

**Cathay Life Insurance Co., Ltd.**  
**Consolidated Financial Statements**  
**As of December 31, 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

Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2009 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the Republic of China.

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
March 7, 2011

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 audit such financial statements are those generally accepted and applied in the Republic of China.

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated balance sheets**  
**As of December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

Assets	Notes	December 31, 2009		December 31, 2010	
		NTS	US\$	NTS	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4,27	\$340,135,981	\$10,645,884	\$362,793,540	\$12,450,019
Financial assets at fair value through profit or loss - current	2,5,13,27,28	99,991,955	3,129,639	109,832,482	3,769,131
Available-for-sale financial assets - current	2,6,13,27	191,842,643	6,004,465	254,415,314	8,730,793
Held-to-maturity financial assets - current	2,13,28	13,274,664	415,482	16,311,312	559,757
Derivative financial assets for hedging - current	2,7	2,760,045	86,386	1,888,598	64,811
Investments in debt securities with no active market-current		5,162,576	161,583	4,783,583	164,159
Notes receivable - net of bad debt allowance	2	7,363,571	230,472	5,510,539	189,106
Premiums receivable		23,075	722	49,918	1,713
Prepaid reinsurance premium		6,514,143	203,885	6,263,909	214,959
Claims recoverable from reinsurers		10,963	343	3,003	103
Due from reinsurers and ceding companies		22,557	706	9,612	330
Other accounts receivable - net of bad debt allowance	2,27	38,378,390	1,201,202	51,849,153	1,779,312
Other financial assets - current		2,000,000	62,598	7,000,000	240,220
Prepayments		52,897	1,656	62,594	2,148
Deferred income tax assets - current	2,25	-	-	3,471,279	119,124
Other current assets		274,956	8,605	337,518	11,582
Subtotal		<u>707,808,416</u>	<u>22,153,628</u>	<u>824,582,354</u>	<u>28,297,267</u>
<b>Loans</b>					
Policy loans	2,8,27	195,193,636	6,109,347	191,024,840	6,555,417
Secured loans - net of bad debt allowance		310,951,882	9,732,453	290,601,074	9,972,583
Subtotal		<u>506,145,518</u>	<u>15,841,800</u>	<u>481,625,914</u>	<u>16,528,000</u>
<b>Funds and investments</b>					
Available-for-sale financial assets - noncurrent	2,9,13	258,476,016	8,090,016	325,997,194	11,187,275
Held-to-maturity financial assets - noncurrent	2,10,13,28	651,988,070	20,406,513	606,846,721	20,825,214
Financial assets carried at cost - noncurrent	2,11	20,092,425	628,871	9,115,550	312,819
Investments in debt securities with no active market-noncurrent	2,12	146,351,445	4,580,640	355,578,928	12,202,434
Long-term investments in stocks under the equity method	2,14	2,136,371	66,866	1,976,288	67,820
Investments in real estate - net of accumulated depreciation and impairment	2,15	117,275,507	3,670,595	126,171,467	4,329,837
Other financial assets - noncurrent	27	36,300,000	1,136,150	27,600,000	947,152
Subtotal		<u>1,232,619,834</u>	<u>38,579,651</u>	<u>1,453,286,148</u>	<u>49,872,551</u>
<b>Property and equipment</b>					
Land	2,16,27	4,780,581	149,627	4,627,560	158,804
Buildings and construction		10,671,821	334,016	10,731,952	368,289
Computer equipment		2,436,277	76,253	2,413,476	82,823
Communication and transportation equipment		16,503	517	16,287	559
Other equipment		3,588,543	112,317	3,698,381	126,918
Leasehold improvements		90,056	2,819	94,764	3,252
Revaluation increments		583	18	620	21
Less: Accumulated depreciation		(8,666,601)	(271,255)	(9,262,712)	(317,869)
Less: Accumulated impairment		(85,519)	(2,677)	(140,412)	(4,818)
Construction in progress and prepayment for equipment		20,636	646	12,066	414
Subtotal		<u>12,852,880</u>	<u>402,281</u>	<u>12,191,982</u>	<u>418,393</u>
<b>Intangible assets</b>					
Computer software cost	2	737,474	23,082	529,505	18,171
Subtotal		<u>737,474</u>	<u>23,082</u>	<u>529,505</u>	<u>18,171</u>
<b>Other assets</b>					
Guarantee deposits paid	2,27,28	12,177,014	381,127	11,599,376	398,057
Deferred income tax assets - noncurrent	2,25	5,191,441	162,486	4,665,465	160,105
Other overdue receivables	2,18	6,822	214	3,330	114
Separate account products assets	2,32(2)	274,311,184	8,585,640	269,250,514	9,239,894
Other assets - other		1,883,167	58,941	1,676,592	57,536
Subtotal		<u>293,569,628</u>	<u>9,188,408</u>	<u>287,195,277</u>	<u>9,855,706</u>
<b>Total assets</b>		<u>\$2,753,733,750</u>	<u>\$86,188,850</u>	<u>\$3,059,411,180</u>	<u>\$104,990,088</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NTS\$31.95 and NTS\$29.14 to US\$1.00, respectively)

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

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated balance sheets - (continued)**  
**As of December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	December 31, 2009		December 31, 2010	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Financial liabilities at fair value through profit or loss - current	2,19	\$2,446,234	\$76,565	\$2,602,904	\$89,324
Derivative financial liabilities for hedging - current	2,20	28,722	899	11,205	385
Notes payable		1,799	56	1,368	47
Commissions payable		910,227	28,489	1,159,001	39,774
Life insurance proceeds payable		83,508	2,614	80,565	2,765
Due to reinsurers and ceding companies		2,555,438	79,983	3,881,791	133,211
Other payable	2,27	12,634,353	395,441	37,011,464	1,270,126
Accounts collected in advance	27	250,941	7,854	267,905	9,194
Deferred income tax liabilities-current	2,25	1,407,046	44,039	-	-
Other current liabilities		13,155	412	9,582	328
Subtotal		20,331,423	636,352	45,025,785	1,545,154
<b>Long-term liabilities</b>					
Reserve for land revaluation increment tax	2	3,487	109	3,487	120
Accrued pension liabilities	2,32(1)	1,438,340	45,018	1,284,007	44,063
Preferred stock liability - noncurrent	2,21	25,000,000	782,473	25,000,000	857,927
Subtotal		26,441,827	827,600	26,287,494	902,110
<b>Reserve for operations and liabilities</b>	2				
Unearned premium reserve		11,010,652	344,621	11,982,375	411,200
Reserve for life insurance liabilities		2,281,954,005	71,422,660	2,560,718,057	87,876,391
Special reserve		15,343,466	480,234	10,557,496	362,303
Reserve for claims		1,709,576	53,508	3,649,863	125,253
Premium deficiency reserve		3,558,227	111,369	10,064,101	345,371
Subtotal		2,313,575,926	72,412,392	2,596,971,892	89,120,518
<b>Other liabilities</b>					
Guarantee deposits received	27	1,621,493	50,751	1,665,937	57,170
Separate account products liabilities	2,32(2)	274,311,184	8,585,640	269,250,514	9,239,894
Other liabilities - other		3,180,452	99,544	5,019,981	172,271
Subtotal		279,113,129	8,735,935	275,936,432	9,469,335
Total liabilities		2,639,462,305	82,612,279	2,944,221,603	101,037,117
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	2,22	52,686,158	1,649,019	53,065,274	1,821,046
Capital surplus	2	13,009,649	407,188	13,009,649	446,453
<b>Retained earnings</b>	2,23				
Legal reserve		20,328,674	636,265	20,861,134	715,893
Special reserve		20,402,545	638,577	21,687,527	744,253
Unappropriated retained earnings		2,662,301	83,327	(6,515,586)	(223,596)
<b>Equity adjustment</b>					
Unrealized gains on financial instruments	2	4,081,157	127,736	12,057,721	413,786
Unrealized revaluation increments	2	1,462	46	1,462	50
Cumulative conversion adjustments	2	(42,249)	(1,322)	(401,935)	(13,793)
Minority interests		1,141,748	35,735	1,424,331	48,879
Total stockholders' equity		114,271,445	3,576,571	115,189,577	3,952,971
Total liabilities and stockholders' equity		\$2,753,733,750	\$86,188,850	\$3,059,411,180	\$104,990,088

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT\$31.95 and NT\$29.14 to US\$1.00, respectively)

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

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of income**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars, except earnings per share)**

Item	Notes	January 1-December 31, 2009		January 1-December 31, 2010	
		NTS	US\$	NTS	US\$
Operating revenues	2,27				
Premiums income		\$444,942,672	\$13,926,218	\$517,991,339	\$17,775,955
Reinsurance commission earned		7,782,604	243,587	9,253,884	317,566
Claims recovered from reinsures		2,070,107	64,792	12,297,620	422,019
Recovered premiums reserve		203,892,243	6,381,604	237,233,830	8,141,175
Recovered special reserve		1,515,416	47,431	5,094,735	174,836
Recovered claims reserve		1,518,048	47,513	1,715,354	58,866
Handling fees earned	32(2)	3,812,714	119,334	2,212,673	75,932
Interest income		73,927,787	2,313,859	77,926,783	2,674,220
Gains from valuation on financial assets		14,982,425	468,934	52,820,221	1,812,636
Gains from valuation on financial liabilities		28,302,061	885,824	-	-
Gains on long-term equity investments		127,265	3,983	150,542	5,166
Gains on disposal of investments		-	-	33,845,147	1,161,467
Gains on investments - real estate		6,621,921	207,259	5,855,208	200,934
Separate account products revenues	32(2)	144,514,945	4,523,159	137,757,473	4,727,436
Other operating income		1,105,992	34,616	1,429,861	49,069
Subtotal		<u>935,116,200</u>	<u>29,268,113</u>	<u>1,095,584,670</u>	<u>37,597,277</u>
Operating costs	2,27				
Reinsurance premiums ceded		(6,304,068)	(197,310)	(23,753,301)	(815,144)
Brokerage expenses	24	(15,087,963)	(472,237)	(14,921,184)	(512,052)
Commissions expenses		(12,918,731)	(404,342)	(15,145,064)	(519,734)
Insurance claims payment		(232,502,119)	(7,277,062)	(285,442,297)	(9,795,549)
Provision for premiums reserve		(455,277,763)	(14,249,695)	(521,527,624)	(17,897,310)
Provision for special reserve		(721,153)	(22,571)	(308,857)	(10,599)
Contribution to the stabilization funds		(441,854)	(13,829)	(514,868)	(17,669)
Provision for claims reserve		(1,714,878)	(53,674)	(3,667,933)	(125,873)
Provision for premium deficiency reserve		(866,889)	(27,133)	(6,619,826)	(227,173)
Handling fees paid		(1,525,415)	(47,744)	(1,506,058)	(51,684)
Interest expenses		(43,316)	(1,356)	(21,497)	(738)
Losses from valuation on financial liabilities		-	-	(443,026)	(15,203)
Losses on foreign exchange		(19,187,755)	(600,556)	(79,929,888)	(2,742,961)
Losses on disposal of investments		(26,262,258)	(821,980)	-	-
Separate account products expenses	32(2)	(144,514,945)	(4,523,159)	(137,757,473)	(4,727,436)
Other operating cost		(1,168,078)	(36,560)	(1,434,844)	(49,239)
Subtotal		<u>(918,537,185)</u>	<u>(28,749,208)</u>	<u>(1,092,993,740)</u>	<u>(37,508,364)</u>
Operating gross profit		<u>16,579,015</u>	<u>518,905</u>	<u>2,590,930</u>	<u>88,913</u>
Operating expenses	2,17,23,24,27				
Marketing expenses		(4,497,498)	(140,766)	(5,291,365)	(181,584)
Administrative and general expenses		(8,051,554)	(252,005)	(8,602,476)	(295,212)
Research and development expenses		(19,709)	(617)	(28,753)	(987)
Subtotal		<u>(12,568,761)</u>	<u>(393,388)</u>	<u>(13,922,594)</u>	<u>(477,783)</u>
Operating income (loss)		<u>4,010,254</u>	<u>125,517</u>	<u>(11,331,664)</u>	<u>(388,870)</u>
Non-operating revenues and gains	2,27				
Gains on disposal of property and equipment		173	5	-	-
Other non-operating revenues and gains		1,585,873	49,636	2,077,741	71,302
Subtotal		<u>1,586,046</u>	<u>49,641</u>	<u>2,077,741</u>	<u>71,302</u>
Non-operating expenses and losses	2,27				
Losses on disposal of property and equipment		(65)	(2)	(1,431)	(49)
Impairment loss		(800,342)	(25,050)	-	-
Losses on obsolescence of property and equipment		(2)	-	(52)	(2)
Dividend on preferred stock liabilities		(537,712)	(16,830)	(815,000)	(27,968)
Miscellaneous expenses		(6,471)	(202)	(7,435)	(255)
Subtotal		<u>(1,344,592)</u>	<u>(42,084)</u>	<u>(823,918)</u>	<u>(28,274)</u>
Income (loss) from continuing operations before income taxes		<u>4,251,708</u>	<u>133,074</u>	<u>(10,077,841)</u>	<u>(345,842)</u>
Income taxes (expense) benefit	2,25	<u>(1,921,909)</u>	<u>(60,154)</u>	<u>3,100,006</u>	<u>106,383</u>
Consolidated income (loss)		<u>\$2,329,799</u>	<u>\$72,920</u>	<u>\$(6,977,835)</u>	<u>\$(239,459)</u>
Include:					
Parent company		\$2,662,301	\$83,327	\$(6,515,586)	\$(223,596)
Minority interests		(332,502)	(10,407)	(462,249)	(15,863)
Consolidated income (loss)		<u>\$2,329,799</u>	<u>\$72,920</u>	<u>\$(6,977,835)</u>	<u>\$(239,459)</u>
Earnings per share (In dollars)	26				
Consolidated income (loss)		<u>\$0.44</u>	<u>\$0.01</u>	<u>\$(1.31)</u>	<u>\$(0.04)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT\$31.95 and NT\$29.14 to US\$1.00, respectively)

