

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Six-month Periods Ended
30 June 2013 and 2012
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 Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, IAS 34 “Interim Financial Reporting” and IFRS 1 “First-time Adoption of International Financial Reporting Standards” as recognized by Financial Supervisory Commission. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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

Index to consolidated financial statements

	Page
Independent auditors' report	3
Audited consolidated balance sheets as at 30 June 2013, 31 December 2012, 30 June 2012, and 1 January 2012	4-5
Audited consolidated statements of comprehensive income for the three-month periods ended 30 June 2013 and 2012	6
Audited consolidated statements of comprehensive income for the six-month periods ended 30 June 2013 and 2012	7
Audited consolidated statements of changes in equity for the six-month periods ended 30 June 2013 and 2012	8
Audited consolidated statements of cash flows for the six-month periods ended 30 June 2013 and 2012	9
Notes to consolidated financial statements	10-268

Independent Auditors' Report
English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries (the "Subsidiaries") as of 30 June 2013, 31 December 2012, 30 June 2012, and 1 January 2012, the related consolidated statements of comprehensive income for the three-month and six-month periods ended 30 June 2013 and 2012, and the related consolidated statements of changes in equity and cash flows for the six-month periods ended 30 June 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Rules Governing Auditing and Certification of Financial Statement by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("R.O.C."). 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 30 June 2013, 31 December 2012, 30 June 2012, and 1 January 2012, and the results of its operations for the three-month and six-month periods and its cash flows for the six-month periods then ended in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise, IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards" as recognized by Financial Supervisory Commission.

In addition, we have also audited the financial statements of the Company as of and for the six-month periods ended June 30, 2013 and 2012, on which we have expressed an unqualified opinion.

EY
Certified Public Accountants
Taipei, Taiwan, R.O.C.
22 August 2013

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Audited consolidated balance sheets

As at 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012

(Expressed in thousands of dollars)

Assets	Notes	30 June 2013		31 December 2012		30 June 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6,47,48	\$298,802,946	\$9,973,396	\$366,121,804	\$12,603,160	\$366,681,652	\$12,304,753	\$374,053,580	\$12,357,237
Receivables	4,7,47,48	54,104,531	1,805,892	60,991,054	2,099,520	54,965,394	1,844,476	46,488,157	1,535,783
Financial assets at fair value through profit or loss	4,5,8,14,47,48	106,798,023	3,564,687	72,964,811	2,511,697	55,576,993	1,865,000	60,150,749	1,987,141
Available-for-sale financial assets	4,5,9,14,47	1,261,793,260	42,115,930	1,227,321,172	42,248,577	1,244,090,897	41,748,017	1,292,029,178	42,683,488
Derivative financial assets for hedging	4,5,10,47	763,686	25,490	1,142,094	39,315	1,561,602	52,403	1,957,846	64,679
Investments accounted for using the equity method - Net	4,5,11,47	739,113	24,670	947,731	32,624	1,225,696	41,131	1,423,015	47,011
Bond investments for which no active market exists	4,5,12,47,48	871,670,407	29,094,473	816,904,617	28,120,641	719,558,647	24,146,263	515,028,639	17,014,491
Other financial assets - Net	4,5,13,47	33,400,699	1,114,843	23,500,010	808,950	24,500,000	822,147	13,300,000	439,379
Investment property	4,5,15,47,48	200,376,362	6,688,130	201,293,052	6,929,193	199,140,989	6,682,583	201,945,170	6,671,463
Investment property under construction	4,5,15,47,48	10,859,660	362,472	7,519,477	258,846	6,609,518	221,796	5,459,223	180,351
Prepayments for buildings and land - Investments	4,5,15,47,48	1,592,343	53,149	1,581,767	54,450	5,532,506	185,655	20,469	676
Loans	4,16,47,48	580,564,400	19,377,984	516,503,876	17,779,824	498,362,444	16,723,572	489,801,740	16,181,095
Reinsurance assets	4,17,47	4,740,197	158,218	9,170,196	315,669	9,009,068	302,317	9,174,128	303,076
Property and equipment	4,18,47,48	48,259,605	1,610,801	48,356,882	1,664,609	25,210,684	845,996	23,618,343	780,256
Intangible assets	4,19,47	239,182	7,983	254,878	8,774	356,606	11,967	396,833	13,110
Deferred tax assets	4,5,38,47	13,131,390	438,297	16,106,670	554,446	12,911,940	433,287	11,989,836	396,096
Other assets	20,21,47,48,49	17,328,231	578,379	16,739,474	576,230	20,076,710	673,715	18,231,605	602,300
Separate account product assets	4,40,47	351,903,031	11,745,762	329,557,246	11,344,484	294,782,839	9,892,042	294,051,012	9,714,272
Total assets		\$3,857,067,066	\$128,740,556	\$3,716,976,811	\$127,951,009	\$3,540,154,185	\$118,797,120	\$3,359,119,523	\$110,971,904

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012 were NT\$29.96, NT\$29.05, NT\$29.80 and NT\$30.27 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Audited consolidated balance sheets - (continued)

As at 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012

(Expressed in thousands of dollars)

Liabilities and equity	Notes	30 June 2013		31 December 2012		30 June 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	47	\$277,269	\$9,255	\$297,268	\$10,233	\$341,620	\$11,463	\$201,158	\$6,646
Payables	22,47,48	17,595,042	587,284	38,073,655	1,310,625	30,428,539	1,021,092	22,611,251	746,986
Financial liabilities at fair value through profit or loss	4,23,47	20,569,762	686,574	2,079,457	71,582	9,017,899	302,614	17,468,901	577,103
Preferred stock liability	24,47,48	30,000,000	1,001,335	30,000,000	1,032,702	30,000,000	1,006,712	30,000,000	991,080
Insurance liabilities	4,5,25,47	3,215,231,193	107,317,463	3,082,659,251	106,115,637	2,963,321,010	99,440,302	2,787,557,192	92,089,765
Reserve for insurance contracts with feature of financial instruments	4,25,47	58,842,583	1,964,038	61,350,872	2,111,906	64,272,133	2,156,783	66,884,712	2,209,604
Foreign exchange volatility reserve	4,25,47	7,995,402	266,869	4,270,856	147,017	5,066,425	170,015	-	-
Provisions	4,5,26,27,47	3,895,660	130,029	3,812,483	131,239	3,740,588	125,523	3,645,727	120,440
Deferred tax liabilities	4,5,38,47	11,482,257	383,253	15,390,603	529,797	13,157,714	441,534	12,916,045	426,695
Other liabilities	28,29,47,48	7,953,694	265,477	11,525,810	396,758	6,415,281	215,277	6,480,715	214,097
Separate account product liabilities	4,40,47	351,903,031	11,745,762	329,557,246	11,344,484	294,782,839	9,892,042	294,051,012	9,714,272
Total liabilities		3,725,745,893	124,357,339	3,579,017,501	123,201,980	3,420,544,048	114,783,357	3,241,816,713	107,096,688
Equity attributable to equity holders of the parent									
Capital stock									
Common stock	30	53,065,274	1,771,204	53,065,274	1,826,688	53,065,274	1,780,714	53,065,274	1,753,065
Capital surplus	31	13,009,649	434,234	13,009,649	447,836	13,009,649	436,566	13,009,649	429,787
Retained earnings	32								
Legal capital reserve		9,897,228	330,348	9,241,230	318,115	9,241,230	310,108	9,150,054	302,281
Special capital reserve		33,616,183	1,122,036	32,111,919	1,105,401	30,992,192	1,040,006	31,369,439	1,036,321
Unappropriated retained earnings		10,536,058	351,671	5,048,506	173,787	1,466,234	49,203	2,708,494	89,477
Other equity		10,122,081	337,853	24,469,760	842,332	10,678,201	358,329	6,866,131	226,830
Non-controlling interests	32	1,074,700	35,871	1,012,972	34,870	1,157,357	38,837	1,133,769	37,455
Total equity		131,321,173	4,383,217	137,959,310	4,749,029	119,610,137	4,013,763	117,302,810	3,875,216
Total liabilities and equity		\$3,857,067,066	\$128,740,556	\$3,716,976,811	\$127,951,009	\$3,540,154,185	\$118,797,120	\$3,359,119,523	\$110,971,904

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012 were NT\$29.96, NT\$29.05, NT\$29.80 and NT\$30.27 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of comprehensive income
For the three-month periods ended 30 June 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	1 April-30 June 2013		1 April-30 June 2012	
		NT\$	US\$	NT\$	US\$
Operating revenue	4,48				
Direct premium income	33	\$99,835,052	\$3,332,278	\$116,493,140	\$3,909,166
Reinsurance premium income	33	46,785	1,562	45,960	1,542
Premium income	33	99,881,837	3,333,840	116,539,100	3,910,708
Deduct: Premiums ceded to reinsurers	33	(4,117,398)	(137,430)	(7,259,186)	(243,597)
Changes in unearned premium reserve	33	(2,669,897)	(89,116)	2,623	88
Retained earned premium	33	93,094,542	3,107,294	109,282,537	3,667,199
Reinsurance commission earned		3,078,416	102,751	3,796,130	127,387
Handling fees earned	40	786,760	26,260	523,403	17,564
Net investment profits and losses					
Interest income		23,159,016	772,998	22,301,029	748,357
Losses from financial assets and liabilities at fair value through profit or loss		(10,968,027)	(366,089)	(10,549,705)	(354,017)
Realized gains from available-for-sale financial assets		7,028,936	234,611	6,744,464	226,324
Realized gains from bond investments for which no active market exists		4,679,977	156,208	930,351	31,220
Share of the losses of associates and joint ventures accounted for using the equity method		(129,597)	(4,326)	(72,214)	(2,423)
Foreign exchange gains		9,416,269	314,295	8,662,663	290,693
Changes in foreign exchange volatility reserve	25	(516,473)	(17,239)	(402,691)	(13,513)
Gains from investment property		1,635,004	54,573	1,550,123	52,017
Other operating revenue		356,437	11,897	345,849	11,606
Separate account product revenue	4,40	6,542,651	218,380	6,007,892	201,607
Subtotal		138,163,911	4,611,613	149,119,831	5,004,021
Operating costs	4,48				
Insurance claim payments	34	(56,103,964)	(1,872,629)	(54,039,888)	(1,813,419)
Deduct: Claims recovered from reinsures	34	3,062,876	102,232	2,938,582	98,610
Retained claim payments	34	(53,041,088)	(1,770,397)	(51,101,306)	(1,714,809)
Changes in insurance liabilities	25	(61,592,765)	(2,055,833)	(78,727,901)	(2,641,876)
Changes in reserve for insurance contracts with feature of financial instruments	25	177,350	5,920	(493,757)	(16,569)
Brokerage expenses	35	(4,254,191)	(141,996)	(3,999,191)	(134,201)
Commission expenses		(3,751,757)	(125,225)	(3,671,517)	(123,205)
Other operating costs		(1,582,563)	(52,823)	(1,051,263)	(35,277)
Finance costs		167,183	5,580	204,568	6,864
Separate account product expenses	4,40	(6,542,651)	(218,380)	(6,007,892)	(201,607)
Subtotal		(130,420,482)	(4,353,154)	(144,848,259)	(4,860,680)
Operating expenses	4,35,48				
Business expenses		(1,537,108)	(51,305)	(2,111,226)	(70,846)
Administrative and general expenses		(2,515,979)	(83,978)	(2,465,922)	(82,749)
Employee training expenses		(11,794)	(394)	(9,910)	(333)
Subtotal		(4,064,881)	(135,677)	(4,587,058)	(153,928)
Operating income (loss)		3,678,548	122,782	(315,486)	(10,587)
Non-operating income and expenses	4,36,48	344,139	11,486	253,984	8,523
Income (loss) from continuing operations before income tax		4,022,687	134,268	(61,502)	(2,064)
Income tax (expense) benefit	4,5,38	(391,045)	(13,052)	7,647	257
Net income (loss) from continuing operations		3,631,642	121,216	(53,855)	(1,807)
Net income (loss)		3,631,642	121,216	(53,855)	(1,807)
Other comprehensive income	37				
Exchange differences resulting from translating the financial statements of foreign operations		99,030	3,305	16,172	542
Unrealized valuation losses from available-for-sale financial assets		(17,004,228)	(567,564)	(18,068,856)	(606,337)
Effective portion of losses on hedging instruments in cash flow hedges		(187,774)	(6,267)	(101,153)	(3,394)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method		(13,487)	(450)	(38,388)	(1,288)
Other comprehensive income, before tax		(17,106,459)	(570,976)	(18,192,225)	(610,477)
Income taxes relating to components of other comprehensive income		2,988,461	99,748	941,821	31,604
Other comprehensive income, net of tax		(14,117,998)	(471,228)	(17,250,404)	(578,873)
Total comprehensive income		\$(10,486,356)	\$(350,012)	\$(17,304,259)	\$(580,680)
Net income (loss) attributable to:					
Equity holders of the parent		\$3,650,296	\$121,839	\$(31,066)	\$(1,042)
Non-controlling interests		\$(18,654)	\$(623)	\$(22,789)	\$(765)
Total comprehensive income attributable to:					
Equity holders of the parent		\$(10,467,808)	\$(349,393)	\$(17,289,813)	\$(580,195)
Non-controlling interests		\$(18,548)	\$(619)	\$(14,446)	\$(485)
Basic earnings per share (In dollars)	39				
Net income (loss) from continuing operations		\$0.69	\$0.02	\$(0.01)	\$-

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NT\$29.96 and NT\$29.80 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of comprehensive income
For the six-month periods ended 30 June 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	1 January-30 June 2013		1 January-30 June 2012	
		NT\$	US\$	NT\$	US\$
Operating revenue	4,48				
Direct premium income	33	\$193,335,635	\$6,453,125	\$257,905,947	\$8,654,562
Reinsurance premium income	33	106,694	3,561	92,309	3,098
Premium income	33	193,442,329	6,456,686	257,998,256	8,657,660
Deduct: Premiums ceded to reinsurers	33	(8,781,900)	(293,121)	(13,829,928)	(464,092)
Changes in unearned premium reserve	33	(4,876,593)	(162,770)	140,850	4,727
Retained earned premium	33	179,783,836	6,000,795	244,309,178	8,198,295
Reinsurance commission earned		6,051,418	201,983	7,480,342	251,018
Handling fees earned	40	1,635,704	54,596	1,054,398	35,382
Net investment profits and losses					
Interest income		46,526,193	1,552,944	44,853,484	1,505,150
(Losses) gains from financial assets and liabilities at fair value through profit or loss		(30,925,625)	(1,032,230)	8,492,472	284,983
Realized gains from available-for-sale financial assets		11,638,395	388,464	11,646,872	390,835
Realized gains from bond investments for which no active market exists		7,878,766	262,976	1,329,333	44,608
Share of the losses of associates and joint ventures accounted for using the equity method		(148,074)	(4,942)	(93,234)	(3,129)
Foreign exchange gains (losses)		33,761,870	1,126,898	(13,076,656)	(438,814)
Changes in foreign exchange volatility reserve	25	(3,724,547)	(124,317)	(555,019)	(18,625)
Gains from investment property		3,510,346	117,168	3,421,541	114,817
Other operating revenue		681,797	22,757	812,337	27,260
Separate account product revenue	4,40	44,450,691	1,483,668	27,691,345	929,240
Subtotal		301,120,770	10,050,760	337,366,393	11,321,020
Operating costs	4,48				
Insurance claim payments	34	(102,243,233)	(3,412,658)	(108,973,437)	(3,656,827)
Deduct: Claims recovered from reinsurers	34	6,070,699	202,627	5,488,504	184,178
Retained claim payments	34	(96,172,534)	(3,210,031)	(103,484,933)	(3,472,649)
Changes in insurance liabilities	25	(125,252,840)	(4,180,669)	(181,820,523)	(6,101,359)
Changes in reserve for insurance contracts with feature of financial instruments	25	(124,490)	(4,155)	(545,603)	(18,309)
Brokerage expenses	35	(8,575,939)	(286,246)	(7,912,224)	(265,511)
Commission expenses		(8,364,385)	(279,185)	(8,397,210)	(281,785)
Other operating costs		(2,731,020)	(91,156)	(2,322,518)	(77,937)
Finance costs		359,108	11,986	403,786	13,550
Separate account product expenses	4,40	(44,450,691)	(1,483,668)	(27,691,345)	(929,240)
Subtotal		(285,312,791)	(9,523,124)	(331,770,570)	(11,133,240)
Operating expenses	4,35,48				
Business expenses		(2,957,657)	(98,720)	(3,696,295)	(124,037)
Administrative and general expenses		(5,019,391)	(167,537)	(4,715,837)	(158,250)
Employee training expenses		(18,669)	(623)	(17,188)	(577)
Subtotal		(7,995,717)	(266,880)	(8,429,320)	(282,864)
Operating income (loss)		7,812,262	260,756	(2,833,497)	(95,084)
Non-operating income and expenses	4,36,48	502,855	16,784	479,592	16,094
Income (loss) from continuing operations before income tax		8,315,117	277,540	(2,353,905)	(78,990)
Income tax (expense) benefit	4,5,38	(617,066)	(20,596)	848,764	28,482
Net income (loss) from continuing operations		7,698,051	256,944	(1,505,141)	(50,508)
Net income (loss)		7,698,051	256,944	(1,505,141)	(50,508)
Other comprehensive income	37				
Exchange differences resulting from translating the financial statements of foreign operations		228,844	7,639	(52,248)	(1,753)
Unrealized valuation (losses) gains from available-for-sale financial assets		(16,999,150)	(567,395)	4,206,426	141,155
Effective portion of losses on hedging instruments in cash flow hedges		(386,840)	(12,912)	(409,840)	(13,753)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method		9,053	302	(39,569)	(1,328)
Other comprehensive income, before tax		(17,148,093)	(572,366)	3,704,769	124,321
Income taxes relating to components of other comprehensive income		2,830,019	94,460	131,744	4,421
Other comprehensive income, net of tax		(14,318,074)	(477,906)	3,836,513	128,742
Total comprehensive income		\$(6,620,023)	\$(220,962)	\$2,331,372	\$78,234
Net income (loss) attributable to:					
Equity holders of the parent		\$7,647,814	\$255,267	\$(1,528,331)	\$(51,286)
Non-controlling interests		\$50,237	\$1,677	\$23,190	\$778
Total comprehensive income attributable to:					
Equity holders of the parent		\$(6,699,865)	\$(223,627)	\$2,283,739	\$76,636
Non-controlling interests		\$79,842	\$2,665	\$47,633	\$1,598
Basic earnings per share (In dollars)	39				
Net income (loss) from continuing operations		\$1.44	\$0.05	\$(0.29)	\$(0.01)

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NT\$29.96 and NT\$29.80 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of changes in equity
For the six-month periods ended 30 June 2013 and 2012
(Expressed in thousands of dollars)

