,914	\$47,947
Amortized and impairment:								
Amortized	(524,126)	(16,404)	(270,314)	(8,461)	-	-	(794,440)	(24,865)
Book value	<u>\$811,453</u>	<u>\$25,398</u>	<u>\$(73,979)</u>	<u>\$(2,316)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$737,474</u>	<u>\$23,082</u>

18. Other overdue receivables

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$382,967	\$11,690	\$563,611	\$17,641
Less: Allowance for doubtful accounts	(360,424)	(11,002)	(556,789)	(17,427)
Total	<u>\$22,543</u>	<u>\$688</u>	<u>\$6,822</u>	<u>\$214</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	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$456,427	\$14,285
Add: Adjustment of valuation	30,084,249	918,323	1,989,807	62,280
Total	<u>\$30,084,249</u>	<u>\$918,323</u>	<u>\$2,446,234</u>	<u>\$76,565</u>

20. Derivative financial liabilities for hedging - current

Item	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	122,368	3,735	28,722	899
Total	<u>\$122,368</u>	<u>\$3,735</u>	<u>\$28,722</u>	<u>\$899</u>

21. Preferred stock liabilities - noncurrent

(1) 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:

A. Issuance period covers from December 25, 2008, the issue date, to December 25, 2015, seven years in total.

B. 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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- C. 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.
- D. 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.
- (2) In accordance with the resolution of the Board of Directors' meeting on October 29, 2009, the Company issued 200,000 thousand shares of Class B 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 December 14, 2009.

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

- A. Issuance period covers from December 16, 2009, the issue date, to December 16, 2016, seven years in total.
- B. Dividend yield is 2.9% 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.
- C. 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.

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D. 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 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 December 31, 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.

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

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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 recovering of reserves amounting to NT\$2,475,196 (US\$75,555) thousands and NT\$1,233,539 (US\$38,608) 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 2005, 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 year ended December 31, 2008 and 2009, amounting to NT\$253 (US\$8) thousands and NT\$21,193 (US\$663) 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.

In the resolution of earning appropriation for year 2008, the Company didn’t grant bonus for employee and remuneration for directors, which result is in consistence with the recognition and related disclosure in 2008 financial statements.

The actual distribution of employee bonus of subsidiaries, Symphox Information and Cathay Venture, for year 2008 is in consistence with the recognition and related disclosure in 2008 financial statements

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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. Please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation for related information.

24. Personnel expense 、 depreciation and amortizations-The Company and Subsidiaries

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

Item	For the year ended December 31, 2009 (NT\$)			For the year ended December 31, 2009 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$24,173,121	\$2,062,366	\$26,235,487	\$756,592	\$64,550	\$821,142
Labor & health insurance expenses	1,304,611	227,622	1,532,233	40,833	7,124	47,957
Pension expenses	838,239	140,252	978,491	26,236	4,390	30,626
Other expenses	1,283,342	245,176	1,528,518	40,167	7,674	47,841
Depreciation	50,871	2,550,751	2,601,622	1,592	79,836	81,428
Amortizations	2,385	270,371	272,756	75	8,462	8,537

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25. Estimated income taxes

The applicable statutory income tax rate of the Company is 25%. Pursuant to the amended "Income tax Act" issued on May 27, 2009, the applicable statutory income tax rate will be changed to 20% with effective date on January 1, 2010.

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

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$10,128,619	\$309,176	\$6,683,766	\$209,195
Total deferred tax liabilities	\$(3,408,116)	\$(104,033)	\$(2,898,297)	\$(90,714)
Allowance for deferred assets	\$(1,444)	\$(44)	\$(1,074)	\$(33)
Temporary differences:				
Pension expense	\$348,043	\$10,624	\$287,668	\$9,004
Unrealized foreign exchange (gains) losses	(3,268,062)	(99,758)	1,441,747	45,125
Losses (gains) from valuation on financial assets and liabilities	6,173,997	188,462	(2,896,541)	(90,659)
Impairment loss	242,464	7,401	260,587	8,156
Unrealized bad debt losses	57,524	1,756	92,554	2,897
Other	6,589	201	6,268	196
Total	\$3,560,555	\$108,686	\$(807,717)	\$(25,281)
Loss carryforwards	\$-	\$-	\$6,878,975	\$215,304
Deferred income tax assets of foreign branches	\$-	\$-	\$3,096	\$97
Tax effect under consolidated income tax system	\$3,131,067	\$95,576	\$(2,331,490)	\$(72,973)
Investment tax credits	\$28,881	\$881	\$42,605	\$1,333

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	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$6,349,142	\$193,807	\$1,490,569	\$46,653
Allowance for deferred tax assets - current	(1,444)	(44)	(1,074)	(33)
Net deferred tax assets - current	6,347,698	193,763	1,489,495	46,620
Deferred tax liabilities - current	(3,405,872)	(103,964)	(2,896,541)	(90,659)
Net offset balance of deferred tax assets (liabilities) - current	<u>\$2,941,826</u>	<u>\$89,799</u>	<u>\$(1,407,046)</u>	<u>\$(44,039)</u>

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - noncurrent	\$3,779,477	\$115,369	\$5,193,197	\$162,541
Allowance for deferred tax assets-noncurrent	-	-	-	-
Net deferred tax assets-noncurrent	\$3,779,477	\$115,369	\$5,193,197	\$162,541
Deferred tax liabilities - noncurrent	(2,244)	(69)	(1,756)	(55)
Net balance of deferred tax assets - noncurrent	<u>\$3,777,233</u>	<u>\$115,300</u>	<u>\$5,191,441</u>	<u>\$162,486</u>

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(2) Income tax (benefit) expense for the year ended December 31, 2008 and 2009 included the following:

	For the years ended December 31			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$-	\$-	\$15,483	\$485
Add (less): Tax effects under consolidated income tax systems	374,942	11,445	(173,744)	(5,438)
Deferred income tax expense (benefit) from unrealized foreign exchange loss (gain)	3,622,598	110,580	(4,054,483)	(126,901)
Deferred income tax (benefit) expense from unrealized financial instruments valuation loss (gain)	(5,085,071)	(155,222)	7,947,701	248,754
Deferred income tax benefit from unrealized pension expense	(10,310)	(315)	(9,233)	(289)
Deferred income tax benefit from bad debt losses	(57,524)	(1,756)	(46,535)	(1,456)
Deferred income tax expense from impairment loss	(176,474)	(5,387)	(66,616)	(2,085)
Deferred income tax benefit from loss carry forward	(2,954,591)	(90,189)	(3,255,088)	(101,881)
Adjustment to the deferred tax liabilities or assets for the change in statutory income tax rate	-	-	1,348,171	42,196
Others	8,642	264	(296)	(9)
Add: Separation tax	145,151	4,543	59,676	1,868
Prior year adjustment	88,725	2,708	108,465	3,395
Withholding tax for overseas investments	73,079	2,231	59,790	1,871
Less: Income tax credit	(14,906)	(455)	(11,382)	(356)
Add: 10% surtax on undistributed retained earnings	5,211	159	-	-
Total income tax (benefit) expense	<u><u>\$(3,980,528)</u></u>	<u><u>\$(121,506)</u></u>	<u><u>\$1,921,909</u></u>	<u><u>\$60,154</u></u>