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

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of changes in stockholders' equity**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

Summary	Retained earnings								Equity adjustment														
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gains (losses) of financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments		Net loss not recognized as pension cost		Minority interests		Total		
	NT\$	US\$	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	\$1,649,019	\$13,009,648	\$407,188	\$23,535,758	\$736,643	\$19,169,006	\$599,969	\$(1,973,545)	\$(61,770)	\$(52,489,299)	\$(1,642,858)	\$2,105	\$66	\$209,017	\$6,542	(264,304)	(8,272)	\$2,306,231	\$72,182	\$56,190,775	1,758,709	
Covering losses and appropriations for 2008																							
Legal reserve	-	-	-	-	(3,207,084)	(100,378)	-	-	3,207,084	100,378	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,233,539	38,608	(1,233,539)	(38,608)	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	56,570,456	1,770,594	-	-	-	-	-	-	-	-	-	56,570,456	1,770,594
Changes in unrealized revaluation increments - land	-	-	-	-	-	-	-	-	-	-	-	-	(643)	(20)	-	-	-	-	-	-	-	(643)	(20)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(251,266)	(7,864)	-	-	-	-	-	(251,266)	(7,864)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	264,304	8,272	-	-	264,304	8,272	
Adjustment for merger of investees	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	
Consolidated income (loss) for the year ended December 31, 2009	-	-	-	-	-	-	-	-	2,662,301	83,327	-	-	-	-	-	-	-	-	(332,502)	(10,407)	2,329,799	72,920	
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(831,981)	(26,040)	(831,981)	(26,040)	
Balance on December 31, 2009	\$52,686,158	\$1,649,019	\$13,009,649	\$407,188	\$20,328,674	\$636,265	\$20,402,545	\$638,577	\$2,662,301	\$83,327	\$4,081,157	\$127,736	\$1,462	\$46	\$(42,249)	\$(1,322)	\$-	\$-	\$1,141,748	\$35,735	\$114,271,445	\$3,576,571	
Balance on January 1, 2010	\$52,686,158	\$1,808,036	\$13,009,649	\$446,453	\$20,328,674	\$697,621	\$20,402,545	\$700,156	\$2,662,301	\$91,362	\$4,081,157	\$140,053	\$1,462	\$50	\$(42,249)	\$(1,450)	\$-	\$-	\$1,141,748	\$39,181	\$114,271,445	\$3,921,462	
Appropriations and Distributions for 2009 (Note)																							
Legal reserve	-	-	-	-	532,460	18,272	-	-	(532,460)	(18,272)	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,284,982	44,097	(1,284,982)	(44,097)	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(465,743)	(15,983)	-	-	-	-	-	-	-	-	-	-	-	(465,743)	(15,983)
Stock dividends	379,116	13,010	-	-	-	-	-	-	(379,116)	(13,010)	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	7,976,564	273,733	-	-	-	-	-	-	-	-	-	7,976,564	273,733
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(359,686)	(12,343)	-	-	-	-	-	(359,686)	(12,343)
Consolidated loss for the year ended December 31, 2010	-	-	-	-	-	-	-	-	(6,515,586)	(223,596)	-	-	-	-	-	-	-	-	(462,249)	(15,863)	(6,977,835)	(239,459)	
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	744,832	25,561	744,832	25,561	
Balance on December 31, 2010	\$53,065,274	\$1,821,046	\$13,009,649	\$446,453	\$20,861,134	\$715,893	\$21,687,527	\$744,253	\$(6,515,586)	\$(223,596)	\$12,057,721	\$413,786	\$1,462	\$50	\$(401,935)	\$(13,793)	\$-	\$-	\$1,424,331	\$48,879	\$115,189,577	\$3,952,971	

Note : The remuneration of directors and supervisors NT \$8,100 (US\$254) thousands, employee bonus NT \$9,315 (US\$292) thousands were recorded as operating cost and expense in 2009.

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NTS\$31.95 and NTS\$29.14 to US\$1.00, respectively)

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

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

	January 1-December 31, 2009		January 1-December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Consolidated income (loss)	\$2,329,799	\$72,920	\$(6,977,835)	\$(239,459)
Adjustments:				
Gains from valuation on financial assets	(14,982,425)	(468,934)	(52,820,221)	(1,812,636)
(Gains) losses from valuation on financial liabilities	(28,302,061)	(885,824)	443,026	15,203
Recovered bad debt	(568,980)	(17,808)	(1,150,904)	(39,496)
Depreciation	2,622,741	82,089	2,561,653	87,909
Amortization	272,756	8,537	281,459	9,659
Impairment loss	800,342	25,050	-	-
Provision or recovered for each reserve	251,301,993	7,865,477	283,395,965	9,725,325
Losses on disposal of long-term investments under the equity method	9,251	290	-	-
(Gains) losses on disposal of property and equipment	(107)	(3)	1,483	51
Gains on disposal of investments in real estate	(956,305)	(29,931)	-	-
Gains on long-term equity investments less than cash dividends received	96,086	3,007	28,414	975
(Increase) decrease in financial assets at fair value through profit or loss - current	(8,892,047)	(278,311)	42,776,282	1,467,958
Increase in available-for-sale financial assets - current	(22,179,505)	(694,194)	(55,445,695)	(1,902,735)
Decrease (increase) in held-to-maturity financial assets - current	15,835,828	495,644	(3,036,648)	(104,209)
(Increase) decrease in derivative financial assets for hedging - current	(1,261,270)	(39,476)	1,316,814	45,189
(Increase) decrease in investments in debt securities with no active market - current	(1,452,496)	(45,462)	378,993	13,006
(Increase) decrease in notes receivable	(1,438,870)	(45,035)	1,853,032	63,591
Increase in premiums receivable	(23,075)	(722)	(26,843)	(921)
(Increase) decrease in prepaid reinsurance premium	(6,320,987)	(197,840)	250,234	8,587
(Increase) decrease in claims recoverable from reinsurers	(7,391)	(231)	7,960	273
Decrease in reinsurance accounts receivable	8,343	261	12,945	444
Increase in other accounts receivable	(11,105,492)	(347,590)	(13,460,217)	(461,915)
Increase in other financial assets - current	(2,000,000)	(62,598)	(5,000,000)	(171,585)
Increase in prepayments	(1,903)	(60)	(9,697)	(333)
Decrease (increase) in deferred income tax assets - current	2,941,826	92,076	(3,471,279)	(119,124)
Increase in other current assets	(131,893)	(4,128)	(62,563)	(2,147)
(Increase) decrease in deferred income tax assets - noncurrent	(1,414,207)	(44,263)	525,976	18,050
(Increase) decrease in other assets - other	(115,529)	(3,616)	205,443	7,050
Increase (decrease) in financial liabilities at fair value through profit or loss - current	456,427	14,286	(264,170)	(9,066)
Decrease in derivative financial liabilities for hedging - current	(21,465)	(672)	(55,892)	(1,918)
Decrease in notes payable	(23)	(1)	(431)	(15)
Increase in commissions payable	12,595	394	248,774	8,537
Increase (decrease) in life insurance proceeds payable	41,035	1,284	(2,943)	(101)
Increase in reinsurance accounts payable	2,370,276	74,187	1,326,354	45,517
Increase in other payable	7,314,854	228,947	24,377,111	836,552
Increase in accounts collected in advance	13,784	431	16,964	582
Increase (decrease) in deferred income tax liabilities - current	1,407,046	44,039	(1,407,046)	(48,286)
Increase (decrease) in other current liabilities	1,906	60	(3,573)	(123)
Decrease in land value reserve	(94)	(3)	-	-
Increase (decrease) in accrued pension liability	46,167	1,445	(154,334)	(5,296)
Increase in other liabilities - other	1,541,384	48,244	1,839,529	63,127
Net cash provided by operating activities	<u>188,248,314</u>	<u>5,891,966</u>	<u>218,498,120</u>	<u>7,498,220</u>
Cash flows from investing activities				
Decrease in policy loans	3,925,348	122,859	4,168,796	143,061
Decrease in secured loans	32,021,594	1,002,241	21,006,047	720,866
Decrease (increase) in available-for-sale financial assets - noncurrent	13,548,576	424,056	(67,067,516)	(2,301,562)
(Increase) decrease in held-to-maturity financial assets - noncurrent	(33,879,259)	(1,060,384)	44,931,949	1,541,934
(Increase) decrease in financial assets carried at cost - noncurrent	(277,027)	(8,671)	10,976,875	376,694
Increase in investments in debt securities with no active market	(59,119,175)	(1,850,365)	(208,916,653)	(7,169,412)
Disinvestment of long-term investments	294,455	9,216	57,937	1,988
Increase in long-term investments under the equity method	(327,447)	(10,249)	-	-
Disposal of long-term investments under the equity method	271,315	8,492	-	-
Disposal of investments in real estate	1,256,328	39,322	-	-
Acquisition of investments in real estate	(10,090,433)	(315,820)	(10,568,012)	(362,662)
(Increase) decrease in other financial assets - noncurrent	(30,200,000)	(945,227)	8,700,000	298,559
Disposal of property and equipment	521	16	12	-
Acquisition of property and equipment	(299,547)	(9,375)	(247,083)	(8,479)
Acquisition of intangible assets	(196,501)	(6,150)	(83,532)	(2,867)
Decrease in guarantee deposits paid	861,106	26,952	566,575	19,443
(Increase) decrease in other overdue receivables	(180,644)	(5,654)	488,612	16,768
Net cash used in investing activities	<u>(82,390,790)</u>	<u>(2,578,741)</u>	<u>(195,985,993)</u>	<u>(6,725,669)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT\$31.95 and NT\$29.14 to US\$1.00, respectively)

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



**Cathay life insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows - (continued)**  
**For the years ended December 31, 2009 and 2010**  
**(Expressed in thousands of dollars)**

	January 1-December 31, 2009		January 1-December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Decrease in short-term debts	(411,776)	(12,888)	-	-
Increase in preferred stock liability	10,000,000	312,989	-	-
Increase in guarantee deposits received	76,713	2,401	44,445	1,525
Cash dividends	(5,042)	(158)	(489,522)	(16,799)
Minority interests adjustment	(882,277)	(27,614)	938,389	32,203
Net cash provided by financing activities	<u>8,777,618</u>	<u>274,730</u>	<u>493,312</u>	<u>16,929</u>
Effects of exchange rate changes	(240,005)	(7,512)	(347,880)	(11,938)
Increase in cash and cash equivalents	114,395,137	3,580,443	22,657,559	777,542
Cash and cash equivalents at the beginning of the periods	225,740,844	7,065,441	340,135,981	11,672,477
Cash and cash equivalents at the end of the periods	<u>\$340,135,981</u>	<u>\$10,645,884</u>	<u>\$362,793,540</u>	<u>\$12,450,019</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	<u>\$12,356</u>	<u>\$387</u>	<u>\$8,351</u>	<u>\$287</u>
Interest paid (excluding capitalized interest)	<u>\$12,356</u>	<u>\$387</u>	<u>\$8,351</u>	<u>\$287</u>
Income tax paid	<u>\$1,174,164</u>	<u>\$36,750</u>	<u>\$1,119,394</u>	<u>\$38,414</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2009 and 2010 were NT\$31.95 and NT\$29.14 to US\$1.00, respectively)

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

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

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

**Note to audited consolidated financial statements**

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

**For the years ended December 31, 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 December 31, 2009 and 2010, total numbers of employees in the Company were 31,167 and 31,075, respectively.