Equity attributable to equity holders of the parent

Summary	Retained earnings										Other equity						Total	Non-controlling interests		Total		
	Capital stock		Capital surplus		Legal capital reserve		Special capital reserve		Unappropriated retained earnings		Exchange differences resulting from translating the financial statements of foreign operations		Unrealized valuation gains from available-for-sale financial assets		Effective portion of gains on hedging instruments in cash flow hedges			NT\$	US\$	NT\$	US\$	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$						
Balance on 1 January 2012	\$53,065,274	\$1,780,714	\$13,009,649	\$436,566	\$9,150,054	\$307,049	\$31,369,439	\$1,052,665	\$2,708,494	\$90,889	\$(304,530)	\$(10,219)	\$5,512,974	\$184,999	\$1,657,687	\$55,627	\$116,169,041	\$3,898,290	\$1,133,769	\$38,046	\$117,302,810	\$3,936,336
Appropriation and distribution of earnings for the year 2011																						
Legal capital reserve	-	-	-	-	91,176	3,059	-	-	(91,176)	(3,059)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	742,961	24,932	(742,961)	(24,932)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits	-	-	-	-	-	-	(1,120,208)	(37,591)	1,120,208	37,591	-	-	-	-	-	-	-	-	-	-	-	-
Net loss for the six-month period ended 30 June 2012	-	-	-	-	-	-	-	-	(1,528,331)	(51,286)	-	-	-	-	-	-	(1,528,331)	(51,286)	23,190	778	(1,505,141)	(50,508)
Other comprehensive income for the six-month period ended 30 June 2012	-	-	-	-	-	-	-	-	-	-	(46,770)	(1,570)	4,199,008	140,907	(340,168)	(11,415)	3,812,070	127,922	24,443	820	3,836,513	128,742
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,045)	(807)	(24,045)	(807)
Balance on 30 June 2012	<u>\$53,065,274</u>	<u>\$1,780,714</u>	<u>\$13,009,649</u>	<u>\$436,566</u>	<u>\$9,241,230</u>	<u>\$310,108</u>	<u>\$30,992,192</u>	<u>\$1,040,006</u>	<u>\$1,466,234</u>	<u>\$49,203</u>	<u>\$(351,300)</u>	<u>\$(11,789)</u>	<u>\$9,711,982</u>	<u>\$325,906</u>	<u>\$1,317,519</u>	<u>\$44,212</u>	<u>\$118,452,780</u>	<u>\$3,974,926</u>	<u>\$1,157,357</u>	<u>\$38,837</u>	<u>\$119,610,137</u>	<u>\$4,013,763</u>
Balance on 1 January 2013	\$53,065,274	\$1,771,204	\$13,009,649	\$434,234	\$9,241,230	\$308,452	\$32,111,919	\$1,071,827	\$5,048,506	\$168,509	\$(428,258)	\$(14,294)	\$23,938,471	\$799,014	\$959,547	\$32,027	\$136,946,338	\$4,570,973	\$1,012,972	\$33,811	\$137,959,310	\$4,604,784
Appropriation and distribution of earnings for the year 2012																						
Legal capital reserve	-	-	-	-	655,998	21,896	-	-	(655,998)	(21,896)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	1,538,957	51,367	(1,538,957)	(51,367)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits	-	-	-	-	-	-	(34,693)	(1,158)	34,693	1,158	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the six-month period ended 30 June 2013	-	-	-	-	-	-	-	-	7,647,814	255,267	-	-	-	-	-	-	7,647,814	255,267	50,237	1,677	7,698,051	256,944
Other comprehensive income for the six-month period ended 30 June 2013	-	-	-	-	-	-	-	-	-	-	201,148	6,714	(14,227,750)	(474,891)	(321,077)	(10,717)	(14,347,679)	(478,894)	29,605	988	(14,318,074)	(477,906)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(18,114)	(605)	(18,114)	(605)
Balance on 30 June 2013	<u>\$53,065,274</u>	<u>\$1,771,204</u>	<u>\$13,009,649</u>	<u>\$434,234</u>	<u>\$9,897,228</u>	<u>\$330,348</u>	<u>\$33,616,183</u>	<u>\$1,122,036</u>	<u>\$10,536,058</u>	<u>\$351,671</u>	<u>\$(227,110)</u>	<u>\$(7,580)</u>	<u>\$9,710,721</u>	<u>\$324,123</u>	<u>\$638,470</u>	<u>\$21,310</u>	<u>\$130,246,473</u>	<u>\$4,347,346</u>	<u>\$1,074,700</u>	<u>\$35,871</u>	<u>\$131,321,173</u>	<u>\$4,383,217</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NTS29.96 and NTS29.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of cash flows
For the six-month periods ended 30 June 2013 and 2012
(Expressed in thousands of dollars)

	1 January-30 June 2013		1 January-30 June 2012	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss), before tax	\$8,315,117	\$277,540	\$(2,353,905)	\$(78,990)
Adjustments:				
Non-cash revenue and expense items				
Depreciation	1,509,517	50,384	1,407,406	47,228
Amortization	34,370	1,147	51,029	1,712
Bad debt expenses	664,432	22,177	709,922	23,823
Net losses (gains) from financial assets and liabilities at fair value through profit or loss	30,949,562	1,033,030	(8,464,278)	(284,036)
Net gains from available-for-sale financial assets	(9,293,567)	(310,199)	(10,337,413)	(346,893)
Net gains from bond investments for which no active market exists	(7,878,766)	(262,976)	(1,329,333)	(44,608)
Interest expenses	25,077	837	52,622	1,766
Interest income	(46,526,193)	(1,552,944)	(44,853,484)	(1,505,150)
Dividend income	(2,368,764)	(79,064)	(1,337,653)	(44,888)
Changes in insurance liabilities	132,571,941	4,424,965	175,763,817	5,898,114
Changes in reserve for insurance contracts with feature of financial instruments	(2,508,289)	(83,721)	(2,612,578)	(87,670)
Changes in foreign exchange volatility reserve	3,724,547	124,317	5,066,425	170,014
Share of the losses of associates and joint ventures accounted for using the equity method	148,074	4,942	93,234	3,129
Losses on disposal or scrapping of property and equipment	1,022	34	1,220	41
Gains on disposal of investment property	-	-	(89,808)	(3,014)
Subtotal	101,052,963	3,372,929	114,121,128	3,829,568
Changes in operating assets and liabilities				
(Increase) decrease in financial assets at fair value through profit or loss	(9,364,430)	(312,564)	33,252,764	1,115,865
(Increase) decrease in derivative financial assets for hedging	(8,432)	(281)	230,994	7,751
Decrease in premiums receivable	17,817	595	6,440	216
Decrease in notes receivable	471,194	15,727	461,765	15,496
Decrease (increase) in other accounts receivable	9,639,680	321,752	(3,784,436)	(126,995)
(Increase) decrease in prepaid expenses and other prepayments	(371,610)	(12,404)	252,634	8,478
(Increase) decrease in guarantee deposits paid	(852,796)	(28,465)	204,014	6,846
Decrease in reinsurance assets	4,430,000	147,864	165,059	5,539
Increase in other financial assets	(9,900,689)	(330,464)	(11,200,000)	(375,839)
Decrease (increase) in other assets	342,892	11,445	(2,235,686)	(75,023)
Decrease in financial liabilities at fair value through profit or loss	(36,635,282)	(1,222,806)	(29,102,108)	(976,581)
Decrease in notes payable	(25)	(1)	(1,304)	(43)
Increase in life insurance proceeds payable	40,000	1,335	26,234	880
(Decrease) increase in other payables	(16,846,511)	(562,300)	7,069,570	237,234
(Decrease) increase in due to reinsurers and ceding companies	(3,583,813)	(119,620)	686,975	23,053
(Decrease) increase in commissions payable	(89,049)	(2,972)	35,860	1,203
Decrease in accounts collected in advance	(4,302)	(144)	(56,799)	(1,906)
Increase in guarantee deposits received	8,923	298	42,120	1,413
Increase in provisions	9,555	319	-	-
Decrease in deferred handling fees	(8,972)	(299)	-	-
Decrease in other liabilities	(3,567,766)	(119,084)	(50,755)	(1,703)
Increase in provision for employee benefits	73,622	2,457	94,861	3,183
Subtotal	(66,199,994)	(2,209,612)	(3,901,798)	(130,933)
Cash generated from operating activities	43,168,086	1,440,857	107,865,425	3,619,645
Interest received	44,354,244	1,480,449	42,347,561	1,421,059
Dividends received	2,425,294	80,951	1,391,718	46,702
Interest paid	(25,077)	(837)	(52,668)	(1,767)
Income taxes refunded (paid)	216,621	7,230	(2,211,141)	(74,200)
Net cash provided by operating activities	90,139,168	3,008,650	149,340,895	5,011,439
Cash flows from investing activities				
Acquisition of available-for-sale financial assets	(392,538,465)	(13,102,085)	(305,161,478)	(10,240,318)
Disposal of available-for-sale financial assets	350,360,794	11,694,286	367,638,659	12,336,868
Acquisition of bond investments for which no active market exists	(292,134,026)	(9,750,802)	(470,866,066)	(15,800,875)
Disposal of bond investments for which no active market exists	245,247,002	8,185,815	267,659,394	8,981,859
Disinvestment of investments accounted for using the equity method	13,067	436	10,450	351
Acquisition of property and equipment	(250,618)	(8,365)	(160,041)	(5,371)
Disposal of property and equipment	431	14	88	3
Acquisition of intangible assets	(15,844)	(529)	(13,072)	(438)
Increase in loans	(64,731,123)	(2,160,585)	(9,278,559)	(311,361)
Acquisition of investment property	(3,441,359)	(114,865)	(6,725,320)	(225,682)
Disposal of investment property	-	-	112,580	3,778
Net cash used in investing activities	(157,490,141)	(5,256,680)	(156,783,365)	(5,261,186)
Cash flows from financing activities				
(Decrease) increase in notes and bonds with repurchase agreements	(19,998)	(667)	140,462	4,713
Cash dividends paid	(18,114)	(605)	(24,045)	(807)
Net cash (used in) provided by financing activities	(38,112)	(1,272)	116,417	3,906
Effects of exchange rate changes on cash and cash equivalents	70,227	2,344	(45,875)	(1,539)
Decrease in cash and cash equivalents	(67,318,858)	(2,246,958)	(7,371,928)	(247,380)
Cash and cash equivalents at the beginning of the periods	366,121,804	12,220,354	374,053,580	12,552,133
Cash and cash equivalents at the end of the periods	\$298,802,946	\$9,973,396	\$366,681,652	\$12,304,753

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NT\$29.96 and NT\$29.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements

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

For the six-month periods ended 30 June 2013 and 2012

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 23 October 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 31 December 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 benefit from synergistic operation and enhance the Company’s competitiveness in the financial market. The Company’s registered office and the main business location is at No. 296, Jen Ai Road, Section 4, Taipei, Republic of China (R.O.C.).

The parent company and ultimate parent company of the Company is Cathay Financial Holding.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and its subsidiaries (“the Company and Subsidiaries”) for the six-month periods ended 30 June 2013 and 2012 were authorized to issue in accordance with resolution of the Company’s board of directors on 22 August 2013.

3. Newly issued or revised standards and interpretations

(1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Company and Subsidiaries at the date of issuance of the Company and Subsidiaries’ financial statements are listed below:

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* which is divided in three distinct phases is designed by the International Accounting Standards Board (“IASB”) to eventually replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. The first phase relates to the classification and measurement of financial assets and liabilities that must be applied for annual periods beginning on or after 1 January 2015. The IASB will work on the remaining phases relate to impairment methodology and hedge accounting. However companies adopting International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “TIFRS”) may not early adopt IFRS 9. FSC will announce the local effective date for IFRS 9 in the future. Adopting the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets, but have no impact on the classification and measurement of financial liabilities. The impact of adopting the remaining two phases of IFRS 9 on the Company and Subsidiaries could not be determined at this stage.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (2) Standards or interpretations issued by the IASB but not yet recognized by the FSC are listed below:

Standards or interpretations	Effective date
<i>Improvements to IFRSs 2010:</i>	
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Annual periods beginning on or after 1 January 2011
IFRS 3 <i>Business Combinations</i>	Annual periods beginning on or after 1 July 2010
IFRS 7 <i>Financial Instruments: Disclosures</i>	Annual periods beginning on or after 1 January 2011
IAS 1 <i>Presentation of Financial Statements</i>	Annual periods beginning on or after 1 January 2011
IAS 34 <i>Interim Financial Reporting</i>	Annual periods beginning on or after 1 January 2011
IFRIC 13 <i>Customer Loyalty Programmes</i>	Annual periods beginning on or after 1 January 2011
<i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendments to IFRS 1)</i>	
	Annual periods beginning on or after 1 July 2010
<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)</i>	
	Annual periods beginning on or after 1 July 2011
<i>Amendments to IFRS 7</i>	
	Annual periods beginning on or after 1 July 2011
<i>Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12 Income Taxes)</i>	
	Annual periods beginning on or after 1 January 2012
IFRS 10 <i>Consolidated Financial Statements</i>	Annual periods beginning on or after 1 January 2013
IAS 27 <i>Separate Financial Statements</i>	Annual periods beginning on or after 1 January 2013
IFRS 11 <i>Joint Arrangements</i>	Annual periods beginning on or after 1 January 2013
IAS 28 <i>Investments in Associates and Joint Ventures</i>	Annual periods beginning on or after 1 January 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Annual periods beginning on or after 1 January 2013
IFRS 13 <i>Fair Value Measurement</i>	Annual periods beginning on or after 1 January 2013
<i>Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)</i>	
	Annual periods beginning on or after 1 July 2012
<i>Amendments to IAS 19 Employee Benefits</i>	
	Annual periods beginning on or after 1 January 2013
<i>Government Loans (Amendments to IFRS 1)</i>	
	Annual periods beginning on or after 1 January 2013
<i>Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)</i>	
	Annual periods beginning on or after 1 January 2013
<i>Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)</i>	
	Annual periods beginning on or after 1 January 2014

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Standards or interpretations	Effective date
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	Annual periods beginning on or after 1 January 2013
<i>Improvements to IFRSs 2009-2011 Cycle:</i>	
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Annual periods beginning on or after 1 January 2013
IAS 1 <i>Presentation of Financial Statements</i>	Annual periods beginning on or after 1 January 2013
IAS 16 <i>Property, Plant and Equipment</i>	Annual periods beginning on or after 1 January 2013
IAS 32 <i>Financial Instruments: Presentation</i>	Annual periods beginning on or after 1 January 2013
IAS 34 <i>Interim Financial Reporting</i>	Annual periods beginning on or after 1 January 2013
Amendments to IFRS 10 <i>Consolidated Financial Statements</i>	Annual periods beginning on or after 1 January 2014
Amendments to IAS 36 <i>Impairment of Assets</i>	Annual periods beginning on or after 1 January 2014
IFRIC 21 <i>Levies</i>	Annual periods beginning on or after 1 January 2014
<i>Novation of Derivatives and Continuation of Hedge Accounting</i> (Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i>)	Annual periods beginning on or after 1 January 2014

The adoption of the following standards or interpretations could have impact on the Company and Subsidiaries' financial statements in the period of initial application:

Improvements to IFRSs 2010

IFRS 7 Financial Instruments: Disclosures

The amendment requires qualitative disclosures in the context of quantitative disclosures to enable users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.

Amendments to IFRS 7 Financial Instruments: Disclosures

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognized in their entirety, but the entity has a continuing involvement in them, or when financial assets are not derecognized in their entirety.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and presents those requirements in a single IFRS.

IFRS 13 Fair Value Measurement

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosure is required.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified.

Amendments to IAS 19 Employee Benefits

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest on the net defined benefit liability (asset). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Improvements to IFRSs 2009-2011 Cycle

IAS 1 Presentation of Financial Statements

The amendment clarifies: (1) The difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. (2) An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. (3) The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, the related notes are not required to include comparatives as of the date of the opening statement.

Amendments to IAS 36 Impairment of Assets

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

IFRIC 21 Levies

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain).

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 Financial Instruments: Recognition and Measurement)

Under the amendments, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The abovementioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Company and Subsidiaries' financial statements, the local effective dates are to be determined by FSC. As the Company and Subsidiaries are still currently determining the potential impact of the standards and interpretations, it is not practical to estimate their impact on the Company and Subsidiaries at this point in time.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the six-month periods ended 30 June 2013 and 2012 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* as recognized by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT\$") unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company and Subsidiaries obtain control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company and Subsidiaries lose control of a subsidiary, it:

- A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. derecognizes the carrying amount of any non-controlling interest;
- C. recognizes the fair value of the consideration received;
- D. recognizes the fair value of any investment retained;
- E. recognizes any surplus or deficit in profit or loss; and
- F. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investors	Investees	Business	Ownership interest			
			2013.6.30	2012.12.31	2012.6.30	2012.1.1
The Company	Symphox Information Co., Ltd. ("Symphox Information")	Type II telecom service, data processing service, information supply service	60.12	60.12	60.12	60.12
The Company	Cathay Life Insurance Ltd. (China) ("Cathay Life (China)")	Life insurance	50.00	50.00	50.00	50.00
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00	100.00	100.00
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office equipment leasing	100.00	100.00	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The consolidated financial statements exclude the following:

Investors	Investees	Business	Ownership interest				Notes
			2013.6.30	2012.12.31	2012.6.30	2012.1.1	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class 3 general business insurers and a long-term insurer	100.00	100.00	100.00	100.00	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00	100.00	100.00	100.00	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Insurance Company Limited (China)	Properties insurance	50.00	50.00	50.00	50.00	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements.

(4) Foreign currency transactions

The Company and Subsidiaries' consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Company and Subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the reporting date and the resulting exchange differences are recognized in profit or loss for the period. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. When a gain or loss on the non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss. When a gain or loss on the non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(5) Translation of financial statements in foreign currency

While preparing the Company and Subsidiaries' consolidated financial statements, the assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

On the partial disposal of a subsidiary including a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity including a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Company and Subsidiaries classify time deposits as cash equivalents when they have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(7) Financial assets and liabilities

Initial recognition and subsequent measurement

According to IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets are categorized as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “derivative financial assets for hedging” and “loans and receivables”. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”.

The Company and Subsidiaries classify the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

All regular way purchases or sales of financial assets are recorded using trade date accounting.

Subsequent measurement of each category of financial assets and liabilities is listed below:

A. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- 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 fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable. Any gain or loss already recognized in profit or loss shall not be reversed. Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.

B. Available-for-sale financial assets

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

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

C. Derivative financial assets and liabilities for hedging

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

D. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- a. those that the Company and Subsidiaries intend to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- b. those that the Company and Subsidiaries upon initial recognition designate as available for sale; or
- c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are separately presented on the balance sheet as receivables, bond investments for which no active market exists or loans. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Secured loans shall be measured at amortized cost using the effective interest method; however, they need not be discounted if the effect of discounting is immaterial.

E. Financial liabilities

Financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging, which are measured at fair value.

Fair value of financial instruments

If there is a quoted price in an active market for a financial instrument, the price is used to measure fair value. If a quoted price is readily available in principal exchange markets, over-the-counter markets, Bloomberg or Reuters and is generally representative of the price in an orderly transaction between market participants, it is utilized as an estimate of the fair value of listed equity securities and debt instruments that have a quoted price in an active market.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Fair value of the other financial instruments is determined using a valuation technique. Such techniques may include reference to the current fair value of another instrument that has substantially the same terms and characteristics, discounted cash flow analysis and pricing models that incorporate information available to market participants on the balance sheet date (such as reference yield published by GreTai Securities Market, commercial paper market interest rates released by Reuters, etc.).

For less complex financial instruments such as interest rate swaps, currency swaps and options, the Company and Subsidiaries apply valuation techniques widely used by market participants. The variables of these valuation techniques include mostly observable market data.

For more complex financial instruments, the Company and Subsidiaries adopt both self-developed and externally-developed pricing models which are consistent with accepted economic methodologies for pricing financial instruments. Such models are used to measure derivatives, equity and debt instruments not quoted in an active market (including embedded derivatives) and other debt instruments not publicly traded. The variables of these pricing models include unobservable inputs and thus the Company and Subsidiaries must make their own assumptions and estimates.

Derecognition of financial assets and liabilities

A. Financial assets

The Company and Subsidiaries derecognize financial assets when the contractual rights to the cash flows from the assets expire or when it transfers substantially all the risks and rewards of ownership of the asset.

Securities lending transactions and repurchase agreements do not result in derecognition because the Company and Subsidiaries have nearly retained all such risks and rewards.

B. Financial liabilities

The Company and Subsidiaries remove all or part of a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

An exchange between an existing borrower and lender of debt instruments with substantially different terms or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the liability extinguished and the liability recognized is recognized in profit or loss.

Reclassification of financial assets

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

- A. The Company and Subsidiaries shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. The Company and Subsidiaries shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the Company and Subsidiaries as at fair value through profit or loss.
- C. The Company and Subsidiaries shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- D. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
- E. If, during the current financial year or during the two preceding financial years, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Impairment of financial assets

The Company and Subsidiaries assess at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired when, and only when, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset. The carrying amount of the financial asset impaired, other than receivables and loans impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

Other loss events may include:

- A. significant financial difficulty of the issuer or obligor; or
- B. a breach of contract, such as a default or delinquency in interest or principal payments; or
- C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- D. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company and Subsidiaries first assess whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company and Subsidiaries determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

In addition, in accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts: 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts to be reserved within three years starting on 1 January 2011, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument 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 is reversed through profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Derivative financial instruments and hedge accounting

The Company and Subsidiaries engage in derivative financial instrument transactions, such as currency forward contracts, interest rate swaps, cross currency swaps, options and futures, 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.
- 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 document 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

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

A. Fair value hedges

Fair value hedges is 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. 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 IAS 21 *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.

