

Cathay Life Insurance Co., Ltd.
Financial Statements
As of June 30, 2009 and 2010
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.

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English Translation of Report Originally Issued in Chinese

Independent Auditors' 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 June 30, 2009 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the six-month periods 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 June 30, 2009 and 2010, and the results of its operations and their cash flows for the six-month periods then ended in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the R.O.C.

In addition, we have reviewed the consolidated financial statements of the Company as of and for the six-month periods ended June 30, 2009 and 2010, on which we have expressed an unqualified review report.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C.
August 6, 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 June 30, 2009 and 2010
(Expressed in thousands of dollars)

Assets	Notes	June 30, 2009		June 30, 2010	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4,27	\$247,822,244	\$7,562,473	\$436,746,054	13,534,120
Financial assets at fair value through profit or loss - current	2,5,13,27	84,134,565	2,567,426	47,767,058	1,480,231
Available-for-sale financial assets - current	2,6,13	135,565,155	4,136,868	216,432,320	6,706,920
Held-to-maturity financial assets - current	2,13,28	30,176,218	920,849	24,641,648	763,609
Derivative financial assets for hedging - current	2,7	1,924,839	58,738	2,499,095	77,443
Investments in debt securities with no active market - current	2,13	4,534,726	138,380	8,915,139	276,267
Notes receivable	2	4,814,669	146,923	5,286,075	163,808
Prepaid reinsurance premium		3,808,504	116,219	6,274,367	194,434
Claims recoverable from reinsurers		-	-	175	6
Reinsurance accounts receivable		212,450	6,483	232,869	7,216
Other accounts receivable	2,27	45,465,181	1,387,403	58,771,291	1,821,236
Other financial assets - current		8,000,000	244,126	7,000,000	216,920
Prepayments	27	69,745	2,128	59,319	1,838
Deferred income tax assets - current	2,25	-	-	315,896	9,789
Other current assets		158,961	4,851	328,415	10,177
Subtotal		<u>566,687,257</u>	<u>17,292,867</u>	<u>815,269,721</u>	<u>25,264,014</u>
Loans					
Policy loans	2,8,27	196,836,808	6,006,616	192,733,137	5,972,518
Secured loans		328,786,505	10,033,155	298,392,072	9,246,733
Subtotal		<u>525,623,313</u>	<u>16,039,771</u>	<u>491,125,209</u>	<u>15,219,251</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9,13	230,872,988	7,045,255	302,389,868	9,370,619
Held-to-maturity financial assets - noncurrent	2,10,13,28	654,456,134	19,971,197	634,785,250	19,671,064
Financial assets carried at cost - noncurrent	2,11	19,202,400	585,975	10,252,684	317,716
Investments in debt securities with no active market - noncurrent	2,12	139,768,341	4,265,131	195,918,784	6,071,236
Long-term investments under the equity method	2,14	5,968,307	182,127	4,753,828	147,314
Investments in real estate	2,15	114,513,204	3,494,452	124,256,638	3,850,531
Other financial assets - noncurrent	27	11,300,000	344,828	34,800,000	1,078,401
Subtotal		<u>1,176,081,374</u>	<u>35,888,965</u>	<u>1,307,157,052</u>	<u>40,506,881</u>
Property and equipment					
Land	2,16,27	4,772,644	145,641	4,761,103	147,540
Buildings and construction		10,531,576	321,379	10,708,823	331,851
Computer equipment		2,154,146	65,735	2,177,879	67,489
Communication and transportation equipment		12,942	395	12,758	395
Other equipment		3,006,560	91,747	3,068,202	95,079
Revaluation increments		974	30	620	19
Less: Accumulated depreciation		(7,661,307)	(233,790)	(8,341,265)	(258,484)
Less: Accumulated impairment		(85,519)	(2,610)	(140,411)	(4,351)
Construction in progress and prepayment for equipment		101,536	3,098	5,673	176
Subtotal		<u>12,833,552</u>	<u>391,625</u>	<u>12,253,382</u>	<u>379,714</u>
Intangible assets					
Computer software cost	2	619,880	18,916	500,454	15,508
Deferred pension cost	17	155,200	4,736	-	-
Subtotal		<u>775,080</u>	<u>23,652</u>	<u>500,454</u>	<u>15,508</u>
Other assets					
Guarantee deposits paid	2,27,28	11,864,922	362,067	11,133,800	345,020
Deferred income tax assets - noncurrent	2,25	8,609,155	262,714	4,670,456	144,731
Other overdue receivables	2,18,27	507,142	15,476	210,210	6,514
Separate account products assets	2,32	236,041,959	7,202,989	252,114,627	7,812,663
Other assets - other		2,543,922	77,630	2,132,222	66,074
Subtotal		<u>259,567,100</u>	<u>7,920,876</u>	<u>270,261,315</u>	<u>8,375,002</u>
Total assets		<u>\$2,541,567,676</u>	<u>\$77,557,756</u>	<u>\$2,896,567,133</u>	<u>89,760,370</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 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 June 30, 2009 and 2010
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2009		June 30, 2010	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,19	\$4,853,764	\$148,116	\$6,874,852	\$213,042
Derivative financial liabilities for hedging - current	2,20	202,616	6,183	373,723	11,581
Notes payable		1,781	54	1,560	48
Commissions payable		1,087,594	33,189	1,101,902	34,146
Life insurance proceeds payable		1,923	59	374	12
Reinsurance accounts payable		1,698,287	51,825	3,308,657	102,531
Other payable	2,27	7,611,357	232,266	34,691,966	1,075,053
Accounts collected in advance		119,617	3,650	100,903	3,127
Deferred income tax liabilities - current	2,25	3,292,052	100,459	-	-
Subtotal		<u>18,868,991</u>	<u>575,801</u>	<u>46,453,937</u>	<u>1,439,540</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	109	3,487	108
Accrued pension liability	2	1,835,717	56,018	1,361,948	42,205
Preferred stock liability - noncurrent	2,21	15,000,000	457,736	25,000,000	774,713
Subtotal		<u>16,839,298</u>	<u>513,863</u>	<u>26,365,435</u>	<u>817,026</u>
Reserve for operations and liabilities					
Unearned premium reserve	2	10,456,938	319,101	10,269,454	318,235
Reserve for life insurance liabilities		2,135,619,927	65,169,970	2,440,658,089	75,632,417
Special reserve		15,920,901	485,838	12,789,610	396,331
Reserve for claims		1,542,099	47,058	3,389,971	105,050
Premium deficiency reserve		2,820,713	86,076	7,753,140	240,259
Subtotal		<u>2,166,360,578</u>	<u>66,108,043</u>	<u>2,474,860,264</u>	<u>76,692,292</u>
Other liabilities					
Guarantee deposits received	27	1,613,269	49,230	1,664,558	51,582
Separate account products liabilities	2,32	236,041,959	7,202,989	252,114,627	7,812,663
Other liabilities - other		11,685,168	356,582	2,301,844	71,331
Subtotal		<u>249,340,396</u>	<u>7,608,801</u>	<u>256,081,029</u>	<u>7,935,576</u>
Total liabilities		<u>2,451,409,263</u>	<u>74,806,508</u>	<u>2,803,760,665</u>	<u>86,884,434</u>
Stockholders' equity					
Capital stock					
Common stock	2,22	52,686,158	1,607,756	53,065,274	1,644,415
Capital surplus	2	13,009,648	396,999	13,009,649	403,150
Retained earnings					
Legal reserve	2,23	20,328,674	620,344	20,861,134	646,456
Special reserve		20,402,545	622,598	21,687,527	672,065
Unappropriated retained earnings		1,046,286	31,928	(7,071,873)	(219,147)
Equity adjustment					
Unrealized losses on financial instruments	2	(17,159,301)	(523,628)	(8,675,037)	(268,827)
Unrealized revaluation increments	2	2,105	64	1,462	45
Cumulative conversion adjustments	2,14	106,602	3,253	(71,668)	(2,221)
Net loss not recognized as pension cost		(264,304)	(8,066)	-	-
Total stockholders' equity		<u>90,158,413</u>	<u>2,751,248</u>	<u>92,806,468</u>	<u>2,875,936</u>
Total liabilities and stockholders' equity		<u>\$2,541,567,676</u>	<u>\$77,557,756</u>	<u>\$2,896,567,133</u>	<u>89,760,370</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 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 six months ended June 30, 2009 and 2010

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

Item	Notes	January 1-June 30, 2009		January 1-June 30, 2010	
		NTS	US\$	NTS	US\$
Operating revenues	2,27				
Premiums income		\$189,069,278	\$5,769,584	\$276,883,915	\$8,580,227
Reinsurance commission earned		3,057,314	93,296	5,135,244	159,134
Claims recovered from reinsures		447,868	13,667	5,801,435	179,778
Recovered premiums reserve		79,186,499	2,416,433	104,951,306	3,252,287
Recovered special reserve		578,792	17,662	2,719,915	84,286
Handling fees earned	32	1,856,829	56,663	1,069,305	33,136
Interest income		37,445,134	1,142,665	37,454,754	1,160,668
Gains from valuation on financial assets		9,974,651	304,384	-	-
Gains from valuation on financial liabilities		25,298,715	772,008	-	-
Gains on foreign exchange		-	-	3,919,225	121,451
Gains on disposal of investments		-	-	7,901,180	244,846
Gains on investments - real estate		2,903,571	88,605	3,033,256	93,996
Separate account products revenues	32	65,123,832	1,987,300	56,276,116	1,743,914
Subtotal		414,942,483	12,662,267	505,145,651	15,653,723
Operating costs	2,27				
Reinsurance premiums ceded		(1,427,147)	(43,551)	(12,060,142)	(373,726)
Brokerage expenses	24	(13,793,053)	(420,905)	(14,145,800)	(438,358)
Commissions expenses		(102,020)	(3,113)	(616,206)	(19,095)
Insurance claims payment		(98,888,042)	(3,017,639)	(132,988,305)	(4,121,113)
Provision for premiums reserve		(190,000,185)	(5,797,992)	(271,244,213)	(8,405,461)
Provision for special reserve		(362,607)	(11,065)	(166,703)	(5,166)
Contribution to the stabilization funds		(188,966)	(5,767)	(276,772)	(8,577)
Provision for claims reserve		(100,518)	(3,068)	(1,800,651)	(55,800)
Provision for premium deficiency reserve		(129,375)	(3,948)	(4,194,913)	(129,994)
Handling fees paid		(811,002)	(24,748)	(655,970)	(20,328)
Interest expenses		(19,908)	(608)	(10,053)	(311)
Losses from valuation on financial assets		-	-	(9,069,551)	(281,052)
Losses from valuation on financial liabilities		-	-	(4,877,950)	(151,160)
Losses on long-term equity investments	14	(26,157)	(798)	(106,946)	(3,314)
Losses on foreign exchange		(748,832)	(22,851)	-	-
Losses on disposal of investments		(36,326,143)	(1,108,518)	-	-
Separate account products expenses	32	(65,123,832)	(1,987,300)	(56,276,116)	(1,743,914)
Other operating cost		(186,791)	(5,700)	(42)	(1)
Subtotal		(408,234,578)	(12,457,571)	(508,490,333)	(15,757,370)
Operating gross profit (loss)		6,707,905	204,696	(3,344,682)	(103,647)
Operating expenses	2,17,23,24,27				
Marketing expenses		(1,603,123)	(48,920)	(1,621,360)	(50,244)
Administrative and general expenses		(3,568,253)	(108,888)	(3,688,848)	(114,312)
Subtotal		(5,171,376)	(157,808)	(5,310,208)	(164,556)
Operating income (loss)		1,536,529	46,888	(8,654,890)	(268,203)
Non-operating revenues and gains	2,27				
Gains on disposal of property and equipment		76	2	-	-
Other non-operating revenues and gains		716,226	21,856	1,119,401	34,689
Subtotal		716,302	21,858	1,119,401	34,689
Non-operating expenses and losses	2,27				
Losses on disposal of property and equipment		(18)	(1)	(62)	(2)
Dividend on preferred stock liabilities		(260,342)	(7,944)	(404,151)	(12,524)
Miscellaneous expenses		(3,095)	(94)	(3,416)	(106)
Subtotal		(263,455)	(8,039)	(407,629)	(12,632)
Income (loss) from continuing operations before income taxes		1,989,376	60,707	(7,943,118)	(246,146)
Income taxes (expense) benefit	2,25	(943,090)	(28,779)	871,245	26,999
Net income (loss)		\$1,046,286	\$31,928	\$(7,071,873)	\$(219,147)
Earnings per share (In dollars)	26				
Net income (loss)		\$0.20	\$0.01	\$(1.33)	\$(0.04)

