

Cathay Life Insurance Co., Ltd.
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

Index to financial statements

	Page
Independent auditors' report	3
Balance sheets as of December 31, 2008 and 2009	4-5
Statements of income for the years ended December 31, 2008 and 2009	6
Statements of changes in stockholders' equity for the years ended December 31, 2008 and 2009	7
Statements of cash flows for the years ended December 31, 2008 and 2009	8-9
Notes to financial statements	10-81

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

Board of Directors

Cathay Life Insurance Co., Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2009, and the results of its operations and their cash flows for the years then ended in conformity with requirements of the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Industry of Life Insurance, and accounting principles generally accepted in the Republic of China.

In addition, we have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2008 and 2009, on which we have expressed an unqualified opinion.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C.
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.
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	\$221,966,913	\$6,775,547	\$336,054,525	\$10,518,138
Financial assets at fair value through profit or loss - current	2,5,13,27	75,253,336	2,297,110	99,424,261	3,111,871
Available-for-sale financial assets - current	2,6,13	107,359,797	3,277,161	191,072,750	5,980,368
Held-to-maturity financial assets - current	2,13,27	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	2,13	3,710,079	113,250	5,162,576	161,583
Notes receivable - net of bad debt allowance	2	5,922,597	180,788	7,362,061	230,424
Prepaid reinsurance premium		193,156	5,896	6,514,143	203,886
Claims recoverable from reinsurers		3,571	109	10,963	343
Reinsurance accounts receivable		30,901	943	22,557	706
Other accounts receivable - net of bad debt allowance	2,27	26,702,671	815,100	37,997,142	1,189,269
Other financial assets - current		-	-	2,000,000	62,598
Prepayments	27	30,240	923	21,020	658
Deferred income tax assets - current	2,25	3,081,779	94,072	-	-
Other current assets		169,487	5,174	304,986	9,546
Subtotal		<u>476,305,055</u>	<u>14,539,227</u>	<u>701,981,693</u>	<u>21,971,258</u>
Loans	2,8,27				
Policy loans		199,110,376	6,077,850	195,178,226	6,108,865
Secured loans - net of bad debt allowance		342,443,651	10,453,103	310,951,882	9,732,453
Subtotal		<u>541,554,027</u>	<u>16,530,953</u>	<u>506,130,108</u>	<u>15,841,318</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,13	272,242,609	8,310,214	253,527,662	7,935,138
Held-to-maturity financial assets - noncurrent	2,10,13	617,485,367	18,848,760	651,706,686	20,397,706
Financial assets carried at cost - noncurrent	2,11	18,964,245	578,884	20,092,425	628,871
Investments in debt securities with no active market - noncurrent	2,12	85,839,151	2,620,243	145,147,440	4,542,956
Long-term investments under the equity method	2,14	6,466,022	197,375	5,266,745	164,843
Investments in real estate - net of accumulated depreciation and impairment	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>1,116,590,171</u>	<u>34,083,949</u>	<u>1,229,316,465</u>	<u>38,476,259</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		2,053,747	62,691	2,149,972	67,292
Communication and transportation equipment		14,217	434	12,758	399
Other equipment		2,994,951	91,421	3,019,712	94,514
Revaluation increments		1,303	40	583	18
Less: Accumulated depreciation		(7,347,995)	(224,298)	(8,064,772)	(252,418)
Less: Accumulated impairment		(85,519)	(2,611)	(85,519)	(2,677)
Construction in progress and prepayment for equipment		88,209	2,692	19,566	612
Subtotal		<u>12,776,546</u>	<u>390,004</u>	<u>12,504,702</u>	<u>391,383</u>
Intangible assets	2				
Computer software cost	17	608,866	18,586	560,518	17,544
Deferred pension cost		155,201	4,737	-	-
Subtotal		<u>764,067</u>	<u>23,323</u>	<u>560,518</u>	<u>17,544</u>
Other assets					
Guarantee deposits paid	2,27,28	12,018,527	366,866	11,316,242	354,186
Deferred income tax assets - noncurrent	2,25	3,779,148	115,358	5,188,345	162,389
Other overdue receivables	2,18,27	287,754	8,784	210,919	6,602
Separate account product assets	2,32	193,140,993	5,895,635	273,792,034	8,569,391
Other assets - other	27	1,722,204	52,570	1,868,917	58,495
Subtotal		<u>210,948,626</u>	<u>6,439,213</u>	<u>292,376,457</u>	<u>9,151,063</u>
Total assets		<u>\$2,358,938,492</u>	<u>\$72,006,669</u>	<u>\$2,742,869,943</u>	<u>\$85,848,825</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)

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

Cathay Life Insurance Co., Ltd.
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					
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		852,138	26,012	862,590	26,998
Life insurance proceeds payable		3,045	93	2,828	89
Reinsurance accounts payable		185,162	5,652	2,555,438	79,982
Others payable	2,3,23,27	5,027,284	153,458	12,338,430	386,179
Accounts collected in advance		111,692	3,409	109,555	3,429
Deferred income tax liabilities - current	2,25	-	-	1,407,046	44,039
Subtotal		<u>36,387,760</u>	<u>1,110,738</u>	<u>19,752,642</u>	<u>618,236</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	109	3,487	109
Accrued pension liability	2,32	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					
Unearned premium reserve	2	11,381,487	347,420	10,864,341	340,042
Reserve for life insurance liabilities		2,023,884,666	61,779,141	2,273,623,489	71,161,924
Special reserve		16,137,086	492,585	15,342,823	480,214
Reserve for claims		1,441,581	44,005	1,589,320	49,744
Premium deficiency reserve		2,691,338	82,153	3,558,227	111,369
Subtotal		<u>2,055,536,158</u>	<u>62,745,304</u>	<u>2,304,978,200</u>	<u>72,143,293</u>
Other liabilities					
Guarantee deposits received	27	1,542,898	47,097	1,616,655	50,599
Separate account product liabilities	2,32	193,140,993	5,895,635	273,792,034	8,569,391
Other liabilities - other		1,630,880	49,782	3,158,888	98,870
Subtotal		<u>196,314,771</u>	<u>5,992,514</u>	<u>278,567,577</u>	<u>8,718,860</u>
Total liabilities		<u>2,305,053,948</u>	<u>70,361,842</u>	<u>2,629,740,246</u>	<u>82,307,989</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					
Legal reserve	2,23	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 adjustments					
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	2,14	209,017	6,380	(42,249)	(1,322)
Net loss not recognized as pension cost		(264,304)	(8,068)	-	-
Total stockholders' equity		<u>53,884,544</u>	<u>1,644,827</u>	<u>113,129,697</u>	<u>3,540,836</u>
Total liabilities and stockholders' equity		<u>\$2,358,938,492</u>	<u>\$72,006,669</u>	<u>\$2,742,869,943</u>	<u>\$85,848,825</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)