B. Cash flow hedges

Cash flow hedges is 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 or with a highly probable forecast transaction and could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, 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 other comprehensive income 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 other comprehensive income shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

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, the cumulative gain or loss that was previously recognized in equity remains in other comprehensive income until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

C. 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 other comprehensive income, 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 other comprehensive income is transferred to profit or loss.

(8) Investments accounted for using the equity method

The Company and Subsidiaries' investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company and Subsidiaries have significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company and Subsidiaries' share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company and Subsidiaries have incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and Subsidiaries and the associate are eliminated to the extent of the Company and Subsidiaries' related interest in the associate.

When changes in the net assets of an associate occur and are not those recognized in profit or loss or other comprehensive income and do not affect the Company and Subsidiaries' percentage of ownership interests in the associate, the Company and Subsidiaries recognize such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a pro rata basis.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

When an associate issues new stock and the Company and Subsidiaries' interest in the associate is reduced or increased as the Company and Subsidiaries fail to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company and Subsidiaries dispose the associate.

The financial statements of an associate are prepared for the same reporting period as the Company and Subsidiaries. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company and Subsidiaries.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the Company and Subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company and Subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognize the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income as required by IAS 36 *Impairment of Assets*. If using the investment's value in use as the recoverable amount, the Company and Subsidiaries determine the value in use based on the following estimates:

- A. Future cash flows that the Company and Subsidiaries expect to derive from the investment in the associate, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or
- B. present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

Because goodwill included as part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 *Impairment of Assets*.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Upon loss of significant influence over the associate, the Company and Subsidiaries measure and recognize any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

(9) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property and equipment are required to be replaced in intervals, the Company and Subsidiaries recognize such parts as individual assets separately with specific useful lives and depreciation. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property and Equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and construction	5~70 years
Computer equipment	3~5 years
Communication and transportation equipment	3~5 years
Other equipment	3~15 years
Leasehold improvements	5 years
Leased assets	3 years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively as a change in accounting estimate, if appropriate.

(10) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 *Property and Equipment* for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and construction	5~70 years
----------------------------	------------

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

(11) Leases

The Company and Subsidiaries as a lessee

Finance leases which transfer to the Company and Subsidiaries substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company and Subsidiaries will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

The Company and Subsidiaries as a lessor

Leases in which the Company and Subsidiaries do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The depreciation policy for depreciable leased assets is consistent with the Company and Subsidiaries' normal depreciation policy for similar assets, and depreciation is calculated in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 years).

(13) Impairment of non-financial assets

The Company and Subsidiaries assess at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company and Subsidiaries estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company and Subsidiaries estimate the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it first reduces the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(14) 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 the Republic of China (the "Central Bank") as the "Guaranteed Depository Insurance".

B. Cathay life (China)

As provided by the China Insurance Regulatory Commission, an amount equal to 20% of the capital must be deposited in the form of time deposits.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(15) Insurance liabilities, reserve for insurance contracts with feature of financial instruments and foreign exchange volatility reserve

A. The Company

Business reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.” Furthermore, they have been validated by the certified actuarial professionals approved by Financial Supervisory Commission. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

Moreover, an insurance contract with discretionary participation feature is classified as liability.

a. Unearned premium reserve

For the insurance policy which period is within one year and has not met the due date or injury insurance policy over one year, the amount of reserve required is based upon the risk calculation.

b. Reserve for claims

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon the basis that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based upon the past indemnity experiences and expenses occurred and in accordance with the actuarial principles for each injury insurance and health or life insurance with a policy period within 1 year.

c. Reserve for life insurance liabilities

Based upon the life table and projected interest rates in the manual provided by the authority for each type of insurance, the dollar amount of life insurance reserve is calculated and deposited according to the calculation method listing on Article 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the manual published by each authority of insurance products.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Starting from policy year 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the authorities, the downward adjustments of bonus due to the offset between mortality saving (loss) and gain (loss) from difference of interest rates should be recognized and recorded as the increase of reserve for long-term valid contract.

From 1 January 2012, insurance companies should reserve the amount of special reserve for major incidents which is recovered in accordance with Section 19 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” as reserve for life insurance liabilities.

The method prescribed by law for computing reserve for life insurance liabilities was modified by the authority on 28 December 2012.

d. Special reserve

(A) For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 1 year, the special reserve is classified into 2 categories, “Special Capital Reserve—Special Reserve for Major Incidents” and “Special Capital Reserve—Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

(a) Special capital reserve—Special reserve for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of NT\$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

(b) Special capital reserve—Special reserve for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15 percent of this difference should be reserved in special reserve for fluctuation of risks.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used to write down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30 percent of self-retention earned premium within one year, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authority may designate or restrict the use of the recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for fluctuation of risks under equity.

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in special capital reserve under equity.

- (B) The Company sells participating life insurance policy. According to the “Rule Governing application of revenue and expenses related to participating / non-participating policy”, the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.
- (C) According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the excess should be recognized as special reserve for revaluation increments of property under liabilities.

According to the regulations established by the authorities on 30 November 2012, the aforementioned special reserve for revaluation increments of property can be transferred to the reserve for life insurance liabilities—fair value of insurance contract liabilities after strengthening the reserve for life insurance liabilities calculated based on the regulations established by the authorities on 27 November 2012. If there is excess, 80% of it can be recovered in the first year or next five years and reserved to special capital reserve under equity. The amount which can be recovered and reserved to special capital reserve under equity each year, is limited to NT\$10 billion.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

e. Premium deficiency reserve

For the contracts over one year of life insurance, health insurance, or annuities contracts commencing on 1 January 2001, the following rules apply: When the gross premium is less than the valuation net premium, a deficiency reserve is required to be set aside with the value of an annuity, the amount of which shall equal the difference between such premiums and the term of which in years shall equal the number of future annual payments due on such insurance at the date of the valuation.

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules apply: If the probable indemnities and expenses are greater than the aggregate of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

The method prescribed by law for computing premium deficiency reserve was amended by the regulator on 28 December 2012.

f. Liability adequacy reserve

This is the reserve that is set aside based on the adequacy test of liability required by IFRS 4 *Insurance Contracts*.

g. Reserves for insurance contract with feature of financial instruments

Reserve for non-separate account insurance product that is also classified as financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

h. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is NT\$4,511,406 (US\$152,929) thousands which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 30 June 2013, the amount set aside was NT\$7,995,402 (US\$266,869) thousands.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

i. Liability adequacy test

Liability adequacy test is based on integrated insurance contract and related regulations following “ASP of IFRS 4 - Contract classification and liability adequacy test”. This test compares reserve for insurance contract net with deferred acquisition cost and related intangible assets and anticipated present value of insurance contract cash flow at each reporting date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

B. Cathay life (China)

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

(16) Insurance premium income and expenses

A. The Company

For the Company’s insurance contract and financial instruments with discretionary participation features, the initial and renewal premium are only recognized as revenue after collection and underwriting procedures finished, and subsequent session of collection, respectively. In terms of the acquisition cost such as commission expenses and brokerage expenses, the related expenses will be recognized in that period after commencement of the insurance contract.

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as “reserves for insurance contract with feature of financial instruments.”

For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc., is fully recognized on the balance sheet as “separate account product liabilities. In terms of the investment management related deferred acquisition costs such as commissions and incremental costs directly attributable to the issue of new type of contracts, the amount is recognized on the balance sheet as “deferred acquisition costs” and amortized on a straight-line basis over the service period. The amortization is recognized as an expense under “other operating costs.”

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

B. Cathay life (China)

In accordance with “The General Accounting System for Insurance Companies” issued by local government, Cathay Life (China) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(17) Product categories

Insurance contract refers to the insurer accepting the insurance policyholder’s transfer of significant insurance risk, and agrees to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages occurred. The Company’s definition of a significant insurance risk refers to any insured event that occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments are contracts that transfer the financial risk. The definition of a financial risk refers to one or more specific interest rate, prices of financial instruments, product prices, exchange rates, price index, rate index, credit ratings and indicators, and other variables that faces risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meet the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or extinguished, the policy will still be considered as an insurance contract; even if the exposure to insurance risk during the policy period has been significantly reduced. However, if insurance risk following the renewal of an insurance contract with features of financial instruments is transferred to the Company, the Company will reclassify the contract as an insurance contract.

Insurance contracts and insurance contracts with features of financial instruments can be further broken down into separate categories depending on whether the contracts have discretionary participation feature or not. To have discretionary participation feature means a guaranteed payment from the contract plus contractual rights to receive additional payments. These contractual rights have the following characteristics:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.
- B. In accordance with the contract, the amount and date of payment for additional payments are at the Company's discretion.
- C. In accordance with the contract, additional payments are handed out based on one of the following matters:
 - a. Special combination of contracts or specific type of contractual performance.
 - b. The Company holds return on investment from a portfolio of specific assets.
 - c. Profit and loss from the Company, funds, or other entities.

When embedded derivative products' economic characteristics and risks are no longer closely related to the economic characteristics and risks of the primary contracts, it should be listed separately from the primary contracts and use fair value method to determine its fair value. Also the profit or loss determined by the fair value method should be recognized in the current period. However, if the embedded derivative product meets the definition of an insurance contract or the whole contract is measured by the fair value method and the profit or loss is recognized in the current period, the Company will not need to separately list the embedded derivative product and the insurance contract.

(18) Reinsurance

The Company limits exposure to some events that may cause a certain amount of loss and this is done in accordance to sale's needs and the insurance laws and regulations for reinsurance. For reinsurance ceded, the Company may not refuse to fulfill its obligations to the insured because the re-insurer fails to fulfill their responsibility.

The Company holds the right over re-insurer for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. When objective evidences demonstrate that such rights after initial recognition may lead to the Company not recovering all contractual terms of the amount due; and the above events can be recovered from reinsurers at the impacted amount, then the Company can retrieve an amount that is less than the carrying value of the aforementioned rights, and recognize impairment losses.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For the classification of reinsurance contracts, the Company assesses whether the transfer of significant insurance risk to the re-insurer has occurred. If the transfer of significant insurance risk is not apparent, then the contract is recognized and evaluated with deposit accounting.

For reinsurance contracts that have their significant insurance risk transferred; if the Company can separate the individual elements and measure their savings, then the reinsurance contracts need to be recognized separately as the insurance's element and the saving's element. That is, the Company receives (or pays) the contract's value minus the insurance element, recognizing it as either financial liabilities (or assets), and not as incomes (or expenses). The financial liabilities (or assets) are recognized with the fair value method and uses the present value of future cash flow as the basis for the fair value method.

(19)Provisions

Provisions are recognized when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, which probably leads to an outflow of resources embodying economic benefits that is required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company and Subsidiaries expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(20)Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Company and Subsidiaries' consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations. Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. The portion of actuarial gains and losses recognized by the Company and Subsidiaries is the net cumulative actuarial gains and losses that exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of any plan assets, divided by the expected average remaining working lives of the employees participating in the plan. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(21) Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax. Current and deferred tax shall be recognized as income or an expense and included in profit or loss for the period, except for the extent that the tax relating to items recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity.

A. Current income tax

Current income tax is the amount of income taxes payable (receivable) in respect of the taxable profit (tax loss) for the current period and any adjustments recognized in the period for income taxes payable of prior periods.

Current income tax for the current period is measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at the shareholders' meeting.

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the balance sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 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, the parent company can proportionately allocate the effects on tax expense (benefit). Such effects on current tax and deferred tax are accounted for as receivables or payables.

(22) Separate account products

The Company sells separate account products, of which the applicant pays the premium according to the agreement amount less the expenses incurred by the insurer. In addition, the investment distribution is approved by the applicant and then transferred to specific accounts as requested by the applicant. In accordance with the relevant regulations, the value of these specific accounts is determined based on their fair value on the applicable date.

In accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, assets and liabilities under the dedicated book, whether arising from an insurance contract or insurance policy with features of financial instruments, are to be accounted for separately as, “separate account product assets” and “separate account product liabilities”. To record related revenues and expenditures, this method is consistent with the definition of income and expenses of separate account insurance products in IFRS 4 *Insurance Contracts*, separately recognizing as “separate account product revenues” and “separate account product expenses.”

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

5. Significant accounting judgments, estimates and assumptions

The preparation of the Company and Subsidiaries' consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

In the process of applying the Company and Subsidiaries' accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. Categories of financial assets

The management has to use its judgment to categorize financial assets. Different categories apply different measurements, which could have a significant effect on the Company's financial position and performance.

B. Investment property

Certain properties of the Company and Subsidiaries comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Company and Subsidiaries account for the portions separately as investment property and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

C. Operating lease commitment — Group as the lessor

The Company and Subsidiaries have entered into commercial property leases on its investment property portfolio. The Company and Subsidiaries have determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and account for the contracts as operating leases.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

A. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Company and Subsidiaries adopt pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

B. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company and Subsidiaries are not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

C. Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

D. Insurance contract liabilities (including investment contract liabilities with discretionary participation feature of financial instruments)

The liability for insurance contracts and investment contracts with discretionary participation feature of financial instruments is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, expenses and surrender rates. The Company bases its assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics and own experiences from target markets.

Estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

E. Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company and Subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which they operate. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Deferred tax assets are recognized for all carry-forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

6. Cash and cash equivalents

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Cash on hand and revolving funds	\$207,133	\$6,914	\$202,262	\$6,963
Cash in banks	67,185,812	2,242,517	83,168,415	2,862,940
Time deposits	228,230,025	7,617,824	245,620,182	8,455,083
Cash equivalents	3,179,976	106,141	37,130,945	1,278,174
Total	<u>\$298,802,946</u>	<u>\$9,973,396</u>	<u>\$366,121,804</u>	<u>\$12,603,160</u>

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Cash on hand and revolving funds	\$182,649	\$6,129	\$196,035	\$6,476
Cash in banks	44,180,124	1,482,554	86,712,363	2,864,630
Time deposits	292,940,912	9,830,232	273,956,453	9,050,428
Cash equivalents	29,377,967	985,838	13,188,729	435,703
Total	<u>\$366,681,652</u>	<u>\$12,304,753</u>	<u>\$374,053,580</u>	<u>\$12,357,237</u>

Time deposits include deposits that have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

7. Receivables

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Note receivable - Net	\$2,489,595	\$83,097	\$2,960,789	\$101,920
Premium receivable - Net	58,918	1,967	76,735	2,642
Other receivable - Net	51,556,018	1,720,828	57,953,530	1,994,958
Total	<u>\$54,104,531</u>	<u>\$1,805,892</u>	<u>\$60,991,054</u>	<u>\$2,099,520</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Note receivable - Net	\$2,957,330	\$99,239	\$3,419,095	\$112,953
Premium receivable - Net	72,500	2,433	78,940	2,608
Other receivable - Net	51,935,564	1,742,804	42,990,122	1,420,222
Total	<u>\$54,965,394</u>	<u>\$1,844,476</u>	<u>\$46,488,157</u>	<u>\$1,535,783</u>

8. Financial assets at fair value through profit or loss

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$15,377,555	\$513,270	\$10,883,272	\$374,639
Beneficiary certificates	51,796,278	1,728,848	35,827,323	1,233,298
Exchange traded funds	438,586	14,639	492,845	16,965
Overseas bonds	107,564	3,590	124,249	4,277
Corporate bonds	2,001,316	66,800	810,122	27,887
Government bonds	1,502,929	50,164	1,525,293	52,506
Derivative financial instruments	7,309,404	243,972	4,967,364	170,994
Structured time deposits	28,264,391	943,404	18,334,343	631,131
Total	<u>\$106,798,023</u>	<u>\$3,564,687</u>	<u>\$72,964,811</u>	<u>\$2,511,697</u>

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$14,416,913	\$483,789	\$6,995,561	\$231,106
Overseas stocks	167,310	5,615	250,299	8,269
Beneficiary certificates	21,891,328	734,608	32,999,866	1,090,184
Exchange traded funds	1,037,376	34,811	1,602,986	52,956
Overseas bonds	218,477	7,332	262,850	8,684
Corporate bonds	882,609	29,618	1,320,205	43,614
Government bonds	1,542,800	51,772	1,561,879	51,598
Derivative financial instruments	3,611,680	121,197	4,184,376	138,235
Structured time deposits	11,808,500	396,258	10,972,727	362,495
Total	<u>\$55,576,993</u>	<u>\$1,865,000</u>	<u>\$60,150,749</u>	<u>\$1,987,141</u>

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, Symphox Information Co., Ltd. has pledged NT\$47,491 (US\$1,585) thousands, NT\$45,103 (US\$1,553) thousands, NT\$44,918 (US\$1,507) thousands and NT\$39,313 (US\$1,299) thousands, respectively, as collaterals for its e-coupon transaction. Refer to Note 49 (2) disclosure for pledged assets.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

9. Available-for-sale financial assets

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$256,911,289	\$8,575,143	\$204,284,325	\$7,032,163
Overseas stocks	104,207,861	3,478,233	74,422,673	2,561,882
Beneficiary certificates	96,905,108	3,234,483	85,183,983	2,932,323
Collateralized loans obligation and collateralized bonds obligation	6,425,074	214,455	6,430,972	221,376
Exchange traded funds	8,634,093	288,187	6,761,735	232,762
Real estate investment trust	13,263,499	442,707	11,687,066	402,309
Financial debentures	192,509,980	6,425,567	198,212,492	6,823,149
Corporate bonds	50,551,785	1,687,309	51,709,182	1,780,006
Government bonds	213,072,094	7,111,886	212,364,770	7,310,319
Overseas bonds	328,881,389	10,977,349	385,787,280	13,280,113
Subtotal	1,271,362,172	42,435,319	1,236,844,478	42,576,402
Less: Litigation deposits	(8,101)	(270)	-	-
Less: Securities serving as deposits paid-bonds	(9,560,811)	(319,119)	(9,523,306)	(327,825)
Total	\$1,261,793,260	\$42,115,930	\$1,227,321,172	\$42,248,577

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$229,529,460	\$7,702,331	\$200,492,027	\$6,623,456
Overseas stocks	53,314,514	1,789,078	44,264,013	1,462,306
Beneficiary certificates	71,900,597	2,412,772	62,074,959	2,050,709
Collateralized loans obligation and collateralized bonds obligation	6,434,779	215,932	8,916,718	294,572
Exchange traded funds	6,036,923	202,581	5,993,731	198,009
Real estate investment trust	10,969,300	368,097	10,978,376	362,682
Financial debentures	197,504,680	6,627,674	193,960,046	6,407,666
Corporate bonds	55,372,833	1,858,149	48,782,633	1,611,584
Government bonds	198,146,619	6,649,216	184,735,945	6,102,938
Overseas bonds	425,458,274	14,277,123	542,445,856	17,920,247
Subtotal	1,254,667,979	42,102,953	1,302,644,304	43,034,169
Less: Securities serving as deposits paid-bonds	(10,577,082)	(354,936)	(10,615,126)	(350,681)
Total	\$1,244,090,897	\$41,748,017	\$1,292,029,178	\$42,683,488

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with stocks and collateralized loans obligation held by the Company and Subsidiaries. As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the Company and Subsidiaries recognized impairment losses amounting to NT\$1,673,957 (US\$55,873) thousands, NT\$1,697,370 (US\$58,429) thousands, NT\$1,667,019 (US\$55,940) thousands and NT\$1,667,019 (US\$55,072) thousands, respectively.

The available-for-sale financial assets held by the Company and Subsidiaries were not pledged.

10. Derivative financial assets for hedging

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
IRS	\$763,686	\$25,490	\$1,142,094	\$39,315

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
IRS	\$1,561,602	\$52,403	\$1,957,846	\$64,679

The derivative financial assets for hedging held by the Company and Subsidiaries were not pledged.