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(3) Income tax returns

	December 31, 2009
	Income tax returns assessed
The Company	Through 2005
Symphox Information	Through 2007
Cathay Life (Shanghai)	-
Cathay Life (Vietnam)	-

(4) Information related to imputation

A. Balance of imputation credit account

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
The Company	\$963,145	\$29,400	\$2,465,683	\$77,173
Symphox Information	-	-	17,521	548

B. Imputation credit account ratio

	December 31,	
	2008	2009
The Company	5.62%	-
Symphox Information	-	33.33%

(5) Information related to undistributed earnings-The Company

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
After 1998	\$(1,973,545)	\$(60,243)	\$2,662,301	\$83,327

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26. Earnings per share

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

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

	Amount (numerator)		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	Before tax NT\$	After tax NT\$		Before tax NT\$	After tax NT\$
For the year ended December 31, 2009					
Consolidated income	<u>\$4,251,708</u>	<u>\$2,329,799</u>	5,268,616	<u>\$0.81</u>	<u>\$0.44</u>

	Amount (numerator)		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	Before tax US\$	After tax US \$		Before tax US \$	After tax US \$
For the year ended December 31, 2009					
Consolidated income	<u>\$133,074</u>	<u>\$72,920</u>	5,268,616	<u>\$0.03</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 Insurance (Bermuda) 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	Related party disclosed according to SFAS No. 6
Cathay Real Estate Development Co., Ltd.	Related party disclosed according to SFAS No. 6
Lin Yuan Property Management Co., Ltd.	Related party disclosed according to SFAS No. 6
Seaward Leasing Co., Ltd.	Related party disclosed according to SFAS No. 6
San Ching Engineering Co., Ltd.	Related party disclosed according to SFAS No. 6
Cathay Life Charity Foundation	Related party disclosed according to SFAS No. 6
Other related parties	The directors, supervisors, managers, and their spouses, as well as their second immediate families

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(2) Significant transactions with related parties

A. Property transactions

Property 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, the result of public bidding and the contracts of both parties.

(A) Significant transactions with related parties for the years ended December 31, 2008 and 2009 are listed below:

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

Name	Item	For the year ended December 31, 2009	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Land Mark etc	\$18,980	\$594
Lin Yuan Property Management Co., Ltd.	International Building etc	107,318	3,359
	Total	<u>\$126,298</u>	<u>\$3,953</u>

The total amounts of contracted projects for real estate as of December 31, 2008 and 2009, between the Company and San Ching Engineering Co., Ltd. were NT\$33,850 (US\$1,033) thousands and NT\$97,281 (US\$3,045) thousands, respectively.

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

Name	Rental income			
	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$22,326	\$681	\$25,787	\$807
Cathay Real Estate Development Co., Ltd.	19,522	596	22,087	691
Cathay United Bank	299,636	9,146	334,008	10,454
Cathay Century Insurance Co., Ltd.	84,615	2,583	90,850	2,844
Cathay General Hospital	172,621	5,269	175,841	5,504
San Ching Engineering Co., Ltd.	8,478	259	9,657	302
Cathay Securities Investment Trust Co., Ltd.	19,510	596	22,375	700
Cathay Securities Investment Consulting Co., Ltd.	7,367	225	9,289	672
Cathay Securities Co., Ltd.	20,781	634	21,471	291
Total	<u>\$654,856</u>	<u>\$19,989</u>	<u>\$711,365</u>	<u>\$22,265</u>

Name	Guarantee deposits received			
	December 31, 2008		December 31, 2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,886	\$149	\$4,886	\$153
Cathay United Bank	69,003	2,106	68,108	2,132
Cathay Century Insurance Co., Ltd.	20,572	628	21,094	660
Cathay General Hospital	11,079	338	11,658	365
Cathay Securities Investment Trust Co., Ltd.	4,872	149	4,948	155
Cathay Securities Co., Ltd.	4,710	144	4,710	147
Cathay Financial Holding Co., Ltd.	5,940	181	5,964	187
Total	<u>\$121,062</u>	<u>\$3,695</u>	<u>\$121,368</u>	<u>\$3,799</u>

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

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

Name	Rental expense			
	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$30,363	\$927	\$30,461	\$953
Cathay United Bank	10,972	335	10,579	331
Cathay Futures Co., Ltd.	-	-	3,087	97
Total	\$41,335	\$1,262	\$44,118	\$1,381

Name	Guarantee deposits paid			
	December 31, 2008		December 31, 2009	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,779	\$268	\$8,779	\$275

According to contracts, leasing periods are generally 3 years, and rentals are usually paid on a monthly basis.

B. Cash in banks

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

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

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		For the year ended December 31, 2009		
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$59,269	0.10%-15.00%	\$10,334,883
	Cash in bank	5,301	0.02%-1.00%	9,327,988
Indovina Bank Limited	Time deposit	3,524	1.28%-10.80%	222,071
	Cash in bank	353	0.10%-2.40%	9,857
Total		<u>\$68,447</u>		<u>\$19,894,799</u>

		For the year ended December 31, 2009		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$1,855	0.10%-15.00%	\$323,470
	Cash in bank	166	0.02%-1.00%	291,956
Indovina Bank Limited	Time deposit	110	1.28%-10.80%	6,951
	Cash in bank	11	0.10%-2.40%	308
Total		<u>\$2,142</u>		<u>\$622,685</u>

C. Other financial assets

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

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

		For the year ended December 31, 2009		
Name		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank		<u>\$5,327</u>	2.29%-3.37%	<u>\$-</u>

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Name	For the year ended December 31, 2009		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$167	2.29%-3.37%	\$-