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NTS32.77 and NTS32.27 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 six months ended June 30, 2009 and 2010
(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	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2009	\$52,686,158	\$1,607,756	\$13,009,648	\$396,999	\$23,535,758	\$718,210	\$19,169,006	\$584,956	\$(1,973,545)	\$(60,224)	\$(52,489,299)	\$(1,601,748)	\$2,105	\$64	\$209,017	\$6,378	\$(264,304)	\$(8,066)	\$53,884,544	\$1,644,325
Covering losses and appropriations for 2008																				
Legal reserve	-	-	-	-	(3,207,084)	(97,866)	-	-	3,207,084	97,866	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,233,539	37,642	(1,233,539)	(37,642)	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	35,329,998	1,078,120	-	-	-	-	-	-	35,329,998	1,078,120
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(102,415)	(3,125)	-	-	(102,415)	(3,125)
Net income for the six months ended June 30, 2009	-	-	-	-	-	-	-	-	1,046,286	31,928	-	-	-	-	-	-	-	-	1,046,286	31,928
Balance on June 30, 2009	\$52,686,158	\$1,607,756	\$13,009,648	\$396,999	\$20,328,674	\$620,344	\$20,402,545	\$622,598	\$1,046,286	\$31,928	\$(17,159,301)	\$(523,628)	\$2,105	\$64	\$106,602	\$3,253	\$(264,304)	\$(8,066)	\$90,158,413	\$2,751,248
Balance on January 1, 2010	\$52,686,158	\$1,632,667	\$13,009,649	\$403,150	\$20,328,674	\$629,956	\$20,402,545	\$632,245	\$2,662,301	\$82,501	\$4,081,157	\$126,469	\$1,462	\$45	\$(42,249)	\$(1,309)	\$-	\$-	\$113,129,697	\$3,505,724
Appropriations and Distributions for 2009 (Note)																				
Legal reserve	-	-	-	-	532,460	16,500	-	-	(532,460)	(16,500)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,284,982	39,820	(1,284,982)	(39,820)	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(465,743)	(14,433)	-	-	-	-	-	-	-	-	(465,743)	(14,433)
Stock dividends	379,116	11,748	-	-	-	-	-	-	(379,116)	(11,748)	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	(12,756,194)	(395,296)	-	-	-	-	-	-	(12,756,194)	(395,296)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(29,419)	(912)	-	-	(29,419)	(912)
Net loss for the six months ended June 30, 2010	-	-	-	-	-	-	-	-	(7,071,873)	(219,147)	-	-	-	-	-	-	-	-	(7,071,873)	(219,147)
Balance on June 30, 2010	\$53,065,274	\$1,644,415	\$13,009,649	\$403,150	\$20,861,134	\$646,456	\$21,687,527	\$672,065	\$(7,071,873)	\$(219,147)	\$(8,675,037)	\$(268,827)	\$1,462	\$45	\$(71,668)	\$(2,221)	\$-	\$-	\$92,806,468	\$2,875,936

Note : The remuneration of directors and supervisors NT \$8,100 (US\$251) thousands, employee bonus NT \$9,315 (US\$289) thousands were recorded as operating cost and expense in 2009.

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NTS32.77 and NTS32.27 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 six months ended June 30, 2009 and 2010
(Expressed in thousands of dollars)

	January 1-June 30, 2009		January 1-June 30, 2010	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss) for the periods	\$1,046,286	\$31,928	\$(7,071,873)	\$(219,147)
Adjustments:				
(Gains) losses from valuation of financial assets	(9,974,651)	(304,384)	9,069,551	281,052
(Gains) losses from valuation of financial liabilities	(25,298,715)	(772,008)	4,877,950	151,160
Provision (recovered) of bad debt	38,610	1,178	(926,966)	(28,725)
Depreciation	1,164,658	35,540	1,195,930	37,060
Amortization	101,944	3,111	100,562	3,116
Provision or recovered for each reserve	110,824,420	3,381,887	169,882,065	5,264,396
(Gains) losses on disposal of property and equipment	(58)	(2)	62	2
Gains on disposal of investments in real estate	(14,683)	(448)	-	-
Gains on long-term equity investments less than cash dividends received	257,108	7,846	321,751	9,971
Decrease in financial assets at fair value through profit or loss - current	1,001,823	30,571	42,235,137	1,308,805
Decrease (increase) in available-for-sale financial assets - current	12,379,951	377,783	(38,837,259)	(1,203,510)
Increase in held-to-maturity financial assets - current	(1,065,726)	(32,521)	(11,366,984)	(352,246)
Decrease in derivative financial assets for hedging - current	27,353	835	744,907	23,084
Increase in investments in debt securities with no active market - current	(824,647)	(25,165)	(3,752,563)	(116,286)
Decrease in notes receivable	1,107,928	33,809	2,075,987	64,332
(Increase) decrease in prepaid reinsurance premium	(3,615,348)	(110,325)	239,776	7,430
Decrease in claims recoverable from reinsurers	3,571	109	10,788	334
Increase in reinsurance accounts receivable	(181,549)	(5,540)	(210,312)	(6,517)
Increase in other accounts receivable	(18,516,125)	(565,033)	(20,760,303)	(643,331)
Increase in other financial assets - current	(8,000,000)	(244,126)	(5,000,000)	(154,943)
Increase in prepayments	(39,505)	(1,206)	(38,299)	(1,187)
Decrease (increase) in deferred income tax assets - current	3,081,779	94,043	(315,896)	(9,789)
Decrease (increase) in other current assets	10,525	321	(23,429)	(726)
(Increase) decrease in deferred income tax assets - noncurrent	(4,830,007)	(147,391)	517,889	16,049
Increase in other assets - other	(821,718)	(25,075)	(263,305)	(8,160)
Decrease in financial liabilities at fair value through profit or loss - current	-	-	5,839	181
Decrease in derivative financial liabilities for hedging - current	(4,099)	(125)	(81,762)	(2,534)
Decrease in notes payable	(41)	(1)	(238)	(7)
Increase in commissions payable	235,456	7,185	239,311	7,416
Decrease in life insurance proceeds payable	(1,121)	(34)	(2,453)	(76)
Increase in reinsurance accounts payable	1,513,125	46,174	753,219	23,341
Increase in other payable	2,584,073	78,855	22,353,535	692,703
Increase (decrease) in accounts collected in advance	7,925	242	(8,653)	(268)
Increase (decrease) in deferred income tax liabilities - current	3,292,052	100,459	(1,407,046)	(43,602)
Increase (decrease) in accrued pension liability	24,039	734	(76,393)	(2,367)
Increase (decrease) increase in other liabilities - other	10,054,288	306,814	(857,044)	(26,559)
Net cash provided by operating activities	<u>75,568,921</u>	<u>2,306,040</u>	<u>163,623,481</u>	<u>5,070,452</u>
Cash flows from investing activities				
Decrease in policy loans	2,273,569	69,380	2,445,089	75,770
Decrease in secured loans	13,625,120	415,780	13,018,053	403,410
Decrease (increase) in available-for-sale financial assets - noncurrent	36,924,976	1,126,792	(48,453,279)	(1,501,496)
(Increase) decrease in held-to-maturity financial assets - noncurrent	(36,883,465)	(1,125,525)	16,791,812	520,354
(Increase) decrease in financial assets carried at cost - noncurrent	(238,154)	(7,267)	9,839,741	304,919
Increase in investments in debt securities with no active market - noncurrent	(53,929,190)	(1,645,688)	(50,292,555)	(1,558,493)
Disinvestment of long-term equity investments	149,668	4,567	17,853	553
Disposal of investments in real estate	24,204	739	-	0
Acquisition of investments in real estate	(6,097,107)	(186,058)	(7,827,765)	(242,571)
(Increase) decrease in other financial assets - noncurrent	(5,200,000)	(158,682)	1,500,000	46,483
Disposal of property and equipment	288	9	-	0
Acquisition of property and equipment	(154,736)	(4,722)	(98,038)	(3,038)
Acquisition of intangible assets	(112,958)	(3,447)	(40,498)	(1,255)
Decrease in guarantee deposits paid	306,183	9,343	129,889	4,025
(Increase) decrease in other overdue receivables	(472,358)	(14,414)	455,586	14,118
Net cash used in investing activities	<u>(49,783,960)</u>	<u>(1,519,193)</u>	<u>(62,514,112)</u>	<u>(1,937,221)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 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 six months ended June 30, 2009 and 2010
(Expressed in thousands of dollars)

	January 1-June 30, 2009		January 1-June 30, 2010	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase in guarantee deposits received	70,370	2,147	47,903	1,485
Cash dividends	-	-	(465,743)	(14,433)
Net cash provided by (used in) financing activities	<u>70,370</u>	<u>2,147</u>	<u>(417,840)</u>	<u>(12,948)</u>
Increase in cash and cash equivalents	25,855,331	788,994	100,691,529	3,120,283
Cash and cash equivalents at the beginning of the periods	<u>221,966,913</u>	<u>6,773,479</u>	<u>336,054,525</u>	<u>10,413,837</u>
Cash and cash equivalents at the end of the periods	<u>\$247,822,244</u>	<u>\$7,562,473</u>	<u>\$436,746,054</u>	<u>\$13,534,120</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	<u>\$9,256</u>	<u>\$282</u>	<u>\$3,550</u>	<u>\$110</u>
Interest paid (excluding capitalized interest)	<u>\$9,256</u>	<u>\$282</u>	<u>\$3,550</u>	<u>\$110</u>
Income tax paid	<u>\$544,382</u>	<u>\$16,612</u>	<u>\$424,250</u>	<u>\$13,147</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2009 and 2010 were NT\$32.77 and NT\$32.27 to US\$1.00)

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

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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 June 30, 2009 and 2010

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 June 30, 2009 and 2010, total numbers of employees in the Company were 31,023 and 31,147, 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 from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less are considered cash equivalents.