11. Investments accounted for using the equity method

(1) Investments in unconsolidated subsidiaries:

Investee	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$95,904	\$3,201	\$101,761	\$3,503
Cathay Securities Investment Consulting Co., Ltd.	162,195	5,414	170,659	5,875
Total	\$258,099	\$8,615	\$272,420	\$9,378

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Investee	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$115,870	\$3,888	\$126,731	\$4,187
Cathay Securities Investment Consulting Co., Ltd.	137,126	4,602	161,913	5,349
Total	<u>\$252,996</u>	<u>\$8,490</u>	<u>\$288,644</u>	<u>\$9,536</u>

(2) Investments in associates:

Investee	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$257,056	\$8,580	\$279,441	\$9,619
Vista Technology Venture Capital Corp.	4,651	155	7,451	256
Omnitek Venture Capital Corp.	36,620	1,222	31,694	1,091
IBT Venture Capital Corp.	45,577	1,521	56,435	1,943
Cathay Insurance Company Limited (China)	137,110	4,577	300,290	10,337
Total	<u>\$481,014</u>	<u>\$16,055</u>	<u>\$675,311</u>	<u>\$23,246</u>

Investee	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$295,918	\$9,930	\$336,538	\$11,118
Vista Technology Venture Capital Corp.	16,942	569	27,325	903
Omnitek Venture Capital Corp.	73,949	2,481	63,705	2,104
IBT Venture Capital Corp.	57,371	1,925	77,733	2,568
Cathay Insurance Company Limited (China)	528,520	17,736	629,070	20,782
Total	<u>\$972,700</u>	<u>\$32,641</u>	<u>\$1,134,371</u>	<u>\$37,475</u>

There was no quoted price for above associates.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the carrying amount of investments in associates accounted for using the equity method amounted to NT\$481,014 (US\$16,055) thousands, NT\$675,311 (US\$23,246) thousands, NT\$972,700 (US\$32,641) thousands and NT\$1,134,371 (US\$37,475) thousands, respectively. The share of the losses of associates accounted for using the equity method amounted to NT\$(141,584) (US\$(4,726)) thousands and NT\$(80,405) (US\$(2,698)) thousands for the three-month periods ended 30 June 2013 and 2012, respectively. The share of the losses of associates accounted for using the equity method amounted to NT\$(186,960) (US\$(6,240)) thousands and NT\$(113,349) (US\$(3,803)) thousands for the six-month periods ended 30 June 2013 and 2012, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to NT\$(14,233) (US\$(475)) thousands and NT\$(39,845) (US\$(1,337)) thousands for the three-month periods ended 30 June 2013 and 2012, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to NT\$5,730 (US\$191) thousands and NT\$(37,872) (US\$(1,271)) thousands for the six-month periods ended 30 June 2013 and 2012, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounted to NT\$82,197 (US\$2,743) thousands and NT\$131,320 (US\$4,406) thousands, as at 30 June 2013 and 2012, respectively. The share of the profits of these associates accounted for using the equity method amounted to NT\$2,331 (US\$78) thousands and NT\$(752) (US\$(25)) thousands for the three-month periods ended 30 June 2013 and 2012, respectively. The share of the profits of these associates accounted for using the equity method amounted to NT\$5,458 (US\$182) thousands and NT\$8,879 (US\$298) thousands for the six-month periods ended 30 June 2013 and 2012, respectively.

No investment in associates was pledged.

Financial information of the associates is summarized below:

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Total assets (100%)	\$4,931,462	\$164,602	\$3,782,690	\$130,213
Total liabilities (100%)	3,109,146	103,777	1,494,250	51,437

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Total assets (100%)	\$4,191,217	\$140,645	\$4,341,697	\$143,432
Total liabilities (100%)	1,157,269	38,835	835,821	27,612

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the three-month period ended 30 June 2013		For the three-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
	Revenue (100%)	\$565,645	\$18,880	\$233,125
Profit (loss) (100%)	(340,752)	(11,374)	(227,745)	(7,642)

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
	Revenue (100%)	\$1,077,514	\$35,965	\$560,153
Profit (loss) (100%)	(423,956)	(14,151)	(277,987)	(9,328)

Note: The aforementioned information is not presented at the Company and Subsidiaries' percentage of ownership.

12. Bond investments for which no active market exists

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$7,531,287	\$251,378	\$7,531,287	\$259,253
Corporate bonds	13,000,000	433,912	13,500,000	464,716
Financial debentures	10,650,000	355,474	8,950,000	308,089
Overseas bonds	830,468,495	27,719,242	768,043,949	26,438,690
Time deposits	10,020,625	334,467	18,879,381	649,893
Total	\$871,670,407	\$29,094,473	\$816,904,617	\$28,120,641

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$7,847,287	\$263,332	\$2,108,000	\$69,640
Corporate bonds	13,500,000	453,020	15,500,000	512,058
Overseas bonds	678,833,888	22,779,660	492,425,639	16,267,778
Time deposits	19,377,472	650,251	4,995,000	165,015
Total	\$719,558,647	\$24,146,263	\$515,028,639	\$17,014,491

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company and Subsidiaries. As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the Company and Subsidiaries recognized impairment losses amounting to NT\$391,560 (US\$13,069) thousands, NT\$378,768 (US\$13,038) thousands, NT\$388,700 (US\$13,044) thousands and NT\$393,770 (US\$13,008) thousands, respectively.

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, bond investments for which no active market exists held by the Company and Subsidiaries were not pledged.

13. Other financial assets

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Structured deposits	\$33,400,000	\$1,114,820	\$23,500,000	\$808,950
Other	699	23	10	-
Total	\$33,400,699	\$1,114,843	\$23,500,010	\$808,950

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Structured deposits	\$24,500,000	\$822,147	\$13,300,000	\$439,379

14. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT\$7,441,030 (US\$248,365) thousands, NT\$7,840,496 (US\$269,897) thousands, NT\$8,640,809 (US\$289,960) thousands and NT\$8,776,116 (US\$289,928) thousands as of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, respectively. The details of structured notes are listed below:

Item	30 June 2013					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$82,118	\$2,741	\$25,446	\$849	\$107,564	\$3,590
Available-for-sale financial assets	7,078,200	236,255	255,266	8,520	7,333,466	244,775
Total	\$7,160,318	\$238,996	\$280,712	\$9,369	\$7,441,030	\$248,365

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	31 December 2012					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$96,441	\$3,320	\$27,808	\$957	\$124,249	\$4,277
Available-for-sale financial assets	7,429,680	255,755	286,567	9,865	7,716,247	265,620
Total	\$7,526,121	\$259,075	\$314,375	\$10,822	\$7,840,496	\$269,897

Item	30 June 2012					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$165,364	\$5,549	\$53,113	\$1,782	\$218,477	\$7,331
Available-for-sale financial assets	8,222,500	275,923	199,832	6,706	8,422,332	282,629
Total	\$8,387,864	\$281,472	\$252,945	\$8,488	\$8,640,809	\$289,960

Item	1 January 2012					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$203,088	\$6,709	\$59,762	\$1,975	\$262,850	\$8,684
Available-for-sale financial assets	8,329,667	275,179	183,599	6,065	8,513,266	281,244
Total	\$8,532,755	\$281,888	\$243,361	\$8,040	\$8,776,116	\$289,928

15. Investment property

	NT\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Cost:					
1 January 2013	\$155,793,189	\$57,353,964	\$7,519,477	\$1,581,767	\$222,248,397
Additions from acquisitions	-	-	2,968,105	15,881	2,983,986
Additions from subsequent expenditure	-	-	457,373	-	457,373
Transfers from (to) investment property under construction and prepayments for buildings and land	5,305	85,295	(85,295)	(5,305)	-
Disposals	-	-	-	-	-
30 June 2013	\$155,798,494	\$57,439,259	\$10,859,660	\$1,592,343	\$225,689,756

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	US\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Cost:					
1 January 2013	\$5,200,040	\$1,914,351	\$250,984	\$52,796	\$7,418,171
Additions from acquisitions	-	-	99,069	530	99,599
Additions from subsequent expenditure	-	-	15,266	-	15,266
Transfers from (to) investment property under construction and prepayments for buildings and land	177	2,847	(2,847)	(177)	-
Disposals	-	-	-	-	-
30 June 2013	\$5,200,217	\$1,917,198	\$362,472	\$53,149	\$7,533,036

	NT\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Cost:					
1 January 2012	\$156,554,459	\$57,582,375	\$5,459,223	\$20,469	\$219,616,526
Additions from acquisitions	-	-	1,003,114	5,512,160	6,515,274
Additions from subsequent expenditure	-	-	210,046	-	210,046
Transfers from (to) property and equipment	(1,091,048)	(1,890,876)	-	-	(2,981,924)
Transfers from (to) investment property under construction and prepayments for buildings and land	123	62,865	(62,865)	(123)	-
Disposals	(22,772)	-	-	-	(22,772)
30 June 2012	\$155,440,762	\$55,754,364	\$6,609,518	\$5,532,506	\$223,337,150

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	US\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Cost:					
1 January 2012	\$5,253,505	\$1,932,295	\$183,195	\$687	\$7,369,682
Additions from acquisitions	-	-	33,661	184,972	218,633
Additions from subsequent expenditure	-	-	7,049	-	7,049
Transfers from (to) property and equipment	(36,613)	(63,452)	-	-	(100,065)
Transfers from (to) investment property under construction and prepayments for buildings and land	4	2,109	(2,109)	(4)	-
Disposals	(764)	-	-	-	(764)
30 June 2012	\$5,216,132	\$1,870,952	\$221,796	\$185,655	\$7,494,535

	NT\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Depreciation and impairment:					
1 January 2013	\$(19,426)	\$(11,834,675)	\$-	\$-	\$(11,854,101)
Depreciation	-	(1,007,290)	-	-	(1,007,290)
30 June 2013	\$(19,426)	\$(12,841,965)	\$-	\$-	\$(12,861,391)

	US\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Depreciation and impairment:					
1 January 2013	\$(648)	\$(395,016)	\$-	\$-	\$(395,664)
Depreciation	-	(33,621)	-	-	(33,621)
30 June 2013	\$(648)	\$(428,637)	\$-	\$-	\$(429,285)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	NT\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Depreciation and impairment:					
1 January 2012	\$(19,426)	\$(12,172,238)	\$-	\$-	\$(12,191,664)
Depreciation	-	(295,744)	-	-	(295,744)
Transfers (from) to property and equipment	-	433,271	-	-	433,271
30 June 2012	\$(19,426)	\$(12,034,711)	\$-	\$-	\$(12,054,137)

	US\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Depreciation and impairment:					
1 January 2012	\$(652)	\$(408,464)	\$-	\$-	\$(409,116)
Depreciation	-	(9,924)	-	-	(9,924)
Transfers (from) to property and equipment	-	14,539	-	-	14,539
30 June 2012	\$(652)	\$(403,849)	\$-	\$-	\$(404,501)

	NT\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Net carrying amount as at:					
30 June 2013	\$155,779,068	\$44,597,294	\$10,859,660	\$1,592,343	\$212,828,365
31 December 2012	\$155,773,763	\$45,519,289	\$7,519,477	\$1,581,767	\$210,394,296
30 June 2012	\$155,421,336	\$43,719,653	\$6,609,518	\$5,532,506	\$211,283,013
1 January 2012	\$156,535,033	\$45,410,137	\$5,459,223	\$20,469	\$207,424,862

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	US\$				Total
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	
Net carrying amount as at:					
30 June 2013	\$5,199,569	\$1,488,561	\$362,472	\$53,149	\$7,103,751
31 December 2012	\$5,362,264	\$1,566,929	\$258,846	\$54,450	\$7,242,489
30 June 2012	\$5,215,480	\$1,467,103	\$221,796	\$185,655	\$7,090,034
1 January 2012	\$5,171,293	\$1,500,170	\$180,351	\$676	\$6,852,490

	For the three-month period ended 30 June 2013		For the three-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Rental income from investment property	\$1,639,086	\$54,709	\$1,465,927	\$49,192
Less:				
Direct operating expenses from investment property generating rental income	(113,140)	(3,776)	(104,103)	(3,493)
Direct operating expenses from investment property without generating rental income	(6,251)	(209)	(4,202)	(141)
Total	\$1,519,695	\$50,724	\$1,357,622	\$45,558

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Rental income from investment property	\$3,518,502	\$117,440	\$3,341,422	\$112,128
Less:				
Direct operating expenses from investment property generating rental income	(173,217)	(5,782)	(163,464)	(5,485)
Direct operating expenses from investment property without generating rental income	(9,394)	(313)	(5,853)	(196)
Total	\$3,335,891	\$111,345	\$3,172,105	\$106,447

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The fair value of investment property was NT\$259,179,565 (US\$8,650,853) thousands, NT\$247,528,274 (US\$8,520,767) thousands, NT\$230,639,058 (US\$7,739,566) thousands, and NT\$223,805,088 (US\$7,393,627) thousands, as at 30 June 2013, 31 December 2012, 30 June 2012, and 1 January 2012, respectively. Valuation has been performed by professional valuation agency based on Regulations on Estate Appraisals. Fair value has been supported by observable evidences in the market. The valuation method used is the weighted-average result of market comparison method and present earning value method, and the inputs used are as follows:

	<u>30 June 2013</u>	<u>31 December 2012</u>	<u>30 June 2012</u>	<u>1 January 2012</u>
Capitalization rate	Mainly 2.5%~4.5%	Mainly 2.5%~4.5%	Mainly 2.5%~4.5%	Mainly 2.5%~4.5%

- (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 are received annually, semi-annually, quarterly, monthly or in lump sum.
- (4) As at 30 June 2013, 31 December 2012, 30 June 2012, and 1 January 2012, no investments in real estate were pledged as collateral.

16.Loans

	<u>30 June 2013</u>		<u>31 December 2012</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Policy loans	\$171,504,638	\$5,724,454	\$175,865,592	\$6,053,893
Automatic premium loans	5,998,406	200,214	6,045,296	208,100
Secured loans	403,061,356	13,453,316	334,592,988	11,517,831
Total	<u>\$580,564,400</u>	<u>\$19,377,984</u>	<u>\$516,503,876</u>	<u>\$17,779,824</u>

	<u>30 June 2012</u>		<u>1 January 2012</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Policy loans	\$177,813,458	\$5,966,894	\$182,048,566	\$6,014,158
Automatic premium loans	6,184,625	207,538	6,312,018	208,524
Secured loans	314,364,361	10,549,140	301,441,156	9,958,413
Total	<u>\$498,362,444</u>	<u>\$16,723,572</u>	<u>\$489,801,740</u>	<u>\$16,181,095</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (1) Policy loans were secured by policies issued by the Company and Subsidiaries.
- (2) Policyholder may state on the application form or issue a written statement prior to end of grace period for premium payment to request the insurer to automatically deduct the premiums due 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 maintain the insurance policy effective. Policyholder may also inform the insurer in writing to terminate the automatic premium loan option prior to the next due date of premium payment.
- (3) Secured loans

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Secured loans	\$402,268,913	\$13,426,866	\$333,064,485	\$11,465,215
Secured loans - Related parties	3,653,801	121,956	3,677,241	126,583
Less: Allowance for bad debts	(2,974,207)	(99,273)	(2,289,452)	(78,811)
Subtotal	402,948,507	13,449,549	334,452,274	11,512,987
Overdue receivables	516,854	17,252	558,875	19,238
Less: Allowance for bad debts	(404,005)	(13,485)	(418,161)	(14,394)
Subtotal	112,849	3,767	140,714	4,844
Total	\$403,061,356	\$13,453,316	\$334,592,988	\$11,517,831

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Secured loans	\$312,553,298	\$10,488,366	\$298,732,859	\$9,868,941
Secured loans - Related parties	3,666,772	123,046	3,783,742	125,000
Less: Allowance for bad debts	(2,062,101)	(69,198)	(1,337,090)	(44,172)
Subtotal	314,157,969	10,542,214	301,179,511	9,949,769
Overdue receivables	262,578	8,811	324,987	10,736
Less: Allowance for bad debts	(56,186)	(1,885)	(63,342)	(2,092)
Subtotal	206,392	6,926	261,645	8,644
Total	\$314,364,361	\$10,549,140	\$301,441,156	\$9,958,413

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

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

The Company participated in the NT\$57 billion loan tender of Taiwan Insurance Guaranty Fund and won line of credit NT\$15 billion. According to regulation from FSC, the loan is essentially authorized by competent authority and booked in secured loan account. Also, the loan was evaluated and charged to allowance, pursuant to Article 5 of "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises".

The movements in the provision for impairment of secured loans and overdue receivables are as follows (please refer to Note 44 for credit risk disclosure):

	Individually impaired		Collectively impaired		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
1 January 2013	\$1,398,295	\$46,672	\$1,309,318	\$43,702	\$2,707,613	\$90,374
Charge (reversal) for the current period	161,503	5,391	458,046	15,289	619,549	20,680
Write off	-	-	(15,900)	(531)	(15,900)	(531)
Minimum of statutory reserve	-	-	66,950	2,235	66,950	2,235
30 June 2013	\$1,559,798	\$52,063	\$1,818,414	\$60,695	\$3,378,212	\$112,758

	Individually impaired		Collectively impaired		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
1 January 2012	\$549,936	\$18,454	\$850,496	\$28,540	\$1,400,432	\$46,994
Charge (reversal) for the current period	492,571	16,529	(4,983)	(167)	487,588	16,362
Write off	-	-	(18,035)	(605)	(18,035)	(605)
Minimum of statutory reserve	(51)	(2)	248,353	8,334	248,302	8,332
30 June 2012	\$1,042,456	\$34,981	\$1,075,831	\$36,102	\$2,118,287	\$71,083

17.Reinsurance assets

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$1,956	\$65	\$1,014	\$35
Due from reinsurers and ceding companies	257,107	8,582	3,547	122
Reinsurance reserve assets				
Ceded unearned premium reserve	3,653,651	121,951	8,384,281	288,615
Ceded reserve for claims	827,483	27,620	781,354	26,897
Subtotal	4,481,134	149,571	9,165,635	315,512
Total	\$4,740,197	\$158,218	\$9,170,196	\$315,669

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$-	\$-	\$2,940	\$97
Due from reinsurers and ceding companies	220,203	7,389	2,755	91
Reinsurance reserve assets				
Ceded unearned premium reserve	8,045,660	269,988	8,617,664	284,693
Ceded reserve for claims	743,205	24,940	550,769	18,195
Subtotal	8,788,865	294,928	9,168,433	302,888
Total	\$9,009,068	\$302,317	\$9,174,128	\$303,076

Above reinsurance assets were not impaired.