2. Summary of significant accounting policies

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

(1) Principles of consolidation

A. According to the Statements of Financial Accounting Standards of the R.O.C. (“R.O.C. SFAS”) No.7 “Consolidated Financial Statements”, the consolidated financial statements include the Company and its subsidiaries (“Subsidiaries”) over which the Company holds more than 50% of the Subsidiaries’ voting rights or has a controlling interest. As of and for years ended December 31, 2009 and 2010, the consolidated financial statements included the following entities:

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Investors	Investees	Business	Ownership interest		Notes
			2009.12.31	2010.12.31	
The Company	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	60.12%	60.12%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Act. As of December 31 2009 and 2010, the Company owns 60.12% of interest in Symphox Information. As of December 31, 2009 and 2010, the total numbers of employees were 152 and 164, respectively.
The Company	Cathay Life Insurance Ltd. (China) (“Cathay Life (China)”)	Life insurance	50.00%	50.00%	Cathay Life (China) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (China). As of December 31, 2009 and 2010, the total numbers of employees were 3,552 and 2,463, respectively.
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) acquired an operation license of an enterprise as a juristic person on November 21, 2007. As of December 31, 2009 and 2010, the total numbers of employees were 206 and 200, respectively.

As of years ended December 31, 2009 and 2010, the consolidated financial statements exclude the followings:

Investors	Investees	Business	Ownership interest		Notes
			2009.12.31	2010.12.31	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class3 general business insurers and a Long-term insurer	100.00%	100.00%	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.

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**Note to audited consolidated financial statements-continued**

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**For the years ended December 31, 2009 and 2010**

Investors	Investees	Business	Ownership interest		Notes
			2009.12.31	2010.12.31	
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00%	100.00%	The consolidated financial statements do not include Cathay Securities Investment because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Insurance Company Limited (China) (“Cathay Insurance (China)”) (“China”))	Properties insurance	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on August 26, 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements.

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

(2) Current and non-current assets and liabilities

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

(3) Cash equivalents

Cash equivalents refer to short-term and highly liquid investments that are both:

- A. readily convertible to known amounts of cash; and
- B. near maturity and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Common examples of cash equivalents are treasury bills, commercial papers and bank acceptances with maturity of three months or less from the original acquisition date.

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(4) Recognition of financial assets and liabilities

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

All “regular way” purchases or 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 or repurchase 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

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maturity.

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

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

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

**B. Held-to-maturity financial assets**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company and Subsidiaries have both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized or impaired. The amortized cost is computed as the cost amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate arising from the difference between the cost and the maturity amount, and minus 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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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 assets that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the investments in debt securities with no active market 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 control or 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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Financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging are measured at fair value.

(5) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(6) Accounting for impairment of financial assets

The Company and Subsidiaries assess at each balance sheet date whether a financial asset or group of financial assets is impaired. Applying to different financial assets valued in different ways, the adopted impairment methods are as follows :



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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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(7) Derivative financial instruments and hedges

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

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

Hedging relationships consist of three types:

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

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

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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 any of the below situation occurs:

- A. the hedging instrument expires or is sold, terminated or exercised,
- B. the hedge no longer meets the conditions for hedge accounting,
- C. 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.

(8) Allowance for bad and doubtful debts

The Company refers the “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises” to evaluate possible losses among the ending balances of its receivables, secured loans and overdue receivables according to the clients’ financial condition, whether there is any delay in the interest payment, the status of the specific collaterals and the overdue period of repayment.

Based upon the above guidelines, starting from July 2005, the loan assets shall be assessed as normal loan assets, overdue loan assets under notice, overdue loan assets possible to be recovered, overdue loan assets difficult to be recovered, and overdue loan assets with no chance of recovery. The company should set aside minimum allowance for bad debts in the sum of 2%, 10%, 50% and entire claim balance of each loan assets.

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

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

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(9) 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.

(10) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

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

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

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

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(11) Property and equipment

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

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

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

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

Fixed assets of Cathay life (China) are assets with useful life over a year, such as houses, buildings, machines, equipment and vehicles. These assets are recorded at cost and depreciated using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of those fixed assets are 10% of their costs estimated based on their nature and conditions of usage.

(12) Intangible assets

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

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

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

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(13) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”, both of which are off balance sheet accounts. From January 1, 1993 to December 31, 2010, an aggregate of NT\$4,455,759 (US\$152,909) thousands was appropriated to this fund.

(14) 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. Conversely, if there is any evidence that the impairment loss may no longer exist or may have decreased, 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 should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

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

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(15) Guaranteed depository insurance payment

A. The Company

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

B. Cathay Life (China)

According to the requirement of the China Insurance Regulatory Commission, an amount equal to 20% of the capital must be deposited in the form of time deposits as the “Guaranteed Depository Insurance”.

(16) Reserve for operations

A. The Company

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

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

As of December 31, 2010, the cumulative special reserves released from the special risk-volatility reserves amounted to NT\$21,687,527 (US\$744,253) thousands.



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B. Cathay Life (China)

In accordance with the Insurance Act of the People's Republic of China, the operating reserves (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

(17) Insurance premium income and expenses

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

(18) Pension plan

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

The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or other pension mechanism under the Labor Standards Act. For employees subject to the Act, the Company and domestic subsidiaries 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.

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(19) Research and development expenses

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

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

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

(20) Foreign currency transactions

A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate as at the balance sheet date and the resulting exchange differences shall be recognized in profit or loss for the period. Non-monetary assets or liabilities denominated in foreign currencies that are measured at fair value shall be translated using the exchange rates at the date when the fair value was determined. 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.

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B. Translation of subsidiaries' financial statements in foreign currencies

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

(21) Income taxes

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

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

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

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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 and its domestic subsidiaries adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate income basic tax.

(22) Capital expenditure expenses

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

(23) Separate account products

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

The Company and Cathay Life (China) have 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".

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(24) Employee bonus and remuneration of directors and supervisors

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

(25) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2009 and 2010 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$31.95 and NT\$29.14 provided by Federal Reserve Bank of New York of December 31, 2009 and 2010 are used for the conversion.

3. Reasons and effects for changes in accounting principles

None.

4. Cash and cash equivalents

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$239,629	\$7,500	\$203,043	\$6,968
Cash in banks	21,067,184	659,380	34,553,720	1,185,783
Time deposits	230,186,427	7,204,583	283,313,070	9,722,480
Cash equivalents	88,642,741	2,774,421	44,723,707	1,534,788
Total	\$340,135,981	\$10,645,884	\$362,793,540	\$12,450,019

(1) As of December 31, 2009 and 2010, the amounts of time deposits with maturities beyond one year were NT\$11,832,341 (US\$370,339) thousands and NT\$2,222,948 (US\$76,285) thousands, respectively.

(2) The cash equivalent usually includes commercial paper and repurchase agreement with maturity of three months or less from the original acquisition date.

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

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$6,928,870	\$216,866	\$4,920,872	\$168,870
Overseas stocks	610,333	19,103	310,655	10,661
Beneficiary certificates	65,607,470	2,053,442	29,803,079	1,022,755
Exchange traded funds	237,784	7,442	561,827	19,280
Overseas bonds	2,227,219	69,709	377,485	12,954
Corporate bonds	3,257,683	101,962	2,609,683	89,557
Government bonds	2,428,957	76,024	51,766	1,777
Derivative financial instruments	99,005	3,099	33,052	1,134
Structured time deposits	1,000,000	31,299	1,000,000	34,317
Subtotal	82,397,321	2,578,946	39,668,419	1,361,305
Add: Adjustment of valuation	17,594,634	550,693	70,164,063	2,407,826
Total	<u>\$99,991,955</u>	<u>\$3,129,639</u>	<u>\$109,832,482</u>	<u>\$3,769,131</u>

As of December 31, 2009 and 2010, Symphox Information Co., Ltd. has pledged NT\$30,228 (US\$946) and NT\$34,015 (UD\$1,167), respectively as collaterals for its e-coupon transaction. Refer to Note 28(2) disclosure for pledged assets.

6. Available-for-sale financial assets – current

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$119,921,624	\$3,753,416	\$155,002,338	\$5,319,229
Overseas stocks	12,996,824	406,786	16,959,990	582,018
Beneficiary certificates	29,317,504	917,606	37,555,195	1,288,785
Exchange traded funds	4,430,659	138,675	4,467,963	153,327
Real estate investment trust	8,725,208	273,090	8,725,208	299,424
Corporate bonds	6,196,332	193,938	4,203,734	144,260
Government bonds	102,547	3,210	351,017	12,046
Financial debentures	1,450,000	45,383	3,700,143	126,978
Collateralized loans obligation and collateralized bonds obligation	-	-	662,021	22,719
Overseas bonds	9,601,626	300,520	11,529,952	395,674
Subtotal	192,742,324	6,032,624	243,157,561	8,344,460
(Less)add: Adjustment of valuation	(899,681)	(28,159)	11,257,753	386,333
Total	<u>\$191,842,643</u>	<u>\$6,004,465</u>	<u>\$254,415,314</u>	<u>\$8,730,793</u>

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7. Derivative financial assets for hedging - current

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$1,351,666	\$42,305	\$-	\$-
Add: Adjustment of valuation	1,408,379	44,081	1,888,598	64,811
Total	<u>\$2,760,045</u>	<u>\$86,386</u>	<u>\$1,888,598</u>	<u>\$64,811</u>

8. Loans

(1) Policy loans

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

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

(2) Secured loans

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Secured loans	\$306,293,654	\$9,586,656	\$286,603,877	\$9,835,411
Secured loans - related parties	4,349,177	136,124	4,047,665	138,904
Less: Allowance for bad debts	(238,769)	(7,473)	(181,065)	(6,214)
Subtotal	<u>310,404,062</u>	<u>9,715,307</u>	<u>290,470,477</u>	<u>9,968,101</u>
Overdue receivables	1,826,068	57,154	811,309	27,842
Less: Allowance for bad debts	(1,278,248)	(40,008)	(680,712)	(23,360)
Subtotal	<u>547,820</u>	<u>17,146</u>	<u>130,597</u>	<u>4,482</u>
Total	<u>\$310,951,882</u>	<u>\$9,732,453</u>	<u>\$290,601,074</u>	<u>\$9,972,583</u>

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

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9. Available-for-sale financial assets – noncurrent

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$19,973,916	\$625,162	\$33,707,545	\$1,156,745
Government bonds	34,496,011	1,079,687	37,798,334	1,297,129
Financial debentures	143,116,633	4,479,394	156,944,932	5,385,893
Beneficiary certificates	195,608	6,122	599,117	20,560
Overseas bonds	56,438,570	1,766,466	93,076,566	3,194,117
Collateralized loans obligation and collateralized bonds obligation	2,157,013	67,512	907,367	31,138
Subtotal	256,377,751	8,024,343	323,033,861	11,085,582
Add: Adjustment of valuation	2,833,265	88,678	3,698,333	126,916
Less: Accumulated impairment	(735,000)	(23,005)	(735,000)	(25,223)
Total	<u>\$258,476,016</u>	<u>\$8,090,016</u>	<u>\$325,997,194</u>	<u>\$11,187,275</u>

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with collateralized loans obligation held by the Company. As of December 31, 2009 and 2010, the Company recognized impairment losses amounting to NT\$735,000 (US\$23,005) and NT\$735,000 (US\$25,223) thousands, respectively.