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

Cathay Life Insurance Co., Ltd.

Statements of income

For the years ended December 31, 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		\$346,454,087	\$10,575,522	\$442,048,134	\$13,835,622
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 premium reserve		248,418,869	7,582,994	203,483,570	6,368,813
Recovered special reserve		170,712	5,211	1,515,416	47,431
Recovered claim reserve		1,477,713	45,107	1,441,581	45,120
Recovered premium deficiency reserve		130,150	3,973	-	-
Handling fees earned	32	5,488,092	167,524	3,812,714	119,334
Interest income		76,394,361	2,331,940	73,321,499	2,294,883
Gains from valuation on financial assets		-	-	14,987,147	469,081
Gains from valuation on financial liabilities		-	-	28,302,061	885,823
Gains on foreign exchange		13,168,340	401,964	-	-
Gains on investments - real estate		5,497,556	167,813	6,639,264	207,802
Separate account product revenues	32	237,523,474	7,250,411	144,069,061	4,509,204
Subtotal		<u>935,240,412</u>	<u>28,548,242</u>	<u>929,473,158</u>	<u>29,091,492</u>
Operating costs	2,27				
Reinsurance premiums ceded		(495,455)	(15,124)	(6,298,400)	(197,133)
Brokerage expenses	24	(26,428,394)	(806,728)	(27,040,808)	(846,348)
Commissions expenses		(108,850)	(3,323)	(656,290)	(20,541)
Insurance claim payments		(274,858,144)	(8,390,053)	(231,832,966)	(7,256,118)
Provision for premium reserve		(354,506,249)	(10,821,314)	(452,809,660)	(14,172,446)
Provision for special reserve		(973,975)	(29,731)	(721,153)	(22,571)
Contribution to the stabilization funds		(346,186)	(10,567)	(441,854)	(13,830)
Provision for claim reserve		(1,441,581)	(44,004)	(1,589,320)	(49,744)
Provision for premium deficiency reserve		-	-	(866,889)	(27,133)
Handling fees paid		(1,542,406)	(47,082)	(1,524,718)	(47,722)
Interest expenses		(53,408)	(1,630)	(33,713)	(1,055)
Losses from valuation on financial assets		(6,650,568)	(203,009)	-	-
Losses from valuation on financial liabilities		(17,260,172)	(526,867)	-	-
Losses on long-term equity investments	14	(142,439)	(4,348)	(200,115)	(6,263)
Losses on foreign exchange		-	-	(19,219,305)	(601,543)
Losses on disposal of investments		(7,401,734)	(225,938)	(26,402,304)	(826,363)
Separate account product expenses	32	(237,523,474)	(7,250,411)	(144,069,061)	(4,509,204)
Other operating cost		(1,097,306)	(33,495)	(37,651)	(1,179)
Subtotal		<u>(930,830,341)</u>	<u>(28,413,624)</u>	<u>(913,744,207)</u>	<u>(28,599,193)</u>
Operating gross (loss) profit		<u>4,410,071</u>	<u>134,618</u>	<u>15,728,951</u>	<u>492,299</u>
Operating expenses	2,3,17,23,24,27				
Marketing expenses		(3,978,788)	(121,453)	(3,907,122)	(122,289)
Administrative and general expenses		(7,042,515)	(214,973)	(7,416,329)	(232,123)
Subtotal		<u>(11,021,303)</u>	<u>(336,426)</u>	<u>(11,323,451)</u>	<u>(354,412)</u>
Operating (loss) income		<u>(6,611,232)</u>	<u>(201,808)</u>	<u>4,405,500</u>	<u>137,887</u>
Non-operating revenues and gains	2,27				
Gains on disposal of property and equipment		44	1	76	3
Other non-operating revenues and gains		1,440,663	43,976	1,570,482	49,154
Subtotal		<u>1,440,707</u>	<u>43,977</u>	<u>1,570,558</u>	<u>49,157</u>
Non-operating expenses and losses	2,27				
Losses on disposal of property and equipment		(209)	(6)	(65)	(2)
Impairment loss		(805,883)	(24,600)	(800,342)	(25,050)
Dividend on preferred stock liabilities		(10,041)	(306)	(537,712)	(16,830)
Miscellaneous expenses		(6,017)	(184)	(5,412)	(169)
Subtotal		<u>(822,150)</u>	<u>(25,096)</u>	<u>(1,343,531)</u>	<u>(42,051)</u>
Income (loss) from continuing operations before income taxes		<u>(5,992,675)</u>	<u>(182,927)</u>	<u>4,632,527</u>	<u>144,993</u>
Income taxes benefit (expense)	2,25	<u>4,019,130</u>	<u>122,684</u>	<u>(1,970,226)</u>	<u>(61,666)</u>
Net (loss) income		<u><u>\$(1,973,545)</u></u>	<u><u>\$(60,243)</u></u>	<u><u>\$2,662,301</u></u>	<u><u>\$83,327</u></u>
Earnings per share (In dollars)	26				
Net (loss) income		<u><u>\$(0.38)</u></u>	<u><u>\$(0.01)</u></u>	<u><u>\$0.51</u></u>	<u><u>\$0.02</u></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)