18. Property and equipment

	NT\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Cost:									
1 January 2013	\$29,580,787	\$30,759,221	\$2,517,668	\$15,879	\$3,965,944	\$124,080	\$275,652	\$120,676	\$67,359,907
Additions from acquisitions	-	-	22,963	-	126,136	6,895	-	38,716	194,710
Additions from subsequent expenditure	-	-	-	-	-	-	-	56,025	56,025
Transfers	-	6,385	(10,950)	-	2,881	-	-	(6,385)	(8,069)
Disposals	-	-	(18,888)	-	(7,746)	-	-	-	(26,634)
Exchange differences	-	164,700	13,459	186	625	6,394	-	-	185,364
30 June 2013	\$29,580,787	\$30,930,306	\$2,524,252	\$16,065	\$4,087,840	\$137,369	\$275,652	\$209,032	\$67,761,303

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	US\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Cost:									
1 January 2013	\$987,343	\$1,026,676	\$84,034	\$530	\$132,375	\$4,141	\$9,201	\$4,028	\$2,248,328
Additions from acquisitions	-	-	767	-	4,210	230	-	1,292	6,499
Additions from subsequent expenditure	-	-	-	-	-	-	-	1,870	1,870
Transfers	-	213	(365)	-	96	-	-	(213)	(269)
Disposals	-	-	(630)	-	(259)	-	-	-	(889)
Exchange differences	-	5,498	449	6	21	213	-	-	6,187
30 June 2013	\$987,343	\$1,032,387	\$84,255	\$536	\$136,443	\$4,584	\$9,201	\$6,977	\$2,261,726

	NT\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Cost:									
1 January 2012	\$12,435,302	\$20,526,310	\$2,537,202	\$13,500	\$3,824,645	\$115,912	\$-	\$38,869	\$39,491,740
Additions from acquisitions	-	-	26,472	-	69,552	3,884	-	240	100,148
Additions from subsequent expenditure	-	-	-	-	-	-	-	61,230	61,230
Transfers	1,091,048	1,906,152	1,965	-	-	-	-	(16,901)	2,982,264
Disposals	-	-	(28,425)	(340)	(8,109)	-	-	-	(36,874)
Exchange differences	-	-	(6,031)	(86)	(330)	(2,571)	-	(23)	(9,041)
30 June 2012	\$13,526,350	\$22,432,462	\$2,531,183	\$13,074	\$3,885,758	\$117,225	\$-	\$83,415	\$42,589,467

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	US\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Cost:									
1 January 2012	\$417,292	\$688,802	\$85,141	\$453	\$128,343	\$3,889	\$-	\$1,305	\$1,325,225
Additions from acquisitions	-	-	888	-	2,334	130	-	8	3,360
Additions from subsequent expenditure	-	-	-	-	-	-	-	2,055	2,055
Transfers	36,613	63,965	66	-	-	-	-	(568)	100,076
Disposals	-	-	(954)	(11)	(272)	-	-	-	(1,237)
Exchange differences	-	-	(202)	(3)	(11)	(86)	-	(1)	(303)
30 June 2012	\$453,905	\$752,767	\$84,939	\$439	\$130,394	\$3,933	\$-	\$2,799	\$1,429,176

	NT\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2013	\$(105,610)	\$(13,109,406)	\$(2,218,630)	\$(9,652)	\$(3,434,077)	\$(96,936)	\$(28,714)	\$-	\$(19,003,025)
Depreciation	-	(347,971)	(44,131)	(901)	(66,625)	(8,142)	(34,457)	-	(502,227)
Transfers	-	-	7,025	-	(11,859)	-	-	-	(4,834)
Disposals	-	-	18,076	-	6,987	-	-	-	25,063
Exchange differences	-	(2,436)	(8,451)	(159)	(555)	(5,074)	-	-	(16,675)
30 June 2013	\$(105,610)	\$(13,459,813)	\$(2,246,111)	\$(10,712)	\$(3,506,129)	\$(110,152)	\$(63,171)	\$-	\$(19,501,698)

	US\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2013	\$(3,525)	\$(437,564)	\$(74,052)	\$(322)	\$(114,622)	\$(3,236)	\$(959)	\$-	\$(634,280)
Depreciation	-	(11,614)	(1,473)	(30)	(2,224)	(272)	(1,150)	-	(16,763)
Transfers	-	-	234	-	(396)	-	-	-	(162)
Disposals	-	-	603	-	233	-	-	-	836
Exchange differences	-	(81)	(282)	(5)	(19)	(169)	-	-	(556)
30 June 2013	\$(3,525)	\$(449,259)	\$(74,970)	\$(357)	\$(117,028)	\$(3,677)	\$(2,109)	\$-	\$(650,925)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

NT\$

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2012	\$ (105,610)	\$ (10,227,124)	\$ (2,155,842)	\$ (11,819)	\$ (3,293,717)	\$ (79,285)	\$ -	\$ -	\$ (15,873,397)
Depreciation	-	(994,508)	(43,353)	(422)	(62,170)	(11,209)	-	-	(1,111,662)
Transfers	-	(433,271)	-	-	-	-	-	-	(433,271)
Disposals	-	-	26,034	340	7,855	-	-	-	34,229
Exchange differences	-	-	3,235	47	284	1,752	-	-	5,318
30 June 2012	\$ (105,610)	\$ (11,654,903)	\$ (2,169,926)	\$ (11,854)	\$ (3,347,748)	\$ (88,742)	\$ -	\$ -	\$ (17,378,783)

US\$

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2012	\$ (3,544)	\$ (343,192)	\$ (72,344)	\$ (397)	\$ (110,527)	\$ (2,660)	\$ -	\$ -	\$ (532,664)
Depreciation	-	(33,373)	(1,455)	(14)	(2,086)	(376)	-	-	(37,304)
Transfers	-	(14,539)	-	-	-	-	-	-	(14,539)
Disposals	-	-	874	11	264	-	-	-	1,149
Exchange differences	-	-	109	2	8	59	-	-	178
30 June 2012	\$ (3,544)	\$ (391,104)	\$ (72,816)	\$ (398)	\$ (112,341)	\$ (2,977)	\$ -	\$ -	\$ (583,180)

NT\$

	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Net carrying amount as at:									
30 June 2013	\$29,475,177	\$17,470,493	\$278,141	\$5,353	\$581,711	\$27,217	\$212,481	\$209,032	\$48,259,605
31 December 2012	\$29,475,177	\$17,649,815	\$299,038	\$6,227	\$531,867	\$27,144	\$246,938	\$120,676	\$48,356,882
30 June 2012	\$13,420,740	\$10,777,559	\$361,257	\$1,220	\$538,010	\$28,483	\$-	\$83,415	\$25,210,684
1 January 2012	\$12,329,692	\$10,299,186	\$381,360	\$1,681	\$530,928	\$36,627	\$-	\$38,869	\$23,618,343

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	US\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Net carrying amount as at:									
30 June 2013	\$983,818	\$583,128	\$9,285	\$179	\$19,415	\$907	\$7,092	\$6,977	\$1,610,801
31 December 2012	\$1,014,636	\$607,567	\$10,294	\$215	\$18,309	\$934	\$8,500	\$4,154	\$1,664,609
30 June 2012	\$450,361	\$361,663	\$12,123	\$41	\$18,053	\$956	\$-	\$2,799	\$845,996
1 January 2012	\$407,324	\$340,244	\$12,599	\$55	\$17,540	\$1,210	\$-	\$1,284	\$780,256

Property and equipment held by the Company and Subsidiaries were not pledged.

Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated over 60 years, 8 years and 15 years, respectively.

19. Intangible assets

Cost:	Computer software	
	NT\$	US\$
1 January 2013	\$1,716,232	\$57,284
Addition—acquired separately	16,380	546
Transfers	(4,805)	(160)
Exchange differences	9,585	320
30 June 2013	\$1,737,392	\$57,990

Cost:	Computer software	
	NT\$	US\$
1 January 2012	\$1,682,975	\$56,475
Addition—acquired separately	13,072	439
Transfers	(340)	(11)
Exchange differences	(4,316)	(145)
30 June 2012	\$1,691,391	\$56,758

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	Computer software	
	NT\$	US\$
Amortization and impairment:		
1 January 2013	\$(1,461,354)	\$(48,777)
Amortization	(34,370)	(1,147)
Transfers	2,537	85
Exchange differences	(5,023)	(168)
30 June 2013	\$(1,498,210)	\$(50,007)

	Computer software	
	NT\$	US\$
Amortization and impairment:		
1 January 2012	\$(1,286,142)	\$(43,159)
Amortization	(50,310)	(1,688)
Transfers	-	-
Exchange differences	1,667	56
30 June 2012	\$(1,334,785)	\$(44,791)

	Computer software	
	NT\$	US\$
Net carrying amount as at:		
30 June 2013	\$239,182	\$7,983
31 December 2012	\$254,878	\$8,774
30 June 2012	\$356,606	\$11,967
1 January 2012	\$396,833	\$13,110

Amortization expense of intangible assets under the statements of comprehensive income:

	For the three-month period ended		For the three-month period ended	
	30 June 2013		30 June 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$415	\$14	\$166	\$6
Operating expenses—business expenses	\$9,961	\$333	\$16,430	\$551
Operating expenses—administrative and general expenses	\$6,182	\$206	\$6,122	\$205

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$803	\$27	\$347	\$11
Operating expenses—business expenses	\$20,632	\$688	\$37,028	\$1,243
Operating expenses—administrative and general expenses	\$12,935	\$432	\$12,935	\$434

20. Other assets

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Prepayment	\$1,062,439	\$35,462	\$690,829	\$23,781
Deferred acquisition costs	47,831	1,597	51,659	1,778
Guarantee deposits paid	14,936,159	498,536	14,376,119	494,875
Other assets - other	1,281,802	42,784	1,620,867	55,796
Total	\$17,328,231	\$578,379	\$16,739,474	\$576,230

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Prepayment	\$82,365	\$2,764	\$335,000	\$11,067
Guarantee deposits paid	15,498,211	520,074	15,695,921	518,531
Other assets - other	4,496,134	150,877	2,200,684	72,702
Total	\$20,076,710	\$673,715	\$18,231,605	\$602,300

21. Deferred acquisition costs

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred acquisition costs related to investment management services of such contracts are summarized below:

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$51,659	\$1,725	\$-	\$-
Amortization	(3,828)	(128)	-	-
Ending balance	\$47,831	\$1,597	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

22. Payables

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Notes payable	\$1,078	\$36	\$1,104	\$38
Life insurance proceeds payable	283,714	9,470	243,714	8,390
Commissions payable	555,841	18,553	644,891	22,199
Due to reinsurers and ceding companies	4,472,529	149,284	8,056,342	277,327
Other payables	12,281,880	409,941	29,127,604	1,002,671
Total	<u>\$17,595,042</u>	<u>\$587,284</u>	<u>\$38,073,655</u>	<u>\$1,310,625</u>

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Notes payable	\$1,123	\$38	\$2,428	\$80
Life insurance proceeds payable	179,723	6,031	153,489	5,071
Commissions payable	1,286,757	43,180	1,250,897	41,325
Due to reinsurers and ceding companies	6,901,704	231,601	6,214,729	205,310
Other payables	22,059,232	740,242	14,989,708	495,200
Total	<u>\$30,428,539</u>	<u>\$1,021,092</u>	<u>\$22,611,251</u>	<u>\$746,986</u>

23. Financial liabilities at fair value through profit or loss

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Held for trading:				
Derivatives that are not designated hedging				
Forward	\$6,603,541	\$220,412	\$726,786	\$25,018
CS	13,890,656	463,640	1,246,005	42,892
IRS	75,565	2,522	106,666	3,672
Total	<u>\$20,569,762</u>	<u>\$686,574</u>	<u>\$2,079,457</u>	<u>\$71,582</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Held for trading:				
Derivatives that are not designated hedging				
CDS	\$-	\$-	\$2,356	\$78
Forward	1,093,958	36,710	1,435,728	47,431
CS	7,783,259	261,183	15,666,231	517,550
IRS	140,682	4,721	364,586	12,044
Total	\$9,017,899	\$302,614	\$17,468,901	\$577,103

24. Preferred stock liabilities

- (1) In accordance with the resolution made at the board of directors' meeting held on 6 November 2008, acting on behalf of the shareholders, 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 18 November 2008.

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

- A. Issuance period covers from 25 December 2008, the issue date, to 25 December 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.
- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. 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 ended. Preferred shareholders' rights shall not be violated.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

D. Preferred shareholders are not entitled to require the Company to redeem the shares. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

- (2) In accordance with the resolution made at the board of directors' meeting held on 29 October 2009, acting on behalf of the shareholders, 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 14 December 2009.

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

- A. Issuance period covers from 16 December 2009, the issue date, to 16 December 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 mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. 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 ended. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders are not entitled to require the Company to redeem the shares. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (3) In accordance with the resolution made at the board of directors' meeting held on 7 October 2011, acting on behalf of the shareholders, the Company issued 125,000 thousand shares of Class C 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 26 October 2011.

Key terms and conditions of the privately offered Class C preferred stocks are listed as follows:

- A. Issuance period covers from 11 November 2011, the issue date, to 11 November 2018, seven years in total.
- B. Dividend yield is 1.86% per year based on the actual issue price of NT\$40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. 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 ended. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders are not entitled to require the Company to redeem the shares. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

According to IAS 32 *Financial Instruments: Presentation*, the above mentioned preferred stocks issued shall be reported as "preferred stock liabilities".

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

25. Insurance contract and reserve for insurance contract with discretionary participation feature of financial instruments

The details of insurance contract and financial instruments with discretionary participation feature are summarized below:

(1) The Company

A. Reserve for life insurance liabilities:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$2,666,905,718	\$43,127,513	\$2,710,033,231	\$2,540,691,009	\$44,435,855	\$2,585,126,864
Injury insurance	7,886,868	-	7,886,868	7,888,169	-	7,888,169
Health insurance	290,294,767	-	290,294,767	270,513,728	-	270,513,728
Annuity insurance	1,225,184	114,522,967	115,748,151	1,226,217	124,300,017	125,526,234
Investment-linked insurance	1,113,385	-	1,113,385	1,059,809	-	1,059,809
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
Total	\$2,967,489,214	\$157,650,480	\$3,125,139,694	\$2,821,442,224	\$168,735,872	\$2,990,178,096

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$89,015,545	\$1,439,503	\$90,455,048	\$87,459,243	\$1,529,634	\$88,988,877
Injury insurance	263,247	-	263,247	271,538	-	271,538
Health insurance	9,689,411	-	9,689,411	9,312,004	-	9,312,004
Annuity insurance	40,894	3,822,529	3,863,423	42,211	4,278,830	4,321,041
Investment-linked insurance	37,162	-	37,162	36,482	-	36,482
Recover from major incident reserve	2,113	-	2,113	2,179	-	2,179
Total	\$99,048,372	\$5,262,032	\$104,310,404	\$97,123,657	\$5,808,464	\$102,932,121

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$2,443,119,029	\$45,079,250	\$2,488,198,279	\$2,262,171,695	\$44,410,268	\$2,306,581,963
Injury insurance	7,759,697	-	7,759,697	7,663,561	-	7,663,561
Health insurance	245,490,002	-	245,490,002	228,602,480	-	228,602,480
Annuity insurance	1,440,136	129,968,895	131,409,031	1,468,242	149,221,880	150,690,122
Investment-linked insurance	1,037,035	-	1,037,035	1,217,774	-	1,217,774
Recover from major incident reserve	31,646	-	31,646	-	-	-
Total	\$2,698,877,545	\$175,048,145	\$2,873,925,690	\$2,501,123,752	\$193,632,148	\$2,694,755,900

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$81,983,860	\$1,512,727	\$83,496,587	\$74,733,125	\$1,467,138	\$76,200,263
Injury insurance	260,392	-	260,392	253,174	-	253,174
Health insurance	8,237,919	-	8,237,919	7,552,114	-	7,552,114
Annuity insurance	48,327	4,361,372	4,409,699	48,505	4,929,695	4,978,200
Investment-linked insurance	34,800	-	34,800	40,230	-	40,230
Recover from major incident reserve	1,062	-	1,062	-	-	-
Total	\$90,566,360	\$5,874,099	\$96,440,459	\$82,627,148	\$6,396,833	\$89,023,981

Reserve for life insurance liabilities is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$2,821,442,224	\$168,735,872	\$2,990,178,096	\$2,501,123,752	\$193,632,148	\$2,694,755,900
Reserve	191,341,304	5,572,454	196,913,758	253,330,399	668,667	253,999,066
Recover	(52,572,411)	(16,044,784)	(68,617,195)	(54,751,464)	(19,175,142)	(73,926,606)
Losses (gains) on foreign exchange	7,278,097	(613,062)	6,665,035	(825,142)	(77,528)	(902,670)
Ending balance	\$2,967,489,214	\$157,650,480	\$3,125,139,694	\$2,698,877,545	\$175,048,145	\$2,873,925,690

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary insurance participation			Financial instruments with discretionary insurance participation		
	contract	feature	Total	contract	feature	Total
Beginning balance	\$94,173,639	\$5,632,039	\$99,805,678	\$83,930,327	\$6,497,723	\$90,428,050
Reserve	6,386,559	185,996	6,572,555	8,501,020	22,439	8,523,459
Recover	(1,754,753)	(535,540)	(2,290,293)	(1,837,298)	(643,461)	(2,480,759)
Losses (gains) on foreign exchange	242,927	(20,463)	222,464	(27,689)	(2,602)	(30,291)
Ending balance	\$99,048,372	\$5,262,032	\$104,310,404	\$90,566,360	\$5,874,099	\$96,440,459

B. Unearned premium reserve:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary insurance participation			Financial instruments with discretionary insurance participation		
	contract	feature	Total	contract	feature	Total
Individual life insurance	\$301,098	\$-	\$301,098	\$286,321	\$-	\$286,321
Individual injury insurance	4,509,619	-	4,509,619	4,528,407	-	4,528,407
Individual health insurance	6,105,106	-	6,105,106	6,135,137	-	6,135,137
Group insurance	995,599	-	995,599	780,294	-	780,294
Investment-linked insurance	110,913	-	110,913	118,616	-	118,616
Total	12,022,335	-	12,022,335	11,848,775	-	11,848,775
Less ceded unearned premium reserve:						
Individual life insurance	2,305,391	-	2,305,391	3,686,613	-	3,686,613
Individual injury insurance	1,341,899	-	1,341,899	4,690,419	-	4,690,419
Group insurance	-	-	-	89	-	89
Total	3,647,290	-	3,647,290	8,377,121	-	8,377,121
Net	\$8,375,045	\$-	\$8,375,045	\$3,471,654	\$-	\$3,471,654

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$10,050	\$-	\$10,050	\$9,856	\$-	\$9,856
Individual injury insurance	150,522	-	150,522	155,883	-	155,883
Individual health insurance	203,775	-	203,775	211,192	-	211,192
Group insurance	33,231	-	33,231	26,861	-	26,861
Investment-linked insurance	3,702	-	3,702	4,083	-	4,083
Total	401,280	-	401,280	407,875	-	407,875
Less ceded unearned premium reserve:						
Individual life insurance	76,949	-	76,949	126,906	-	126,906
Individual injury insurance	44,790	-	44,790	161,460	-	161,460
Group insurance	-	-	-	3	-	3
Total	121,739	-	121,739	288,369	-	288,369
Net	\$279,541	\$-	\$279,541	\$119,506	\$-	\$119,506

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$220,078	\$5	\$220,083	\$209,502	\$4	\$209,506
Individual injury insurance	4,305,959	-	4,305,959	4,346,188	-	4,346,188
Individual health insurance	5,621,541	-	5,621,541	5,762,270	-	5,762,270
Group insurance	1,042,461	-	1,042,461	1,579,244	-	1,579,244
Investment-linked insurance	113,725	-	113,725	120,773	-	120,773
Total	11,303,764	5	11,303,769	12,017,977	4	12,017,981
Less ceded unearned premium reserve:						
Individual life insurance	2,252,063	-	2,252,063	2,513,030	-	2,513,030
Individual injury insurance	4,555,818	-	4,555,818	4,807,267	-	4,807,267
Group insurance	89	-	89	826	-	826
Investment-linked insurance	1,230,482	-	1,230,482	1,289,194	-	1,289,194
Total	8,038,452	-	8,038,452	8,610,317	-	8,610,317
Net	\$3,265,312	\$5	\$3,265,317	\$3,407,660	\$4	\$3,407,664

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$7,385	\$-	\$7,385	\$6,921	\$-	\$6,921
Individual injury insurance	144,495	-	144,495	143,581	-	143,581
Individual health insurance	188,643	-	188,643	190,362	-	190,362
Group insurance	34,982	-	34,982	52,172	-	52,172
Investment-linked insurance	3,816	-	3,816	3,990	-	3,990
Total	379,321	-	379,321	397,026	-	397,026
Less ceded unearned premium reserve:						
Individual life insurance	75,573	-	75,573	83,021	-	83,021
Individual injury insurance	152,880	-	152,880	158,813	-	158,813
Group insurance	3	-	3	27	-	27
Investment-linked insurance	41,291	-	41,291	42,590	-	42,590
Total	269,747	-	269,747	284,451	-	284,451
Net	\$109,574	\$-	\$109,574	\$112,575	\$-	\$112,575

Unearned premium reserve is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$11,848,775	\$-	\$11,848,775	\$12,017,977	\$4	\$12,017,981
Reserve	12,022,336	-	12,022,336	11,303,764	5	11,303,769
Recover	(11,848,775)	-	(11,848,775)	(12,017,977)	(4)	(12,017,981)
Losses (gains) on foreign exchange	(1)	-	(1)	-	-	-
Ending balance	12,022,335	-	12,022,335	11,303,764	5	11,303,769
Less ceded unearned premium reserve:						
Beginning balance-Net	8,377,121	-	8,377,121	8,610,317	-	8,610,317
Increase	4,398	-	4,398	-	-	-
Decrease	(4,734,229)	-	(4,734,229)	(571,865)	-	(571,865)
Total	3,647,290	-	3,647,290	8,038,452	-	8,038,452
Ending balance-Net	\$8,375,045	\$-	\$8,375,045	\$3,265,312	\$5	\$3,265,317