D. Secured loans

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

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

Name	For the year ended December 31, 2009			
	Maximum amount	Interest income		Ending balance
	NT\$	NT\$	Rate	NT\$
Cathay General Hospital	\$4,286,249	\$94,888	1.85%-3.91%	\$4,026,030
Other related parties	385,439	6,015	1.01%-5.37%	323,147
Total		\$100,903		\$4,349,177

Name	For the year ended December 31, 2009			
	Maximum amount	Interest income		Ending balance
	US\$	US\$	Rate	US\$
Cathay General Hospital	\$134,155	\$2,970	1.85%-3.91%	\$126,010
Other related parties	12,064	188	1.01%-5.37%	10,114
Total		\$3,158		\$136,124

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

Name		December 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds	Market value	\$5,312,599	\$162,167	\$4,121,312	\$128,993

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

Name		December 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds.	Market value	\$133,089	\$4,063	\$-	\$-

G. Other accounts receivable

Name		December 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay United Bank		\$52,254	\$1,595	\$21,976	\$688
Cathay Century Insurance Co., Ltd.		146,299	4,466	230,135	7,203
Cathay Insurance (Bermuda) Co., Ltd.		9,341	285	12,938	405
Cathay Financial Holding Co., Ltd. (note)		3,232,375	98,668	5,306,663	166,093

Note : Receivables are refundable tax under the consolidated income tax system.

H. Guarantee deposits paid

Name		December 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.		\$731,062	\$22,316	\$270,492	\$8,466

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As of December 31, 2008 and 2009, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$658 (US\$20) thousands and NT\$389 (US\$12) thousands, respectively.

I. Repurchase bonds

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

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

J. Other payable

Name	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$-	\$-	\$7,536	\$236
Lin Yuan Property Management Co., Ltd.	-	-	4,396	138
San Ching Engineering Co., Ltd.	10,288	314	-	-
Cathay Financial Holding Co., Ltd. (Note)	10,041	307	547,753	17,144

Note: The payables are interest expense accrued from preferred stock.

K. Accounts collected in advance

Name	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$3,889	\$119	\$6,154	\$193
Cathay United Bank	28,165	860	29,298	917

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L. Premiums income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$555,658	\$16,961	\$609,653	\$19,081
Cathay General Hospital	30,828	941	31,887	998
Cathay Century Insurance Co., Ltd.	8,004	244	9,028	283
Other related parties	398,492	12,164	407,957	12,769
Total	<u>\$992,982</u>	<u>\$30,310</u>	<u>\$1,058,525</u>	<u>\$33,131</u>

M. Insurance expense

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$49,272</u>	<u>\$1,504</u>	<u>\$96,937</u>	<u>\$3,034</u>

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$9,877 (US\$301) thousands and NT\$12,329 (US\$386) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the years ended December 31, 2008 and 2009, respectively.

N. Indemnity income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$6,535</u>	<u>\$199</u>	<u>\$7,373</u>	<u>\$231</u>

O. Reinsurance income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$140,639</u>	<u>\$4,293</u>	<u>\$89,771</u>	<u>\$2,810</u>

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

P. Reinsurance commission income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,748	\$237	\$-	\$-

Q. Reinsurance handing fee income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$8,793	\$268	\$-	\$-

R. Reinsurance service expenses

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$10,215	\$312	\$8,493	\$266

S. Reinsurance claims payment

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$104,739	\$3,197	\$109,757	\$3,435

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T. Reinsurance commission expense

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$6,238	\$190	\$3,416	\$107

U. Other operating income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property management Co., Ltd.	\$4,849	\$148	\$-	\$-
Cathay Century Insurance Co., Ltd.	17,063	521	11,563	362
Cathay General Hospital	4,155	127	-	-
Cathay United Bank	464,670	14,184	434,462	13,598
Cathay Securities Co., Ltd.	3,112	95	-	-
Cathay Securities Investment Consulting Co., Ltd.	3,002	91	-	-
Cathay Life Charity Foundation	-	-	4,179	131
Total	\$496,851	\$15,166	\$450,204	\$14,091

V. Miscellaneous income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$890,063	\$27,169	\$1,021,518	\$31,972
Cathay United Bank	127,741	3,899	522,402	16,351
Cathay Securities Investment Trust Co., Ltd.	40,394	1,233	101,165	3,166
Cathay General Hospital	5,430	166	5,782	181
Total	\$1,063,628	\$32,467	\$1,650,867	\$51,670

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

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W. Commissions expenses

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$24,287	\$741	\$34,956	\$1,094

X. Operating expenses

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$3,659	\$112	\$5,332	\$167
Lin Yuan Property Management Co., Ltd.	596,636	18,212	575,271	18,005
Cathay Securities Investment Consulting Co., Ltd.	30,135	920	22,680	710
San Ching Engineering Co., Ltd.	7,408	226	-	-
Cathay Real Estate Development Co., Ltd.	6,947	212	-	-
Cathay Capital Management Inc.	50,126	1,530	-	-
Seaward Leasing Co., Ltd.	10,845	331	11,895	372
Seaward Card Co., Ltd.	66,452	2,028	65,568	2,052
Cathay Futures Co., Ltd.	4,123	126	-	-
Cathay United Bank	1,117,006	34,097	1,143,334	35,785
Cathay Pacific Venture	-	-	25,000	783
Total	<u>\$1,893,337</u>	<u>\$57,794</u>	<u>\$1,849,080</u>	<u>\$57,874</u>

Y. Non-operating expenses and losses

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$10,041	\$307	\$537,712	\$16,830

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

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Z. Sales of securities

For the year ended December 31, 2009						
Name	Securities	Shares (thousand)	Amount		Losses from disposal	
			NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	Cathay Pacific Venture Capital Co., Ltd.	27,853	\$271,315	\$8,492	\$9,251	\$290

AA. Other

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

Item	December 31,	
	2008	2009
Forward foreign exchange contracts	USD768,858	USD500,000
CS contracts	USD1,110,000	USD3,421,000

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$4,448,000 (US\$135,775) thousands and NT\$804,300 (US\$25,174) thousands during the years ended December 31, 2008 and 2009, respectively.

AB. Information about key management personnel compensation:

Item	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Remunerations including wages, awards, bonus, and etc.	\$70,693	\$2,158	\$65,444	\$2,048

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

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28. Pledged assets

(1) The Company

As of December 31, 2008 and 2009, the Company provided cash and time deposits to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the “Guaranteed Depository Insurance”.

Item	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
- Government bonds	\$8,337,123	\$254,491	\$9,189,851	\$287,632
Guarantee deposits paid - Time deposits	109,650	3,347	100,050	3,132
Guarantee deposits paid - others	61,441	1,875	24,583	769
Total	<u>\$8,508,214</u>	<u>\$259,713</u>	<u>\$9,314,484</u>	<u>\$291,533</u>

Pledged assets are summarized based on the net carrying amounts.