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

Cathay Life Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the years ended December 31, 2008 and 2009
(Expressed in thousands of dollars)

Summary	Retained earnings										Equity adjustment								Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains on financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments		Net loss not recognized as pension cost			
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	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	\$-	\$-	\$123,350,798	\$3,765,287
Appropriations and Distributions for 2007																				
Legal reserve	-	-	-	-	2,346,852	71,638	-	-	(2,346,852)	(71,638)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,475,196	75,555	(2,475,196)	(75,555)	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(18,625,315)	(568,538)	-	-	-	-	-	-	-	-	(18,625,315)	(568,538)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,058)	(399)	-	-	-	-	-	-	-	-	(13,058)	(399)
Capital increase by cash	2,000,000	61,050	13,000,000	396,825	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000,000	457,875
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(63,658,431)	(1,943,175)	-	-	-	-	-	-	(63,658,431)	(1,943,175)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,499	2,335	-	-	76,499	2,335
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(264,304)	(8,068)	(264,304)	(8,068)
Net loss for the year ended December 31, 2008	-	-	-	-	-	-	-	-	(1,973,545)	(60,243)	-	-	-	-	-	-	-	-	(1,973,545)	(60,243)
Balance on December 31, 2008	\$52,686,158	\$1,608,247	\$13,009,648	\$397,120	\$23,535,758	\$718,430	\$19,169,006	\$585,134	\$(1,973,545)	\$(60,243)	\$(52,489,299)	\$(1,602,237)	\$2,105	\$64	\$209,017	\$6,380	\$(264,304)	\$(8,068)	\$53,884,544	\$1,644,827
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)	\$53,884,544	\$1,686,527
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	1,770,594	-	-	-	-	-	-	56,570,456	1,770,594
Changes in unrealized revaluation increments - land	-	-	-	-	-	-	-	-	-	-	-	-	(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
Adjustment for merger of investees	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-
Net income for the year ended December 31, 2009	-	-	-	-	-	-	-	-	2,662,301	83,327	-	-	-	-	-	-	-	-	2,662,301	83,327
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)	\$-	\$-	\$113,129,697	\$3,540,836

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

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

Cathay Life Insurance Co., Ltd.
Statements of cash flows
For the years ended December 31, 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				
Net (loss) income for the periods	\$(1,973,545)	\$(60,243)	\$2,662,301	\$83,327
Adjustments:				
Losses (gains) from valuation of financial assets	6,650,568	203,009	(14,987,147)	(469,081)
Losses (gains) from valuation of financial liabilities	17,260,172	526,867	(28,302,061)	(885,823)
Provision (recovered) bad debt	804,093	24,545	(302,844)	(9,479)
Depreciation	2,126,240	64,904	2,513,885	78,682
Amortization	212,390	6,483	240,356	7,523
Provision or recovered for each reserve	106,724,726	3,257,776	249,442,041	7,807,263
Losses on disposal of long-term investments under the equity method	-	-	9,251	290
Losses (gains) on disposal of property and equipment	165	5	(11)	(1)
Gains on disposal of investments in real estate	(161,819)	(4,940)	(956,305)	(29,931)
Impairment loss	805,883	24,600	800,342	25,050
Gains on long-term equity investments less than cash dividends received	516,484	15,766	431,066	13,492
Decrease (increase) in financial assets at fair value through profit or loss - current	11,405,824	348,163	(9,103,446)	(284,928)
Decrease (increase) in available-for-sale financial assets - current	2,445,215	74,640	(21,874,613)	(684,651)
(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	2,583,510	78,862	(1,439,464)	(45,054)
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	(20,195)	(616)	8,343	261
Increase in other accounts receivable	(2,553,073)	(77,933)	(11,059,031)	(346,136)
Decrease (increase) in other financial assets - current	4,000,000	122,100	(2,000,000)	(62,598)
Decrease in prepayments	3,190	97	9,219	288
Decrease in deferred income tax assets - current	589,324	17,989	3,081,779	96,456
Decrease (increase) in other current assets	138,010	4,213	(135,499)	(4,241)
Increase in deferred income tax assets - noncurrent	(3,375,274)	(103,030)	(1,409,197)	(44,106)
Increase in other assets - other	(833,906)	(25,455)	(146,713)	(4,592)
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	(489)	(15)	(23)	(1)
(Decrease) increase in commissions payable	(97,528)	(2,977)	10,452	327
Decrease in life insurance proceeds payable	(2,816)	(86)	(217)	(7)
(Decrease) increase in reinsurance accounts payable	(3,677)	(112)	2,370,276	74,187
(Decrease) increase in others payable	(3,192,070)	(97,438)	7,311,146	228,831
Decrease in accounts collected in advance	(1,387)	(42)	(2,137)	(67)
Increase in deferred income tax liabilities - current	-	-	1,407,046	44,039
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	(1,828,032)	(55,801)	1,528,008	47,825
Net cash provided by operating activities	<u>123,406,886</u>	<u>3,766,999</u>	<u>187,381,522</u>	<u>5,864,836</u>
Cash flows from investing activities				
(Increase) decrease in policy loans	(9,823,528)	(299,864)	3,932,151	123,072
Decrease in secured loans	4,824,377	147,264	32,021,594	1,002,241
(Increase) decrease in available-for-sale financial assets - noncurrent	(37,570,806)	(1,146,850)	13,805,370	432,093
Increase in held-to-maturity financial assets - noncurrent	(45,419,137)	(1,386,421)	(34,031,013)	(1,065,133)
Increase in financial assets carried at cost - noncurrent	(10,890)	(332)	(1,193,522)	(37,356)
Increase in investments in debt securities with no active market - noncurrent	(27,254,297)	(831,938)	(59,486,297)	(1,861,856)
Disinvestment of long-term equity investments	149,866	4,575	294,455	9,216
Increase in long-term investments under the equity method	(862,648)	(26,332)	-	-
Disposal of long-term investments under the equity method	-	-	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	243	7	336	11
Acquisition of property and equipment	(525,805)	(16,050)	(235,331)	(7,366)
Acquisition of intangible assets	(350,333)	(10,694)	(192,008)	(6,010)
(Increase) decrease in guarantee deposits paid	(1,675,094)	(51,132)	864,975	27,073
Increase in other overdue receivables	(241,215)	(7,363)	(385,587)	(12,069)
Net cash used in investing activities	<u>(109,761,869)</u>	<u>(3,350,484)</u>	<u>(83,367,667)</u>	<u>(2,609,317)</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)