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Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of June 30, 2009 and 2010

(3) Recognition of financial assets and liabilities

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

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

A. Financial assets at fair value through profit or loss

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

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

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

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Note to financial statements-continued

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

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

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

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Note to financial statements-continued

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

As of June 30, 2009 and 2010

D. Available-for-sale financial assets

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

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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Note to financial statements-continued

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

As of June 30, 2009 and 2010

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

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

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A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

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(6) Derivative financial instruments

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

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

Hedging relationships consist of three types:

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

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(7) Allowance for bad and doubtful debts

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

Class I – normal loan assets;

Class II – overdue loan assets under notice;

Class III – overdue loan assets possible to be recovered;

Class IV – overdue loan assets difficult to be recovered;

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

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

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

(8) Long-term investments under the equity method

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

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

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

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

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

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

(10) Property and equipment

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

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

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

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

(11) Intangible assets

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

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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 June 30, 2010, an aggregate of NT\$4,217,663 (US\$130,699) thousands was appropriated to this fund.

(13) Accounting for assets impairment

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

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

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

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

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

(14) Guaranteed depository insurance payment

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

(15) Reserve for operations

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

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

As of June 30, 2010, the cumulative special reserves released from the special risk-volatility reserves amounted to NT\$21,687,527 (US\$672,065) thousands.

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Note to financial statements-continued

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

As of June 30, 2009 and 2010

(16) Insurance premium income and expenses

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

(17) Pension plan

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

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

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

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

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Note to financial statements-continued

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

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(18) Foreign currency transactions

A. Translation of foreign currency transactions

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

B. Translation of subsidiaries' financial statements in foreign currencies

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

(19) Income taxes

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

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

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

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

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

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

(20) Capital expenditure expenses

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

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(21) Separate account products

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

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

(22) Employee bonus and remuneration of directors and supervisors

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

(23) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of June 30, 2009 and 2010 are for information only. The U.S. dollar/NT dollars noon buying rates of NT32.77 and NT\$32.27 provided by Federal Reserve Bank of New York of June 30, 2009 and 2010 are used for the conversion.

3. Reasons and effects for changes in accounting principles

None.

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Note to financial statements-continued

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

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4. Cash and cash equivalents

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$278,121	\$8,487	\$249,290	\$7,726
Cash in banks	16,497,233	503,425	33,895,886	1,050,384
Time deposits	162,549,747	4,960,322	359,385,643	11,136,834
Cash equivalents	68,497,143	2,090,239	43,215,235	1,339,176
Total	<u>\$247,822,244</u>	<u>\$7,562,473</u>	<u>\$436,746,054</u>	<u>\$13,534,120</u>

As of June 30, 2009 and 2010, the amount of time deposits with maturities beyond one year were NT\$- (US\$-) thousands and NT\$3,555,100 (US\$110,167) thousands, respectively.

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

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

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,843,194	\$117,278	\$4,512,076	\$139,822
Overseas stocks	892,709	\$27,242	535,300	16,588
Beneficiary certificates	57,806,123	1,763,995	29,664,651	919,264
Exchange traded funds	-	-	328,434	10,178
Overseas bonds	3,995,784	121,934	264,580	8,199
Corporate bonds	3,084,683	94,131	3,237,683	100,331
Government bonds	1,087,097	33,173	51,766	1,604
Derivative financial instruments	14,768	451	-	-
Structured time deposits	1,000,000	30,516	1,000,000	30,989
Subtotal	71,724,358	2,188,720	39,594,490	1,226,975
Add: Adjustment of valuation	12,410,207	378,706	8,172,568	253,256
Total	<u>\$84,134,565</u>	<u>\$2,567,426</u>	<u>\$47,767,058</u>	<u>\$1,480,231</u>

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Note to financial statements-continued

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

As of June 30, 2009 and 2010

6. Available-for-sale financial assets - current

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$103,962,540	\$3,172,491	\$131,617,735	\$4,078,641
Overseas stocks	15,892,728	484,978	14,361,471	445,041
Beneficiary certificates	23,578,089	719,502	48,905,302	1,515,504
Collateralized loans obligation and collateralized bonds obligation	-	-	247,460	7,668
Exchange traded funds	3,491,862	106,557	6,922,295	214,512
Real estate investment trust	8,725,208	266,256	8,725,208	270,381
Financial debentures	99,901	3,049	4,750,000	147,196
Corporate bonds	2,242,742	68,439	7,200,183	223,123
Government bonds	-	-	253,267	7,848
Overseas bonds	-	-	8,170,672	253,197
Subtotal	157,993,070	4,821,272	231,153,593	7,163,111
Less : Adjustment of valuation	(22,427,915)	(684,404)	(14,721,273)	(456,191)
Total	<u>\$135,565,155</u>	<u>\$4,136,868</u>	<u>\$216,432,320</u>	<u>\$6,706,920</u>

7. Derivative financial assets for hedging - current

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$75,481	\$2,303	\$600,371	\$18,604
Add: Adjustment of valuation	1,849,358	56,435	1,898,724	58,839
Total	<u>\$1,924,839</u>	<u>\$58,738</u>	<u>\$2,499,095</u>	<u>\$77,443</u>

8. Loans

(1) Policy loans

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

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Note to financial statements-continued

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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 writing to stop the automatic premium loan option prior to the next due date of premium payment.

(2) Secured loans

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Secured loans	\$324,008,755	\$9,887,359	\$294,331,955	\$9,120,916
Secured loans - related parties	4,443,310	135,591	3,891,491	120,592
Less: Allowance for bad debts	(389,552)	(11,888)	(199,594)	(6,185)
Subtotal	<u>328,062,513</u>	<u>10,011,062</u>	<u>298,023,852</u>	<u>9,235,323</u>
Overdue receivables	2,413,308	73,644	1,227,400	38,035
Less: Allowance for bad debts	(1,689,316)	(51,551)	(859,180)	(26,625)
Subtotal	<u>723,992</u>	<u>22,093</u>	<u>368,220</u>	<u>11,410</u>
Total	<u><u>\$328,786,505</u></u>	<u><u>\$10,033,155</u></u>	<u><u>\$298,392,072</u></u>	<u><u>\$9,246,733</u></u>

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

9. Available-for-sale financial assets – noncurrent

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$20,629,632	\$629,528	\$26,528,500	\$822,079
Government bonds	43,946,020	1,341,044	33,601,282	1,041,255
Financial debentures	134,882,014	4,116,021	146,121,955	4,528,105
Collateralized loans obligation and collateralized bonds obligation	2,428,619	74,111	1,636,981	50,728
Overseas bonds	27,265,440	832,025	92,159,971	2,855,902
Subtotal	<u>229,151,725</u>	<u>6,992,729</u>	<u>300,048,689</u>	<u>9,298,069</u>
Add: Adjustment of valuation	1,721,263	52,526	3,076,179	95,326
Less: Accumulated impairment	-	-	(735,000)	(22,776)
Total	<u><u>\$230,872,988</u></u>	<u><u>\$7,045,255</u></u>	<u><u>\$302,389,868</u></u>	<u><u>\$9,370,619</u></u>

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An impairment provision is recognized as some objective evidences are identified showing impairment indicators accounted with collateralized loans obligation held by the Company. As of June 30, 2009 and 2010, the company recognized impairment losses amounting to NT\$-(US\$-) and NT\$735,000 (US\$22,776) thousands, respectively.

10. Held-to-maturity financial assets – noncurrent

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$4,181,661	\$127,607	\$8,143,304	\$252,349
Government bonds	93,271,543	2,846,248	92,895,824	2,878,705
Financial debentures	9,594,527	292,784	5,500,585	170,455
Collateralized loans obligation and collateralized bonds obligation	9,514,450	290,340	8,216,606	254,621
Overseas bonds	545,828,369	16,656,343	528,837,303	16,387,893
Subtotal	662,390,550	20,213,322	643,593,622	19,944,023
Less: Securities serving as deposits				
paid - bonds	(7,770,336)	(237,118)	(8,808,372)	(272,959)
Accumulated impairment	(164,080)	(5,007)	-	-
Total	<u>\$654,456,134</u>	<u>\$19,971,197</u>	<u>\$634,785,250</u>	<u>\$19,671,064</u>

A CDO impairment provision is recognized as the overseas bonds held by the Company are assessed to be over-valued. As of June 30, 2009 and 2010, the Company recognized impairment losses amounting to NT\$164,080 (US\$5,007) thousands and NT\$- (US\$-) thousands, respectively.

11. Financial assets carried at cost – noncurrent

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Stocks	\$19,753,525	\$602,793	\$9,390,569	\$291,000
Beneficiary certificates	751,160	22,922	2,163,622	67,048
Subtotal	20,504,685	625,715	11,554,191	358,048
Less: Accumulated impairment	(1,302,285)	(39,740)	(1,301,507)	(40,332)
Total	<u>\$19,202,400</u>	<u>\$585,975</u>	<u>\$10,252,684</u>	<u>\$317,716</u>

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An impairment provision is recognized as the stocks held by the Company are assessed to be over-valued. As of June 30, 2009 and 2010 the Company recognized impairment losses amounting to NT\$1,302,285 (US\$39,740) thousands and NT\$1,301,507 (US\$40,332) thousands, respectively.

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

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Stocks	\$316,000	\$9,643	\$1,108,000	\$34,335
Corporate bonds	14,500,000	442,478	15,000,000	464,828
Overseas bonds	125,378,975	3,826,029	180,230,398	5,585,076
Subtotal	140,194,975	4,278,150	196,338,398	6,084,239
Less: Accumulated impairment	(426,634)	(13,019)	(419,614)	(13,003)
Total	\$139,768,341	\$4,265,131	\$195,918,784	\$6,071,236

A CDO impairment provision is recognized as the overseas bonds held by the Company are assessed to be over-valued. As of June 30, 2009 and 2010, the Company recognized impairment losses amounting to NT\$426,634 (US\$13,019) thousands and NT\$419,614 (US\$13,003) thousands, respectively.