(2) Symphox Information

As of December 31, 2008 and 2009, the pledged property details are as follows:

Item	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss - current	<u>\$26,820</u>	<u>\$819</u>	<u>\$30,228</u>	<u>\$946</u>

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

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(3) Cathay Life (Shanghai)

Item	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$770,576	\$23,522	\$773,500	\$24,210

According to the Insurance Act of the People's Republic of China, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Life (Shanghai) are time deposits.

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

A. The Company

The Company recognized a net pension cost of NT\$255,772 (US\$7,807) thousands and NT\$255,986 (US\$8,012) thousands for the years ended December 31, 2008 and 2009, respectively. The amount of NT\$214,532 (US\$6,549) thousands and NT\$209,820 (US\$6,567) thousands were contributed to the pension fund for the years ended December 31, 2008 and 2009, respectively.

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The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(6,125,652)	\$(186,986)	\$(6,413,369)	\$(200,731)
② Non-vested benefit obligation	(2,488,515)	(75,962)	(2,526,957)	(79,091)
③ Accumulated benefit obligation	(8,614,167)	(262,948)	(8,940,326)	(279,822)
④ Effect from projected salary increase	(1,046,627)	(31,948)	(1,074,744)	(33,638)
⑤ Projected benefit obligation	(9,660,794)	(294,896)	(10,015,070)	(313,461)
⑥ Fair value of plan assets	6,802,489	207,646	9,532,375	298,353
⑦ Funded status = ⑤ + ⑥	(2,858,305)	(87,250)	(482,695)	(15,108)
⑧ Unrecognized transitional net net assets	(757,398)	(23,120)	(378,699)	(11,853)
⑨ Unrecognized prior service cost	155,200	4,737	103,467	3,239
⑩ Unrecognized pension loss	2,068,329	63,136	(680,413)	(21,296)
⑪ Adjustment required to recognize minimum pension liability	(419,504)	(12,805)	-	-
⑫ Accrued pension liability recognized = ⑦ + ⑧ + ⑨ + ⑩ + ⑪	<u>\$(1,811,678)</u>	<u>\$(55,302)</u>	<u>\$(1,438,340)</u>	<u>\$(45,018)</u>

The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2008	2009
① Discount rate	3.00%	2.50%
② Rate of salary increase :		
Office workers	1.50%	1.50%
Field workers	Based on seniority	Based on seniority
③ Expected return on plan assets	3.00%	2.50%

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B. Symphox Information

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(3,143)	\$(96)	\$(944)	\$(30)
② Non-vested benefit obligation	(3,143)	(96)	(3,444)	(108)
③ Accumulated benefit obligation	(6,286)	(192)	(4,389)	(137)
④ Effect from projected salary increase	(1,451)	(44)	(1,072)	(34)
⑤ Projected benefit obligation	(7,737)	(236)	(6,091)	(191)
⑥ Fair value of plan assets	9,848	300	10,739	74
⑦ Vested benefit	4,843	148	2,371	336
⑧ Funded status = ⑤ + ⑥	2,111	64	4,648	145
⑨ Unrecognized transitional net net assets	274	8	254	8
⑩ Unrecognized prior service cost	-	-	-	-
⑪ Unrecognized pension gain (loss)	(1,214)	(37)	(4,000)	(125)
⑫ Adjustment required to recognize minimum pension liability	-	-	-	-
⑬ Accrued pension liability recognized = ⑧				
+ ⑨ + ⑩ + ⑪ + ⑫	\$1,171	\$35	\$902	\$28

The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2008	2009
① Discount rate	3.00%	2.50%
② Rate of salary increase :	2.00%	2.00%
③ Expected return on plan assets	3.00%	2.50%

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(2) Separate account insurance products related information

A. The Company

① Separate account insurance products - assets and liabilities

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

Assets			Liabilities		
Item	December 31, 2009		Item	December 31, 2009	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$20,908	\$654	Other payable	\$1,972,574	\$61,740
Financial assets at fair value through profit or loss	270,714,228	8,473,059	Reserve for separate account	271,819,460	8,507,651
Other receivable	3,056,898	95,678			
Total	\$273,792,034	\$8,569,391	Total	\$273,792,034	\$8,569,391

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② Separate account insurance products - revenues and expenses

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

Expenses			Revenues		
Item	January 1-December 31, 2009		Item	January 1-December 31, 2009	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$4,148,713	\$129,850	Premiums income	\$47,987,137	\$1,501,945
Cash surrender value	31,971,934	1,000,687	Recovered separate		
Dividends	2,313	72	account reserve	21,896,109	685,324
Provision for separate			Interest income	8,411	263
account reserve	102,023,579	3,193,226	Gain from valuation on		
Losses on disposal of			financial assets	57,400,427	1,796,571
investments	1,600,206	50,085	Gains on foreign		
Administrative expenses	4,322,316	135,284	exchange	16,770,538	524,900
			Gain on surrender	13	-
			Miscellaneous income	6,425	201
			Adjustments	1	-
Total	\$144,069,061	\$4,509,204	Total	\$144,069,061	\$4,509,204

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③ The commission earned for the sales of separate account insurance products from counterparties for the years ended December 31, 2008 and 2009 were NT\$4,063,801 (US\$124,048) thousands and NT\$2,542,728 (US\$79,585) thousands, respectively.

B.Cathay Life (Shanghai)

① Separate account insurance products-assets and liabilities

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

Assets			Liabilities		
Item	December 31,2009		Item	December 31,2009	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$51,220	\$1,603	Other account payable	\$2,197	\$69
Financial assets at fair value through profit or loss	467,922	14,645	Reserve for separate account	516,953	16,180
Interests receivable	8	1			
Total	\$519,150	\$16,249	Total	\$519,150	\$16,249

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② Separate account insurance products-revenues and expenses

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

Expenses			Revenues		
Item	January 1- December 31,2009		Item	January 1- December 31,2009	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$80,430	\$2,518	Premiums income	\$138,209	\$4,326
Provision for separate account reserve	365,454	11,438	Recovered separate account reserve	151,239	4,734
			Gain on financial assets valuation	133,359	4,174
			Gain on disposal of investment	23,077	722
Total	\$445,884	\$13,956	Total	\$445,884	\$13,956

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(3) Discretionary account management