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

Cathay life insurance Co., Ltd.
Statements of cash flows - (continued)
For the years ended December 31, 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 in preferred stock liability	15,000,000	457,875	10,000,000	312,989
Increase in guarantee deposits received	54,706	1,670	73,757	2,309
Capital raising by cash	15,000,000	457,875	-	-
Cash dividends	(18,625,315)	(568,538)	-	-
Bonus paid to employees	(13,058)	(399)	-	-
Remuneration paid to directors and supervisors	(8,100)	(247)	-	-
Net cash provided by financing activities	<u>11,408,233</u>	<u>348,236</u>	<u>10,073,757</u>	<u>315,298</u>
Increase in cash and cash equivalents	25,053,250	764,751	114,087,612	3,570,817
Cash and cash equivalents at the beginning of the periods	196,913,663	6,010,796	221,966,913	6,947,321
Cash and cash equivalents at the end of the periods	<u>\$221,966,913</u>	<u>\$6,775,547</u>	<u>\$336,054,525</u>	<u>\$10,518,138</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>\$1,367,110</u>	<u>\$41,731</u>	<u>\$1,152,931</u>	<u>\$36,085</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)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to financial statements

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

As of December 31, 2008 and 2009

1. Organizations and business scope

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

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

(1) Current and non-current assets and liabilities

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

(2) Cash equivalents

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(3) Recognition of financial assets and liabilities

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

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

A. Financial assets at fair value through profit or loss

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

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

- a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

D. Available-for-sale financial assets

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

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(6) Derivative financial instruments

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

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

Hedging relationships consist of three types:

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

Hedges of a net investment in a foreign operation

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

(7) Allowance for bad and doubtful debts

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

Class I – normal loan assets;

Class II – overdue loan assets under notice;

Class III – overdue loan assets possible to be recovered;

Class IV – overdue loan assets difficult to be recovered;

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

(8) Long-term investments under the equity method

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

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

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

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

(10) Property and equipment

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

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

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

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

(11) Intangible assets

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

(12) Deferred charges

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

(13) Accounting for assets impairment

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

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

(14) Guaranteed depository insurance payment

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

(15) Reserve for operations

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

In addition, according to “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and related insurance regulations, when the cumulative provisions for special risk-volatility reserve exceed 30% of the amount of retained earned premiums for the current year, that portion in excess may be retired and treated as income. However, the retired reserves are appropriated as special reserve in equity and shall not be distributed or used for other purposes unless approved by the R.O.C Ministry of Finance (the “MOF”).

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(16) Insurance premium income and expenses

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

(17) Pension plan

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(18) Foreign currency transactions

A. Translation of foreign currency transactions

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

B. Translation of subsidiaries' financial statements in foreign currencies

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

(19) Income taxes

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

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

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

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

(20) Capital expenditure expenses

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(21) Separate account products

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

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

(22) Employee bonus and remuneration of directors and supervisors

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

(23) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of 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 affect the Company’s net loss and earnings per share for the year ended December 31, 2008.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

4. Cash and cash equivalents

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$258,132	\$7,880	\$239,150	\$7,485
Cash in banks	24,480,701	747,274	19,942,498	624,178
Time deposits	187,754,331	5,731,207	227,230,136	7,112,054
Cash equivalents	9,473,749	289,186	88,642,741	2,774,421
Total	<u>\$221,966,913</u>	<u>\$6,775,547</u>	<u>\$336,054,525</u>	<u>\$10,518,138</u>

As of December 31, 2008 and 2009, the amounts of time deposits with maturities beyond one year were NT\$- (US\$-) thousands and NT\$9,509,900 (US\$297,649) thousands, respectively.

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	\$169,956	\$6,928,870	\$216,866
Overseas stocks	1,156,474	35,301	610,334	19,103
Beneficiary certificates	47,431,751	1,447,856	65,039,775	2,035,674
Exchange traded funds	139,322	4,253	237,784	7,442
Overseas bonds	11,233,306	342,897	2,227,219	69,709
Corporate bonds	3,906,453	119,245	3,257,683	101,962
Government bonds	2,291,101	69,936	2,428,957	76,024
Structured time deposits	1,000,000	30,525	1,000,000	31,299
Derivative financial instruments	-	-	99,005	3,099
Subtotal	72,726,180	2,219,969	81,829,627	2,561,178
Add: Adjustment of valuation	2,527,156	77,141	17,594,634	550,693
Total	<u>\$75,253,336</u>	<u>\$2,297,110</u>	<u>\$99,424,261</u>	<u>\$3,111,871</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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	17,146,991	523,413	12,442,088	389,424
Beneficiary certificates	19,564,695	597,213	29,299,125	917,031
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	273,089
Financial debentures	5,049,796	154,145	1,450,000	45,383
Corporate bonds	550,000	16,789	6,196,332	193,938
Government bonds	-	-	102,547	3,210
Overseas bonds	22,520	687	9,601,626	300,520
Subtotal	169,641,021	5,178,297	192,169,209	6,014,686
Less : Adjustment of valuation	(62,281,224)	(1,901,136)	(1,096,459)	(34,318)
Total	<u>\$107,359,797</u>	<u>\$3,277,161</u>	<u>\$191,072,750</u>	<u>\$5,980,368</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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(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	\$20,343,867	\$620,997	\$19,973,916	\$625,162
Government bonds	89,547,227	2,733,432	34,496,010	1,079,687
Financial debentures	127,381,664	3,888,329	143,116,633	4,479,394
Collateralized loans obligation and collateralized bonds obligation	4,404,148	134,437	2,157,013	67,512
Overseas bonds	25,298,973	772,252	51,987,675	1,627,157
Subtotal	266,975,879	8,149,447	251,731,247	7,878,912
Add: Adjustment of valuation	5,266,730	160,767	2,531,415	79,231
Less: Accumulated impairment	-	-	(735,000)	(23,005)
Total	\$272,242,609	\$8,310,214	\$253,527,662	\$7,935,138