13. Structured notes

One of the financial assets investment structured notes amounted to NT\$45,551,973 (US\$1,390,051) thousands and NT\$53,510,420 (US\$1,658,209) thousands as of June 30, 2009 and 2010, respectively. The details of structured notes are listed below:

Item	June 30, 2009					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$582,218	\$17,766	\$(11,119)	\$(339)	\$571,099	\$17,427
Available-for-sale financial assets	8,900,000	271,590	(21,900)	(668)	8,878,100	270,922
Held-to-maturity financial assets	36,099,820	1,101,612	2,954	90	36,102,774	1,101,702
Total	\$45,582,038	\$1,390,968	\$(30,065)	\$(917)	\$45,551,973	\$1,390,051

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Item	June 30, 2010					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$264,580	\$8,199	\$34,960	\$1,083	\$299,540	\$9,282
Available-for-sale financial assets	6,900,000	213,821	24,261	752	6,924,261	214,573
Held-to-maturity financial assets	42,735,961	1,324,325	73,788	2,286	42,809,749	1,326,611
Investments in debt securities						
with no active market - current	3,476,870	107,743	-	-	3,476,870	107,743
Total	<u>\$53,377,411</u>	<u>\$1,654,088</u>	<u>\$133,009</u>	<u>\$4,121</u>	<u>\$53,510,420</u>	<u>\$1,658,209</u>

14. Long-term investments under the equity method

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

Investee	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$337,885	\$10,311	\$351,340	\$10,887
Vista Technology Venture Capital Corp.	32,005	977	28,738	891
Omnitek Venture Capital Corp.	77,715	2,372	60,914	1,888
Wa Tech Venture Capital Co., Ltd.	83,771	2,556	81,402	2,522
IBT Venture Capital Corp.	217,405	6,634	103,931	3,221
Cathay Insurance (Bermuda) Co., Ltd.	96,318	2,939	113,318	3,512
Symphox Information Co., Ltd.	322,474	9,840	330,778	10,250
Cathay Securities Investment Trust Co., Ltd.	288,169	8,794	326,963	10,132
Cathay Venture Capital Corp.	271,403	8,282	-	-
Cathay Securities Investment Consulting Co., Ltd.	122,464	3,737	132,945	4,120
Cathay Life Insurance Ltd. (China)	1,169,761	35,696	624,059	19,338
Cathay Life Insurance (Vietnam) Co., Ltd.	2,045,500	62,420	1,794,876	55,621
Cathay Insurance Company Limited. (China)	903,437	27,569	804,564	24,932
Total	<u>\$5,968,307</u>	<u>\$182,127</u>	<u>\$4,753,828</u>	<u>\$147,314</u>

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As of August 10, 2009, the acquisition date, Cathay Venture Capital Corp., a subsidiary of the Company, merged with Cathay Pacific Venture Capital Co., Ltd. with a stock exchange ratio of 1.06359 to 1 in accordance with resolution of the Board of Directors' meeting of Cathay Financial Holding Co., Ltd.. Cathay Pacific Venture Capital Co., Ltd. is the surviving company. 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 six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$6,466,022	\$197,315	\$5,266,745	\$163,209
Add (less) :				
Losses on long-term equity investments	(26,157)	(798)	(106,946)	(3,314)
Cumulative conversion adjustments	(102,414)	(3,125)	(29,419)	(912)
Unrealized gain or loss on financial instruments	11,475	350	(143,893)	(4,459)
Cash dividends	(230,951)	(7,048)	(214,805)	(6,657)
Disinvestment of long-term investments	(149,668)	(4,567)	(17,854)	(553)
Balance as of June 30	<u>\$5,968,307</u>	<u>\$182,127</u>	<u>\$4,753,828</u>	<u>\$147,314</u>

(3) The recognized equity investment losses for the six months ended June 30, 2009 and 2010 are listed below:

Investee	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$5,719	\$175	\$(5,752)	\$(178)
Vista Technology Venture Capital Corp.	10	-	222	7
Omnitek Venture Capital Corp.	(2,547)	(78)	(287)	(9)
Wa Tech Venture Capital Co., Ltd.	(20,632)	(629)	5,109	158
IBT Venture Capital Corp.	42,447	1,295	(10,167)	(315)
Cathay Insurance (Bermuda) Co., Ltd.	1,569	48	12,766	396
Symphox Information Co., Ltd.	21,631	660	25,952	804
Cathay Securities Investment Trust Co., Ltd.	57,774	1,763	83,575	2,590
Cathay Venture Capital Corp.	(40,208)	(1,227)	-	-
Cathay Securities Investment Consulting Co., Ltd.	13,120	401	38,157	1,182
Cathay Life Insurance Ltd. (China)	(94,895)	(2,896)	(184,905)	(5,730)
Cathay Life Insurance (Vietnam) Co., Ltd.	1,674	51	(11,750)	(364)
Cathay Insurance Company Limited. (China)	(11,819)	(361)	(59,866)	(1,855)
Total	<u>\$(26,157)</u>	<u>\$(798)</u>	<u>\$(106,946)</u>	<u>\$(3,314)</u>

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- A. The equity investment gains (losses) were recognized based on investees' audited financial statements for the six months ended June 30, 2009, except for Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. of which the equity investment gains (losses) were recognized based on unaudited financial statements. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the six months ended June 30, 2009, were audited by other auditors. Unqualified audit reports were issued for all above investee companies except the Symphox Information Co., Ltd. and Cathay Venture Capital Corp., of which modified unqualified audited reports were issued.
- B. The equity investment gains (losses) were recognized based on investees' audited financial statements for the six months ended June 30, 2010, except for Wa Tech Venture Capital Co., Ltd., Omnitek Venture Capital Corp. and IBT Venture Capital Corp. of which the equity investment gains (losses) were recognized based on unaudited financial statements. The financial statements of WK Technology Fund VI Co., Ltd. and Cathay Securities Investment Trust Co., Ltd. for the six months ended June 30, 2010, were audited by other auditors. Unqualified audit reports were issued for all of the above investee companies.
- C. Effective from January 1, 2005, the Company adopted the revised R.O.C. SFAS No. 7 "Consolidated Financial Statements" revised on December 9, 2004. The adoption resulted in superseding the requirement that a subsidiary may be excluded from consolidation if its total assets and operating revenues are less than 10% of the parent's. In addition, the consolidated financial statements would not need to retroactively apply the revision of the Statement. Due to the insignificance of 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 six months ended June 30, 2009 and 2010. Cathay Insurance Company Limited. (China), acquired in 2009, was 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 the consolidated financial statements of the Company as of and for the six months ended June 30, 2010.

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15. Investments in real estate

June 30, 2009										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$130,058,488	\$3,968,828	\$4,712	\$144	\$(17,858,102)	\$(544,953)	\$(195,594)	\$(5,969)	\$112,009,504	\$3,418,050
Construction	2,503,700	76,402	-	-	-	-	-	-	2,503,700	76,402
Total	\$132,562,188	\$4,045,230	\$4,712	\$144	\$(17,858,102)	\$(544,953)	\$(195,594)	\$(5,969)	\$114,513,204	\$3,494,452
June 30, 2010										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$139,251,937	\$4,315,213	\$4,329	\$134	\$(19,658,738)	\$(609,195)	\$(140,701)	\$(4,360)	\$119,456,827	\$3,701,792
Prepayments for buildings and land	1,950,186	60,433	-	-	-	-	-	-	1,950,186	60,433
Construction	2,849,625	88,306	-	-	-	-	-	-	2,849,625	88,306
Total	\$144,051,748	\$4,463,952	\$4,329	\$134	\$(19,658,738)	\$(609,195)	\$(140,701)	\$(4,360)	\$124,256,638	\$3,850,531

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) The real estate investments are held mainly for lease business.
- (3) 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.
- (4) No investments in real estate were pledged as collateral.

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16. Property and equipment

Item	June 30, 2009									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,772,644	\$145,641	\$974	\$30	\$-	\$-	\$(51,331)	\$(1,567)	\$4,722,287	\$144,104
Buildings and										
construction	10,531,576	321,379	-	-	(3,732,029)	(113,886)	(34,188)	(1,043)	6,765,359	206,450
Computer equipment	2,154,146	65,735	-	-	(1,578,924)	(48,182)	-	-	575,222	17,553
Communication and										
transportation										
equipment	12,942	395	-	-	(11,594)	(354)	-	-	1,348	41
Other equipment	3,006,560	91,747	-	-	(2,338,760)	(71,368)	-	-	667,800	20,379
Subtotal	20,477,868	624,897	974	30	(7,661,307)	(233,790)	(85,519)	(2,610)	12,732,016	388,527
Construction in progress										
and prepayment for										
equipment	101,536	3,098	-	-	-	-	-	-	101,536	3,098
Total	\$20,579,404	\$627,995	\$974	\$30	\$(7,661,307)	\$(233,790)	\$(85,519)	\$(2,610)	\$12,833,552	\$391,625

Item	June 30, 2010									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,761,103	\$147,540	\$620	\$19	\$-	\$-	\$(67,146)	\$(2,081)	\$4,694,577	\$145,478
Buildings and										
construction	10,708,823	331,851	-	-	(4,009,874)	(124,261)	(73,265)	(2,270)	6,625,684	205,320
Computer equipment	2,177,879	67,489	-	-	(1,796,873)	(55,682)	-	-	381,006	11,807
Communication and										
transportation										
equipment	12,758	395	-	-	(12,026)	(373)	-	-	732	22
Other equipment	3,068,202	95,079	-	-	(2,522,492)	(78,168)	-	-	545,710	16,911
Subtotal	20,728,765	642,354	620	19	(8,341,265)	(258,484)	(140,411)	(4,351)	12,247,709	379,538
Construction in progress										
and prepayment for										
equipment	5,673	176	-	-	-	-	-	-	5,673	176
Total	\$20,734,438	\$642,530	\$620	\$19	\$(8,341,265)	\$(258,484)	\$(140,411)	\$(4,351)	\$12,253,382	\$379,714

No properties or equipment was pledged as collaterals as of June 30, 2009 and 2010.