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

Item	December 31, 2009			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$7,382,068	\$231,051	\$7,382,068	\$231,051
Repurchase bonds	1,620,449	50,718	1,620,449	50,718
Cash in banks	2,819,212	88,238	2,819,212	88,238
Total	<u>\$11,821,729</u>	<u>\$370,007</u>	<u>\$11,821,729</u>	<u>\$370,007</u>

As of December 31, 2008 and 2009, the Company entered into discretionary account management contracts in the amounts of NT\$14,200,000 (US\$433,455) thousands and NT\$9,300,000 (US\$291,080) 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

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

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

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

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

Operational Risk

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

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company 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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(6) Financial instruments related information

A. Fair value

Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$221,966,913	\$221,966,913	\$6,775,547	\$6,775,547
Notes and accounts receivable	32,659,740	32,659,740	996,940	996,940
Financial assets at fair value through profit or loss - current	68,013,261	68,013,261	2,076,107	2,076,107
Available-for-sale financial assets - current	107,359,797	107,359,797	3,277,161	3,277,161
Held-to-maturity financial assets - current	29,110,492	26,790,843	888,599	817,791
Investments in debt securities with no active market - current	3,710,079	3,660,373	113,250	111,733
Available-for-sale financial assets - noncurrent	272,242,609	272,242,609	8,310,214	8,310,214
Held-to-maturity financial assets - noncurrent	617,485,367	621,007,617	18,848,760	18,956,276
Financial assets carried at cost - noncurrent	18,964,245	-	578,884	-
Investments in debt securities with no active market - noncurrent	85,839,151	66,151,654	2,620,243	2,019,281
Long-term investments under the equity method	6,466,022	6,466,022	197,376	197,376
Other financial assets – noncurrent	6,100,000	6,100,000	186,203	186,203
Guarantee deposits paid	12,018,527	12,018,527	366,866	366,866
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	6,069,451	6,069,451	185,271	185,271
Preferred stock liability – noncurrent	15,000,000	15,036,810	457,875	458,999
Guarantee deposits received	1,542,898	1,542,898	47,097	47,097
<u>Assets – derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, and CCS	6,753,736	6,753,736	206,158	206,158
IRS and CDS	486,339	486,339	14,845	14,845
Derivative financial assets for hedging - current				
IRS	2,770,036	2,770,036	84,555	84,555

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Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss -				
current				
Forward , CS, and CCS	\$29,888,321	\$29,888,321	\$912,342	\$912,342
IRS and CDS	195,928	195,928	5,981	5,981
Derivative financial liabilities for hedging - current				
IRS and CDS	122,368	122,368	3,735	3,735
December 31, 2009				
Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	<u>Assets - non-derivative</u>			
Cash and cash equivalents	\$336,054,525	\$336,054,525	\$10,518,138	\$10,518,138
Notes and accounts receivable	45,392,723	45,392,723	1,420,742	1,420,742
Financial assets at fair value through profit or loss - current	82,461,276	82,461,276	2,580,948	2,580,948
Available-for-sale financial assets - current	191,072,750	191,072,750	5,980,368	5,980,368
Held-to-maturity financial assets - current	13,274,664	11,946,525	415,482	373,913
Investments in debt securities with no active market -				
current	5,162,576	5,051,571	161,583	158,109
Other financial assets - current	2,000,000	2,000,000	62,598	62,598
Available-for-sale financial assets - noncurrent	253,527,662	253,527,662	7,935,138	7,935,138
Held-to-maturity financial assets - noncurrent	651,706,686	643,765,211	20,397,706	20,149,146
Financial assets carried at cost - noncurrent	20,092,425	-	628,871	-
Investments in debt securities with no active market -				
noncurrent	145,147,440	140,524,027	4,542,956	4,398,248
Long-term investments under the equity method	5,266,745	5,266,745	164,843	164,843
Other financial assets – noncurrent	36,300,000	36,300,000	1,136,150	1,136,150
Guarantee deposits paid	11,316,242	11,316,242	354,186	354,186

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Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	\$15,761,085	\$15,761,085	\$493,304	\$493,305
Preferred stock liability –noncurrent	25,000,000	25,821,054	782,473	808,171
Guarantee deposits received	1,616,655	1,616,655	50,599	50,599
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	7,731	7,731	242	242
Forward, CS and CCS	16,900,272	16,900,272	528,960	528,960
IRS and CDS	54,982	54,982	1,721	1,721
Derivative financial assets for hedging - current				
IRS	1,681,365	1,681,365	52,625	52,625
CDS	1,078,680	1,078,680	33,761	33,761
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS and CCS	1,583,418	1,583,418	49,560	49,560
IRS and CDS	862,816	862,816	27,005	27,005
Derivative financial liabilities for hedging - current				
IRS, CDS	28,722	28,722	899	899

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

- ① The fair value of the Company's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as the Company predicts the future cash inflow or outflow will be of similar amount to the carrying value.

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- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to the Company. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.
- ⑤ If no quoted market prices exist for the Company's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- ⑥ As of December 31, 2008 and 2009, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	December 31, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$212,493,164	\$6,486,361	\$9,473,749	\$289,186
Notes and accounts receivable	-	-	32,659,740	996,940
Financial assets at fair value through profit or loss - current	64,544,414	1,970,220	3,468,847	105,887
Available-for-sale financial assets - current	107,259,749	3,274,107	100,048	3,054
Held-to-maturity financial assets - current	1,197,093	36,541	25,593,750	781,250
Investments in debt securities with no active market - current	-	-	3,660,373	111,733
Available-for-sale financial assets - noncurrent	270,944,378	8,270,585	1,298,231	39,629
Held-to-maturity financial assets - noncurrent	83,646,781	2,553,320	537,360,836	16,402,956
Investment in debt securities with no active market - noncurrent	-	-	66,151,654	2,019,281
Long-term investments under the equity method	-	-	6,466,022	197,376
Other financial assets - noncurrent	-	-	6,100,000	186,203

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Financial instruments	December 31, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	\$-	\$-	\$6,069,451	\$185,271
Preferred stock liability – noncurrent	-	-	15,036,810	458,999
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS and CCS	-	-	6,753,736	206,158
IRS and CDS	-	-	486,339	14,845
Derivative financial assets for hedging – current				
IRS	-	-	2,770,039	84,555
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	-	-	29,888,321	912,342
IRS and CDS	-	-	195,928	5,981
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	122,368	3,735