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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	98,040,954	3,068,574
Financial debentures	9,900,000	302,198	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	17,549,235	536,739,794	16,799,368
Subtotal	625,986,575	19,108,259	660,086,130	20,659,973
Less: Securities serving as deposits paid - bonds	(8,337,123)	(254,491)	(8,379,444)	(262,267)
Less: Accumulated impairment	(164,085)	(5,008)	-	-
Total	\$617,485,367	\$18,848,760	\$651,706,686	\$20,397,706

A CDO impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company. As of December 31, 2008 and 2009 the Company recognized impairment losses amounting to NT\$164,085 (US\$5,008) thousands and NT\$- (US\$-), respectively.

11. Financial assets carried at cost – noncurrent

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Stocks	\$19,788,943	\$604,058	\$19,648,101	\$614,964
Beneficiary certificates	477,587	14,578	1,797,311	56,254
Subtotal	20,266,530	618,636	21,445,412	671,218
Less: Accumulated impairment	(1,302,285)	(39,752)	(1,352,987)	(42,347)
Total	\$18,964,245	\$578,884	\$20,092,425	\$628,871

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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	75,780,124	2,313,191	129,955,830	4,067,475
Subtotal	86,488,589	2,640,067	145,563,830	4,555,988
Less: Accumulated impairment	(649,438)	(19,824)	(416,390)	(13,032)
Total	<u>\$85,839,151</u>	<u>\$2,620,243</u>	<u>\$145,147,440</u>	<u>\$4,542,956</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>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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.	31,995	976	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
Symphox Information Co., Ltd.	308,444	9,415	340,675	10,663
Cathay Securities Investment Trust Co., Ltd.	368,443	11,247	364,180	11,399
Cathay Venture Capital Corp.	362,294	11,059	-	-
Cathay Securities Investment Consulting Co., Ltd.	165,344	5,047	152,952	4,787
Cathay Life Insurance Ltd. (Shanghai)	1,219,351	37,221	915,764	28,662
Cathay Life Insurance (Vietnam) Co., Ltd.	2,272,079	69,355	1,873,935	58,652
Cathay Insurance Company Limited. (Shanghai)	917,304	28,001	853,648	26,718
Total	<u>\$6,466,022</u>	<u>\$197,375</u>	<u>\$5,266,745</u>	<u>\$164,843</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

As of August 10, 2009, the acquisition date, Cathay Venture Capital Corp., a subsidiary of the Company, merged with Cathay Pacific Venture Capital Co., Ltd. with a stock exchange ratio of 1.06359 to 1 in accordance with resolution of the Board of Directors' meeting of Cathay Financial Holding Co., Ltd.. Cathay Pacific Venture Capital Co., Ltd. is the surviving company. As of October 14, 2009, all stocks of Cathay Pacific Venture Capital Co., Ltd. were sold to Cathay Financial Holding Co., Ltd..

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

	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$6,254,217	\$190,911	\$6,466,022	\$202,379
Add (less) :				
Gains (losses) on long-term equity investments	(142,439)	(4,348)	(200,115)	(6,263)
Cumulative conversion adjustments	76,499	2,335	(251,265)	(7,864)
Unrealized gain or loss on financial instruments	(60,992)	(1,862)	55,134	1,726
Cash dividends	(374,045)	(11,418)	(230,951)	(7,229)
Disinvestment of long-term investments	(149,866)	(4,575)	(294,455)	(9,216)
Increment of investments	862,648	26,332	-	-
Disposal of investments	-	-	(277,472)	(8,685)
Additional paid-in capital of long-term investments	-	-	(153)	(5)
Balance as of December 31	<u>\$6,466,022</u>	<u>\$197,375</u>	<u>\$5,266,745</u>	<u>\$164,843</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

- (3) The recognized equity investment gains for the years ended December 31, 2008 and 2009 are listed below:

Investee	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$(23,633)	\$(721)	\$4,416	\$138
Vista Technology Venture Capital Corp.	(7,482)	(228)	(3,490)	(109)
Omnitek Venture Capital Corp.	11,895	363	(6,226)	(195)
Wa Tech Venture Capital Co., Ltd.	(18,463)	(564)	(20,753)	(650)
IBT Venture Capital Corp.	12,932	395	44,526	1,394
Cathay Insurance (Bermuda) Co., Ltd.	5,205	159	7,367	231
Symphox Information Co., Ltd.	36,885	1,126	39,832	1,247
Cathay Securities Investment Trust Co., Ltd.	153,905	4,698	133,785	4,187
Cathay Venture Capital Corp.	6,338	193	(38,904)	(1,218)
Cathay Pacific Venture Capital Co., Ltd.	-	-	4,170	131
Cathay Securities Investment Consulting Co., Ltd.	80,684	2,463	43,608	1,365
Cathay Life Insurance Ltd. (Shanghai)	(407,648)	(12,443)	(358,924)	(11,234)
Cathay Life Insurance (Vietnam) Co., Ltd.	52,496	1,602	(8,288)	(259)
Cathay Insurance Company Limited. (Shanghai)	(45,553)	(1,391)	(41,234)	(1,291)
Total	<u>\$(142,439)</u>	<u>\$(4,348)</u>	<u>\$(200,115)</u>	<u>\$(6,263)</u>