10. Held-to-maturity financial assets – noncurrent

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$6,974,974	\$218,309	\$9,837,219	\$337,585
Government bonds	98,040,953	3,068,574	105,128,839	3,607,716
Financial debentures	9,596,110	300,348	13,908,992	477,316
Collateralized loans obligation and collateralized bonds obligation	8,734,298	273,374	8,293,461	284,607
Overseas bonds	537,021,179	16,808,175	478,180,890	16,409,777
Subtotal	660,367,514	20,668,780	615,349,401	21,117,001
Less: Securities serving as deposits paid - bonds	(8,379,444)	(262,267)	(8,502,680)	(291,787)
Total	<u>\$651,988,070</u>	<u>\$20,406,513</u>	<u>\$606,846,721</u>	<u>\$20,825,214</u>



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11. Financial assets carried at cost – noncurrent

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Domestic Stocks	\$19,648,101	\$614,964	\$8,501,411	\$291,744
Beneficiary certificates	1,797,311	56,254	1,589,476	54,546
Subtotal	21,445,412	671,218	10,090,887	346,290
Less: Accumulated impairment	(1,352,987)	(42,347)	(975,337)	(33,471)
Total	<u>\$20,092,425</u>	<u>\$628,871</u>	<u>\$9,115,550</u>	<u>\$312,819</u>

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. As of December 31, 2009 and 2010 the Company recognized impairment losses amounting to NT\$1,352,987 (US\$42,347) thousands and NT\$975,337 (US\$33,471) thousands, respectively.

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

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,108,000	\$34,679	\$1,108,000	\$38,023
Corporate bonds	14,500,000	453,834	15,000,000	514,756
Overseas bonds	131,159,835	4,105,159	339,849,618	11,662,650
Subtotal	146,767,835	4,593,672	355,957,618	12,215,429
Less: Accumulated impairment	(416,390)	(13,032)	(378,690)	(12,995)
Total	<u>\$146,351,445</u>	<u>\$4,580,640</u>	<u>\$355,578,928</u>	<u>\$12,202,434</u>

A CDO impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the overseas bonds held by the Company. As of December 31, 2009 and 2010, the Company recognized impairment losses amounting to NT\$416,390 (US\$13,032) and NT\$378,690 (US\$12,995) thousands.

13. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT\$52,035,068 (US\$1,628,641) thousands and NT\$17,959,930 (US\$616,333) thousands as of December 31, 2009 and 2010, respectively. The details of structured notes are listed below:

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

Item	December 31, 2010					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$251,305	\$8,624	\$38,102	\$1,308	\$289,407	\$9,932
Available-for-sale financial assets	5,450,000	187,028	(5,190)	(178)	5,444,810	186,850
Held-to-maturity financial assets	10,923,656	374,868	62,441	2,143	10,986,097	377,011
Investments in debt securities						
with no active market - current	1,217,980	41,798	21,636	742	1,239,616	42,540
Total	<u>\$17,842,941</u>	<u>\$612,318</u>	<u>\$116,989</u>	<u>\$4,015</u>	<u>\$17,959,930</u>	<u>\$616,333</u>

14. Long-term investments under the equity method

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

Investee	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$358,464	\$11,220	\$367,319	\$12,605
Vista Technology Venture Capital Corp.	28,510	892	28,599	981
Omnitek Venture Capital Corp.	63,074	1,974	63,963	2,195
Wa Tech Venture Capital Co., Ltd.	101,798	3,186	49,036	1,683
IBT Venture Capital Corp.	114,099	3,571	88,485	3,037
Cathay Insurance (Bermuda) Co., Ltd.	99,646	3,119	113,179	3,884
Cathay Securities Investment Trust Co., Ltd.	364,180	11,399	401,206	13,768
Cathay Securities Investment Consulting Co., Ltd.	152,952	4,787	165,315	5,673
Cathay Insurance Company Limited. (China)	853,648	26,718	699,186	23,994
Total	<u>\$2,136,371</u>	<u>\$66,866</u>	<u>\$1,976,288</u>	<u>\$67,820</u>

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15. Investments in real estate

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

December 31, 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	\$143,040,669	\$4,908,739	\$4,329	\$149	\$(20,605,048)	\$(707,105)	\$(140,701)	\$(4,829)	\$122,299,249	\$4,196,954
Construction	3,352,339	115,042	-	-	-	-	-	-	3,352,339	115,042
Prepayments for										
buildings and land	519,879	17,841	-	-	-	-	-	-	519,879	17,841
<b>Total</b>	<b>\$146,912,887</b>	<b>\$5,041,622</b>	<b>\$4,329</b>	<b>\$149</b>	<b>\$(20,605,048)</b>	<b>\$(707,105)</b>	<b>\$(140,701)</b>	<b>\$(4,829)</b>	<b>\$126,171,467</b>	<b>\$4,329,837</b>

- (1) The real estate investments are held mainly for lease business.
- (2) All the lease agreements of the Company's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- (3) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (4) As of December 31, 2009 and 2010, no investments in real estate were pledged as collateral.

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16. Property and equipment

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

Item	December 31, 2010									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,627,560	\$158,804	\$620	\$21	\$-	\$-	\$(67,146)	\$(2,304)	\$4,561,034	\$156,521
Buildings and construction	10,731,952	368,289	-	-	(4,122,489)	(141,472)	(73,266)	(2,514)	6,536,197	224,303
Computer equipment	2,413,476	82,823	-	-	(1,945,950)	(66,779)	-	-	467,526	16,044
Communication and transportation equipment	16,287	559	-	-	(13,432)	(461)	-	-	2,855	98
Other equipment	3,698,381	126,918	-	-	(3,130,068)	(107,415)	-	-	568,313	19,503
Leasehold improvements	94,764	3,252	-	-	(50,773)	(1,742)	-	-	43,991	1,510
Subtotal	21,582,420	740,645	620	21	(9,262,712)	(317,869)	(140,412)	(4,818)	12,179,916	417,979
Construction in progress and prepayment for equipment	12,066	414	-	-	-	-	-	-	12,066	414
Total	\$21,594,486	\$741,059	\$620	\$21	\$(9,262,712)	\$(317,869)	\$(140,412)	\$(4,818)	\$12,191,982	\$418,393

No properties or equipment was pledged as collaterals as of December 31, 2009 and 2010.

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17. Computer software cost

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

Item	January 1, 2010		Increase		Decrease		December 31, 2010	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$1,531,914	\$52,571	\$66,798	\$2,292	\$(78)	\$(3)	\$1,598,634	\$54,860
Amortized and impairment:								
Amortized	(794,440)	(27,263)	(274,767)	(9,429)	78	3	(1,069,129)	(36,689)
Book value	<u>\$737,474</u>	<u>\$25,308</u>	<u>\$(207,969)</u>	<u>\$(7,137)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$529,505</u>	<u>\$18,171</u>

18. Other overdue receivables

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$563,611	\$17,641	\$75,000	\$2,574
Less: Allowance for doubtful accounts	(556,789)	(17,427)	(71,670)	(2,460)
Total	<u>\$6,822</u>	<u>\$214</u>	<u>\$3,330</u>	<u>\$114</u>

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

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

Item	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$456,427	\$14,285	\$192,258	\$6,598
Add: Adjustment of valuation	1,989,807	62,280	2,410,646	82,726
Total	<u>\$2,446,234</u>	<u>\$76,565</u>	<u>\$2,602,904</u>	<u>\$89,324</u>

20. Derivative financial liabilities for hedging - current

Item	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	28,722	899	11,205	385
Total	<u>\$28,722</u>	<u>\$899</u>	<u>\$11,205</u>	<u>\$385</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 3.50% per year based on the actual issue price of NT\$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

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- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.
- (2) In accordance with the resolution of the Board of Directors' meeting on October 29, 2009, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of NT\$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on December 14, 2009.

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

- A. Issuance period covers from December 16, 2009, the issue date, to December 16, 2016, seven years in total.
- B. Dividend yield is 2.90% 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 after Class A in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

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D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the SFAS No. 36 “Financial Instruments: Disclosure and Presentation”, the above mentioned preferred stocks issued shall be categorized as a financial liability. Thus, the preferred stocks were reported as “preferred stock liabilities – noncurrent” under long-term liabilities.

22. Common stock

On 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 December 31, 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 such excess may be capitalized if resolved by the Company’s Board of Directors.

On April 29, 2009, the Company’s Board of Directors resolved to use the legal reserves to offset the cumulative deficits amounting to NT\$3,207,084 (US\$100,378) thousands.



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(2) Special reserve

Pursuant to the regulations established by the R.O.C. MOF, the after-tax amount of released provision from the special claim reserves for contingency according to “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” are appropriated as special reserve when approved by stockholders’ meeting in the following year. The recovering of reserves amounting to NT\$1,233,539 (US\$38,608) thousands and NT\$1,284,982 (US\$44,097) thousands for 2008 and 2009, respectively, were resolved by the Company’s Board of Directors.

(3) Undistributed retained earnings

- A. According to the Company’s articles of incorporation, 20% of the Company’s annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve. 2% of the total remaining amount after distributing stockholders’ interests can be distributed to employees as employees’ bonus. Finally, the remainder after deducting for the above mentioned items must be appropriated with the resolutions of the Board of Directors.
- B. According to the amended Income Tax Act (“Tax Act”) in 2005, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the special reserve since 2007.
- D. The employee bonus and remuneration of directors for the year ended December 31, 2009 and 2010, amounting to NT\$20,000 (US\$626) thousands and NT\$0 (US\$0) 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.

The Company distributes \$17,415 (US\$598) thousands of employee bonus and directors compensation of 2009. The difference of NT\$2,585 (US\$89) thousands exists between the accrual and actual amount resolved by the financial statements be recorded in 2010.