Financial instruments	December 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$247,411,784	\$7,743,717	\$88,642,741	\$2,774,421
Notes and accounts receivable	-	-	45,392,723	1,420,742
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - current	81,859,615	2,562,116	601,661	18,832
Held-to-maturity financial assets - current	188,182,163	5,889,896	2,890,587	90,472
Held-to-maturity financial assets - current	2,027,388	63,455	9,919,137	310,458

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Financial instruments	December 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Investments in debt securities with no active market - current	\$-	\$-	\$5,051,571	\$158,109
Other financial assets - current	-	-	2,000,000	62,598
Available-for-sale financial assets - noncurrent	243,877,935	7,633,112	9,649,727	302,026
Held-to-maturity financial assets - noncurrent	36,687,806	1,148,288	607,077,405	19,000,858
Investment in debt securities with no active market – noncurrent	481,529	15,071	140,042,498	4,383,177
Long-term investments under the equity method	-	-	5,266,745	164,843
Other financial assets - noncurrent	-	-	36,300,000	1,136,150
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	15,761,085	493,304
Preferred stock liability - noncurrent	-	-	25,821,054	808,171
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Option	7,731	242	-	-
Forward, CS and CCS	-	-	16,900,272	528,960
IRS and CDS	-	-	54,982	1,721
Derivative financial assets for hedging – current				
IRS	-	-	1,681,365	52,625
CDS	-	-	1,078,680	33,761
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	-	-	1,583,418	49,560
IRS and CDS	-	-	862,816	27,005
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	28,722	899

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B. Risk of interest rate

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

① December 31, 2008

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$2,358,389	\$71,990	\$1,659,977	\$50,671	\$716,038	\$21,857	\$1,287,247	\$39,293
Available-for-sale financial assets	992,179	30,286	2,949,408	90,031	5,064,835	154,604	9,299,769	283,876
Held-to-maturity financial assets	192,294,852	5,869,806	12,865,998	392,735	16,277,738	496,878	12,303,721	375,572
Investments in debt securities with								
no active market	384,303	11,731	1,982,735	60,523	2,857,632	87,229	3,083,542	94,125
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$869,426	\$26,539	\$8,579,911	\$261,902	\$15,470,988	\$472,252
Available-for-sale financial assets	18,750,024	572,345	117,627,151	3,590,572	154,683,366	4,721,714
Held-to-maturity financial assets	10,890,521	332,434	306,996,235	9,371,069	551,629,065	16,838,494
Investments in debt securities with						
no active market	4,064,709	124,076	55,921,414	1,707,003	68,294,335	2,084,687
Preferred stock liability	-	-	15,000,000	457,875	15,000,000	457,875

Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$3,162,104	\$96,523	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	123,173,963	3,759,889	-	-	-	-	-	-
Held-to-maturity financial assets	94,966,793	2,898,864	-	-	-	-	-	-
Investments in debt securities with								
no active market	21,254,896	648,806	-	-	-	-	-	-

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

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$34,694	\$1,059	\$39,875	\$1,217	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	2,472	75	36,283	1,108	4,889	149	-	-
Financial liabilities at fair value								
through profit or loss	25,665	783	78,379	2,393	-	-	-	-
Derivative financial liabilities for								
hedging	647	20	24,415	745	15,770	481	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$91,189	\$2,784	\$165,758	\$5,060
Derivative financial assets for						
hedging	873,193	26,654	1,853,199	56,569	2,770,036	84,555
Financial liabilities at fair value						
through profit or loss	-	-	-	-	104,044	3,176
Derivative financial liabilities for						
hedging	-	-	-	-	40,832	1,246

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② December 31, 2009

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$393,856	\$12,327	\$2,155,601	\$67,468	\$2,008,099	\$62,851	\$873,860	\$27,351
Available-for-sale financial assets	12,183,543	381,332	13,025,147	407,673	15,425,840	482,812	12,061,415	377,509
Held-to-maturity financial assets	186,792,865	5,846,412	18,021,715	564,060	15,242,413	477,071	22,801,989	713,677
Investments in debt securities with								
no active market	4,752,771	148,757	7,933,592	248,313	14,203,692	444,560	3,936,736	123,215
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$249,348	\$7,804	\$2,979,288	\$93,249	\$8,660,052	\$271,050
Available-for-sale financial assets	11,510,037	360,251	79,921,401	2,501,452	144,127,383	4,511,029
Held-to-maturity financial assets	27,702,640	867,062	335,768,647	10,509,191	606,330,269	18,977,473
Investments in debt securities with						
no active market	12,220,116	382,476	86,850,311	2,718,320	129,897,218	4,065,641
Preferred stock liability	-	-	25,000,000	782,473	25,000,000	782,473

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	\$232,273	\$7,270	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	126,820,845	3,969,354	-	-	-	-	-	-
Held-to-maturity financial assets	58,651,080	1,835,715	-	-	-	-	-	-
Investments in debt securities with								
no active market	20,412,799	638,898	-	-	-	-	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$232,273	\$7,270
Available-for-sale financial assets	-	-	-	-	126,820,845	3,969,354
Held-to-maturity financial assets	-	-	-	-	58,651,080	1,835,715
Investments in debt securities with						
no active market	-	-	-	-	20,412,799	638,898

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	\$26,781	\$838	\$-	\$-	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	156,812	4,908	20,519	642	17,889	560	529,306	16,567
Financial liabilities at fair value								
through profit or loss	72,437	2,267	-	-	-	-	-	-
Derivative financial liabilities for								
hedging	15,531	486	12,091	379	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$26,629	\$834	\$-	\$-	\$53,410	\$1,672
Derivative financial assets for						
hedging	955,790	29,915	1,049	33	1,681,365	52,625
Financial liabilities at fair value						
through profit or loss	-	-	-	-	72,437	2,267
Derivative financial liabilities for						
hedging	-	-	1,100	34	28,722	899

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(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 December 31, 2008 and 2009:

① December 31, 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$9,158	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml, 4.8%-6ml	Half year	2009.1.7
200,000	6,105	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml, 4.8%-6ml	Half year	2009.1.9
200,000	6,105	5.85%-6ml	Half year	2009.1.13
50,000	1,526	If 6ml ≤ 1%,6ml+0.2% If 1%<6ml<2%,3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009.1.16
247,500	7,555	ARMS	Each quarter	2009.3.24
900,000	27,473	90DCP+100bps	Each quarter	2009.5.20
200,000	6,105	4.000%-6ml	Half year	2010.4.7
300,000	9,158	4.0002%-6ml	Half year	2010.4.7
500,000	15,263	4.0006%-6ml	Half year	2010.4.7
500,000	15,263	4.0007%-6ml	Half year	2010.4.7
200,000	6,105	4.0003%-6ml	Half year	2010.4.7
300,000	9,158	4.3%-12ml	Yearly	2010.6.20
900,000	27,473	90DCP	Each quarter	2010.8.18
600,000	18,315	90DCP	Each quarter	2010.8.19
200,000	6,105	6.3%-6ml	Yearly	2010.11.27