- A. The equity investment gains (losses) were recognized based on investees' audited financial statements for the year ended December 31, 2008. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the year ended December 31, 2008 were audited by other auditors. Unqualified audit reports were issued for all above investee companies except the Cathay Venture Capital Corp., of which modified unqualified audited report was issued.
- B. The equity investment gains (losses) were recognized based on investees' audited financial statements for the year ended December 31, 2009, except for Omnitek Venture Capital Corp. and IBT Venture Capital Corp. were recognized based on unaudited financial statements due to its liquidation and materiality. The financial statements of

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

WK Technology Fund VI Co., Ltd., Wa Tech Venture Capital Co., Ltd. and Cathay Securities Investment Trust Co., Ltd. for the year ended December 31, 2009, were audited by other auditors. Unqualified audit reports were issued for all above investee companies except the Symphox Information Co., Ltd., of which modified unqualified audited report was issued.

- C. Due to the insignificance of total assets and operating revenues, Cathay Insurance (Bermuda) Co., Ltd., and Cathay Securities Investment Consulting Co., Ltd. were excluded from the consolidated financial statements of the Company as of and for the years ended December 31, 2008 and 2009. In addition, the Company's another investee, Cathay Insurance Company Limited. (Shanghai), was also excluded from the consolidation due to the Company's lack of control over the entity.

On October 14, 2009, the Company disposed all the shares of Cathay Pacific Venture Capital Co. (original Cathay Venture Capital Co.). As a result, this investee was excluded from 2009 consolidated financial statements.

15. Investments in real estate

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

Item	December 31, 2009									
	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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

- (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.

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd.
Note to financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2008 and 2009

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	2,149,972	67,292	-	-	(1,724,596)	(53,978)	-	-	425,376	13,314
Communication and transportation equipment	12,758	399	-	-	(11,768)	(368)	-	-	990	31
Other equipment	3,019,712	94,514	-	-	(2,464,207)	(77,127)	-	-	555,505	17,387
Subtotal	20,634,844	645,848	583	18	(8,064,772)	(252,418)	(85,519)	(2,677)	12,485,136	390,771
Construction in progress and prepayment for equipment	19,566	612	-	-	-	-	-	-	19,566	612
Total	\$20,654,410	\$646,460	\$583	\$18	\$(8,064,772)	\$(252,418)	\$(85,519)	\$(2,677)	\$12,504,702	\$391,383

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

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	\$750,860	\$22,920	\$350,333	\$10,694	\$-	\$-	\$1,101,193	\$33,614
Amortized and impairment:								
Amortized	(279,937)	(8,545)	(212,390)	(6,483)	-	-	(492,327)	(15,028)
Book value	\$470,923	\$14,375	\$137,943	\$4,211	\$-	\$-	\$608,866	\$18,586
Item	January 1, 2009		Increase		Decrease		December 31, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$1,101,193	\$34,466	\$192,008	\$6,010	\$-	\$-	\$1,293,201	\$40,476
Amortized and impairment:								
Amortized	(492,327)	(15,409)	(240,356)	(7,523)	-	-	(732,683)	(22,932)
Book value	\$608,866	\$19,057	\$(48,348)	\$(1,513)	\$-	\$-	\$560,518	\$17,544

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd.
Note to financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2008 and 2009

18. Other overdue receivables

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$382,048	\$11,662	\$767,634	\$24,026
Less: Allowance for doubtful accounts	(94,294)	(2,878)	(556,715)	(17,424)
Total	<u>\$287,754</u>	<u>\$8,784</u>	<u>\$210,919</u>	<u>\$6,602</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”.

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	\$14,286
Add: Adjustment of valuation	30,084,249	918,323	1,989,807	62,279
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>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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.
- 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 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.
- 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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 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 2008 and 2009, respectively, were resolved by the Company's Board of Directors.

(3) Undistributed retained earnings

A. According to the Company's articles of incorporation, 20% of the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders' interests can be distributed to employees as employees' bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.

B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

- 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, 2009, amounting to NT\$20,000 (US\$626) thousands, 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.

- 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

Item	For the year ended December 31, 2008 (NT\$)			For the year ended December 31, 2008 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$23,198,994	\$1,761,190	\$24,960,184	\$708,150	\$53,760	\$761,910
Labor & health insurance expenses	1,196,834	191,641	1,388,475	36,533	5,850	42,383
Pension expenses	791,252	126,697	917,949	24,153	3,867	28,020
Other expenses	1,116,074	243,412	1,359,486	34,068	7,430	41,498
Depreciation	-	2,126,240	2,126,240	-	64,904	64,904
Amortizations	-	212,390	212,390	-	6,483	6,483

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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	\$23,562,505	\$1,791,314	\$25,353,819	\$737,481	\$56,066	\$793,547
Labor & health insurance expenses	1,256,516	202,623	1,459,139	39,327	6,342	45,669
Pension expenses	835,163	134,677	969,840	26,140	4,215	30,355
Other expenses	1,264,412	230,523	1,494,935	39,575	7,215	46,790
Depreciation	-	2,513,885	2,513,885	-	78,682	78,682
Amortizations	-	240,356	240,356	-	7,523	7,523