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E. Due to the date of financial statements are issued, the Company's distribution of 2010 covering losses and appropriations has not been approved by the board of directors and the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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

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

Item	For the year ended December 31, 2010 (NT\$)			For the year ended December 31, 2010 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$24,801,184	\$2,369,804	\$27,170,988	\$851,104	\$81,325	\$932,429
Labor & health insurance expenses	1,592,794	297,551	1,890,345	54,660	10,211	64,871
Pension expenses	758,566	133,613	892,179	26,032	4,585	30,617
Other expenses	1,371,494	357,525	1,729,019	47,066	12,269	59,335
Depreciation	50,772	2,510,881	2,561,653	1,743	86,166	87,909
Amortizations	1,065	280,394	281,459	37	9,622	9,659

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:

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$6,683,766	\$209,194	\$19,518,808	\$669,828
Total deferred tax liabilities	\$(2,898,297)	\$(90,714)	\$(11,382,025)	\$(390,598)
Allowance for deferred assets	\$(1,074)	\$(33)	\$(39)	\$(1)
Temporary differences:				
Pension expense	\$287,668	\$9,004	\$218,281	\$7,491
Unrealized foreign exchange losses	1,441,747	45,125	14,785,841	507,407
Gains from valuation on financial assets and liabilities	(2,896,541)	(90,659)	(11,380,592)	(390,549)
Impairment loss	260,587	8,156	77,444	2,658
Unrealized bad debt losses	92,554	2,897	221,538	7,602
Other	6,268	196	3,467	119
Total	\$(807,717)	\$(25,281)	\$3,925,979	\$134,728
Loss carryforwards	\$6,878,975	\$215,304	\$4,837,598	\$166,012
Tax effect under consolidated income tax system	\$(2,331,490)	\$(72,973)	\$(697,678)	\$(23,942)
Deferred income tax assets of foreign branches	\$3,096	\$97	\$8,279	\$284
Investment tax credits	\$42,605	\$1,333	\$62,605	\$2,148

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$1,490,569	\$46,653	\$14,851,910	\$509,674
Allowance for deferred tax assets - current	(1,074)	(33)	(39)	(1)
Net deferred tax assets - current	1,489,495	46,620	14,851,871	509,673
Deferred tax liabilities - current	(2,896,541)	(90,659)	(11,380,592)	(390,549)
Net offset balance of deferred tax (liabilities) assets - current	\$(1,407,046)	\$(44,039)	\$3,471,279	\$119,124

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	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - noncurrent	\$5,193,197	\$162,541	\$4,666,898	\$160,154
Allowance for deferred tax assets-noncurrent	-	-	-	-
Net deferred tax assets-noncurrent	5,193,197	162,541	4,666,898	160,154
Deferred tax liabilities - noncurrent	(1,756)	(55)	(1,433)	(49)
Net balance of deferred tax assets - noncurrent	<u>\$5,191,441</u>	<u>\$162,486</u>	<u>\$4,665,465</u>	<u>\$160,105</u>

(2) Income tax (benefit) expense for the year ended December 31, 2009 and 2010 included the following:

	For the years ended December 31			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Tax expenses before adjusting temporary and other differences	\$15,483	\$485	\$9,860	\$339
Deferred income tax expense (benefit) :				
Unrealized foreign exchange gain	(4,054,483)	(126,901)	(13,439,800)	(461,215)
Unrealized financial instruments valuation loss	7,947,701	248,754	8,535,830	292,925
Unrealized pension expense	(9,233)	(289)	28,528	979
Bad debt losses	(46,535)	(1,456)	1,398	48
Impairment loss	(66,616)	(2,085)	-	-
Loss carry forward	(3,255,088)	(101,881)	1,075,126	36,895
Adjustment to the deferred tax assets/liabilities for the change in statutory income tax rate	1,348,171	42,196	868,897	29,818
Others	(296)	(9)	990	34
Separation tax	59,676	1,868	3,914	134
Prior year adjustment	108,465	3,395	(236,159)	(8,104)
Withholding tax for overseas investments	59,790	1,871	66,177	2,271
10% surtax on undistributed retained earnings	-	-	1,336,039	45,849
Income tax credit	(11,382)	(356)	(1,909)	(66)
Tax effects under consolidated income tax systems	<u>(173,744)</u>	<u>(5,438)</u>	<u>(1,348,897)</u>	<u>(46,290)</u>
Total income tax expense (benefit)	<u>\$1,921,909</u>	<u>\$60,154</u>	<u>\$(3,100,006)</u>	<u>\$(106,383)</u>

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(3) Income tax returns

	December 31, 2010
	Income tax returns assessed
The Company	Through 2005
Symphox Information	Through 2008
Cathay Life (China)	-
Cathay Life (Vietnam)	-

(4) Information related to imputation

A. Balance of imputation credit account

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
The Company	\$2,465,683	\$77,173	\$2,930,509	\$100,567
Symphox Information	17,497	548	12,982	446

B. Imputation credit account ratio

	December 31,	
	2009 Actual	2010 Actual
		(Estimated)
The Company	-	33.33%
Symphox Information	33.33%	(14.99)%

(5) Information related to undistributed earnings-The Company

	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Year				
After 1998	\$2,662,301	\$83,327	\$(6,515,586)	\$(223,596)

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26. Earnings per share

	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Retroactively	Earnings per share (In dollars)	
	(numerator)			weighted average outstanding number of shares (denominator) (thousand shares)	Before tax	After tax
For the year ended December 31, 2009	Before tax NT\$	After tax NT\$			NT\$	NT\$
Consolidated income	<u>\$4,251,708</u>	<u>\$2,329,799</u>	5,268,616	5,306,527	<u>\$0.80</u>	<u>\$0.44</u>

	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Retroactively	Earnings per share (In dollars)	
	(numerator)			weighted average outstanding number of shares (denominator) (thousand shares)	Before tax	After tax
For the year ended December 31, 2009	Before tax US\$	After tax US\$			US\$	US\$
Consolidated income	<u>\$133,074</u>	<u>\$72,920</u>	5,268,616	5,306,527	<u>\$0.03</u>	<u>\$0.01</u>

	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	(numerator)			Before tax	After tax
For the year ended December 31, 2010	Before tax NT\$	After tax NT\$		NT\$	NT\$
Consolidated loss	<u>\$(10,077,841)</u>	<u>\$(6,977,835)</u>	5,306,527	<u>\$(1.90)</u>	<u>\$(1.31)</u>

	Amount		Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars)	
	(numerator)			Before tax	After tax
For the year ended December 31, 2010	Before tax US\$	After tax US \$		US \$	US \$
Consolidated loss	<u>\$(345,842)</u>	<u>\$(239,459)</u>	5,306,527	<u>\$(0.07)</u>	<u>\$(0.04)</u>

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27. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Inc.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd (merged with Cathay Venture Inc. on August 10, 2009)
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Venture Inc. on August 10, 2009)
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd. (merged with Cathay Venture Inc. on August 10, 2009)
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
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
Cathay Life Charity Foundation	Related party disclosed according to SFAS No. 6
Other related parties	The directors, supervisors, managers, and their spouses, as well as their second immediate families

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(2) Significant transactions with related parties

A. Property transactions

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

(A) Significant transactions with related parties for the years ended December 31, 2009 and 2010 are listed below:

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

Name	Item	For the year ended December 31, 2010	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Land Mark etc	\$295,483	\$10,140
Lin Yuan Property Management Co., Ltd.	International Building etc	41,972	1,440
Total		<u>\$337,455</u>	<u>\$11,580</u>

The total amounts of contracted projects for real estate as of December 31, 2009 and 2010, between the Company and San Ching Engineering Co., Ltd. were NT\$97,281 (US\$3,045) thousands and NT\$5,466,706 (US\$187,601) thousands, respectively.



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

Name	Rental income			
	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$25,787	\$807	\$26,649	\$915
Cathay Real Estate Development Co., Ltd.	22,087	691	20,064	689
Cathay United Bank	334,008	10,454	366,884	12,590
Cathay Century Insurance Co., Ltd.	90,850	2,844	88,619	3,041
Cathay General Hospital	175,841	5,504	177,634	6,096
San Ching Engineering Co., Ltd.	9,657	302	9,305	319
Cathay Securities Investment Trust Co., Ltd.	22,375	700	25,236	866
Cathay Securities Co., Ltd.	21,471	291	21,486	737
Cathay Securities Investment Consulting Co., Ltd.	9,289	672	9,657	332
Total	<u>\$711,365</u>	<u>\$22,265</u>	<u>\$745,534</u>	<u>\$25,585</u>

Name	Guarantee deposits received			
	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,886	\$153	\$4,886	\$168
Cathay United Bank	68,108	2,132	71,606	2,457
Cathay Century Insurance Co., Ltd.	21,094	660	21,921	752
Cathay General Hospital	11,658	365	11,984	411
Cathay Securities Investment Trust Co., Ltd.	4,948	155	6,210	213
Cathay Securities Co., Ltd.	4,710	147	4,710	162
Cathay Financial Holding Co., Ltd.	5,964	187	5,816	200
Total	<u>\$121,368</u>	<u>\$3,799</u>	<u>\$127,133</u>	<u>\$4,363</u>

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

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

Name	Rental expense			
	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$30,461	\$953	\$29,685	\$1,019
Cathay United Bank	10,579	331	29,187	1,001
Cathay Futures Co., Ltd.	3,078	97	2,737	94
Total	<u>\$44,118</u>	<u>\$1,381</u>	<u>\$61,609</u>	<u>\$2,114</u>

Name	Guarantee deposits paid			
	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,779	\$275	\$8,675	\$298
Cathay United Bank	-	-	8,438	289
Total	<u>\$8,779</u>	<u>\$275</u>	<u>\$17,113</u>	<u>\$587</u>

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

B. Cash in banks

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

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

		For the year ended December 31, 2010		
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$75,088	0.10%-11.25%	\$4,972,766
	Cash in bank	3,032	0.02%-1.10%	4,652,358
Indovina Bank Limited	Time deposit	13,952	1.00%-14.40%	38,436
	Cash in bank	130	2.40%	846
Total		<u>\$92,202</u>		<u>\$9,664,406</u>

		For the year ended December 31, 2010		
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$2,577	0.10%-11.25%	\$170,651
	Cash in bank	104	0.02%-1.10%	159,655
Indovina Bank Limited	Time deposit	479	1.00%-14.40%	1,319
	Cash in bank	4	2.40%	29
Total		<u>\$3,164</u>		<u>\$331,654</u>

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C. Other financial assets

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

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

The Company and domestic subsidiaries have no significant transactions with related parties in 2010.

D. Secured loans

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

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

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Name	For the year ended December 31, 2010			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,026,030	\$79,792	1.85%-2.22%	\$3,756,320
Other related parties	329,969	5,310	1.18%-3.65%	291,345
Total		\$85,102		\$4,047,665

Name	For the year ended December 31, 2010			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$138,162	\$2,738	1.85%-2.22%	\$128,906
Other related parties	11,324	182	1.18%-3.65%	9,998
Total		\$2,920		\$138,904

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

Name	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd managed funds	\$4,121,312	\$128,993	\$2,431,646	\$83,447

F. Other accounts receivable

Name	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$21,976	\$688	\$18,469	\$634
Cathay Century Insurance Co., Ltd.	230,135	7,203	118,621	4,071
Cathay Insurance (Bermuda) Co., Ltd.	12,938	405	9,234	317
Cathay Financial Holding Co., Ltd. (note)	5,306,663	166,093	4,957,560	170,129

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

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G. Guarantee deposits paid

Name	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$270,492	\$8,466	\$166,345	\$5,708

As of December 31, 2009 and 2010, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$389 (US\$12) thousands and NT\$177 (US\$6) thousands, respectively.

H. Other payable

Name	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$7,536	\$236	\$2,883	\$99
Lin Yuan Property Management Co., Ltd.	4,396	138	4,705	161
Cathay Financial Holding Co., Ltd. (Note)	547,753	17,144	845,533	29,016

Note: The payables are interest expense accrued from preferred stock and tax payable under the consolidated income tax system.

I. Accounts collected in advance

Name	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$6,154	\$193	\$7,863	\$270
Cathay United Bank	29,298	917	30,629	1,051

J. Premiums income

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$609,653	\$19,081	\$595,325	\$20,430
Cathay General Hospital	31,887	998	33,350	1,145
Cathay Century Insurance Co., Ltd.	9,028	283	10,967	376
Other related parties	407,957	12,769	179,532	6,161
Total	<u>\$1,058,525</u>	<u>\$33,131</u>	<u>\$819,174</u>	<u>\$28,112</u>

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K. Insurance expense

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$96,937	\$3,034	\$93,186	\$3,198

The insurance expenses were related to insurance for fixed assets, cash, public accident and etc. Amounts of NT\$12,329 (US\$386) thousands and NT\$82,902 (US\$2,845) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the years ended December 31, 2009 and 2010, respectively.

L. Indemnity income

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$7,373	\$231	\$6,883	\$236

Amounts of NT\$5,543 (US\$173) thousands and NT\$6,586 (US\$226) thousands income by the Company on behalf of its employees for fidelity bonds insurance were included in above insurance expenses for the years ended December 31, 2009 and 2010, respectively.

M. Reinsurance income

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$89,771	\$2,810	\$111,781	\$3,836

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the years ended December 31, 2009 and 2010, the Company assumed 60% and 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd., respectively.