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$9,158	5.37%-6ml	Yearly	2011.3.15
500,000	15,263	If 6ml<1.1%,6ml If 1.1%≤6ml≤2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	61,050	90DCP	Yearly	2013.3.26
2,700,000	82,418	90DCP+25bps	Each quarter	2013.8.24
3,000,000	91,575	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	61,050	90DCP	Yearly	2013.11.3
1,000,000	30,525	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,263	90DCP+23bps	Yearly	2013.12.14
1,500,000	45,788	90DCP+23bps	Yearly	2013.12.16
1,000,000	30,525	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,473	90DCP	Yearly	2014.3.12
1,000,000	30,525	90DCP	Yearly	2014.6.12
2,000,000	61,050	90DCP	Yearly	2014.6.29
5,000,000	152,625	90DCP	Yearly	2014.8.23
1,000,000	30,525	90DCP	Yearly	2014.9.20
3,200,000	97,680	90DCP	Yearly	2014.9.27
2,000,000	61,050	90DCP	Each quarter	2014.9.28
1,500,000	45,788	90DCP	Yearly	2014.9.29
2,500,000	76,313	90DCP	Yearly	2014.12.20
2,000,000	61,050	90DCP	Yearly	2014.12.24
-	24,000	6ml	Half year	2014.3.24

② December 31, 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,260	4.000%-6ml	Half year	2010.4.7
300,000	9,390	4.0002%-6ml	Half year	2010.4.7
500,000	15,649	4.0006%-6ml	Half year	2010.4.7
500,000	15,649	4.0007%-6ml	Half year	2010.4.7
200,000	6,260	4.0003%-6ml	Half year	2010.4.7
300,000	9,390	4.3%-12ml	Yearly	2010.6.20
900,000	28,169	90DCP	Each quarter	2010.8.18

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$600,000	\$18,779	90DCP	Each quarter	2010.8.19
200,000	6,260	6.3%-6ml	Yearly	2010.11.27
300,000	9,390	5.37%-6ml	Yearly	2011.3.15
500,000	15,649	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	62,598	90DCP	Each quarter	2011.9.9
1,000,000	31,299	90DCP	Each quarter	2012.6.26
2,000,000	62,598	90DCP	Each quarter	2012.9.9
2,000,000	62,598	90DCP	Each quarter	2012.10.11
700,000	21,909	90DCP	Each quarter	2012.11.24
2,000,000	62,598	90DCP	Yearly	2013.3.26
2,425,000	75,900	90DCP	Each quarter	2013.4.24
2,700,000	84,507	90DCP+25bps	Each quarter	2013.8.24
3,000,000	93,897	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	62,598	90DCP	Yearly	2013.11.3
1,000,000	31,299	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,649	90DCP+23bps	Yearly	2013.12.14
1,500,000	46,948	90DCP+23bps	Yearly	2013.12.16
1,000,000	31,299	90DCP+26.5bps	Yearly	2013.12.16
900,000	28,169	90DCP	Yearly	2014.3.12
1,000,000	31,299	90DCP	Yearly	2014.6.12
2,000,000	62,598	90DCP	Yearly	2014.6.29
5,000,000	156,495	90DCP	Yearly	2014.8.23
1,000,000	31,299	90DCP	Yearly	2014.9.20
3,200,000	100,156	90DCP	Yearly	2014.9.27
2,000,000	62,598	90DCP	Each quarter	2014.9.28
1,500,000	46,948	90DCP	Yearly	2014.9.29
2,500,000	78,247	90DCP	Yearly	2014.12.20
2,000,000	62,598	90DCP	Yearly	2014.12.24
2,543,500	79,609	90DCP	Each quarter	2016.10.23

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 December 31, 2008 and 2009, unrealized gains (losses) on these financial instruments recognized in equity were NT\$2,783,260 (US\$84,959) thousands and NT\$1,631,880 (US\$51,076) thousands, respectively.

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Fair value hedges

①The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at December 31, 2008 and 2009:

A. December 31, 2008

Par value	Hedge item	Maturity date
US\$		
\$45,000	CDO	2012.09.20

B. December 31, 2009

Par value	Hedge item	Maturity date
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 December 31, 2008, unrealized losses on these financial instruments recognized in profit (loss) are NT\$81,536 (US\$2,489) thousands. As of December 31, 2009, unrealized losses on these financial instruments recognized in profit (loss) were NT\$191,450 (US\$5,992) thousands recorded as losses from valuation on financial assets by NT\$272,986 (US\$8,544) thousands and profits from valuation on financial liabilities by NT\$81,536 (US\$2,552) thousands, respectively.

②The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at December 31, 2008 and 2009:

A. December 31, 2008

None.

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B. December 31, 2009

Par value		
US\$	Hedge item	Maturity date
\$20,000	Debenture with no active market	2019.09.18
20,000	Debenture with no active market	2019.09.29
30,000	Debenture with no active market	2019.09.30
20,000	Debenture with no active market	2019.10.07
20,000	Debenture with no active market	2019.12.01

The Company's interest rate swap agreements are considered to be highly effective fair value hedges. As of December 31, 2009, unrealized profit on these financial instruments recognized in profit (loss) was NT\$143,750 (US\$4,499) thousands, which was recorded as profits from valuation on financial assets.