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	\$10,126,846	\$309,122	\$6,677,840	\$209,009
Total deferred tax liabilities	\$(3,265,919)	\$(99,692)	\$(2,896,541)	\$(90,659)
Temporary differences:				
Pension expense	\$1,392,174	\$42,496	\$1,438,340	\$45,019
Unrealized foreign exchange losses (gains)	(13,063,677)	(398,769)	7,208,738	225,626
(Gains) losses from valuation on financial assets and liabilities	25,255,798	770,934	(14,482,706)	(453,293)
Impairment loss	969,857	29,605	1,302,936	40,780
Unrealized bad debt losses	229,865	7,017	462,539	14,477
Other	19,895	607	26,198	820
Total	\$14,803,912	\$451,890	\$(4,043,955)	\$(126,571)
Loss carryforwards	\$4,710,736	\$143,795	\$6,878,975	\$215,304
Tax effect under consolidated income tax system	\$(1,579,669)	\$(48,219)	\$(2,331,490)	\$(72,973)
Investment tax credits	\$28,881	\$882	\$42,605	\$1,333

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$6,347,698	\$193,764	\$1,489,495	\$46,620
Deferred tax liabilities - current	(3,265,919)	(99,692)	(2,896,541)	(90,659)
Net offset balance of deferred tax assets (liabilities) - current	<u>\$3,081,779</u>	<u>\$94,072</u>	<u>\$(1,407,046)</u>	<u>\$(44,039)</u>

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - noncurrent	\$3,779,148	\$115,358	\$5,188,345	\$162,389
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	<u>\$3,779,148</u>	<u>\$115,358</u>	<u>\$5,188,345</u>	<u>\$162,389</u>

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

	For the years ended December 31			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$-	\$-	\$-	\$-
Add (less): Tax effects under integrated income tax systems	374,942	11,445	(173,744)	(5,438)
Deferred income tax benefit from bad debt losses	(57,466)	(1,754)	(46,535)	(1,456)
Deferred income tax (benefit) expense from unrealized foreign exchange loss (gain)	3,622,699	110,583	(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)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

	For the years ended December 31			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Deferred income tax (benefit)				
expense from impairment				
loss	(176,474)	(5,387)	(66,616)	(2,085)
Deferred income tax benefit				
from loss carryforwards	(2,985,125)	(91,121)	(3,255,088)	(101,881)
Adjustments to the deferred				
tax liabilities or assets for				
the change in statutory				
income tax rate	-	-	1,348,171	42,196
Others	3,198	98	(296)	(9)
Add: Separation tax	145,151	4,431	59,676	1,868
Prior year adjustment	88,725	2,708	169,638	5,310
Withholding tax for overseas				
investments	73,079	2,231	59,790	1,871
Less: Income tax credit	(12,478)	(381)	(8,755)	(274)
Total income tax expense (benefit)	<u>\$(4,019,130)</u>	<u>\$(122,684)</u>	<u>\$1,970,226</u>	<u>\$61,666</u>

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

(4) Information related to imputation

	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$963,145</u>	<u>\$29,400</u>	<u>\$2,465,683</u>	<u>\$77,173</u>

	December 31,	
	2008	2009
Imputation credit account ratio – actual (May 15, 2008)	5.62%	-
Imputation credit account ratio – actual	-	-(Note)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

(5) Information related to undistributed earnings

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

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

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education and training	\$16,403	\$513	\$16,403	\$513	2011
Statute for Upgrading Industries	Education and training	12,478	391	12,478	391	2012
Statute for Upgrading Industries	Education and training	8,755	274	8,755	274	2013
Statute for Upgrading Industries	Investment in newly emerging, important and strategic industries	4,969	155	4,969	155	2011
Total		<u>\$42,605</u>	<u>\$1,333</u>	<u>\$42,605</u>	<u>\$1,333</u>	

26. Earnings per share

	For the year ended December 31, 2008			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(5,992,675)</u>	<u>\$(182,927)</u>	<u>\$(1,973,545)</u>	<u>\$(60,243)</u>
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,171,348	5,171,348	5,171,348	5,171,438
Earnings per share (a) / (c) (dollars)				
Net loss	<u>\$(1.16)</u>	<u>\$(0.04)</u>	<u>\$(0.38)</u>	<u>\$(0.01)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

	For the year ended December 31, 2009			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$4,632,527</u>	<u>\$144,993</u>	<u>\$2,662,301</u>	<u>\$83,327</u>
Outstanding number of thousand shares at end of period (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,268,616	5,268,616	5,268,616	5,268,616
Earnings per share (a) / (c) (dollars)				
Net income	<u>\$0.88</u>	<u>\$0.03</u>	<u>\$0.51</u>	<u>\$0.02</u>

27. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd (merged with Cathay Pacific Venture on August 10, 2009)
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Pacific Venture on August 10, 2009)
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

(2) Significant transactions with related parties

A. Property transactions

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:

<u>Name</u>	<u>Item</u>	<u>For the year ended December 31, 2008</u>	
		<u>NT\$</u>	<u>US\$</u>
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>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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.

(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	\$682	\$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
Symphox Information Co., Ltd.	16,980	518	17,343	543
Cathay Securities Investment Trust Co., Ltd.	19,510	596	22,375	700
Cathay Securities Investment Consulting Co., Ltd.	7,367	225	21,471	672
Cathay Securities Co., Ltd.	20,781	634	9,289	291
Total	<u>\$671,836</u>	<u>\$20,508</u>	<u>\$728,708</u>	<u>\$22,808</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
Symphox Information Co., Ltd.	3,824	117	3,836	120
Total	<u>\$124,886</u>	<u>\$3,812</u>	<u>\$125,204</u>	<u>\$3,919</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

(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	\$954
Cathay United Bank	10,972	335	10,579	331
Cathay Futures Co., Ltd.	-	-	3,078	96
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	\$79,855	1.24%-4.50%	\$6,432,052
	Cash in bank	3,224	0.02%-1.85%	2,719,316
Total		\$83,079		\$9,151,368