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17. Computer software cost

Item	January 1, 2009		Increase		Decrease		June 30, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$1,101,193	\$33,604	\$112,958	\$3,447	\$-	\$-	\$1,214,151	\$37,051
Amortized and impairment:								
Amortized	(492,327)	(15,024)	(101,944)	(3,111)	-	-	(594,271)	(18,135)
Book value	\$608,866	\$18,580	\$11,014	\$336	\$-	\$-	\$619,880	\$18,916

Item	January 1, 2010		Increase		Decrease		June 30, 2010	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$1,293,201	\$40,074	\$40,498	\$1,255	\$-	\$-	\$1,333,699	\$41,329
Amortized and impairment:								
Amortized	(732,683)	(22,705)	(100,562)	(3,116)	-	-	(833,245)	(25,821)
Book value	\$560,518	\$17,369	\$(60,064)	\$(1,861)	\$-	\$-	\$500,454	\$15,508

18. Other overdue receivables

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$854,405	\$26,073	\$312,048	\$9,670
Less: Allowance for bad and doubtful debts	(347,263)	(10,597)	(101,838)	(3,156)
Total	\$507,142	\$15,476	\$210,210	\$6,514

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

Item	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$462,267	\$14,325
Add: Adjustment of valuation	4,853,764	148,116	6,412,585	198,717
Total	\$4,853,764	\$148,116	\$6,874,852	\$213,042

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20. Derivative financial liabilities for hedging - current

Item	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	202,616	6,183	373,723	11,581
Total	<u>\$202,616</u>	<u>\$6,183</u>	<u>\$373,723</u>	<u>\$11,581</u>

21. Preferred stock liabilities-noncurrent

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

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

- A. Issuance period covers from December 25, 2008, the issue date, to December 25, 2015, seven years in total.
- B. Dividend yield is 3.5% per year based on the actual issue price of NT\$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

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- D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.
- (2) In accordance with the resolution of the Board of Directors' meeting on October 29, 2009, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of NT\$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on December 14, 2009.

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

- A. Issuance period covers from December 16, 2009, the issue date, to December 16, 2016, seven years in total.
- B. Dividend yield is 2.9% per year based on the actual issue price of NT\$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- 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.

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22. Common stock

On April 29, 2010, the Company's Board of Directors resolved to issue 37,911 thousand shares of common stock at par value of NT\$10 as stock dividends which was then approved by the Insurance Bureau on May 24, 2010, and by Ministry of Economic affairs on June 14, 2010, respectively. The record date was set on June 7, 2010. As of June 30, 2009 and 2010, the total authorized thousand shares were 5,268,616 and 5,306,527, respectively, at par value of NT\$10 each.

23. Retained earnings

(1) Legal reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. Prior to 2007, 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 the reserve 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\$97,866) 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 risk-volatility reserves according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" are appropriated as special reserve when approved by stockholders' meeting in the following year. The retired reserves amounting to NT\$1,233,539 (US\$37,642) thousands and NT\$1,284,982 (US\$39,820) thousands for 2008 and 2009, respectively, were resolved by the Company's Board of Directors.

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(3) Undistributed retained earnings

- A. According to the Company's articles of incorporation, 20% of the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders' interests can be distributed to employees as employees' bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.
- B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the special reserve since 2007.
- D. The employee bonus and remuneration of directors for the six months ended June 30, 2009 and 2010, amounting to NT\$10,000 (US\$305) thousands and NT\$10,000 (US\$310) thousands, respectively, was accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.
- E. The Company's distribution of 2009 retained earnings has been approved by the board of directors. It has yet to be approved by the stockholders' meeting. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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24. Personnel expense 、 depreciation and amortizations

Item	For the six months ended June 30, 2009 NT\$			For the six months ended June 30, 2009 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$12,137,039	\$867,523	\$13,004,562	\$370,371	\$26,473	\$396,844
Labor & health insurance expenses	636,455	102,495	738,950	19,422	3,128	22,550
Pension expenses	400,729	64,533	465,262	12,229	1,969	14,198
Other expenses	560,565	103,159	663,724	17,106	3,148	20,254
Depreciation	-	1,164,658	1,164,658	-	35,540	35,540
Amortizations	-	101,944	101,944	-	3,111	3,111

Item	For the six months ended June 30, 2010 NT\$			For the six months ended June 30, 2010 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$12,331,508	\$969,645	\$13,301,153	\$382,135	\$30,048	\$412,183
Labor & health insurance expenses	747,024	121,979	869,003	23,149	3,780	26,929
Pension expenses	345,398	56,399	401,797	10,703	1,748	12,451
Other expenses	666,421	135,122	801,543	20,652	4,187	24,839
Depreciation	-	1,195,930	1,195,930	-	37,060	37,060
Amortizations	-	100,562	100,562	-	3,116	3,116

25. Estimated income taxes

The applicable income tax rate of the Company was 25%. In accordance with the amendment to the Income Tax law announced on May 27, 2009, the applicable Income Tax rate for the Company was reduced from 25% to 20% starting from 2010. Furthermore, in accordance with the recent amendment to the Income Tax law announced on June 15, 2010, the applicable Income Tax rate for the Company has been further reduced to 17% starting from 2010.

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

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$8,651,793	\$264,015	\$5,279,764	\$163,612
Total deferred tax liabilities	\$(3,334,690)	\$(101,760)	\$(293,412)	\$(9,092)
Allowance for deferred assets	\$-	\$-	\$-	\$-
Temporary differences:				
Pension expense	\$1,416,213	\$43,217	\$1,361,948	\$42,205
Unrealized foreign exchange (gains) losses	(5,787,024)	(176,595)	3,190,188	98,859
Gains from valuation on financial assets and liabilities	(7,551,736)	(230,447)	(1,725,952)	(53,485)
Impairment loss	732,021	22,338	1,302,936	40,376
Unrealized bad debt losses	229,865	7,015	455,551	14,117
Other	19,807	604	26,078	808
Total	\$(10,940,854)	\$(333,868)	\$4,610,749	\$142,880
Loss carryforwards	\$10,143,458	\$309,535	\$6,048,906	\$187,447
Tax effect under consolidated income tax system	\$(2,009,991)	\$(61,336)	\$(1,908,986)	\$(59,157)
Investment tax credits	\$38,253	\$1,167	\$62,605	\$1,940

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$42,638	\$1,301	\$609,308	\$18,881
Deferred tax liabilities - current	(3,334,690)	(101,760)	(293,412)	(9,092)
Net offset balance of deferred tax (liabilities) assets - current	\$(3,292,052)	\$(100,459)	\$315,896	\$9,789

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - noncurrent	\$8,609,155	\$262,714	\$4,670,456	\$144,731
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	\$8,609,155	\$262,714	\$4,670,456	\$144,731

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

	For the six months ended June 30			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$-	\$-	\$-	\$-
Add (less): Deferred income tax expense from bad debt expense	-	-	1,397	43
Deferred income tax (benefit) expense from foreign exchange (gain) loss	(1,819,163)	(55,513)	803,710	24,906
Deferred income tax expense (benefit) from financial instruments valuation loss (gain)	8,201,884	250,286	(2,551,351)	(79,063)
Deferred income tax (benefit) expense from pension expense	(6,010)	(183)	15,278	473
Deferred income tax expense from impairment loss	59,459	1,814	-	-
Deferred income tax benefit from loss carryforwards	(7,178,600)	(219,060)	(136,182)	(4,220)
Adjustments to the deferred tax liabilities or assets for the change in income tax rate	1,460,374	44,564	868,897	26,926
Others	22	1	24	1
Separation tax	42,482	1,296	3,910	121
Prior year adjustment	169,638	5,177	(22,784)	(706)
Income tax credit	(4,403)	(134)	-	-
Tax effects under income basic tax systems	-	-	183,175	5,676
Tax effects under integrated income tax systems	17,407	531	(37,319)	(1,156)
Total income tax expense (benefit)	<u>\$943,090</u>	<u>\$28,779</u>	<u>\$(871,245)</u>	<u>\$(26,999)</u>

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

(4) Information related to imputation

	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$1,139,060</u>	<u>\$34,759</u>	<u>\$1,565,729</u>	<u>\$48,520</u>

	June 30,	
	2009	2010
Imputation credit account ratio – actual (June 7, 2010)	-	33.33%
Imputation credit account ratio – actual	-(Note)	-

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

(5) Information related to undistributed earnings

Year	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
After 1998	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

Net (loss) income for the six months ended June 30, 2009 and 2010, were excluded from the undistributed earnings after year 1998.

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

Regulation	Deductible items	Amount of deductible		Remaining balance		Expiry Year
		income tax				
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$16,403	\$508	\$16,403	\$508	2011
Statute for Upgrading Industries	Education training	12,478	387	12,478	387	2012
Statute for Upgrading Industries	Education training	8,755	271	8,755	271	2013
Statute for Upgrading Industries	Investment in newly emerging, important and strategic industries	4,969	154	4,969	154	2011
Statute for Upgrading Industries	Hi-technology shareholders’ investment tax credit	20,000	620	20,000	620	2011
Total		<u>\$62,605</u>	<u>\$1,940</u>	<u>\$62,605</u>	<u>\$1,940</u>	

26. Earnings per share

	For the six months ended June 30, 2009			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$1,989,376</u>	<u>\$60,707</u>	<u>\$1,046,286</u>	<u>\$31,928</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
Reroactively Weighted average outstanding number of thousand shares (d)	5,306,527	5,306,527	5,306,527	5,306,527
Earnings per share (a) / (d) (dollars)				
Net income	<u>\$0.37</u>	<u>\$0.01</u>	<u>\$0.20</u>	<u>\$0.01</u>

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	For the six months ended June 30, 2010			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(7,943,118)</u>	<u>\$(246,146)</u>	<u>\$(7,071,873)</u>	<u>\$(219,147)</u>
Outstanding number of thousand shares at end of period (b)	5,306,527	5,306,527	5,306,527	5,306,527
Weighted average outstanding number of thousand shares (c)	5,306,527	5,306,527	5,306,527	5,306,527
Earnings per share (a) / (c) (dollars)				
Net loss (Note)	<u>\$(1.50)</u>	<u>\$(0.05)</u>	<u>\$(1.33)</u>	<u>\$(0.04)</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. (China)	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

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Name	Relationship
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. (China)	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

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

(A) Significant transactions with related parties for the six months ended June 30, 2009 and 2010, are listed below:

Name	Item	For the six months ended June 30, 2009	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Land Mark etc	\$13,344	\$407
Lin Yuan Property Management Co., Ltd.	International Building etc	57,264	1,748
Total		<u>\$70,608</u>	<u>\$2,155</u>

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Name	Item	For the six months ended June 30, 2010	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Land Mark etc	\$11,561	\$358
Lin Yuan Property Management Co., Ltd.	International Building etc	21,114	655
Total		<u>\$32,675</u>	<u>\$1,013</u>

The total amounts of contracted projects for real estate as of June 30, 2009 and 2010, between the Company and San Ching Engineering Co., Ltd. were NT\$76,224 (US\$2,326) thousands and NT\$3,198,425 (US\$99,115) thousands, respectively.