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N. Reinsurance service expenses

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$8,493	\$266	\$10,245	\$352

O. Reinsurance claims payment

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$109,757	\$3,435	\$87,588	\$3,006

P. Reinsurance commission expense

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$3,416	\$107	\$4,379	\$150

Q. Other operating income

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$11,563	\$362	\$21,646	\$743
Cathay General Hospital	-	-	5,674	195
Cathay United Bank	434,462	13,598	476,154	16,340
Cathay Securities Co., Ltd.	-	-	6,719	230
Cathay Life Charity Foundation	4,179	131	-	-
Total	\$450,204	\$14,091	\$510,193	\$17,508



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R. Miscellaneous income

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$1,021,518	\$31,972	\$1,065,015	\$36,548
Cathay United Bank	522,402	16,351	100,996	3,466
Cathay Securities Investment Trust Co., Ltd.	101,165	3,166	126,779	4,351
Cathay General Hospital	5,782	181	6,100	209
<b>Total</b>	<b>\$1,650,867</b>	<b>\$51,670</b>	<b>\$1,298,890</b>	<b>\$44,574</b>

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

S. Commissions expenses

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$34,956	\$1,094	\$16,866	\$579

T. Operating expenses

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$5,332	\$167	\$7,971	\$274
Lin Yuan Property Management Co., Ltd.	575,271	18,005	589,417	20,227
Cathay Securities Investment Consulting Co., Ltd.	22,680	710	22,680	778
Seaward Leasing Co., Ltd.	11,895	372	15,786	542
Seaward Card Co., Ltd.	65,568	2,052	77,320	2,653
Cathay United Bank	1,143,334	35,785	1,511,864	51,883
Cathay Venture Inc.	25,000	783	20,506	704
Cathay Futures Co., Ltd.	3,087	97	1,496	51
<b>Total</b>	<b>\$1,852,167</b>	<b>\$57,971</b>	<b>\$2,247,040</b>	<b>\$77,112</b>

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U. Non-operating expenses and losses

Name	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$537,712	\$16,830	\$815,000	\$27,968

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

V. Sales of securities

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

The Company and domestic subsidiaries have no sales of securities with related parties in 2010.

W. Other

(A) As of December 31, 2009 and 2010, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

Item	December 31,	
	2009	2010
Forward foreign exchange contracts	USD500,000	USD989,084
CS contracts	USD3,421,000	USD3,102,691

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$804,300 (US\$25,174) thousands and NT\$910,000 (US\$31,229) thousands during the years ended December 31, 2009 and 2010, respectively.

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X. Information about key management personnel compensation:

Item	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Remunerations including wages, awards, bonus, and etc.	\$65,444	\$2,048	\$75,902	\$2,605

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

28. Pledged assets

(1)The Company

As of December 31, 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. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the “Guaranteed Depository Insurance”.

Item	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid				
- Government bonds	\$9,189,851	\$287,632	\$9,135,197	\$313,494
Guarantee deposits paid - Time deposits	100,050	3,132	105,316	3,614
Guarantee deposits paid - others	24,583	769	12,099	415
Total	\$9,314,484	\$291,533	\$9,252,612	\$317,523

Pledged assets are summarized based on the net carrying amounts.

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(2) Symphox Information

As of December 31, 2009 and 2010, the pledged property details are as follows:

Item	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss - current	<u>\$30,228</u>	<u>\$946</u>	<u>\$34,015</u>	<u>\$1,167</u>

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

(3) Cathay Life (China)

Item	December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	<u>\$773,500</u>	<u>\$24,210</u>	<u>\$1,180,418</u>	<u>\$40,509</u>

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

29. Other important commitment and contingent liabilities

None.

30. Serious disaster damages

None.

31. Significant subsequent events

None.

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32. Others matters

(1) Pension related information

A. The Company

The Company recognized a net pension cost of NT\$255,986 (US\$8,012) thousands and NT\$51,754 (US\$1,776) thousands for the years ended December 31, 2009 and 2010, respectively. The amount of NT\$209,820 (US\$6,567) thousands and NT\$206,088 (US\$7,072) thousands were contributed to the pension fund for the years ended December 31, 2009 and 2010, respectively.

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(6,413,369)	\$(200,731)	\$(6,792,791)	\$(233,109)
② Non-vested benefit obligation	(2,526,957)	(79,091)	(2,603,479)	(89,344)
③ Accumulated benefit obligation	(8,940,326)	(279,822)	(9,396,270)	(322,453)
④ Effect from projected salary increase	(1,074,744)	(33,639)	(1,137,884)	(39,049)
⑤ Projected benefit obligation	(10,015,070)	(313,461)	(10,534,154)	(361,502)
⑥ Fair value of plan assets	9,532,375	298,353	11,151,522	382,688
⑦ Funded status = ⑤ + ⑥	(482,695)	(15,108)	617,368	21,186
⑧ Unrecognized transitional net net assets	(378,699)	(11,853)	-	-
⑨ Unrecognized prior service cost	103,467	3,239	51,734	1,776
⑩ Unrecognized pension loss	(680,413)	(21,296)	(1,953,108)	(67,025)
⑪ Adjustment required to recognize minimum pension liability	-	-	-	-
⑫ Accrued pension liability recognized = ⑦				
+ ⑧ + ⑨ + ⑩ + ⑪	<u>\$ (1,438,340)</u>	<u>\$ (45,018)</u>	<u>\$ (1,284,006)</u>	<u>\$ (44,063)</u>

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The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2009	2010
① Discount rate	2.50%	2.00%
② Rate of salary increase :		
Office workers	1.50%	1.50%
Field workers	Based on seniority	Based on seniority
③ Expected return on plan assets	2.50%	2.00%

**B. Symphox Information**

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2009		2010	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(944)	\$(29)	\$(269)	\$(9)
② Non-vested benefit obligation	(3,444)	(108)	(3,816)	(131)
③ Accumulated benefit obligation	(4,389)	(137)	(4,085)	(140)
④ Effect from projected salary increase	(1,072)	(34)	(1,816)	(62)
⑤ Projected benefit obligation	(6,091)	(191)	(5,901)	(202)
⑥ Fair value of plan assets	10,739	74	10,637	365
⑦ Vested benefit	2,371	336	1,516	52
⑧ Funded status = ⑤ + ⑥	4,648	145	4,736	163
⑨ Unrecognized transitional net net assets	254	8	235	8
⑩ Unrecognized prior service cost	-	-	-	-
⑪ Unrecognized pension gain (loss)	(4,000)	(125)	(4,066)	(140)
⑫ Adjustment required to recognize minimum pension liability	-	-	-	-
⑬ Accrued pension liability recognized = ⑧ + ⑨ + ⑩ + ⑪ + ⑫	\$902	\$28	\$905	\$31

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The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2009	2010
① Discount rate	2.50%	2.00%
② Rate of salary increase :	2.00%	2.00%
③ Expected return on plan assets	2.50%	2.00%

(2) Separate account insurance products related information

A. The Company

① Separate account insurance products - assets and liabilities

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

Assets			Liabilities		
Item	December 31, 2010		Item	December 31, 2010	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$169,982	\$5,833	Other payable	\$1,277,146	\$43,828
Financial assets at fair value through profit or loss	264,958,953	9,092,620	Reserve for separate account	267,502,185	9,179,896
Other receivable	3,650,396	125,271			
<b>Total</b>	<b>\$268,779,331</b>	<b>\$9,223,724</b>	<b>Total</b>	<b>\$268,779,331</b>	<b>\$9,223,724</b>

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② Separate account insurance products - revenues and expenses

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

Expenses			Revenues		
Item	January 1-December 31, 2010		Item	January 1-December 31, 2010	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$6,195,988	\$212,628	Premiums income	\$46,523,076	\$1,596,537
Cash surrender value	50,119,366	1,719,951	Recovered separate		
Dividends	1,127	39	account reserve	70,462,308	2,418,061
Provision for separate			Interest income	11,447	393
account reserve	65,926,549	2,262,407	Gain from valuation on		
Losses on foreign exchange	10,521,876	361,080	financial assets	17,724,741	608,262
Administrative expenses	4,331,307	148,638	Gains on disposal of		
			investments	2,367,523	81,246
			Miscellaneous income	7,119	244
			Adjustments	(1)	-
<b>Total</b>	<b>\$137,096,213</b>	<b>\$4,704,743</b>	<b>Total</b>	<b>\$137,096,213</b>	<b>\$4,704,743</b>

③ The commission earned for the sales of separate account insurance products from counterparties for the years ended December 31, 2009 and 2010 were NT\$2,542,728 (US\$79,585) thousands and NT\$890,054 (US\$30,544) thousands, respectively.



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B. Cathay Life (China)

① Separate account insurance products-assets and liabilities

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

Assets			Liabilities		
Item	December 31,2010		Item	December 31,2010	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$35,420	\$1,216	Other account payable	\$3,672	\$126
Financial assets at fair value through profit or loss	435,760	14,954	Reserve for separate account	467,511	16,044
Interests receivable	3	-			
<b>Total</b>	<b>\$471,183</b>	<b>\$16,170</b>	<b>Total</b>	<b>\$471,183</b>	<b>\$16,170</b>

② Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1- December 31,2009		Item	January 1- December 31,2009	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$80,430	\$2,517	Premiums income	\$138,209	\$4,326
Provision for separate account reserve	365,454	11,438	Recovered separate account reserve	151,239	4,733
			Gain on financial assets valuation	133,359	4,174
			Gain on disposal of investment	23,077	722
<b>Total</b>	<b>\$445,884</b>	<b>\$13,955</b>	<b>Total</b>	<b>\$445,884</b>	<b>\$13,955</b>

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Expenses			Revenues		
Item	January 1- December 31,2010		Item	January 1- December 31,2010	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$119,655	\$4,106	Premiums income	\$122,197	\$4,194
Provision for separate account reserve	518,388	17,790	Recovered separate account reserve	539,063	18,499
Losses on financial assets valuation	22,981	789			
Losses on disposal of investment	236	8			
<b>Total</b>	<b>\$661,260</b>	<b>\$22,693</b>	<b>Total</b>	<b>\$661,260</b>	<b>\$22,693</b>

(3) Discretionary account management

As of December 31, 2009 and 2010, the Company funded its discretionary account managed by the securities investment trust company, the investment items are as follows:

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

  

Item	December 31, 2010			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,909,289	\$202,790	\$5,909,289	\$202,790
Repurchase bonds	3,802,129	130,478	3,802,129	130,478
Cash in banks	465,349	15,969	465,349	15,969
<b>Total</b>	<b>\$10,176,767</b>	<b>\$349,237</b>	<b>\$10,176,767</b>	<b>\$349,237</b>

As of December 31, 2009 and 2010, the Company entered into discretionary account management contracts in the amounts of NT\$9,300,000 (US\$291,080) thousands and NT\$8,300,000 (US\$284,832) thousands, respectively.

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

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

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

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

**Market Risk**

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

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Credit Risk

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

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

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

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.

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**Liquidity Risk**

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

**Sovereign Risk**

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

(6) Financial instruments related information

A. Fair value

Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$336,054,525	\$336,054,525	\$10,518,138	\$10,518,138
Notes and accounts receivable	45,392,723	45,392,723	1,420,742	1,420,742
Financial assets at fair value through profit or loss - current	82,461,276	82,461,276	2,580,948	2,580,948
Available-for-sale financial assets - current	191,072,750	191,072,750	5,980,368	5,980,368
Held-to-maturity financial assets - current	13,274,664	11,946,525	415,482	373,913
Investments in debt securities with no active market - current	5,162,576	5,051,571	161,583	158,109
Other financial assets - current	2,000,000	2,000,000	62,598	62,598
Available-for-sale financial assets - noncurrent	253,527,662	253,527,662	7,935,138	7,935,138
Held-to-maturity financial assets - noncurrent	651,706,686	643,765,211	20,397,706	20,149,146
Financial assets carried at cost - noncurrent	20,092,425	(Note)	628,871	(Note)
Investments in debt securities with no active market - noncurrent	145,147,440	140,524,027	4,542,956	4,398,248
Long-term investments under the equity method	5,266,745	5,266,745	164,843	164,843
Other financial assets - noncurrent	36,300,000	36,300,000	1,136,150	1,136,150
Guarantee deposits paid	11,350,142	11,350,142	355,247	355,247

Note: In reality, the fair value of the specified items can't be accountably measured.