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

		For the year ended December 31, 2009		
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$42,918	0.10%-2.42%	\$10,148,850
	Cash in bank	5,265	0.02%-1.00%	9,318,428
Total		<u>\$48,183</u>		<u>\$19,467,278</u>

		For the year ended December 31, 2009		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$1,343	0.10%-2.42%	\$317,648
	Cash in bank	165	0.02%-1.00%	291,656
Total		<u>\$1,508</u>		<u>\$609,304</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>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

D. Secured loans

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

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

Name	For the year ended December 31, 2009			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		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		<u>\$100,903</u>		<u>\$4,349,177</u>

Name	For the year ended December 31, 2009			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		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		<u>\$3,158</u>		<u>\$136,124</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

		December 31,			
		2008		2009	
Name		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds	Market value	\$5,267,637	\$160,795	\$4,020,682	\$125,843
	Cost	\$5,564,649	\$169,861	\$3,900,864	\$122,093

F. Other accounts receivable

		December 31,			
		2008		2009	
Name		NT\$	US\$	NT\$	US\$
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.

G. Other overdue receivable

		December 31,			
		2008		2009	
Name		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)		\$265,211	\$8,096	\$204,097	\$6,388

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

H. Guarantee deposits paid

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

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

I. Repurchase bonds

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

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

J. Other payable

Name	December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$19,422	\$593	\$4,369	\$137
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
Cathay Century Insurance Co., Ltd.	-	-	7,536	236

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

K. Premiums income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$555,658	\$16,962	\$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	\$992,982	\$30,311	\$1,058,525	\$33,131

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

L. Insurance expense

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

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.

M. Indemnity income

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

N. Reinsurance income

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

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

O. Reinsurance commission income

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

P. 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	\$-	\$-

Q. 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

R. 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

S. 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

T. Miscellaneous income

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$890,063	\$27,169	\$1,009,955	\$31,611
Cathay United Bank	127,741	3,899	87,940	2,752
Cathay Securities Investment Trust Co., Ltd.	40,394	1,233	101,165	3,166
Cathay General Hospital	5,430	166	5,782	181
Total	<u>\$1,063,628</u>	<u>\$32,467</u>	<u>\$1,204,842</u>	<u>\$37,710</u>

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

U. Commissions expenses

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

V. Operating expenses

Name	For the years ended December 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$252,004	\$7,692	\$229,332	\$7,178
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	-	-
Seaward Card Co., Ltd.	66,452	2,028	65,568	2,052
Cathay Real Estate Development Co., Ltd.	6,947	212	-	-
Cathay Capital Management Inc.	21,410	654	-	-
Seaward Leasing Co., Ltd.	10,845	331	11,895	372
Cathay United Bank	1,117,006	34,097	1,143,334	35,785
Cathay Pacific Venture Capital Co., Ltd.	-	-	25,000	783
Cathay General Hospital	3,659	112	5,332	167
Cathay Futures Co., Ltd.	4,123	126	3,087	97
Total	<u>\$2,116,625</u>	<u>\$64,610</u>	<u>\$2,081,499</u>	<u>\$65,149</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

W. 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.

X. 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

There were no transactions of securities with related party for the year ended December 31, 2008.

Y. 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd.
Note to financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2008 and 2009

Z. 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.

28. Pledged assets

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	\$8,508,214	\$259,713	\$9,314,484	\$291,533

Pledged assets are summarized based on the net carrying amounts.

29. Other important commitment and contingent liabilities

None.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

30. Serious disaster damages

None.

31. Significant subsequent events

None.

32. Others matters

(1) Pension related information

A. 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.

B. 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	155,201	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	(419,505)	(12,805)	-	-
⑫ Accrued pension liability recognized = ⑦ + ⑧ + ⑨ + ⑩ + ⑪	\$(1,811,678)	\$(55,302)	\$(1,438,340)	\$(45,018)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

C. 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%

(2) Separate account insurance products related information

A. 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

B. 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

C. 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.

(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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

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

Operational Risk

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

Liquidity Risk

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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.

(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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

Item	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<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
<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
Item	December 31, 2009			
	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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

- 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd.
Note to financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2008 and 2009

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	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	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	
	NTS	US\$	NTS	US\$	NTS	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	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	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	-	-	-	-	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

Item	Due in 4-5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$3,162,104	\$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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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	-	-	-	-	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

Item	Due in 4-5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,105	6.3%-6ml	Yearly	2010.11.27
300,000	9,158	5.37%-6ml	Yearly	2011.3.15
500,000	15,263	If 6ml<1.1%,6ml If 1.1%≤6ml≤2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	61,050	90DCP	Yearly	2013.3.26
2,700,000	82,418	90DCP+25bps	Each quarter	2013.8.24
3,000,000	91,575	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	61,050	90DCP	Yearly	2013.11.3
1,000,000	30,525	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,263	90DCP+23bps	Yearly	2013.12.14
1,500,000	45,788	90DCP+23bps	Yearly	2013.12.16
1,000,000	30,525	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,473	90DCP	Yearly	2014.3.12
1,000,000	30,525	90DCP	Yearly	2014.6.12
2,000,000	61,050	90DCP	Yearly	2014.6.29
5,000,000	152,625	90DCP	Yearly	2014.8.23
1,000,000	30,525	90DCP	Yearly	2014.9.20
3,200,000	97,680	90DCP	Yearly	2014.9.27
2,000,000	61,050	90DCP	Each quarter	2014.9.28
1,500,000	45,788	90DCP	Yearly	2014.9.29
2,500,000	76,313	90DCP	Yearly	2014.12.20
2,000,000	61,050	90DCP	Yearly	2014.12.24
-	24,000	6ml	Half year	2014.3.24

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

B. December 31, 2009

<u>Par value</u>		
<u>US\$</u>	<u>Hedge item</u>	<u>Maturity date</u>
\$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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2008 and 2009

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

Not applicable.