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

Name	Rental income			
	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$13,125	\$400	\$13,909	\$431
Cathay Real Estate Development Co., Ltd.	11,036	337	10,032	311
Cathay United Bank	165,439	5,048	179,899	5,575
Cathay Century Insurance Co., Ltd.	44,510	1,358	45,468	1,409
Cathay General Hospital	87,568	2,672	88,329	2,737
San Ching Engineering Co., Ltd.	4,908	150	4,653	144
Symphox Information Co., Ltd.	8,670	265	9,051	280
Cathay Securities Investment Trust Co., Ltd.	11,131	340	11,588	359
Cathay Securities Co., Ltd.	10,610	324	10,934	339
Cathay Securities Investment Consulting Co., Ltd.	4,593	140	4,764	148
Total	<u>\$361,590</u>	<u>\$11,034</u>	<u>\$378,627</u>	<u>\$11,733</u>

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Name	Guarantee deposits received			
	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,886	\$149	\$4,886	\$151
Cathay United Bank	68,143	2,079	71,606	2,219
Cathay Century Insurance Co., Ltd.	20,633	629	21,701	673
Cathay General Hospital	11,097	339	11,776	365
Cathay Securities Investment Trust Co., Ltd.	4,948	151	5,017	155
Cathay Securities Co., Ltd.	4,710	144	4,710	146
Cathay Financial Holding Co., Ltd.	5,964	182	5,964	185
Symphox Information Co., Ltd.	3,824	117	3,836	119
Total	<u>\$124,205</u>	<u>\$3,790</u>	<u>\$129,496</u>	<u>\$4,013</u>

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

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

Name	Rental expense			
	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$15,215	\$464	\$14,900	\$462
Cathay United Bank	5,629	172	11,500	356
Total	<u>\$20,844</u>	<u>\$636</u>	<u>\$26,400</u>	<u>\$818</u>

Name	Guarantee deposits paid			
	June 30, 2009		June 30, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,779	\$268	\$8,675	\$269
Cathay United Bank	-	-	8,693	269
Total	<u>\$8,779</u>	<u>\$268</u>	<u>\$17,368</u>	<u>\$538</u>

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

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B. Cash in banks

Name	Item	For the six months ended June 30, 2009		
		Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	Time deposit	\$29,605	0.10%-2.42%	\$16,342,086
	Cash in bank	1,415	0.02%-1.00%	4,682,365
Total		<u>\$31,020</u>		<u>\$21,024,451</u>

Name	Item	For the six months ended June 30, 2009		
		Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	Time deposit	\$904	0.10%-2.42%	\$498,690
	Cash in bank	43	0.02%-1.00%	142,886
Total		<u>\$947</u>		<u>\$641,576</u>

Name	Item	For the six months ended June 30, 2010		
		Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	Time deposit	\$26,103	0.10%-1.16%	\$37,376,520
	Cash in bank	1,344	0.02%-1.05%	5,190,746
Total		<u>\$27,447</u>		<u>\$42,567,266</u>

Name	Item	For the six months ended June 30, 2010		
		Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	Time deposit	\$809	0.10%-1.16%	\$1,158,244
	Cash in bank	42	0.02%-1.05%	160,853
Total		<u>\$851</u>		<u>\$1,319,097</u>

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C. Other financial assets

Name	For the six months ended June 30, 2009		
	Interest income		Ending balance
	NT\$	Rate	NT\$
Cathay United Bank	\$4,621	3.17%-3.73%	\$-

Name	For the six months ended June 30, 2009		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$141	3.17%-3.73%	\$-

D. Secured loans

Name	For the six months ended June 30, 2009			
	Maximum amount	Interest income		Ending balance
	NT\$	NT\$	Rate	NT\$
Cathay General Hospital	\$4,286,249	\$55,836	1.85%-3.91%	\$4,160,170
Other related parties	324,267	2,667	1.01%-5.37%	283,140
Total		\$58,503		\$4,443,310

Name	For the six months ended June 30, 2009			
	Maximum amount	Interest income		Ending balance
	US\$	US\$	Rate	US\$
Cathay General Hospital	\$130,798	\$1,704	1.85%-3.91%	\$126,951
Other related parties	9,895	81	1.01%-5.37%	8,640
Total		\$1,785		\$135,591

Name	For the six months ended June 30, 2010			
	Maximum amount	Interest income		Ending balance
	NT\$	NT\$	Rate	NT\$
Cathay General Hospital	\$4,286,249	\$39,760	1.85%-2.10%	\$3,891,491
Other related parties	327,719	2,682	1.16%-3.65%	316,397
Total		\$42,442		\$4,207,888

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Name	For the six months ended June 30, 2010			
	Maximum	Interest		Ending
	amount	income	Rate	balance
	US\$	US\$		US\$
Cathay General Hospital	\$132,825	\$1,232	1.85%-2.10%	\$120,592
Other related parties	10,156	83	1.16%-3.65%	9,804
Total		<u>\$1,315</u>		<u>\$130,396</u>

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

Name		June 30,			
		2009		2010	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds.	Market value	<u>\$4,003,827</u>	<u>\$122,180</u>	<u>\$2,298,226</u>	<u>\$71,219</u>
	Cost	<u>\$4,114,949</u>	<u>\$125,571</u>	<u>\$2,310,628</u>	<u>\$71,603</u>

F. Other accounts receivable

Name	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$177,421	\$5,414	\$126,545	\$3,921
Cathay Insurance (Bermuda) Co., Ltd.	25,330	773	-	-
Cathay Financial Holding Co., Ltd. (note)	4,097,190	125,029	5,168,226	160,156

Note : Receivables due to consolidated income tax.

G. Prepayments

Name	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$49,692</u>	<u>\$1,516</u>	<u>\$59,298</u>	<u>\$1,838</u>

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H. Other overdue receivable

Name	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (China)	\$265,211	\$8,093	\$204,097	\$6,325

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

I. Guarantee deposits paid

Name	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$453,945	\$13,852	\$215,056	\$6,664

As of June 30, 2009 and 2010, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$234 (US\$7) thousands and NT\$99 (US\$3) thousands, respectively.

J. Other payable

Name	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$31,121	\$950	\$26,116	\$809
Lin Yuan Property Management Co., Ltd.	9,351	285	10,733	333
San Ching Engineering Co., Ltd.	15,215	464	-	-
Cathay Financial Holding Co., Ltd. (Note)	270,383	8,251	404,151	12,524
Cathay Century Insurance Co., Ltd.	19,221	587	15,175	470

Note: Payables due to interest expense accrued from preferred stock and consolidated income tax.

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K. Premiums income

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$292,583	\$8,928	\$292,467	\$9,063
Cathay General Hospital	13,173	402	16,619	515
Cathay Century Insurance Co., Ltd.	4,440	136	4,771	148
Other related parties	182,019	5,554	38,060	1,179
Total	<u>\$492,215</u>	<u>\$15,020</u>	<u>\$351,917</u>	<u>\$10,905</u>

L. Insurance expense

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$99,749</u>	<u>\$3,044</u>	<u>\$85,659</u>	<u>\$2,654</u>

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$5,606 (US\$171) thousands and NT\$5,684 (US\$176) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the six months ended June 30, 2009 and 2010.

M. Indemnity income

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$5,840</u>	<u>\$178</u>	<u>\$6,666</u>	<u>\$207</u>

Included in above indemnity income for the six months ended June 30, 2009 and 2010, amounts of NT\$5,543 (US\$169) thousand and NT\$6,586 (US\$204) thousand were from fidelity bond insurance paid by the Company on behalf of its employees.

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N. Reinsurance income

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$43,966	\$1,342	\$53,043	\$1,644

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 six months ended June 30, 2009 and 2010, the Company assumed 60% and 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd, respectively.

O. Reinsurance service expenses

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$4,695	\$143	\$6,936	\$215

P. Reinsurance claims payment

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$54,332	\$1,658	\$38,393	\$1,190

Q. Miscellaneous income

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$531,934	\$16,232	\$498,815	\$15,458
Cathay United Bank	48,840	1,491	44,700	1,385
Cathay Securities Investment Trust Co., Ltd.	33,360	1,018	65,430	2,028
Cathay General Hospital	-	-	3,017	93
Total	\$614,134	\$18,741	\$611,962	\$18,964

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

R. Commissions expenses

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$15,434	\$471	\$16,828	\$521

S. Operating expenses

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$119,131	\$3,635	\$111,350	\$3,451
Lin Yuan Property Management Co., Ltd.	303,529	9,262	293,375	9,091
Cathay Securities Investment Consulting Co., Ltd.	11,340	346	11,340	351
Seaward Card Co., Ltd.	33,397	1,019	25,522	791
Cathay Capital Management Inc.	15,000	458	-	-
Seaward Leasing Co., Ltd.	5,853	179	6,533	202
Cathay United Bank	557,618	17,016	513,543	15,914
Cathay Pacific Venture Capital Co., Ltd.	-	-	10,506	326
Cathay Securities Co., Ltd.	-	-	19,016	589
Total	\$1,045,868	\$31,915	\$991,185	\$30,715

T. Non-operating expenses and losses

Name	For the six months ended June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$260,342	\$7,945	\$404,151	\$12,524

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

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U. Other

(A) As of June 30, 2009 and 2010, the nominal amounts of the financial instruments transactions with Cathay United Bank are listed below:

Item	June 30,	
	2009	2010
Forward foreign exchange contracts	USD630,000	USD738,409
CS contracts	USD5,065,858	USD3,077,691

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$800,000 (US\$24,413) thousands and NT\$570,000 (US\$17,663) thousands during the six months ended June 30, 2009 and 2010, respectively.

28. Pledged assets

As of June 30, 2009 and 2010, the Company provided cash and time deposits to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. Furthermore, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the “Guaranteed Depository Insurance”.

Item	June 30,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
- Government bonds	\$8,949,129	\$273,089	\$9,137,908	\$283,170
Guarantee deposits paid - Time deposits	105,950	3,233	31,900	989
Guarantee deposits paid - others	40,088	1,224	37,216	1,153
Total	<u>\$9,095,167</u>	<u>\$277,546</u>	<u>\$9,207,024</u>	<u>\$285,312</u>

Pledged assets are summarized based on the carrying amounts.

29. Other important matters and contingent liabilities

None.

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30. Serious damages

None.

31. Subsequent events

None.