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$395,486	\$-	\$395,486	\$403,288	\$-	\$403,288
Reserve	401,280	-	401,280	379,321	-	379,321
Recover	(395,486)	-	(395,486)	(403,288)	-	(403,288)
Losses (gains) on foreign exchange	-	-	-	-	-	-
Ending balance	401,280	-	401,280	379,321	-	379,321
Less ceded unearned premium reserve:						
Beginning balance-Net	279,610	-	279,610	288,937	-	288,937
Increase	147	-	147	-	-	-
Decrease	(158,018)	-	(158,018)	(19,190)	-	(19,190)
Total	121,739	-	121,739	269,747	-	269,747
Ending balance-Net	\$279,541	\$-	\$279,541	\$109,574	\$-	\$109,574

C. Reserve for claims:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$124,624	\$1,027	\$125,651	\$105,856	\$797	\$106,653
— Unreported claim	52,387	-	52,387	49,750	-	49,750
Individual injury insurance						
— Reported but not paid claim	161,818	-	161,818	147,062	-	147,062
— Unreported claim	1,033,129	-	1,033,129	1,024,487	-	1,024,487
Individual health insurance						
— Reported but not paid claim	165,613	-	165,613	124,100	-	124,100
— Unreported claim	1,624,001	-	1,624,001	1,535,223	-	1,535,223
Group insurance						
— Reported but not paid claim	33,769	-	33,769	36,141	-	36,141
— Unreported claim	939,653	-	939,653	1,124,644	-	1,124,644
Investment-linked insurance						
— Reported but not paid claim	22,887	-	22,887	4,210	-	4,210
Total	4,157,881	1,027	4,158,908	4,151,473	797	4,152,270
Less ceded reserve for claims:						
Individual injury insurance	770,448	-	770,448	780,831	-	780,831
Net	\$3,387,433	\$1,027	\$3,388,460	\$3,370,642	\$797	\$3,371,439

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$4,160	\$34	\$4,194	\$3,644	\$27	\$3,671
– Unreported claim	1,748	-	1,748	1,713	-	1,713
Individual injury insurance						
– Reported but not paid claim	5,401	-	5,401	5,062	-	5,062
– Unreported claim	34,484	-	34,484	35,266	-	35,266
Individual health insurance						
– Reported but not paid claim	5,528	-	5,528	4,272	-	4,272
– Unreported claim	54,206	-	54,206	52,848	-	52,848
Group insurance						
– Reported but not paid claim	1,127	-	1,127	1,244	-	1,244
– Unreported claim	31,363	-	31,363	38,714	-	38,714
Investment-linked insurance						
– Reported but not paid claim	764	-	764	145	-	145
Total	138,781	34	138,815	142,908	27	142,935
Less ceded reserve for claims:						
Individual injury insurance	25,716	-	25,716	26,879	-	26,879
Net	\$113,065	\$34	\$113,099	\$116,029	\$27	\$116,056

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$122,223	\$3,215	\$125,438	\$139,018	\$3,242	\$142,260
– Unreported claim	41,205	-	41,205	33,877	-	33,877
Individual injury insurance						
– Reported but not paid claim	174,280	-	174,280	192,822	-	192,822
– Unreported claim	936,970	-	936,970	789,273	-	789,273
Individual health insurance						
– Reported but not paid claim	141,817	-	141,817	116,876	-	116,876
– Unreported claim	1,452,833	-	1,452,833	1,321,690	-	1,321,690
Group insurance						
– Reported but not paid claim	44,765	-	44,765	18,972	-	18,972
– Unreported claim	1,176,644	-	1,176,644	1,252,450	-	1,252,450
Investment-linked insurance						
– Reported but not paid claim	13,393	-	13,393	10,510	-	10,510
Total	4,104,130	3,215	4,107,345	3,875,488	3,242	3,878,730
Less ceded reserve for claims:						
Individual injury insurance	742,679	-	742,679	549,591	-	549,591
Net	\$3,361,451	\$3,215	\$3,364,666	\$3,325,897	\$3,242	\$3,329,139

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$4,101	\$108	\$4,209	\$4,593	\$107	\$4,700
– Unreported claim	1,383	-	1,383	1,119	-	1,119
Individual injury insurance						
– Reported but not paid claim	5,849	-	5,849	6,370	-	6,370
– Unreported claim	31,441	-	31,441	26,075	-	26,075
Individual health insurance						
– Reported but not paid claim	4,759	-	4,759	3,861	-	3,861
– Unreported claim	48,753	-	48,753	43,663	-	43,663
Group insurance						
– Reported but not paid claim	1,502	-	1,502	627	-	627
– Unreported claim	39,485	-	39,485	41,376	-	41,376
Investment-linked insurance						
– Reported but not paid claim	449	-	449	347	-	347
Total	137,722	108	137,830	128,031	107	128,138
Less ceded reserve for claims:						
Individual injury insurance	24,922	-	24,922	18,156	-	18,156
Net	\$112,800	\$108	\$112,908	\$109,875	\$107	\$109,982

Reserve for claims is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$4,151,473	\$797	\$4,152,270	\$3,875,488	\$3,242	\$3,878,730
Reserve	4,157,873	1,027	4,158,900	4,104,127	3,215	4,107,342
Recover	(4,151,473)	(797)	(4,152,270)	(3,875,488)	(3,242)	(3,878,730)
Losses (gains) on foreign exchange	8	-	8	3	-	3
Ending balance	4,157,881	1,027	4,158,908	4,104,130	3,215	4,107,345
Less ceded reserve for claims:						
Beginning balance-Net	780,831	-	780,831	549,591	-	549,591
Increase	-	-	-	193,088	-	193,088
Decrease	(10,383)	-	(10,383)	-	-	-
Total	770,448	-	770,448	742,679	-	742,679
Net	\$3,387,433	\$1,027	\$3,388,460	\$3,361,451	\$3,215	\$3,364,666

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$138,567	\$27	\$138,594	\$130,050	\$109	\$130,159
Reserve	138,781	34	138,815	137,722	108	137,830
Recover	(138,567)	(27)	(138,594)	(130,050)	(109)	(130,159)
Losses (gains) on foreign exchange	-	-	-	-	-	-
Ending balance	138,781	34	138,815	137,722	108	137,830
Less ceded reserve for claims:						
Beginning balance-Net	26,062	-	26,062	18,443	-	18,443
Increase	-	-	-	6,479	-	6,479
Decrease	(346)	-	(346)	-	-	-
Total	25,716	-	25,716	24,922	-	24,922
Net	\$113,065	\$34	\$113,099	\$112,800	\$108	\$112,908

D. Special reserve:

	30 June 2013				31 December 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Participating policies dividends reserve	\$1,462	\$-	\$-	\$1,462	\$1,970	\$-	\$-	\$1,970
Special reserve for revaluation increments of property	50,436,619	-	-	50,436,619	55,416,619	-	-	55,416,619
Total	\$50,438,081	\$-	\$-	\$50,438,081	\$55,418,589	\$-	\$-	\$55,418,589

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013				31 December 2012			
	US\$				US\$			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
Insurance contract	feature	Other			contract	feature	Other	
Participating policies dividends reserve	\$49	\$-	\$-	\$49	\$68	\$-	\$-	\$68
Special reserve for revaluation increments of property	1,683,465	-	-	1,683,465	1,907,629	-	-	1,907,629
Total	\$1,683,514	\$-	\$-	\$1,683,514	\$1,907,697	\$-	\$-	\$1,907,697

	30 June 2012				1 January 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
Insurance contract	feature	Other			contract	feature	Other	
Participating policies dividends reserve	\$985	\$-	\$-	\$985	\$228	\$-	\$-	\$228
Reclassify to foreign exchange volatility reserve	-	-	-	-	4,511,406	-	-	4,511,406
Special reserve for revaluation increments of property	55,416,619	-	-	55,416,619	55,416,619	-	-	55,416,619
Total	\$55,417,604	\$-	\$-	\$55,417,604	\$59,928,253	\$-	\$-	\$59,928,253

	30 June 2012				1 January 2012			
	US\$				US\$			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
Insurance contract	feature	Other			contract	feature	Other	
Participating policies dividends reserve	\$33	\$-	\$-	\$33	\$8	\$-	\$-	\$8
Reclassify to foreign exchange volatility reserve	-	-	-	-	149,038	-	-	149,038
Special reserve for revaluation increments of property	1,859,618	-	-	1,859,618	1,830,744	-	-	1,830,744
Total	\$1,859,651	\$-	\$-	\$1,859,651	\$1,979,790	\$-	\$-	\$1,979,790

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Special reserve is summarized below:

	For the six-month period ended 30 June 2013				For the six-month period ended 30 June 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
	Insurance contract	feature	Other		Insurance contract	feature	Other	
Beginning balance	\$55,418,589	\$-	\$-	\$55,418,589	\$59,928,253	\$-	\$-	\$59,928,253
Reserves for participating policies dividends reserve	687	-	-	687	1,078	-	-	1,078
Recover from participating policies dividends reserve	(1,195)	-	-	(1,195)	(321)	-	-	(321)
Reclassify to foreign exchange volatility reserve	-	-	-	-	(4,511,406)	-	-	(4,511,406)
Recover from special reserve for revaluation increments of property (Note)	(4,980,000)	-	-	(4,980,000)	-	-	-	-
Ending balance	\$50,438,081	\$-	\$-	\$50,438,081	\$55,417,604	\$-	\$-	\$55,417,604

	For the six-month period ended 30 June 2013				For the six-month period ended 30 June 2012			
	US\$				US\$			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
	Insurance contract	feature	Other		Insurance contract	feature	Other	
Beginning balance	\$1,849,753	\$-	\$-	\$1,849,753	\$2,011,016	\$-	\$-	\$2,011,016
Reserves for participating policies dividends reserve	23	-	-	23	36	-	-	36
Recover from participating policies dividends reserve	(40)	-	-	(40)	(11)	-	-	(11)
Reclassify to foreign exchange volatility reserve	-	-	-	-	(151,390)	-	-	(151,390)
Recover from special reserve for revaluation increments of property (Note)	(166,222)	-	-	(166,222)	-	-	-	-
Ending balance	\$1,683,514	\$-	\$-	\$1,683,514	\$1,859,651	\$-	\$-	\$1,859,651

Note: According to the regulations established by the authorities on 30 November 2012 and authorized by the FSC on 28 January 2013, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2013 is NT\$10 billion.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

E. Special capital reserve for major incidents and fluctuation of risks:

	30 June 2013				31 December 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Individual life insurance	\$90,043	\$-	\$-	\$90,043	\$79,172	\$-	\$-	\$79,172
Individual injury insurance	1,409,952	-	-	1,409,952	1,194,433	-	-	1,194,433
Individual health insurance	2,943,915	-	-	2,943,915	2,361,060	-	-	2,361,060
Group insurance	2,211,063	-	-	2,211,063	1,860,655	-	-	1,860,655
Total	\$6,654,973	\$-	\$-	\$6,654,973	\$5,495,320	\$-	\$-	\$5,495,320

	30 June 2013				31 December 2012			
	US\$				US\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Individual life insurance	\$3,005	\$-	\$-	\$3,005	\$2,725	\$-	\$-	\$2,725
Individual injury insurance	47,061	-	-	47,061	41,117	-	-	41,117
Individual health insurance	98,262	-	-	98,262	81,276	-	-	81,276
Group insurance	73,801	-	-	73,801	64,050	-	-	64,050
Total	\$222,129	\$-	\$-	\$222,129	\$189,168	\$-	\$-	\$189,168

	30 June 2012				1 January 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Individual life insurance	\$87,160	\$-	\$-	\$87,160	\$87,160	\$-	\$-	\$87,160
Individual injury insurance	1,128,805	-	-	1,128,805	1,128,805	-	-	1,128,805
Individual health insurance	2,049,433	-	-	2,049,433	2,049,433	-	-	2,049,433
Group insurance	1,221,020	-	-	1,221,020	1,221,020	-	-	1,221,020
Total	\$4,486,418	\$-	\$-	\$4,486,418	\$4,486,418	\$-	\$-	\$4,486,418

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012				1 January 2012			
	US\$				US\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Individual life insurance	\$2,925	\$-	\$-	\$2,925	\$2,879	\$-	\$-	\$2,879
Individual injury insurance	37,879	-	-	37,879	37,291	-	-	37,291
Individual health insurance	68,773	-	-	68,773	67,705	-	-	67,705
Group insurance	40,974	-	-	40,974	40,338	-	-	40,338
Total	\$150,551	\$-	\$-	\$150,551	\$148,213	\$-	\$-	\$148,213

F. Premium deficiency reserve:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$18,347,795	\$-	\$18,347,795	\$16,389,516	\$-	\$16,389,516
Individual health insurance	615,164	-	615,164	690,546	-	690,546
Group insurance	36,360	-	36,360	41,573	-	41,573
Total	\$18,999,319	\$-	\$18,999,319	\$17,121,635	\$-	\$17,121,635

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$612,410	\$-	\$612,410	\$564,183	\$-	\$564,183
Individual health insurance	20,533	-	20,533	23,771	-	23,771
Group insurance	1,213	-	1,213	1,431	-	1,431
Total	\$634,156	\$-	\$634,156	\$589,385	\$-	\$589,385

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$14,411,530	\$-	\$14,411,530	\$12,872,878	\$-	\$12,872,878
Individual health insurance	675,737	-	675,737	673,880	-	673,880
Group insurance	45,222	-	45,222	52,969	-	52,969
Total	\$15,132,489	\$-	\$15,132,489	\$13,599,727	\$-	\$13,599,727

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$483,608	\$-	\$483,608	\$425,268	\$-	\$425,268
Individual health insurance	22,676	-	22,676	22,262	-	22,262
Group insurance	1,518	-	1,518	1,750	-	1,750
Total	\$507,802	\$-	\$507,802	\$449,280	\$-	\$449,280

Premium deficiency reserve is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$17,121,635	\$-	\$17,121,635	\$13,599,727	\$-	\$13,599,727
Reserve	2,044,783	-	2,044,783	1,583,951	-	1,583,951
Recover	(434,839)	-	(434,839)	-	-	-
Losses (gains) on foreign exchange	267,740	-	267,740	(51,189)	-	(51,189)
Ending balance	\$18,999,319	\$-	\$18,999,319	\$15,132,489	\$-	\$15,132,489

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$571,483	\$-	\$571,483	\$456,367	\$-	\$456,367
Reserve	68,250	-	68,250	53,153	-	53,153
Recover	(14,514)	-	(14,514)	-	-	-
Losses (gains) on foreign exchange	8,937	-	8,937	(1,718)	-	(1,718)
Ending balance	\$634,156	\$-	\$634,156	\$507,802	\$-	\$507,802

G. Liability adequacy reserve:

	30 June 2013	30 June 2013
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,125,139,694	\$104,310,404
Unearned premium reserve	12,022,335	401,280
Premium deficiency reserve	18,999,319	634,156
Total	\$3,156,161,348	\$105,345,840
Book value of insurance liabilities	\$3,156,161,348	\$105,345,840
Estimated present value of cash flows	\$2,488,603,304	\$83,064,196
Balance of liability adequacy reserve	\$-	\$-
	31 December 2012	31 December 2012
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,990,178,096	\$102,932,121
Unearned premium reserve	11,848,775	407,875
Premium deficiency reserve	17,121,635	589,385
Total	\$3,019,148,506	\$103,929,381
Book value of insurance liabilities	\$3,019,148,506	\$103,929,381
Estimated present value of cash flows	\$2,174,379,434	\$74,849,550
Balance of liability adequacy reserve	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012 NT\$	30 June 2012 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,873,925,690	\$96,440,459
Unearned premium reserve	11,303,769	379,321
Premium deficiency reserve	15,132,489	507,802
Total	\$2,900,361,948	\$97,327,582
Book value of insurance liabilities	\$2,900,361,948	\$97,327,582
Estimated present value of cash flows	\$2,154,345,445	\$72,293,471
Balance of liability adequacy reserve	\$-	\$-
	1 January 2012 NT\$	1 January 2012 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,694,755,900	\$89,023,981
Unearned premium reserve	12,017,981	397,026
Premium deficiency reserve	13,599,727	449,280
Total	\$2,720,373,608	\$89,870,287
Book value of insurance liabilities	\$2,720,373,608	\$89,870,287
Estimated present value of cash flows	\$2,368,148,220	\$78,234,167
Balance of liability adequacy reserve	\$-	\$-

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Reserve for claims and special reserve are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: There are no instances of merger or transfer of insurance contract for the Company. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Liability adequacy testing methodology is listed as follows:

	30 June 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2013. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2012, with neutral assumption for discount rates after 30 years.
	31 December 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2012. (2) Discount rate: Under assets allocation plan of current semi-annual report, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with neutral assumption for discount rates after 30 years.
	30 June 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2012. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with neutral assumption for discount rates after 30 years.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	1 January 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2011.
	(2) Discount rate: Under assets allocation plan of current semi-annual report, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2010, with neutral assumption for discount rates after 30 years (after 2041).

H. Reserve for insurance contracts with feature of financial instruments:

The Company issues financial instruments without discretionary participation feature. As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, reserve for insurance contracts with feature of financial instruments is summarized below:

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$54,356,244	\$1,814,294	\$56,461,371	\$1,943,593
Investment-linked insurance	489	16	-	-
Total	\$54,356,733	\$1,814,310	\$56,461,371	\$1,943,593

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$58,860,165	\$1,975,173	\$60,624,750	\$2,002,800

	For the six-month period ended 30 June 2013	For the six-month period ended 30 June 2013
	NT\$	US\$
Beginning balance	\$56,461,371	\$1,884,558
Premiums (returned) received	231	8
Insurance claim payments	(2,575,476)	(85,964)
Net provision of statutory reserve	470,606	15,708
Losses (gains) on foreign exchange	1	-
Ending balance	\$54,356,733	\$1,814,310

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2012	For the six-month period ended 30 June 2012
	NT\$	US\$
Beginning balance	\$60,624,750	\$2,034,388
Premiums (returned) received	(5,029)	(169)
Insurance claim payments	(2,394,369)	(80,348)
Net provision of statutory reserve	634,813	21,302
Losses (gains) on foreign exchange	-	-
Ending balance	\$58,860,165	\$1,975,173

I. Foreign exchange volatility reserve:

a. The hedge strategy and risk exposure:

Based on the principle of risk control and to maintain the consistent level of foreign exchange volatility reserve, the Company consistently adjusts the hedge ratios and risk exposure position under the risk control.

b. Adjustment in foreign exchange volatility reserve:

	For the six-month period ended 30 June 2013	For the six-month period ended 30 June 2013
	NT\$	US\$
Beginning balance	\$4,270,856	\$142,552
Reserve:		
Compulsory reserve	1,093,432	36,496
Extra reserve	3,150,350	105,152
Subtotal	4,243,782	141,648
Recover	(519,236)	(17,331)
Ending balance	\$7,995,402	\$266,869

	For the six-month period ended 30 June 2012	For the six-month period ended 30 June 2012
	NT\$	US\$
Beginning balance	\$4,511,406	\$151,390
Reserve:		
Compulsory reserve	602,404	20,215
Extra reserve	528,025	17,719
Subtotal	1,130,429	37,934
Recover	(575,410)	(19,309)
Ending balance	\$5,066,425	\$170,015

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

c. Effects due to foreign exchange volatility reserve:

Item	For the six-month period ended 30 June 2013					
	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net income attributable to equity						
holders of the parent	\$10,739,188	\$358,451	\$7,647,814	\$255,267	\$(3,091,374)	\$(103,184)
Earnings per share	2.02	0.07	1.44	0.05	(0.58)	(0.02)
Foreign exchange volatility reserve	-	-	7,995,402	266,869	7,995,402	266,869
Equity attributable to equity holders						
of the parent	133,138,190	4,443,865	130,246,473	4,347,346	(2,891,717)	(96,519)
Item	For the six-month period ended 30 June 2012					
	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net loss attributable to equity						
holders of the parent	\$(1,067,665)	\$(35,827)	\$(1,528,331)	\$(51,286)	\$(460,666)	\$(15,459)
Earnings per share	(0.20)	(0.01)	(0.29)	(0.01)	(0.09)	-
Foreign exchange volatility reserve	-	-	5,066,425	170,015	5,066,425	170,015
Equity attributable to equity holders						
of the parent	118,913,446	3,990,385	118,452,780	3,974,926	(460,666)	(15,459)