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Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Liabilities - non-derivative</u></b>				
Notes and accounts payable	\$15,761,085	\$15,761,085	\$493,304	\$493,304
Preferred stock liability –noncurrent	25,000,000	25,821,054	782,473	808,171
Guarantee deposits received	1,616,655	1,616,655	50,599	50,599
<b><u>Assets - derivative</u></b>				
Financial assets at fair value through profit or loss - current				
Option	7,731	7,731	242	242
Forward, CS and CCS	16,900,272	16,900,272	528,960	528,960
IRS and CDS	54,982	54,982	1,721	1,721
Derivative financial assets for hedging - current				
IRS	1,681,365	1,681,365	52,625	52,625
CDS	1,078,680	1,078,680	33,761	33,761
<b><u>Liabilities - derivative</u></b>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS and CCS	1,583,418	1,583,418	49,560	49,560
IRS and CDS	862,816	862,816	27,005	27,005
Derivative financial liabilities for hedging - current				
IRS, CDS	28,722	28,722	899	899
Item	December 31, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$358,071,833	\$358,071,833	\$12,287,983	\$12,287,983
Notes and accounts receivable	56,925,120	56,925,120	1,953,504	1,953,504
Financial assets at fair value through profit or loss - current	39,435,487	39,435,487	1,353,311	1,353,311
Available-for-sale financial assets - current	253,839,045	253,839,045	8,711,017	8,711,017
Held-to-maturity financial assets - current	16,311,312	16,387,430	559,757	562,369
Investments in debt securities with no active market - current	4,783,583	4,873,388	164,159	167,240
Other financial assets - current	7,000,000	7,000,000	240,220	240,220
Available-for-sale financial assets - noncurrent	321,068,362	321,068,362	11,018,132	11,018,132
Held-to-maturity financial assets - noncurrent	606,846,721	612,453,809	20,825,213	21,017,632
Financial assets carried at cost - noncurrent	9,115,550	(Note)	312,819	(Note)
Investments in debt securities with no active market - noncurrent	354,531,805	349,196,966	12,166,500	11,983,424
Long-term investments under the equity method	5,067,119	5,067,119	173,889	173,889
Other financial assets – noncurrent	27,600,000	27,600,000	947,152	947,152
Guarantee deposits paid	10,421,935	10,421,935	357,651	357,651

Note: In reality, the fair value of the specified items can't be accountably measured.

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Item	December 31, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Liabilities - non-derivative</u></b>				
Notes and accounts payable	\$41,570,712	\$41,570,712	\$1,426,586	\$1,426,586
Preferred stock liability –noncurrent	25,000,000	25,662,615	857,927	880,666
Guarantee deposits received	1,661,874	1,661,874	57,031	57,031
<b><u>Assets - derivative</u></b>				
Financial assets at fair value through profit or loss - current				
Option	13,988	13,988	480	480
Forward, CS and CCS	69,276,547	69,276,547	2,377,369	2,377,369
IRS and CDS	3,408	3,408	117	117
Derivative financial assets for hedging - current				
IRS	1,888,598	1,888,598	64,811	64,811
<b><u>Liabilities - derivative</u></b>				
Financial liabilities at fair value through profit or loss – current				
Forward, CS and CCS	2,197,269	2,197,269	75,404	75,404
IRS and CDS	405,635	405,635	13,920	13,920
Derivative financial liabilities for hedging - current				
IRS, CDS	11,205	11,205	385	385

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.

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- 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.
- ④ The fair value of the Company's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.
- ⑤ If no quoted market prices exist for the Company's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- ⑥ As of December 31, 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	December 31, 2009			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$247,411,784	\$7,743,717	\$88,642,741	\$2,774,421
Notes and accounts receivable	-	-	45,392,723	1,420,742
Financial assets at fair value through profit or loss - current	81,859,615	2,562,116	601,661	18,832
Available-for-sale financial assets - current	188,182,163	5,889,896	2,890,587	90,472
Held-to-maturity financial assets - current	2,027,388	63,455	9,919,137	310,458



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

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Financial instruments	December 31, 2010			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$313,348,126	\$10,753,196	\$44,723,707	\$1,534,787
Notes and accounts receivable	-	-	56,925,120	1,953,504
Financial assets at fair value through profit or loss - current	39,146,081	1,343,380	289,406	9,931
Available-for-sale financial assets - current	245,773,307	8,434,225	8,065,738	276,792
Held-to-maturity financial assets - current	2,380,441	81,690	14,006,989	480,679
Investments in debt securities with no active market - current	-	-	4,873,388	167,240
Other financial assets - current	-	-	7,000,000	240,220
Available-for-sale financial assets - noncurrent	303,469,047	10,414,175	17,599,315	603,957
Held-to-maturity financial assets - noncurrent	40,276,018	1,382,156	572,177,791	19,635,476
Investment in debt securities with no active market - noncurrent	-	-	349,196,966	11,983,424
Long-term investments under the equity method	-	-	5,067,119	173,889
Other financial assets - noncurrent	-	-	27,600,000	947,152
<b><u>Liabilities-non-derivative</u></b>				
Notes and accounts payable	-	-	41,570,712	1,426,586
Preferred stock liability - noncurrent	-	-	25,662,615	880,666
<b><u>Assets - derivative</u></b>				
Financial assets at fair value through profit or loss - current				
Option	13,988	480	-	-
Forward, CS and CCS	-	-	69,276,547	2,377,370
IRS and CDS	-	-	3,408	117
Derivative financial assets for hedging - current				
IRS	-	-	1,888,598	64,811

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Financial instruments	December 31, 2010			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<b><u>Liabilities - derivative</u></b>				
Financial liabilities at fair value through profit or loss - current				
Forward, CS and CCS	\$-	\$-	\$2,197,269	\$75,404
IRS and CDS	-	-	405,635	13,920
Derivative financial liabilities for hedging – current				
IRS and CDS	-	-	11,205	385

B. Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at December 31, 2009 and 2010:

① December 31, 2009

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

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$393,856	\$12,327	\$2,155,601	\$67,468	\$2,008,099	\$62,851	\$873,860	\$27,351
Available-for-sale financial assets	12,183,543	381,332	13,025,147	407,673	15,425,840	482,812	12,061,415	377,509
Held-to-maturity financial assets	186,792,865	5,846,412	18,021,715	564,060	15,242,413	477,071	22,801,989	713,677
Investments in debt securities with								
no active market	4,752,771	148,757	7,933,592	248,313	14,203,692	444,560	3,936,736	123,215
Preferred stock liability	-	-	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value								
through profit or loss	\$249,348	\$7,804	\$2,979,288	\$93,249	\$8,660,052	\$271,050		
Available-for-sale financial assets	11,510,037	360,251	79,921,401	2,501,452	144,127,383	4,511,029		
Held-to-maturity financial assets	27,702,640	867,062	335,768,647	10,509,191	606,330,269	18,977,473		
Investments in debt securities with								
no active market	12,220,116	382,476	86,850,311	2,718,320	129,897,218	4,065,641		
Preferred stock liability	-	-	25,000,000	782,473	25,000,000	782,473		

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

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$232,273	\$7,270	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	126,820,845	3,969,354	-	-	-	-	-	-
Held-to-maturity financial assets	58,651,080	1,835,715	-	-	-	-	-	-
Investments in debt securities with								
no active market	20,412,799	638,898	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$232,273	\$7,270		
Available-for-sale financial assets	-	-	-	-	126,820,845	3,969,354		
Held-to-maturity financial assets	-	-	-	-	58,651,080	1,835,715		
Investments in debt securities with								
no active market	-	-	-	-	20,412,799	638,898		

**Derivative financial instruments**

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$26,781	\$838	\$-	\$-	\$-	\$-	\$-	\$-
Derivative financial assets for								
hedging	156,812	4,908	20,519	642	17,889	560	529,306	16,567
Financial liabilities at fair value								
through profit or loss	72,437	2,267	-	-	-	-	-	-
Derivative financial liabilities for								
hedging	15,531	486	12,091	379	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value								
through profit or loss	\$26,629	\$834	\$-	\$-	\$53,410	\$1,672		
Derivative financial assets for								
hedging	955,790	29,915	1,049	33	1,681,365	52,625		
Financial liabilities at fair value								
through profit or loss	-	-	-	-	72,437	2,267		
Derivative financial liabilities for								
hedging	-	-	1,100	34	28,722	899		

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② December 31, 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	\$1,419,921	\$48,728	1,512,938	\$51,920	\$779,097	\$26,736	\$206,468	\$7,085
Available-for-sale financial assets	13,908,027	477,283	23,281,012	798,937	16,448,421	564,462	14,314,185	491,221
Held-to-maturity financial assets	16,061,951	551,199	21,703,449	744,799	25,652,587	880,322	27,774,224	953,131
Investments in debt securities with								
no active market	4,588,573	157,466	15,796,049	542,074	5,770,408	198,024	17,280,170	593,005
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$173,360	\$5,949	\$2	\$-	\$4,091,786	\$140,418
Available-for-sale financial assets	34,124,975	1,171,070	102,806,214	3,528,010	204,882,834	7,030,983
Held-to-maturity financial assets	15,558,730	533,931	492,889,902	16,914,547	599,640,843	20,577,929
Investments in debt securities with						
no active market	6,277,883	215,439	285,699,372	9,804,371	335,412,455	11,510,379
Preferred stock liability	-	-	25,000,000	857,927	25,000,000	857,927

**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	\$71,048	\$2,438	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	136,626,740	4,688,632	-	-	-	-	-	-
Held-to-maturity financial assets	23,517,190	807,042	-	-	-	-	-	-
Investments in debt securities with								
no active market	23,902,933	820,279	-	-	-	-	-	-

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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	\$-	\$-	\$-	\$-	\$71,048	\$2,438
Available-for-sale financial assets	-	-	-	-	136,626,740	4,688,632
Held-to-maturity financial assets	-	-	-	-	23,517,190	807,042
Investments in debt securities with						
no active market	-	-	-	-	23,902,933	820,279

**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\$
Derivative financial assets for								
hedging	\$11,276	\$387	\$42,712	\$1,466	\$608,724	\$20,890	\$1,140,665	\$39,144
Financial liabilities at fair value								
through profit or loss	-	-	-	-	-	-	116,121	3,985
Derivative financial liabilities for								
hedging	2,267	78	-	-	-	-	-	-

  

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Derivative financial assets for						
hedging	\$-	\$-	\$85,221	\$2,924	\$1,888,598	\$64,811
Financial liabilities at fair value						
through profit or loss	118,892	4,080	-	-	235,013	8,065
Derivative financial liabilities for						
hedging	-	-	8,938	307	11,205	385

**(c) Credit risk**

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

**(d) Hedged accounting disclosures**

**Cash flow hedges – IRS**

The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at December 31, 2009 and 2010:

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① December 31, 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,260	4.000%-6ml	Half year	2010.4.7
300,000	9,390	4.0002%-6ml	Half year	2010.4.7
500,000	15,649	4.0006%-6ml	Half year	2010.4.7
500,000	15,649	4.0007%-6ml	Half year	2010.4.7
200,000	6,260	4.0003%-6ml	Half year	2010.4.7
300,000	9,390	4.3%-12ml	Yearly	2010.6.20
900,000	28,169	90DCP	Each quarter	2010.8.18
600,000	18,779	90DCP	Each quarter	2010.8.19
200,000	6,260	6.3%-6ml	Yearly	2010.11.27
300,000	9,390	5.37%-6ml	Yearly	2011.3.15
500,000	15,649	If 6ml<1.1%,6ml If 1.1%≤6ml≤2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml)	Half year	2011.6.30
2,000,000	62,598	90DCP	Each quarter	2011.9.9
1,000,000	31,299	90DCP	Each quarter	2012.6.26
2,000,000	62,598	90DCP	Each quarter	2012.9.9
2,000,000	62,598	90DCP	Each quarter	2012.10.11
700,000	21,909	90DCP	Each quarter	2012.11.24
2,000,000	62,598	90DCP	Yearly	2013.3.26
2,425,000	75,900	90DCP	Each quarter	2013.4.24
2,700,000	84,507	90DCP+25bps	Each quarter	2013.8.24
3,000,000	93,897	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	62,598	90DCP	Yearly	2013.11.3
1,000,000	31,299	90DCP+26.5bps	Yearly	2013.12.14
500,000	15,649	90DCP+23bps	Yearly	2013.12.14
1,500,000	46,948	90DCP+23bps	Yearly	2013.12.16
1,000,000	31,299	90DCP+26.5bps	Yearly	2013.12.16
900,000	28,169	90DCP	Yearly	2014.3.12
1,000,000	31,299	90DCP	Yearly	2014.6.12
2,000,000	62,598	90DCP	Yearly	2014.6.29
5,000,000	156,495	90DCP	Yearly	2014.8.23
1,000,000	31,299	90DCP	Yearly	2014.9.20
3,200,000	100,156	90DCP	Yearly	2014.9.27
2,000,000	62,598	90DCP	Each quarter	2014.9.28
1,500,000	46,948	90DCP	Yearly	2014.9.29
2,500,000	78,247	90DCP	Yearly	2014.12.20
2,000,000	62,598	90DCP	Yearly	2014.12.24
2,543,500	79,609	90DCP	Each quarter	2016.10.23