32. Others

(1) Pension related information

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

(2) Separate account insurance products related information

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	June 30, 2009		Item	June 30, 2009	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$43,235	\$1,319	Other payable	\$3,576,472	\$109,138
Financial assets at fair value through profit or loss	224,799,940	6,859,931	Reserve for separate account	232,465,487	7,093,851
Interests receivable	198	6			
Other receivable	11,198,586	341,733			
Total	\$236,041,959	\$7,202,989	Total	\$236,041,959	\$7,202,989

Assets			Liabilities		
Item	June 30, 2010		Item	June 30, 2010	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$147,208	\$4,562	Other payable	\$2,336,861	\$72,416
Financial assets at fair value through profit or loss	249,625,206	7,735,519	Reserve for separate account	249,777,765	7,740,247
Other receivable	2,342,213	72,582	Adjustments	1	-
Total	\$252,114,627	\$7,812,663	Total	\$252,114,627	\$7,812,663

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B. Separate account insurance products - revenues and expenses

Expenses			Revenues		
Item	January 1-June 30, 2009		Item	January 1-June 30, 2009	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$2,524,970	\$77,051	Premiums income	\$23,087,990	\$704,546
Cash surrender value	9,005,251	274,802	Recovered separate		
Dividends	1,553	47	account reserve	8,033,934	245,161
Provision for separate			Interest income	3,267	100
account reserve	49,197,040	1,501,283	Gain from valuation on		
Losses on disposal of			financial assets	22,130,250	675,320
investments	2,302,191	70,253	Gains on foreign		
Administrative expenses	2,092,827	63,864	exchange	11,864,829	362,064
			Miscellaneous income	3,462	106
			Adjustments	100	3
Total	\$65,123,832	\$1,987,300	Total	\$65,123,832	\$1,987,300

Expenses			Revenues		
Item	January 1-June 30, 2010		Item	January 1-June 30, 2010	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$2,527,977	\$78,338	Premiums income	\$15,813,101	\$490,025
Cash surrender value	17,933,088	555,720	Recovered separate		
Dividends	311	10	account reserve	40,296,695	1,248,735
Provision for separate			Interest income	1,884	58
account reserve	18,624,223	577,138	Gains on disposal of		
Losses from valuation on			investments	161,208	4,996
financial assets	10,553,979	327,052	Miscellaneous income	3,228	100
Loss on foreign exchange	4,472,693	138,602			
Administrative expenses	2,163,844	67,054			
Adjustment	1	-			
Total	\$56,276,116	\$1,743,914	Total	\$56,276,116	\$1,743,914

C. The commission earned for the sales of separate account insurance products from counterparties for the six months ended June 30, 2009 and 2010, were NT\$1,261,153 (US\$38,485) thousands and NT\$414,465 (US\$12,844) thousands, respectively.

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(3) Discretionary account management

Item	June 30, 2009			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,651,709	\$111,434	\$3,651,709	\$111,434
Repurchase bonds	5,193,400	158,480	5,193,400	158,480
Cash in banks	700,446	21,375	700,446	21,375
Total	<u>\$9,545,555</u>	<u>\$291,289</u>	<u>\$9,545,555</u>	<u>\$291,289</u>

Item	June 30, 2010			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$4,545,341	\$140,853	\$4,545,341	\$140,853
Repurchase bonds	4,162,510	128,990	4,162,510	128,990
Beneficiary certificates	13,641	423	13,641	423
Futures and options	12,393	384	12,393	384
Cash in banks	519,257	16,091	519,257	16,091
Total	<u>\$9,253,142</u>	<u>\$286,741</u>	<u>\$9,253,142</u>	<u>\$286,741</u>

As of June 30, 2009 and 2010, the Company entered into discretionary account management contracts in the amounts of NT\$9,300,000 (US\$283,796) thousands and NT\$8,300,000 (US\$257,205) thousands, respectively.

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

(5) Financial risk management objectives and policies

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

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

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

Market Risk

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

Credit Risk

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

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

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

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

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

Operational Risk

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

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has primarily sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

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Country Risk

Country risk is the risk of market price fluctuation or default of the issuers due to the political or economical issues in the country where investments are located. The Company categorizes and manages the investment risk based on each country or region, as well as regularly monitors the concentration of foreign countries to minimize its country risk.

(6) Financial instruments related information

A. Fair value

Item	June 30, 2009			
	NTS		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$247,822,244	\$247,822,244	\$ 7,562,473	\$ 7,562,473
Notes and accounts receivable	50,492,300	50,492,300	1,540,809	1,540,809
Financial assets at fair value through profit or loss - current	71,146,713	71,146,713	2,171,093	2,171,093
Available-for-sale financial assets - current	135,565,155	135,565,155	4,136,868	4,136,868
Held-to-maturity financial assets - current	30,176,218	28,029,011	920,849	855,325
Investments in debt securities with no active market - current	4,534,726	4,413,892	138,380	134,693
Other financial assets - current	8,000,000	8,000,000	244,126	244,126
Available-for-sale financial assets - noncurrent	230,872,988	230,872,988	7,045,255	7,045,255
Held-to-maturity financial assets - noncurrent	654,456,134	640,193,916	19,971,197	19,535,975
Financial assets carried at cost - noncurrent	19,202,400	-	585,975	-
Investments in debt securities with no active market - noncurrent	139,768,341	127,397,676	4,265,131	3,887,631
Long-term investments under the equity method	5,968,307	5,968,307	182,127	182,127
Other financial assets – noncurrent	11,300,000	11,300,000	344,828	344,828
Guarantee deposits paid	11,864,922	11,864,922	362,067	362,067
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	10,400,942	10,400,942	317,393	317,393
Preferred stock liability –noncurrent	15,000,000	15,413,340	457,736	470,349
Guarantee deposits received	1,613,269	1,613,269	49,230	49,230

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Item	June 30, 2009			
	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, CCS	12,782,343	12,782,343	390,062	390,062
IRS, CDS	205,509	205,509	6,271	6,271
Derivative financial assets for hedging - current				
IRS, CDS	1,924,839	1,924,839	58,738	58,738
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS, CCS	4,619,687	4,619,687	140,973	140,973
IRS, CDS	234,077	234,077	7,143	7,143
Derivative financial liabilities for hedging - current				
IRS, CDS	202,616	202,616	6,183	6,183
Item	June 30, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$436,746,054	\$436,746,054	\$13,534,120	\$13,534,120
Notes and accounts receivable	64,290,410	64,290,410	1,992,266	1,992,266
Financial assets at fair value through profit or loss - current	39,152,476	39,152,476	1,213,278	1,213,278
Available-for-sale financial assets - current	216,432,320	216,432,320	6,706,920	6,706,920
Held-to-maturity financial assets - current	24,641,648	24,706,670	763,609	765,623
Investments in debt securities with no active market - current				
	8,915,139	8,919,544	276,267	276,404
Other financial assets - current	7,000,000	7,000,000	216,920	216,920
Available-for-sale financial assets - noncurrent	302,389,868	302,389,868	9,370,619	9,370,619
Held-to-maturity financial assets - noncurrent	634,785,250	652,467,056	19,671,064	20,218,998
Financial assets carried at cost - noncurrent	10,252,684	-	317,716	-
Investments in debt securities with no active market - noncurrent				
	195,918,784	197,525,738	6,071,236	6,121,033
Long-term investments under the equity method	4,753,828	4,753,828	147,314	147,314
Other financial assets – noncurrent	34,800,000	34,800,000	1,078,401	1,078,401
Guarantee deposits paid	11,133,800	11,133,800	345,020	345,020

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Item	June 30, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	39,104,459	39,104,459	1,211,790	1,211,790
Preferred stock liability –noncurrent	25,000,000	26,412,430	774,713	818,482
Guarantee deposits received	1,664,558	1,664,558	51,582	51,582
<u>Assets – derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	8,600,864	8,600,864	266,528	266,528
IRS, CDS	13,718	13,718	425	425
Derivative financial assets for hedging - current				
IRS, CDS	2,499,095	2,499,095	77,443	77,443
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS, CCS	5,967,117	5,967,117	184,912	184,912
IRS, CDS	907,734	907,734	28,129	28,129
Derivative financial liabilities for hedging - current				
IRS, CDS	373,723	373,723	11,581	11,581

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

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

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- 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 June 30, 2009 and 2010, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	June 30, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$179,325,101	\$5,472,234	\$68,497,143	\$2,090,239
Notes and accounts receivable	-	-	50,492,300	1,540,809
Financial assets at fair value through profit or loss - current	70,575,613	2,153,665	571,100	17,428
Available-for-sale financial assets - current	135,159,298	4,124,483	405,857	12,385
Held-to-maturity financial assets - current	2,824,968	86,206	25,204,043	769,119
Investments in debt securities with no active market - current	-	-	4,413,892	134,693
Other financial assets-current	-	-	8,000,000	244,126
Available-for-sale financial assets - noncurrent	229,495,919	7,003,232	1,377,069	42,023
Held-to-maturity financial assets - noncurrent	95,403,027	2,911,291	544,790,889	16,624,684
Investment in debt securities with no active market – noncurrent	4,642,752	141,677	122,754,924	3,745,954
Long-term investments under the equity method	-	-	5,968,307	182,127
Other financial assets - noncurrent	-	-	11,300,000	344,828
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	10,400,942	317,393
Preferred stock liability - noncurrent	-	-	15,413,340	470,349

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Financial instruments	June 30, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets – derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	-	-	12,782,343	390,062
IRS, CDS	-	-	205,509	6,271
Derivative financial assets for hedging – current				
IRS, CDS	-	-	1,924,839	58,738
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	-	-	4,619,687	140,973
IRS, CDS	-	-	234,077	7,143
Derivative financial liabilities for hedging – current				
IRS, CDS	-	-	202,616	6,183
Financial instruments	June 30, 2010			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$393,530,819	\$12,194,943	\$43,215,235	\$1,339,177
Notes and accounts receivable	-	-	64,290,410	1,992,266
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - current	38,852,937	1,203,996	299,539	9,282
Held-to-maturity financial assets - current	209,611,702	6,495,559	6,820,618	211,361
Investments in debt securities with no active market - current	7,102,232	220,091	17,604,338	545,532
Other financial assets-current	-	-	8,919,544	276,404
Available-for-sale financial assets - noncurrent	-	-	7,000,000	216,920
Held-to-maturity financial assets - noncurrent	284,700,026	8,822,437	17,689,842	548,182
Investment in debt securities with no active market – noncurrent	42,504,683	1,317,158	609,962,373	18,901,840
Long-term investments under the equity method	-	-	197,525,738	6,121,033
Other financial assets - noncurrent	-	-	4,753,828	147,314
	-	-	34,800,000	1,078,401

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Financial instruments	June 30, 2010			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities-non-derivative</u>				
Notes and accounts payable	-	-	39,104,459	1,211,790
Preferred stock liability - noncurrent	-	-	26,412,430	818,482
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Forward, CS, CCS	-	-	8,600,864	266,528
IRS, CDS	-	-	13,718	425
Derivative financial assets for hedging – current				
IRS, CDS	-	-	2,499,095	77,443
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS, CCS	-	-	5,967,117	184,912
IRS, CDS	-	-	907,734	28,129
Derivative financial liabilities for hedging – current				
IRS, CDS	-	-	373,723	11,581

B. Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at June 30, 2009 and 2010:

① June 30, 2009

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$2,357,733	\$71,948	\$424,327	\$12,949	\$1,612,720	\$49,213	\$1,127,958	\$34,420
Available-for-sale financial assets	342,750	10,459	4,797,986	146,414	6,718,424	205,018	15,595,465	475,906
Held-to-maturity financial assets	210,681,697	6,429,103	20,040,138	611,539	7,537,126	230,001	21,572,815	658,310
Investments in debt securities with								
no active market	4,534,726	138,380	5,869,291	179,106	6,043,204	184,413	6,898,360	210,509
Preferred stock liability	-	-	-	-	-	-	-	-