(2) Cathay Life (China)

A. Reserve for life insurance liabilities:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$3,258,872	\$-	\$3,258,872	\$2,875,460	\$-	\$2,875,460
Health insurance	166,125	-	166,125	58,989	-	58,989
Investment-linked insurance	6,514	-	6,514	50,436	-	50,436
Total	\$3,431,511	\$-	\$3,431,511	\$2,984,885	\$-	\$2,984,885

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$108,774	\$-	\$108,774	\$98,983	\$-	\$98,983
Health insurance	5,545	-	5,545	2,031	-	2,031
Investment-linked insurance	217	-	217	1,736	-	1,736
Total	\$114,536	\$-	\$114,536	\$102,750	\$-	\$102,750

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$2,450,082	\$-	\$2,450,082	\$2,417,929	\$-	\$2,417,929
Health insurance	12,330	-	12,330	44,343	-	44,343
Investment-linked insurance	50,777	-	50,777	19,226	-	19,226
Total	\$2,513,189	\$-	\$2,513,189	\$2,481,498	\$-	\$2,481,498

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$82,217	\$-	\$82,217	\$79,879	\$-	\$79,879
Health insurance	414	-	414	1,465	-	1,465
Investment-linked insurance	1,704	-	1,704	635	-	635
Total	\$84,335	\$-	\$84,335	\$81,979	\$-	\$81,979

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Reserve for life insurance liabilities is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$2,984,885	\$-	\$2,984,885	\$2,481,498	\$-	\$2,481,498
Reserve	460,523	-	460,523	398,754	-	398,754
Recover	(171,242)	-	(171,242)	(312,016)	-	(312,016)
Losses (gains) on foreign exchange	157,345	-	157,345	(55,047)	-	(55,047)
Ending balance	\$3,431,511	\$-	\$3,431,511	\$2,513,189	\$-	\$2,513,189

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$99,629	\$-	\$99,629	\$83,271	\$-	\$83,271
Reserve	15,371	-	15,371	13,381	-	13,381
Recover	(5,716)	-	(5,716)	(10,470)	-	(10,470)
Losses (gains) on foreign exchange	5,252	-	5,252	(1,847)	-	(1,847)
Ending balance	\$114,536	\$-	\$114,536	\$84,335	\$-	\$84,335

B. Unearned premium reserve:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	\$7,157	\$-	\$7,157	\$6,787	\$-	\$6,787
Individual health insurance	658	-	658	624	-	624
Group insurance	229,363	-	229,363	245,310	-	245,310
Total	237,178	-	237,178	252,721	-	252,721
Less ceded unearned premium reserve:						
Individual life insurance	14	-	14	61	-	61
Individual injury insurance	194	-	194	66	-	66
Individual health insurance	3,051	-	3,051	2,862	-	2,862
Group insurance	3,102	-	3,102	4,171	-	4,171
Total	6,361	-	6,361	7,160	-	7,160
Net	\$230,817	\$-	\$230,817	\$245,561	\$-	\$245,561

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$239	\$-	\$239	\$234	\$-	\$234
Individual health insurance	22	-	22	22	-	22
Group insurance	7,655	-	7,655	8,444	-	8,444
Total	7,916	-	7,916	8,700	-	8,700
Less ceded unearned premium reserve:						
Individual life insurance	-	-	-	2	-	2
Individual injury insurance	6	-	6	2	-	2
Individual health insurance	102	-	102	98	-	98
Group insurance	104	-	104	144	-	144
Total	212	-	212	246	-	246
Net	\$7,704	\$-	\$7,704	\$8,454	\$-	\$8,454

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$6,833	\$-	\$6,833	\$8,653	\$-	\$8,653
Individual health insurance	628	-	628	682	-	682
Group insurance	226,646	-	226,646	229,383	-	229,383
Total	234,107	-	234,107	238,718	-	238,718
Less ceded unearned premium reserve:						
Individual life insurance	61	-	61	62	-	62
Individual injury insurance	67	-	67	68	-	68
Individual health insurance	2,881	-	2,881	2,937	-	2,937
Group insurance	4,199	-	4,199	4,280	-	4,280
Total	7,208	-	7,208	7,347	-	7,347
Net	\$226,899	\$-	\$226,899	\$231,371	\$-	\$231,371

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$229	\$-	\$229	\$286	\$-	\$286
Individual health insurance	21	-	21	23	-	23
Group insurance	7,606	-	7,606	7,578	-	7,578
Total	7,856	-	7,856	7,887	-	7,887
Less ceded unearned premium reserve:						
Individual life insurance	2	-	2	2	-	2
Individual injury insurance	2	-	2	2	-	2
Individual health insurance	96	-	96	97	-	97
Group insurance	141	-	141	141	-	141
Total	241	-	241	242	-	242
Net	\$7,615	\$-	\$7,615	\$7,645	\$-	\$7,645

Unearned premium reserve is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$252,721	\$-	\$252,721	\$238,718	\$-	\$238,718
Reserve	122,396	-	122,396	110,322	-	110,322
Recover	(149,774)	-	(149,774)	(109,631)	-	(109,631)
Losses (gains) on foreign exchange	11,835	-	11,835	(5,302)	-	(5,302)
Ending balance	237,178	-	237,178	234,107	-	234,107
Less ceded unearned premium reserve:						
Beginning balance-Net	7,160	-	7,160	7,347	-	7,347
Increase	-	-	-	24	-	24
Decrease	(1,124)	-	(1,124)	-	-	-
Gains (losses) on foreign exchange	325	-	325	(163)	-	(163)
Total	6,361	-	6,361	7,208	-	7,208
Ending balance-Net	\$230,817	\$-	\$230,817	\$226,899	\$-	\$226,899

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$8,435	\$-	\$8,435	\$8,011	\$-	\$8,011
Reserve	4,085	-	4,085	3,702	-	3,702
Recover	(4,999)	-	(4,999)	(3,679)	-	(3,679)
Losses (gains) on foreign exchange	395	-	395	(178)	-	(178)
Ending balance	7,916	-	7,916	7,856	-	7,856
Less ceded unearned premium reserve:						
Beginning balance-Net	239	-	239	246	-	246
Increase	-	-	-	-	-	-
Decrease	(38)	-	(38)	-	-	-
Gains (losses) on foreign exchange	11	-	11	(5)	-	(5)
Total	212	-	212	241	-	241
Ending balance-Net	\$7,704	\$-	\$7,704	\$7,615	\$-	\$7,615

C. Reserve for claims:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$2,094	\$-	\$2,094	\$2,899	\$-	\$2,899
— Unreported claim	1,704	-	1,704	2,358	-	2,358
Individual injury insurance						
— Reported but not paid claim	2,611	-	2,611	3,613	-	3,613
— Unreported claim	2,182	-	2,182	3,020	-	3,020
Individual health insurance						
— Reported but not paid claim	2,374	-	2,374	3,285	-	3,285
— Unreported claim	5,325	-	5,325	7,369	-	7,369
Group insurance						
— Reported but not paid claim	47,810	-	47,810	66,165	-	66,165
— Unreported claim	405,698	-	405,698	307,740	-	307,740
Total	469,798	-	469,798	396,449	-	396,449
Less ceded reserve for claims:						
Individual health insurance	57,035	-	57,035	523	-	523
Net	\$412,763	\$-	\$412,763	\$395,926	\$-	\$395,926

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$70	\$-	\$70	\$100	\$-	\$100
– Unreported claim	57	-	57	81	-	81
Individual injury insurance						
– Reported but not paid claim	87	-	87	124	-	124
– Unreported claim	73	-	73	104	-	104
Individual health insurance						
– Reported but not paid claim	79	-	79	113	-	113
– Unreported claim	178	-	178	254	-	254
Group insurance						
– Reported but not paid claim	1,596	-	1,596	2,278	-	2,278
– Unreported claim	13,541	-	13,541	10,594	-	10,594
Total	15,681	-	15,681	13,648	-	13,648
Less ceded reserve for claims:						
Individual health insurance	1,904	-	1,904	18	-	18
Net	13,777	\$-	13,777	\$13,630	\$-	\$13,630
	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$2,918	\$-	\$2,918	\$19	\$-	\$19
– Unreported claim	2,374	-	2,374	2,118	-	2,118
Individual injury insurance						
– Reported but not paid claim	3,638	-	3,638	2,509	-	2,509
– Unreported claim	3,041	-	3,041	286	-	286
Individual health insurance						
– Reported but not paid claim	3,307	-	3,307	499	-	499
– Unreported claim	7,419	-	7,419	4,592	-	4,592
Group insurance						
– Reported but not paid claim	66,611	-	66,611	21,878	-	21,878
– Unreported claim	330,953	-	330,953	388,663	-	388,663
Total	420,261	-	420,261	420,564	-	420,564
Less ceded reserve for claims:						
Individual health insurance	526	-	526	1,178	-	1,178
Net	\$419,735	\$-	\$419,735	\$419,386	\$-	\$419,386

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation feature		Total	Financial instruments with discretionary participation feature		Total
	Insurance contract			Insurance contract		
Individual life insurance						
— Reported but not paid claim	\$98	\$-	\$98	\$1	\$-	\$1
— Unreported claim	80	-	80	70	-	70
Individual injury insurance						
— Reported but not paid claim	122	-	122	83	-	83
— Unreported claim	102	-	102	9	-	9
Individual health insurance						
— Reported but not paid claim	111	-	111	16	-	16
— Unreported claim	249	-	249	152	-	152
Group insurance						
— Reported but not paid claim	2,235	-	2,235	723	-	723
— Unreported claim	11,106	-	11,106	12,840	-	12,840
Total	14,103	-	14,103	13,894	-	13,894
Less ceded reserve for claims:						
Individual health insurance	18	-	18	39	-	39
Net	\$14,085	\$-	\$14,085	\$13,855	\$-	\$13,855

Reserve for claims is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation feature		Total	Financial instruments with discretionary participation feature		Total
	Insurance contract			Insurance contract		
Beginning balance	\$396,449	\$-	\$396,449	\$420,564	\$-	\$420,564
Reserve	279,542	-	279,542	563,743	-	563,743
Recover	(227,482)	-	(227,482)	(554,712)	-	(554,712)
Losses (gains) on foreign exchange	21,289	-	21,289	(9,334)	-	(9,334)
Ending balance	469,798	-	469,798	420,261	-	420,261
Less ceded reserve for claims:						
Beginning balance-Net	523	-	523	1,178	-	1,178
Increase	54,911	-	54,911	-	-	-
Decrease	-	-	-	(625)	-	(625)
Gains (losses) on foreign exchange	1,601	-	1,601	(27)	-	(27)
Total	57,035	-	57,035	526	-	526
Ending balance-Net	\$412,763	\$-	\$412,763	\$419,735	\$-	\$419,735

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$13,233	\$-	\$13,233	\$14,113	\$-	\$14,113
Reserve	9,331	-	9,331	18,918	-	18,918
Recover	(7,593)	-	(7,593)	(18,615)	-	(18,615)
Losses (gains) on foreign exchange	710	-	710	(313)	-	(313)
Ending balance	15,681	-	15,681	14,103	-	14,103
Less ceded reserve for claims:						
Beginning balance-Net	17	-	17	40	-	40
Increase	1,833	-	1,833	-	-	-
Decrease	-	-	-	(21)	-	(21)
Gains (losses) on foreign exchange	54	-	54	(1)	-	(1)
Total	1,904	-	1,904	18	-	18
Ending balance-Net	\$13,777	\$-	\$13,777	\$14,085	\$-	\$14,085

D. Liability adequacy reserve:

	30 June 2013	30 June 2013
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,431,511	\$114,536
Unearned premium reserve	237,178	7,916
Total	\$3,668,689	\$122,452
Book value of insurance liabilities	\$3,668,689	\$122,452
Estimated present value of cash flows	\$2,934,951	\$97,962
Balance of liability adequacy reserve	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	31 December 2012 NT\$	31 December 2012 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,984,885	\$102,750
Unearned premium reserve	252,721	8,700
Total	\$3,237,606	\$111,450
Book value of insurance liabilities	\$3,237,606	\$111,450
Estimated present value of cash flows	\$2,319,570	\$79,848
Balance of liability adequacy reserve	\$-	\$-
	30 June 2012 NT\$	30 June 2012 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,513,189	\$84,335
Unearned premium reserve	234,107	7,856
Total	\$2,747,296	\$92,191
Book value of insurance liabilities	\$2,747,296	\$92,191
Estimated present value of cash flows	\$2,355,202	\$79,034
Balance of liability adequacy reserve	\$-	\$-
	1 January 2012 NT\$	1 January 2012 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,481,498	\$81,979
Unearned premium reserve	238,718	7,887
Total	\$2,720,216	\$89,866
Book value of insurance liabilities	\$2,720,216	\$89,866
Estimated present value of cash flows	\$2,312,185	\$76,385
Balance of liability adequacy reserve	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Reserve for claims is not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: There are no instances of merger or transfer of insurance contract for Cathay Life (China). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Liability adequacy testing methodology is listed as follows:

	30 June 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2013. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2012, with neutral assumption for discount rates after 30 years.
	31 December 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2012. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with neutral assumption for discount rates after 30 years.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2012.
	(2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with neutral assumption for discount rates after 30 years.
	1 January 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2011.
	(2) Discount rate: Under assets allocation plan of annual report of 2010, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2009.

E. Reserve for insurance contracts with feature of financial instruments:

Cathay Life (China) issues financial instruments without discretionary participation feature. As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, reserve for insurance contracts with feature of financial instruments is summarized below:

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$4,485,850	\$149,728	\$4,889,501	\$168,313

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$5,411,968	\$181,610	\$6,259,962	\$206,804

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$4,889,501	\$163,201	\$6,259,962	\$210,066
Premiums received	845,207	28,211	1,250,659	41,968
Insurance claim payments	(443,540)	(14,804)	(704,984)	(23,657)
Net provision of statutory reserve	(1,031,416)	(34,426)	(1,254,013)	(42,081)
Losses (gains) on foreign exchange	226,098	7,546	(139,656)	(4,686)
Ending balance	\$4,485,850	\$149,728	\$5,411,968	\$181,610

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$4,889,501	\$163,201	\$6,259,962	\$210,066
Premiums received	845,207	28,211	1,250,659	41,968
Insurance claim payments	(443,540)	(14,804)	(704,984)	(23,657)
Net provision of statutory reserve	(1,031,416)	(34,426)	(1,254,013)	(42,081)
Losses (gains) on foreign exchange	226,098	7,546	(139,656)	(4,686)
Ending balance	\$4,485,850	\$149,728	\$5,411,968	\$181,610

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities:

	30 June 2013			31 December 2012		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	\$329,659	\$-	\$329,659	\$299,490	\$-	\$299,490
Investment – linked insurance	19	-	19	9	-	9
Total	\$329,678	\$-	\$329,678	\$299,499	\$-	\$299,499

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$11,003	\$-	\$11,003	\$10,309	\$-	\$10,309
Investment – linked insurance	1	-	1	-	-	-
Total	\$11,004	\$-	\$11,004	\$10,309	\$-	\$10,309

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$262,299	\$-	\$262,299	\$231,165	\$-	\$231,165
Investment – linked insurance	5	-	5	-	-	-
Total	\$262,304	\$-	\$262,304	\$231,165	\$-	\$231,165

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$8,802	\$-	\$8,802	\$7,636	\$-	\$7,636
Investment – linked insurance	-	-	-	-	-	-
Total	\$8,802	\$-	\$8,802	\$7,636	\$-	\$7,636

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Reserve for life insurance liabilities is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$299,499	\$-	\$299,499	\$231,165	\$-	\$231,165
Reserve	24,612	-	24,612	32,636	-	32,636
Losses (gains) on foreign exchange	5,567	-	5,567	(1,497)	-	(1,497)
Ending balance	\$329,678	\$-	\$329,678	\$262,304	\$-	\$262,304

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$9,997	\$-	\$9,997	\$7,757	\$-	\$7,757
Reserve	821	-	821	1,095	-	1,095
Losses (gains) on foreign exchange	186	-	186	(50)	-	(50)
Ending balance	\$11,004	\$-	\$11,004	\$8,802	\$-	\$8,802

B. Unearned premium reserve:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$1,487	\$-	\$1,487	\$1,666	\$-	\$1,666
Individual health insurance	1,183	-	1,183	1,614	-	1,614
Total	\$2,670	\$-	\$2,670	\$3,280	\$-	\$3,280

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$50	\$-	\$50	\$57	\$-	\$57
Individual health insurance	39	-	39	56	-	56
Total	\$89	\$-	\$89	\$113	\$-	\$113

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$1,264	\$-	\$1,264	\$1,484	\$-	\$1,484
Individual health insurance	1,237	-	1,237	1,850	-	1,850
Total	\$2,501	\$-	\$2,501	\$3,334	\$-	\$3,334

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual injury insurance	\$42	\$-	\$42	\$49	\$-	\$49
Individual health insurance	42	-	42	61	-	61
Total	\$84	\$-	\$84	\$110	\$-	\$110

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Unearned premium reserve is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$3,280	\$-	\$3,280	\$3,334	\$-	\$3,334
Recover	(670)	-	(670)	(806)	-	(806)
Losses (gains) on foreign exchange	60	-	60	(27)	-	(27)
Ending balance	\$2,670	\$-	\$2,670	\$2,501	\$-	\$2,501

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	\$109	\$-	\$109	\$112	\$-	\$112
Recover	(22)	-	(22)	(27)	-	(27)
Losses (gains) on foreign exchange	2	-	2	(1)	-	(1)
Ending balance	\$89	\$-	\$89	\$84	\$-	\$84

C. Reserve for claims:

	30 June 2013			31 December 2012		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$790	\$-	\$790	\$1,251	\$-	\$1,251
Individual injury insurance						
— Reported but not paid claim	138	-	138	231	-	231
— Unreported claim	168	-	168	163	-	163
Individual health insurance						
— Reported but not paid claim	254	-	254	206	-	206
— Unreported claim	146	-	146	294	-	294
Investment-linked insurance						
— Reported but not paid claim	-	-	-	390	-	390
Total	\$1,496	\$-	\$1,496	\$2,535	\$-	\$2,535

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
— Reported but not paid claim	\$26	\$-	\$26	\$43	\$-	\$43
Individual injury insurance						
— Reported but not paid claim	5	-	5	8	-	8
— Unreported claim	6	-	6	6	-	6
Individual health insurance						
— Reported but not paid claim	8	-	8	7	-	7
— Unreported claim	5	-	5	10	-	10
Investment-linked insurance						
— Reported but not paid claim	-	-	-	13	-	13
Total	\$50	\$-	\$50	\$87	\$-	\$87

	30 June 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
— Reported but not paid claim	\$395	\$-	\$395	\$302	\$-	\$302
Individual injury insurance						
— Reported but not paid claim	138	-	138	139	-	139
— Unreported claim	157	-	157	141	-	141
Individual health insurance						
— Reported but not paid claim	379	-	379	98	-	98
— Unreported claim	153	-	153	109	-	109
Total	\$1,222	\$-	\$1,222	\$789	\$-	\$789

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$13	\$-	\$13	\$10	\$-	\$10
Individual injury insurance						
— Reported but not paid claim	5	-	5	4	-	4
— Unreported claim	5	-	5	5	-	5
Individual health insurance						
— Reported but not paid claim	13	-	13	3	-	3
— Unreported claim	5	-	5	4	-	4
Total	\$41	\$-	\$41	\$26	\$-	\$26

Reserve for claims is summarized below:

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$2,535	\$-	\$2,535	\$789	\$-	\$789
Reserve	-	-	-	436	-	436
Recover	(1,086)	-	(1,086)	-	-	-
Losses (gains) on foreign exchange	47	-	47	(3)	-	(3)
Ending balance	\$1,496	\$-	\$1,496	\$1,222	\$-	\$1,222

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
discretionary			discretionary			
Insurance participation			Insurance participation			
contract	feature	Total	contract	feature	Total	
Beginning balance	\$85	\$-	\$85	\$26	\$-	\$26
Reserve	-	-	-	15	-	15
Recover	(36)	-	(36)	-	-	-
Losses (gains) on foreign exchange	1	-	1	-	-	-
Ending balance	\$50	\$-	\$50	\$41	\$-	\$41