B. Symphox Information

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

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Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$140,207	\$140,207	\$4,388	\$4,388
Financial assets at fair value through profit and loss - current	545,014	545,014	17,058	17,058
Receivables	107,721	107,721	3,372	3,372
Guarantee deposits paid	8,283	8,283	259	259
<u>Liabilities - non-derivative</u>				
Payables	148,798	148,798	4,657	4,657
Guarantee deposits received	80	80	3	3

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

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Symphox Information predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Symphox Information's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Symphox Information.
- ④ The following table summarizes the fair value information of the financial assets and liabilities at December 31, 2008 and 2009:

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Item	December 31, 2008			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$473,540	\$14,455	\$-	\$-
Financial assets at fair value through profit or loss-current	69,673	2,127	-	-
Receivables	-	-	130,016	3,969
<u>Liabilities - non-derivative</u>				
Payables	-	-	120,646	3,683
December 31, 2009				
Item	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
	<u>Assets - non-derivative</u>			
Cash and cash equivalents	\$140,207	\$4,388	\$-	\$-
Financial assets at fair value through profit or loss-current	545,014	17,058	-	-
Receivables	-	-	107,721	3,372
<u>Liabilities - non-derivative</u>				
Payables	-	-	148,798	4,657

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C. Cathay Life (Shanghai)

Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$2,853,823	\$2,853,823	\$87,113	\$87,113
Financial assets at fair value through profit and loss - current	684,563	684,563	20,896	20,896
Available-for-sale financial assets - current	160,633	160,633	4,903	4,903
Receivables	149,445	149,445	4,562	4,562
Available-for-sale financial assets - noncurrent	3,100,496	3,100,496	94,643	94,643
Held-to-maturity financial assets - noncurrent	433,139	433,139	13,322	13,322
Investment in debt securities with no active market – noncurrent	1,571,128	1,571,128	47,959	47,959
Guarantee deposits paid	770,576	770,576	23,522	23,522
<u>Liabilities-non-derivative</u>				
Short-term debt	411,777	411,777	12,570	12,570
Payables	421,406	421,406	12,863	12,863
Guarantee deposits received	5,625	5,625	172	172
December 31, 2009				
Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$3,578,503	\$3,578,503	\$112,003	\$112,003
Financial assets at fair value through profit and loss - current	22,680	22,680	710	710
Available-for-sale financial assets - current	769,893	769,893	24,097	24,097
Receivables	234,429	234,429	7,337	7,337
Available-for-sale financial assets - noncurrent	3,556,604	3,556,604	111,318	111,318

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Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-to-maturity financial assets - noncurrent	281,385	281,385	8,807	8,807
Investment in debt securities with no active market - noncurrent	1,204,005	1,204,005	37,684	37,684
Guarantee deposits paid	773,500	773,500	24,210	24,210
<u>Liabilities - non-derivative</u>				
Payables	411,324	411,324	12,874	12,874
Guarantee deposits received	8,594	8,594	269	269

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

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.
- ② Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to Cathay Life (Shanghai). Cathay Life (Shanghai) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ③ The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life (Shanghai) predicts the future cash inflow or outflow will be of similar amount to the carrying value.
- ④ The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

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Item	December 31, 2008			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$2,853,823	\$87,113	\$-	\$-
Financial assets at fair value through profit or loss-current	448,309	13,684	236,254	7,212
Available-for-sale financial assets-current	160,633	4,903	-	-
Receivables	-	-	149,445	4,562
Available-for-sale financial assets-noncurrent	87,587	2,674	3,012,909	91,969
Held-to-maturity financial assets-noncurrent	-	-	433,139	13,222
Investment in debt securities with no active market-noncurrent	-	-	1,571,128	47,959
<u>Liabilities - non-derivative</u>				
Short-term debt	-	-	411,777	12,570
Payables	-	-	421,406	12,863
Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$3,578,503	\$112,003	\$-	\$-
Financial assets at fair value through profit or loss-current	22,680	710	-	-
Available-for-sale financial assets-current	769,893	24,097	-	-
Receivables	-	-	234,429	7,337
Available-for-sale financial assets-noncurrent	275,310	8,617	3,281,294	102,701
Held-to-maturity financial assets-noncurrent	-	-	281,385	8,807
Investment in debt securities with no active market-noncurrent	-	-	1,204,005	37,684
<u>Liabilities - non-derivative</u>				
Payables	-	-	411,324	12,874

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E. Cathay Life (Vietnam)

Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$419,562	\$419,562	\$12,807	\$12,807
Receivables	74,470	74,470	2,273	2,273
Available-for-sale financial assets - noncurrent	1,690,297	1,690,297	51,596	51,596
Guarantee deposits paid	45,768	45,768	1,397	1,397
<u>Liabilities - non-derivative</u>				
Payables	26,401	26,401	806	806
Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$362,747	\$362,747	\$11,354	\$11,354
Receivables	67,989	67,989	2,128	2,128
Available-for-sale financial assets - noncurrent	1,391,750	1,391,750	43,560	43,560
Guarantee deposits paid	48,925	48,925	1,531	1,531
<u>Liabilities - non-derivative</u>				
Payables	24,115	24,115	755	755

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

- ① The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

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

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

Item	December 31, 2008			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$419,562	\$12,807	\$-	\$-
Receivables	-	-	74,470	2,273
Available-for-sale financial assets-noncurrent	1,690,297	51,596	-	-
<u>Liabilities - non-derivative</u>				
Payables	-	-	26,401	806
Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$362,747	\$11,354	\$-	\$-
Receivables	-	-	67,989	2,128
Available-for-sale financial assets-noncurrent	1,391,750	43,560	-	-
<u>Liabilities - non-derivative</u>				
Payables	-	-	24,115	755

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(7) Eliminated intercompany transactions

A. Eliminated intercompany transactions for the year of 2008

Transactions	Companies and amounts									
	The Company		Symphox Information		Cathay Venture		Cathay Life (Shanghai)		Cathay Life (Vietnam)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Eliminations of long-term investments under equity method and stockholders' equity										
Eliminations of investment gains/losses on subsidiaries	\$(287,445)	\$(8,774)	\$61,369	\$1,873	\$6,338	\$194	\$(407,648)	\$(12,443)	\$52,496	\$1,602
Eliminations of stockholders' equity on subsidiaries	4,366,769	133,296	513,047	15,660	1,449,174	44,236	2,438,701	74,441	2,272,078	69,355

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

B. Eliminated intercompany transactions for the year of 2009

Transactions	Companies and amounts							
	The Company		Symphox Information		Cathay Life (Shanghai)		Cathay Life (Vietnam)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Eliminations of long-term investments under equity method and stockholders' equity								
Eliminations of investment gains/losses on subsidiaries	\$(327,380)	\$(10,247)	\$39,832	\$1,247	\$(358,924)	\$(11,234)	\$(8,288)	\$(259)
Eliminations of stockholders' equity on subsidiaries	3,130,374	97,977	566,658	17,736	1,831,529	57,325	1,873,935	58,652

Note: The intercompany elimination differences for year of 2009 are minority interests: NT\$1,141,748 (US\$35,735).

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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 December 31, 2009, the Company's remittances to this company totaled approximately US\$48,330 thousands.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. The Company and Cathay Century Insurance subsidiary, Cathay Insurance Company Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on August 26, 2008. As of December 31, 2009, the Company's remittances to this general insurance company totaled approximately US\$28,140 thousands.

34. Segment Information

None.