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Item	Due in 4-5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$1,088,439	\$33,215	\$2,197,109	\$67,046	\$8,808,286	\$268,791
Available-for-sale financial assets	12,948,998	395,148	77,774,468	2,373,344	118,178,091	3,606,289
Held-to-maturity financial assets	29,272,590	893,274	338,266,814	10,322,454	627,371,180	19,144,681
Investments in debt securities with						
no active market	3,240,304	98,880	98,539,922	3,007,016	125,125,807	3,818,304
Preferred stock liability	-	-	15,000,000	457,736	15,000,000	457,736

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	\$269,064	\$ 8,211	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	115,015,896	3,509,792	-	-	-	-	-	-
Held-to-maturity financial assets	57,261,171	1,747,366	-	-	-	-	-	-
Investments in debt securities with								
no active market	19,177,261	585,208	-	-	-	-	-	-

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	\$-	\$-	\$-	\$-	\$269,064	\$8,211
Available-for-sale financial assets	-	-	-	-	115,015,896	3,509,792
Held-to-maturity financial assets	-	-	-	-	57,261,171	1,747,366
Investments in debt securities with						
no active market	-	-	-	-	19,177,261	585,208

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Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$18,688	\$570	\$38,214	\$1,166	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	-	-	22,645	691	14,232	434	88,479	2,700
Financial liabilities at fair value								
through profit or loss	1,005	31	112,605	3,436	-	-	-	-
Derivative financial liabilities for								
hedging	13,938	425	22,795	696	-	-	-	-

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	\$307	\$10	\$-	\$-	\$57,209	\$1,746
Derivative financial assets for						
hedging	617,381	18,840	1,102,323	33,638	1,845,060	56,303
Financial liabilities at fair value						
through profit or loss	4,907	150	-	-	118,517	3,617
Derivative financial liabilities for						
hedging	-	-	-	-	36,733	1,121

② June 30, 2010

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	\$14,867	\$461	\$2,546,488	\$78,912	\$1,688,490	\$52,324	\$63,639	\$1,972
Available-for-sale financial assets	11,988,104	371,494	15,376,243	476,487	24,778,142	767,838	10,950,380	339,336
Held-to-maturity financial assets	191,724,598	5,941,264	15,145,605	469,340	24,815,787	769,005	30,375,302	941,286
Investments in debt securities with								
no active market	8,765,650	271,634	17,940,721	555,957	8,893,773	275,605	3,647,370	113,027
Preferred stock liability	-	-	-	-	-	-	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$232,920	\$7,218	\$7	\$-	\$4,546,411	\$140,887
Available-for-sale financial assets	21,616,779	669,872	105,808,670	3,278,856	190,518,318	5,903,883
Held-to-maturity financial assets	18,634,840	577,467	320,223,275	9,923,250	600,919,407	18,621,612
Investments in debt securities with						
no active market	18,558,955	575,115	128,548,870	3,983,541	186,355,339	5,774,879
Preferred stock liability	-	-	25,000,000	774,713	25,000,000	774,713

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	\$79,862	\$2,475	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	132,538,425	4,107,172	-	-	-	-	-	-
Held-to-maturity financial assets	58,507,490	1,813,061	-	-	-	-	-	-
Investments in debt securities with								
no active market	18,478,584	572,624	-	-	-	-	-	-

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	\$-	\$-	\$-	\$-	\$79,862	\$2,475
Available-for-sale financial assets	-	-	-	-	132,538,425	4,107,172
Held-to-maturity financial assets	-	-	-	-	58,507,490	1,813,061
Investments in debt securities with						
no active market	-	-	-	-	18,478,584	572,624

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Derivative financial instruments

Item	Less than one year		Due in 1-2 years		Due in 2-3 years		Due in 3-4 years	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value								
through profit or loss	\$13,718	\$425	\$-	\$-	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	11,680	362	16,299	505	166,716	5,166	728,562	22,577
Financial liabilities at fair value								
through profit or loss	74,525	2,309	-	-	-	-	30,979	960
Derivative financial liabilities for								
hedging	10,646	330	-	-	-	-	-	-
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	\$-	\$-	\$-	\$-	\$13,718	\$425		
Derivative financial assets for								
hedging	989,707	30,670	87,500	2,711	2,000,464	61,991		
Financial liabilities at fair value								
through profit or loss	147,431	4,569	-	-	252,935	7,838		
Derivative financial liabilities for								
hedging	-	-	-	-	10,646	330		

C. Credit risk

The Company's exposure to credit risk is minimal.

D. Hedged accounting disclosures

Cash flow hedges – IRS

The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at June 30, 2009 and 2010:

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,103	4.000%-6ml	Half year	2010.4.7
300,000	9,155	4.0002%-6ml	Half year	2010.4.7
500,000	15,258	4.0006%-6ml	Half year	2010.4.7
500,000	15,258	4.0007%-6ml	Half year	2010.4.7
200,000	6,103	4.0003%-6ml	Half year	2010.4.7
300,000	9,155	4.3%-12ml	Yearly	2010.6.20
900,000	27,464	90DCP	Each quarter	2010.8.18
600,000	18,309	90DCP	Each quarter	2010.8.19
200,000	6,103	6.3%-6ml	Yearly	2010.11.27
300,000	9,155	5.37%-6ml	Yearly	2011.3.15
500,000	15,258	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	61,031	90DCP	Each quarter	2011.9.9
1,000,000	30,516	90DCP	Each quarter	2012.6.26
2,000,000	61,031	90DCP	Yearly	2013.3.26
2,700,000	82,392	90DCP+25bps	Each quarter	2013.8.24
3,000,000	91,547	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	61,031	90DCP	Yearly	2013.11.3
1,000,000	30,516	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,258	90DCP+23bps	Yearly	2013.12.14
1,500,000	45,774	90DCP+23bps	Yearly	2013.12.16
1,000,000	30,516	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,464	90DCP	Yearly	2014.3.12
1,000,000	30,516	90DCP	Yearly	2014.6.12
2,000,000	61,031	90DCP	Yearly	2014.6.29
5,000,000	152,579	90DCP	Yearly	2014.8.23
1,000,000	30,516	90DCP	Yearly	2014.9.20
3,200,000	97,650	90DCP	Yearly	2014.9.27
2,000,000	61,031	90DCP	Each quarter	2014.9.28
1,500,000	45,774	90DCP	Yearly	2014.9.29
2,500,000	76,289	90DCP	Yearly	2014.12.20
2,000,000	61,031	90DCP	Yearly	2014.12.24

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② June 30, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$900,000	\$27,890	90DCP	Each quarter	2010.8.18
600,000	18,593	90DCP	Each quarter	2010.8.19
200,000	6,198	6.3%-6ml	Yearly	2010.11.27
300,000	9,297	5.37%-6ml	Yearly	2011.3.15
500,000	15,494	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	61,977	90DCP	Each quarter	2011.9.9
1,000,000	30,989	90DCP	Each quarter	2012.6.26
2,000,000	61,977	90DCP	Each quarter	20.12.9.9
2,000,000	61,977	90DCP	Each quarter	2012.10.11
700,000	21,692	90DCP	Each quarter	2012.11.24
2,000,000	61,977	90DCP	Yearly	2013.3.26
2,425,000	75,147	90DCP	Each quarter	2013.4.24
3,600,000	111,559	90DCP	Each quarter	2013.6.8
2,700,000	83,669	90DCP+25bps	Each quarter	2013.8.24
3,000,000	92,966	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	61,977	90DCP	Yearly	2013.11.3
1,000,000	30,989	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,494	90DCP+23bps	Yearly	2013.12.14
1,500,000	46,483	90DCP+23bps	Yearly	2013.12.16
1,000,000	30,989	90DCP+26.5bps	Yearly	2013.12.16
900,000	27,890	90DCP	Yearly	2014.3.12
1,000,000	30,989	90DCP	Yearly	2014.6.12
2,000,000	61,977	90DCP	Yearly	2014.6.29
5,000,000	154,943	90DCP	Yearly	2014.8.23
1,000,000	30,989	90DCP	Yearly	2014.9.20
3,200,000	99,163	90DCP	Yearly	2014.9.27
2,000,000	61,977	90DCP	Each quarter	2014.9.28
1,500,000	46,483	90DCP	Yearly	2014.9.29
2,500,000	77,471	90DCP	Yearly	2014.12.20
2,000,000	61,977	90DCP	Yearly	2014.12.24
2,543,500	78,819	90DCP	Each quarter	2016.10.23
900,000	27,890	90DCP	Each quarter	2016.10.24

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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 June 30, 2009 and 2010, unrealized gains on these financial instruments recognized in equity were NT\$1,961,118 (US\$60,772) thousands and NT\$2,014,342 (US\$62,422) thousands, respectively.

Fair value hedges

① The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at June 30, 2009 and 2010:

A. June 30, 2009

<u>Par value</u>		
US\$	Hedge item	Maturity date
45,000	CDO	2012.9.20
7,000	Structured notes	2014.3.20
3,000	Structured notes	2014.3.20

B. June 30, 2010

<u>Par value</u>		
US\$	Hedge item	Maturity date
20,000	CDO	2012.6.20

The terms of credit default swap agreements are established based on the terms of the bonds being hedged.

The Company's credit default swap agreements are considered to be highly effective fair value hedges. As of June 30, 2009, unrealized losses on these financial instruments recognized in profit and loss were NT\$80,050 (US\$2,443) recorded as gains from valuation on financial assets by NT\$4,298 (US\$131) thousands and losses from valuation on financial liabilities by NT\$84,348 (US\$2,574) thousands, respectively.

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As of June 30, 2009 and 2010

As of June 30, 2010, unrealized gains on these financial instruments recognized in profit and loss was NT\$171,246 (US\$5,307) thousands recorded as gains from valuation on financial assets by NT\$171,246 (US\$5,307) thousands.

② The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at June 30, 2010 and 2009:

A. June 30, 2009

None.

B. June 30, 2010

Par value		
US\$	Hedge item	Maturity date
30,000	Debenture with no active market	2019.9.30
20,000	Debenture with no active market	2019.10.7
20,000	Debenture with no active market	2019.12.1
30,000	Debenture with no active market	2020.5.4
30,000	Debenture with no active market	2040.5.17
30,000	Debenture with no active market	2040.5.18

The Company's interest rate swap agreements are considered to be highly effective fair value hedges. As of June 30, 2010, unrealized losses on these financial instruments recorded as losses from valuation on financial assets by \$143,750 (US\$4,455) thousands and losses from valuation on financial liabilities by \$363,077 (US\$11,251) thousands, respectively.

33. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 thousands and US\$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004. As of June 30, 2010, the Company's remittances to this company totaled approximately US\$48,330 thousands.

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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. (China) has acquired a business license of an enterprise as legal person on August 26, 2008. As of June 30, 2010, the Company's remittances to this general insurance company totaled approximately US\$28,140 thousands.

34. Segment Information

Not applicable.⁵