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② December 31, 2010

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$300,000	\$10,295	5.37%-6ml	Yearly	2011.3.15
500,000	17,159	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	68,634	90DCP	Each quarter	2011.9.9
1,000,000	34,317	90DCP	Each quarter	2012.6.26
2,000,000	68,634	90DCP	Each quarter	2012.9.9
2,000,000	68,634	90DCP	Each quarter	2012.10.11
700,000	24,022	90DCP	Each quarter	2012.11.24
2,000,000	68,634	90DCP	Yearly	2013.3.26
2,425,000	83,219	90DCP	Each quarter	2013.4.24
3,600,000	123,542	90DCP	Each quarter	2013.6.8
2,700,000	92,656	90DCP+25bps	Each quarter	2013.8.24
3,000,000	102,951	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,634	90DCP	Yearly	2013.11.3
1,000,000	34,317	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,159	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,476	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,317	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,885	90DCP	Yearly	2014.3.12
1,000,000	34,317	90DCP	Yearly	2014.6.12
2,000,000	68,634	90DCP	Yearly	2014.6.29
5,000,000	171,585	90DCP	Yearly	2014.8.23
1,000,000	34,317	90DCP	Yearly	2014.9.20
3,200,000	109,815	90DCP	Yearly	2014.9.27
2,000,000	68,634	90DCP	Each quarter	2014.9.28
1,500,000	51,476	90DCP	Yearly	2014.9.29
2,500,000	85,793	90DCP	Yearly	2014.12.20
2,000,000	68,634	90DCP	Yearly	2014.12.24
2,543,000	87,268	90DCP	Each quarter	2016.10.23
900,000	30,885	90DCP	Each quarter	2016.10.24
1,200,000	41,181	90DCP	Each quarter	2017.10.25
1,400,000	48,044	90DCP	Each quarter	2017.12.9



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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 December 31, 2009 and 2010, unrealized gains (losses) on these financial instruments recognized in equity were NT\$1,631,880 (US\$51,076) thousands and NT\$1,893,489 (US\$64,979) thousands, respectively.

**Fair value hedges**

①The following table summarizes the terms of the Company's credit default swap for bonds used as hedging instruments at December 31, 2009 and 2010:

A. December 31, 2009

Par value		
US\$	Hedge item	Maturity date
\$30,000	CDO	2010.09.23
20,000	CDO	2012.06.20
7,000	Structured notes	2014.03.20
3,000	Structured notes	2014.03.20

B. December 31, 2010: None.

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

The Company's credit default swap agreements are considered to be highly effective fair value hedges. As of December 31, 2010, unrealized gains on these financial instruments recognized in profit are NT\$272,986 (US\$9,368) thousands recorded as losses from valuation on financial assets by NT\$149,393 (US\$5,127) thousands and gains from valuation on financial assets by NT\$422,379 (US\$14,495) thousands, respectively. As of December 31, 2009, unrealized losses on these financial instruments recognized in loss were NT\$191,450 (US\$5,992) thousands recorded as losses from valuation on financial assets by NT\$272,986 (US\$8,544) thousands and gains from valuation on financial liabilities by NT\$81,536 (US\$2,552) thousands, respectively.

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②The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at December 31, 2009 and 2010:

A. December 31, 2009

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

B. December 31, 2010 : None.

The Company's interest rate swap agreements are considered to be highly effective fair value hedges. As of December 31, 2010, unrealized losses on these financial instruments recognized in profit (loss) was NT\$143,750 (US\$4,933) thousands, which was recorded as losses from valuation on financial assets by NT\$169,539 (US\$5,818) thousands and gains from valuation on financial assets by NT\$25,789 (US\$885) thousands, respectively. As of December 31, 2009, unrealized profit on these financial instruments recognized in profit (loss) was NT\$143,750 (US\$4,499) thousands, which was recorded as gains from valuation on financial assets.

B. Symphox Information

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

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Item	December 31, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$440,242	\$440,242	\$15,108	\$15,108
Financial assets at fair value through profit and loss - current	354,719	354,719	12,173	12,173
Receivables	158,878	158,878	5,452	5,452
Guarantee deposits paid	9,441	9,441	324	324
<b><u>Liabilities - non-derivative</u></b>				
Payables	265,875	265,875	9,124	9,124
Guarantee deposits received	63	63	2	2

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

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

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④ The following table summarizes the fair value information of the financial assets and liabilities at December 31, 2009 and 2010:

Item	December 31, 2009			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$140,207	\$4,388	\$-	\$-
Financial assets at fair value through profit or loss-current	545,014	17,058	-	-
Receivables	-	-	107,721	3,372
<b><u>Liabilities - non-derivative</u></b>				
Payables	-	-	148,798	4,657
Item	December 31, 2010			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$440,242	\$15,108	\$-	\$-
Financial assets at fair value through profit or loss-current	354,719	12,173	-	-
Receivables	-	-	158,878	5,452
<b><u>Liabilities - non-derivative</u></b>				
Payables	-	-	265,875	9,124

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C. Cathay Life (China)

Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$3,578,503	\$3,578,503	\$112,003	\$112,003
Financial assets at fair value through profit and loss - current	22,680	22,680	710	710
Available-for-sale financial assets - current	769,893	769,893	24,097	24,097
Receivables	234,429	234,429	7,337	7,337
Available-for-sale financial assets - noncurrent	3,556,604	3,556,604	111,318	111,318
Held-to-maturity financial assets - noncurrent	281,385	281,385	8,807	8,807
Investment in debt securities with no active market - noncurrent	1,204,005	1,204,005	37,684	37,684
Guarantee deposits paid	773,500	773,500	24,210	24,210
<b><u>Liabilities - non-derivative</u></b>				
Payables	411,324	411,324	12,874	12,874
Guarantee deposits received	8,594	8,594	269	269
December 31, 2010				
Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$3,950,662	\$3,950,662	\$135,575	\$135,575
Financial assets at fair value through profit and loss - current	748,333	748,333	25,681	25,681
Available-for-sale financial assets - current	576,270	576,270	19,776	19,776
Receivables	282,811	282,811	9,705	9,705
Available-for-sale financial assets - noncurrent	3,747,556	3,747,556	128,605	128,605
Investment in debt securities with no active market - noncurrent	1,047,124	1,047,124	35,934	35,934
Guarantee deposits paid	1,132,289	1,132,289	38,857	38,857
<b><u>Liabilities - non-derivative</u></b>				
Payables	413,262	413,262	14,182	14,182
Guarantee deposits received	8,137	8,137	279	279

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

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

Item	December 31, 2009			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$3,578,503	\$112,003	\$-	\$-
Financial assets at fair value through profit or loss-current	22,680	710	-	-
Available-for-sale financial assets-current	769,893	24,097	-	-
Receivables	-	-	234,429	7,337
Available-for-sale financial assets-noncurrent	275,310	8,617	3,281,294	102,701
Held-to-maturity financial assets-noncurrent	-	-	281,385	8,807
Investment in debt securities with no active market-noncurrent	-	-	1,204,005	37,684
<b><u>Liabilities - non-derivative</u></b>				
Payables	-	-	411,324	12,874

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Item	December 31, 2010			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$3,950,662	\$135,575	\$-	\$-
Financial assets at fair value through profit or loss-current	748,333	25,681	-	-
Available-for-sale financial assets-current	576,270	19,776	-	-
Receivables	-	-	282,811	9,705
Available-for-sale financial assets-noncurrent	684,052	23,475	3,063,504	105,130
Investment in debt securities with no active market-noncurrent			1,047,124	35,934
<b><u>Liabilities - non-derivative</u></b>				
Payables	-	-	413,262	14,182

E. Cathay Life (Vietnam)

Item	December 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$362,747	\$362,747	\$11,354	\$11,354
Receivables	67,989	67,989	2,128	2,128
Available-for-sale financial assets - noncurrent	1,391,750	1,391,750	43,560	43,560
Guarantee deposits paid	48,925	48,925	1,531	1,531
<b><u>Liabilities - non-derivative</u></b>				
Payables	24,115	24,115	755	755

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Item	December 31, 2010			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$330,804	\$330,804	\$11,352	\$11,352
Receivables	59,435	59,435	2,040	2,040
Available-for-sale financial assets - noncurrent	1,181,275	1,181,275	40,538	40,538
Guarantee deposits paid	39,848	39,848	1,367	1,367
<b><u>Liabilities - non-derivative</u></b>				
Payables	29,002	29,002	995	995

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

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

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



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Item	December 31, 2009			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$362,747	\$11,354	\$-	\$-
Receivables	-	-	67,989	2,128
Available-for-sale financial assets-noncurrent	1,391,750	43,560	-	-
<b><u>Liabilities - non-derivative</u></b>				
Payables	-	-	24,115	755

  

Item	December 31, 2010			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<b><u>Assets - non-derivative</u></b>				
Cash and cash equivalents	\$330,804	\$11,352	\$-	\$-
Receivables	-	-	59,435	2,040
Available-for-sale financial assets-noncurrent	1,181,275	40,538	-	-
<b><u>Liabilities - non-derivative</u></b>				
Payables	-	-	29,002	995

(7) Eliminated intercompany transactions

A. Eliminated intercompany transactions for the year of 2009

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

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

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B. Eliminated intercompany transactions for the year of 2010

Transactions	Companies and amounts							
	The Company		Symphox Information		Cathay Life (China)		Cathay Life (Vietnam)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Eliminations of long-term investments under equity method and stockholders' equity								
Eliminations of investment gains/losses on subsidiaries	\$(472,171)	\$(16,204)	\$52,075	\$1,787	\$(496,792)	\$(17,048)	\$(27,454)	\$(942)
Eliminations of stockholders' equity on subsidiaries	3,090,830	106,068	593,649	20,372	2,375,167	81,509	1,546,345	53,066

Note: The intercompany elimination differences for year of 2010 are minority interests: NT\$1,424,331 (US\$48,879).

33. Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2009.12.31			2010.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	22,589,995	32.03000	723,557,544	30,750,978	29.13000	895,775,994
AUD	768,419	28.80618	22,135,214	1,880,601	29.67473	55,806,320
<u>Non-Monetary Items</u>						
USD	1,357,283	32.03000	43,473,786	1,581,981	29.13000	46,083,093
<u>Long-Term Investments</u>						
<u>Accounted For Under</u>						
<u>The Equity Method</u>						
CNY	377,129	4.69180	1,769,412	426,823	4.42050	1,886,770
VND	1,115,437,422	0.00168	1,873,935	1,073,850,721	0.00144	1,546,345
USD	3,111	32.03000	99,646	3,885	29.13000	113,179

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34. 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). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousands approved by MOEAIC on December 20, 2010. Also, MOEAIC authorized the Company to remit US \$59,000 thousands as the registered capital again on May 16, 2008. The total registered capital is US \$107,330 thousands. 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. The Company has remitted US\$48,330 thousands to Cathay Life Insurance Ltd. (China) till December 31, 2009, and injected another US\$29,880 thousands on September 29, 2010. As of December 31, 2010, the Company's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousands.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on August 26, 2008. As of December 31, 2010, the Company's remittances to this general insurance company totaled approximately US\$28,140 thousands.

35. Segment Information

None.