D. Special reserve:

	30 June 2013				31 December 2012			
	NT\$				NT\$			
	Financial				Financial			
	instruments with				instruments with			
discretionary				discretionary				
Insurance participation				Insurance participation				
contract	feature	Other	Total	contract	feature	Other	Total	
Others	\$525	\$-	\$-	\$525	\$517	\$-	\$-	\$517

	30 June 2013				31 December 2012			
	US\$				US\$			
	Financial				Financial			
	instruments with				instruments with			
discretionary				discretionary				
Insurance participation				Insurance participation				
contract	feature	Other	Total	contract	feature	Other	Total	
Others	\$18	\$-	\$-	\$18	\$17	\$-	\$-	\$17

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012				1 January 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	contract	feature	Other	Total	contract	feature	Other	Total
Others	\$529	\$-	\$-	\$529	\$533	\$-	\$-	\$533

	30 June 2012				1 January 2012			
	US\$				US\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	contract	feature	Other	Total	contract	feature	Other	Total
Others	\$18	\$-	\$-	\$18	\$18	\$-	\$-	\$18

Special reserve is summarized below:

	For the six-month period ended 30 June 2013				For the six-month period ended 30 June 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	contract	feature	Other	Total	contract	feature	Other	Total
Beginning balance	\$517	\$-	\$-	\$517	\$533	\$-	\$-	\$533
Losses (gains) on foreign exchange	8	-	-	8	(4)	-	-	(4)
Ending balance	\$525	\$-	\$-	\$525	\$529	\$-	\$-	\$529

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013				For the six-month period ended 30 June 2012			
	US\$				US\$			
	Financial instruments with discretionary participation			Total	Financial instruments with discretionary participation			Total
	Insurance contract	feature	Other		Insurance contract	feature	Other	
Beginning balance	\$17	\$-	\$-	\$17	\$18	\$-	\$-	\$18
Losses (gains) on foreign exchange	1	-	-	1	-	-	-	-
Ending balance	\$18	\$-	\$-	\$18	\$18	\$-	\$-	\$18

E. Liability adequacy reserve:

	30 June 2013	30 June 2013
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$329,678	\$11,004
Unearned premium reserve	2,670	89
Total	\$332,348	\$11,093
Book value of insurance liabilities	\$332,348	\$11,093
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-
	31 December 2012	31 December 2012
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$299,499	\$10,309
Unearned premium reserve	3,280	113
Total	\$302,779	\$10,422
Book value of insurance liabilities	\$302,779	\$10,422
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	30 June 2012	30 June 2012
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$262,304	\$8,802
Unearned premium reserve	2,501	84
Total	\$264,805	\$8,886
Book value of insurance liabilities	\$264,805	\$8,886
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-
	1 January 2012	1 January 2012
	NT\$	US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$231,165	\$7,636
Unearned premium reserve	3,334	110
Total	\$234,499	\$7,746
Book value of insurance liabilities	\$234,499	\$7,746
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Outstanding reserve for claims and special reserve are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: There are no instances of merger or transfer of insurance contract for Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

26. Post-employment benefits

Defined contribution plans

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages. The Company and its domestic subsidiaries have made monthly contributions of 6% of each employee's salaries or wages to employees' individual pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plans for the three-month periods ended 30 June 2013 and 2012 were NT\$248,154 (US\$8,283) thousands and NT\$223,998 (US\$7,517) thousands, respectively. Expenses under the defined contribution plans for the six-month periods ended 30 June 2013 and 2012 were NT\$500,185 (US\$16,695) thousands and NT\$447,947 (US\$15,032) thousands, respectively.

Defined benefit plans

Please refer to the consolidated financial statements of the Company and Subsidiaries for the three-month periods ended 31 March 2013 and 2012 for the relevant information and disclosure on the Company and Subsidiaries' defined benefit plans.

The benefit expense under the defined benefit plans is recognized in the statement of comprehensive income as follows:

	For the three-month period ended 30 June 2013		For the three-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$73,062	\$2,438	\$81,005	\$2,718
Operating expenses	\$13,899	\$464	\$14,844	\$498

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$146,222	\$4,881	\$161,959	\$5,435
Operating expenses	\$27,704	\$925	\$29,742	\$998

27. Provisions

	NT\$			
	Decommissioning liability	Litigation liability	Employee benefit liability	Total
1 January 2013	\$-	\$333,439	\$3,479,044	\$3,812,483
Increase	9,555	-	73,622	83,177
30 June 2013	\$9,555	\$333,439	\$3,552,666	\$3,895,660

	US\$			
	Decommissioning liability	Litigation liability	Employee benefit liability	Total
1 January 2013	\$-	\$11,130	\$116,123	\$127,253
Increase	319	-	2,457	2,776
30 June 2013	\$319	\$11,130	\$118,580	\$130,029

28. Other liabilities

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Accounts collected in advance	\$296,516	\$9,897	\$300,819	\$10,355
Deferred handling fees	91,230	3,045	100,202	3,449
Guarantee deposits received	2,086,676	69,649	2,077,752	71,524
Other liabilities - Other	5,479,272	182,886	9,047,037	311,430
Total	\$7,953,694	\$265,477	\$11,525,810	\$396,758

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Accounts collected in advance	\$340,756	\$11,434	\$397,555	\$13,134
Guarantee deposits received	2,003,034	67,216	1,960,914	64,781
Other liabilities - Other	4,071,491	136,627	4,122,246	136,182
Total	\$6,415,281	\$215,277	\$6,480,715	\$214,097

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

29. Deferred handling fees

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred handling fees related to investment management services of such contracts are summarized below:

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$100,202	\$3,344	\$-	\$-
Amortization	(7,613)	(254)	-	-
(Gains) losses on foreign exchange	(1,359)	(45)	-	-
Ending balance	<u>\$91,230</u>	<u>\$3,045</u>	<u>\$-</u>	<u>\$-</u>

30. Common stock

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the total authorized thousand shares were all 5,306,527 at par value of NT\$10.

31. Capital surplus

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital	\$13,000,000	\$433,912	\$13,000,000	\$447,504
Other	9,649	322	9,649	332
Total	<u>\$13,009,649</u>	<u>\$434,234</u>	<u>\$13,009,649</u>	<u>\$447,836</u>

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital	\$13,000,000	\$436,242	\$13,000,000	\$429,468
Other	9,649	324	9,649	319
Total	<u>\$13,009,649</u>	<u>\$436,566</u>	<u>\$13,009,649</u>	<u>\$429,787</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

According to the Company Act, the capital surplus shall not be used except for covering the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

32. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Prior to 2007, this legal capital reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act. When the Company incurs no loss, it may distribute the portion of its legal capital reserve which exceeds 25% of the issued share capital by issuing new shares or by cash to its original shareholders in proportion to the number of shares being held by each of them.

On 30 April 2013, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of NT\$655,998 (US\$22,582) thousands. On 24 April 2012, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of NT\$91,176 (US\$3,012) thousands.

(2) Special capital reserve

Pursuant to the regulations established by the R.O.C. Financial Supervisory Commission, 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 capital reserve when approved by stockholders' meeting in the following year.

Special reserve for major incidents and for fluctuation of risks in accordance with Section 18 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" is placed in the special capital reserve under retained earnings.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

According to Article 17 of “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”, when the company acquires real estates from its related parties, the differences between transaction price and valuation cost shall be recognized as special capital reserve.

On 30 April 2013, the Company’s board of directors, acting on behalf of the shareholders, resolved to use the special capital reserves to offset the cumulative deficits amounting to NT\$34,693 (US\$1,194) thousands after recognizing special capital reserves of NT\$2,658,684 (US\$91,521) thousands, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of NT\$1,119,727 (US\$38,544) thousands had been recognized at the end of 2012 in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.” The resolution was authorized by Financial Supervisory Commission on 16 April 2013.

When distributing distributable earnings for the years 2011 and 2012, the Company has to set aside special capital reserve, for other net deductions from shareholders’ equity of the period. For any subsequent reversal of other net deductions from shareholders’ equity, the amount reversed may be distributed.

The Company has elected to use the fair value of certain investment properties on the transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall be set aside an equal amount of retained earnings; the residual amount should be recognized under special reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount shall be set aside under special capital reserve in accordance with Order No. Financial – Supervisory – Insurance – Corporate - 10102508861. The Company will recognize special capital reserve NT\$2,708,494 (US\$90,404) thousands retrospectively in the third quarter of 2013.

(3) Undistributed retained earnings

A. According to the Company’s Articles of Incorporation, the Company’s annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders’ meeting, and 2% of the aforementioned amount shall be distributed as the employee bonus.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- B. According to the amended Income Tax Act (“Tax Act”) in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. The employee bonus and remuneration of directors for the six-month periods ended 30 June 2013 and 2012, amounting to NT\$0 (US\$0) thousands and NT\$0 (US\$0) thousands, respectively, were 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.
- D. The Company’s distribution of 2012 retained earnings has been approved by the board of directors on behalf of the shareholders. For related information please refer to the “Market Observation Post System” website of the Taiwan Stock Exchange Corporation.
- E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 30 June 2013, the reserves amounted to NT\$625,225 (US\$20,869) thousands.

(4) Non-controlling interests

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,012,972	\$33,811	\$1,133,769	\$38,046
Net income attributable to non-controlling interests	50,237	1,677	23,190	778
Other comprehensive income attributable to non-controlling interests:				
Exchange differences resulting from translating the financial statements of foreign operations	41,379	1,381	(21,579)	(724)
Unrealized (losses) gains from available-for-sale financial assets	(11,774)	(393)	46,022	1,544
Other	(18,114)	(605)	(24,045)	(807)
Ending balance	\$1,074,700	\$35,871	\$1,157,357	\$38,837

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

33. Retained earned premium

(1) The Company

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$97,269,790	\$2,008,712	\$99,278,502	\$113,054,455	\$2,926,000	\$115,980,455
Reinsurance premium income	46,785	-	46,785	45,960	-	45,960
Premium income	97,316,575	2,008,712	99,325,287	113,100,415	2,926,000	116,026,415
Less:						
Premiums ceded to reinsurers	(4,112,508)	-	(4,112,508)	(7,257,653)	-	(7,257,653)
Changes in unearned premium reserve	(2,696,876)	-	(2,696,876)	(8,466)	(2)	(8,468)
Subtotal	(6,809,384)	-	(6,809,384)	(7,266,119)	(2)	(7,266,121)
Retained earned premium	\$90,507,191	\$2,008,712	\$92,515,903	\$105,834,296	\$2,925,998	\$108,760,294

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$3,246,655	\$67,047	\$3,313,702	\$3,793,774	\$98,188	\$3,891,962
Reinsurance premium income	1,562	-	1,562	1,542	-	1,542
Premium income	3,248,217	\$67,047	3,315,264	3,795,316	98,188	3,893,504
Less:						
Premiums ceded to reinsurers	(137,267)	-	(137,267)	(243,546)	-	(243,546)
Changes in unearned premium reserve	(90,016)	-	(90,016)	(284)	-	(284)
Subtotal	(227,283)	-	(227,283)	(243,830)	-	(243,830)
Retained earned premium	\$3,020,934	\$67,047	\$3,087,981	\$3,551,486	\$98,188	\$3,649,674

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$187,821,790	\$4,343,974	\$192,165,764	\$250,760,881	\$6,033,005	\$256,793,886
Reinsurance premium income	106,694	-	106,694	92,309	-	92,309
Premium income	187,928,484	4,343,974	192,272,458	250,853,190	6,033,005	256,886,195
Less:						
Premiums ceded to reinsurers	(8,772,114)	-	(8,772,114)	(13,822,673)	-	(13,822,673)
Changes in unearned premium reserve	(4,903,392)	-	(4,903,392)	142,348	(1)	142,347
Subtotal	(13,675,506)	-	(13,675,506)	(13,680,325)	(1)	(13,680,326)
Retained earned premium	\$174,252,978	\$4,343,974	\$178,596,952	\$237,172,865	\$6,033,004	\$243,205,869

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$6,269,085	\$144,993	\$6,414,078	\$8,414,794	\$202,450	\$8,617,244
Reinsurance premium income	3,561	-	3,561	3,098	-	3,098
Premium income	6,272,646	144,993	6,417,639	8,417,892	202,450	8,620,342
Less:						
Premiums ceded to reinsurers	(292,794)	-	(292,794)	(463,848)	-	(463,848)
Changes in unearned premium reserve	(163,665)	-	(163,665)	4,777	-	4,777
Subtotal	(456,459)	-	(456,459)	(459,071)	-	(459,071)
Retained earned premium	\$5,816,187	\$144,993	\$5,961,180	\$7,958,821	\$202,450	\$8,161,271

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Cathay life (China)

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$525,322	\$-	\$525,322	\$463,259	\$-	\$463,259
Reinsurance premium income	-	-	-	-	-	-
Premium income	525,322	-	525,322	463,259	-	463,259
Less:						
Premiums ceded to reinsurers	(4,890)	-	(4,890)	(1,533)	-	(1,533)
Changes in unearned premium reserve	25,573	-	25,573	12,323	-	12,323
Subtotal	20,683	-	20,683	10,790	-	10,790
Retained earned premium	\$546,005	\$-	\$546,005	\$474,049	\$-	\$474,049

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$17,534	\$-	\$17,534	\$15,546	\$-	\$15,546
Reinsurance premium income	-	-	-	-	-	-
Premium income	17,534	-	17,534	15,546	-	15,546
Less:						
Premiums ceded to reinsurers	(163)	-	(163)	(51)	-	(51)
Changes in unearned premium reserve	853	-	853	413	-	413
Subtotal	690	-	690	362	-	362
Retained earned premium	\$18,224	\$-	\$18,224	\$15,908	\$-	\$15,908

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Direct premium income	\$1,121,657	\$-	\$1,121,657	\$1,026,821	\$-	\$1,026,821
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,121,657	-	1,121,657	1,026,821	-	1,026,821
Less:						
Premiums ceded to reinsurers	(9,786)	-	(9,786)	(7,255)	-	(7,255)
Changes in unearned premium reserve	26,129	-	26,129	(691)	-	(691)
Subtotal	16,343	-	16,343	(7,946)	-	(7,946)
Retained earned premium	\$1,138,000	\$-	\$1,138,000	\$1,018,875	\$-	\$1,018,875

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Direct premium income	\$37,438	\$-	\$37,438	\$34,457	\$-	\$34,457
Reinsurance premium income	-	-	-	-	-	-
Premium income	37,438	-	37,438	34,457	-	34,457
Less:						
Premiums ceded to reinsurers	(327)	-	(327)	(244)	-	(244)
Changes in unearned premium reserve	872	-	872	(23)	-	(23)
Subtotal	545	-	545	(267)	-	(267)
Retained earned premium	\$37,983	\$-	\$37,983	\$34,190	\$-	\$34,190

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Cathay life (Vietnam)

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$31,228	\$-	\$31,228	\$49,426	\$-	\$49,426
Reinsurance premium income	-	-	-	-	-	-
Premium income	31,228	-	31,228	49,426	-	49,426
Less:						
Changes in unearned premium reserve	1,406	-	1,406	(1,232)	-	(1,232)
Subtotal	1,406	-	1,406	(1,232)	-	(1,232)
Retained earned premium	\$32,634	\$-	\$32,634	\$48,194	\$-	\$48,194

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$1,042	\$-	\$1,042	\$1,658	\$-	\$1,658
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,042	-	1,042	1,658	-	1,658
Less:						
Changes in unearned premium reserve	47	-	47	(41)	-	(41)
Subtotal	47	-	47	(41)	-	(41)
Retained earned premium	\$1,089	\$-	\$1,089	\$1,617	\$-	\$1,617

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$48,214	\$-	\$48,214	\$85,240	\$-	\$85,240
Reinsurance premium income	-	-	-	-	-	-
Premium income	48,214	-	48,214	85,240	-	85,240
Less:						
Changes in unearned premium reserve	670	-	670	(806)	-	(806)
Subtotal	670	-	670	(806)	-	(806)
Retained earned premium	\$48,884	\$-	\$48,884	\$84,434	\$-	\$84,434

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct premium income	\$1,609	\$-	\$1,609	\$2,861	\$-	\$2,861
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,609	-	1,609	2,861	-	2,861
Less:						
Changes in unearned premium reserve	23	-	23	(27)	-	(27)
Subtotal	23	-	23	(27)	-	(27)
Retained earned premium	\$1,632	\$-	\$1,632	\$2,834	\$-	\$2,834

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

34. Retained claim payments

(1) The Company

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$46,621,938	\$9,106,198	\$55,728,136	\$40,714,876	\$12,998,955	\$53,713,831
Reinsurance claim payments	76,919	-	76,919	29,764	-	29,764
Insurance claim payments	46,698,857	9,106,198	55,805,055	40,744,640	12,998,955	53,743,595
Less:						
Claims recovered from reinsures	(3,061,172)	-	(3,061,172)	(2,944,239)	-	(2,944,239)
Retained claim payments	\$43,637,685	\$9,106,198	\$52,743,883	\$37,800,401	\$12,998,955	\$50,799,356

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$1,556,140	\$303,945	\$1,860,085	\$1,366,271	\$436,206	\$1,802,477
Reinsurance claim payments	2,567	-	2,567	999	-	999
Insurance claim payments	1,558,707	303,945	1,862,652	1,367,270	436,206	1,803,476
Less:						
Claims recovered from reinsures	(102,175)	-	(102,175)	(98,800)	-	(98,800)
Retained claim payments	\$1,456,532	\$303,945	\$1,760,477	\$1,268,470	\$436,206	\$1,704,676

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$85,357,567	\$16,224,989	\$101,582,556	\$81,236,202	\$26,978,959	\$108,215,161
Reinsurance claim payments	115,724	-	115,724	66,509	-	66,509
Insurance claim payments	85,473,291	16,224,989	101,698,280	81,302,711	26,978,959	108,281,670
Less:						
Claims recovered from reinsures	(6,059,727)	-	(6,059,727)	(5,480,500)	-	(5,480,500)
Retained claim payments	\$79,413,564	\$16,224,989	\$95,638,553	\$75,822,211	\$26,978,959	\$102,801,170

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$2,849,051	\$541,555	\$3,390,606	\$2,726,047	\$905,334	\$3,631,381
Reinsurance claim payments	3,863	-	3,863	2,232	-	2,232
Insurance claim payments	\$2,852,914	541,555	3,394,469	2,728,279	905,334	3,633,613
Less:						
Claims recovered from reinsures	(202,261)	-	(202,261)	(183,909)	-	(183,909)
Retained claim payments	\$2,650,653	\$541,555	\$3,192,208	\$2,544,370	\$905,334	\$3,449,704

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Cathay life (China)

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$295,862	\$-	\$295,862	\$291,267	\$-	\$291,267
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	295,862	-	295,862	291,267	-	291,267
Less:						
Claims recovered from reinsures	(1,704)	-	(1,704)	5,657	-	5,657
Retained claim payments	\$294,158	\$-	\$294,158	\$296,924	\$-	\$296,924

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$9,875	\$-	\$9,875	\$9,774	\$-	\$9,774
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	9,875	-	9,875	9,774	-	9,774
Less:						
Claims recovered from reinsures	(57)	-	(57)	190	-	190
Retained claim payments	\$9,818	\$-	\$9,818	\$9,964	\$-	\$9,964

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$538,020	\$-	\$538,020	\$679,348	\$-	\$679,348
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	538,020	-	538,020	679,348	-	679,348
Less:						
Claims recovered from reinsures	(10,972)	-	(10,972)	(8,004)	-	(8,004)
Retained claim payments	\$527,048	\$-	\$527,048	\$671,344	\$-	\$671,344

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$17,958	\$-	\$17,958	\$22,797	\$-	\$22,797
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	17,958	-	17,958	22,797	-	22,797
Less:						
Claims recovered from reinsures	(366)	-	(366)	(269)	-	(269)
Retained claim payments	\$17,592	\$-	\$17,592	\$22,528	\$-	\$22,528

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Cathay life (Vietnam)

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$3,047	\$-	\$3,047	\$5,026	\$-	\$5,026
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	3,047	-	3,047	5,026	-	5,026
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$3,047	\$-	\$3,047	\$5,026	\$-	\$5,026

	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$102	\$-	\$102	\$169	\$-	\$169
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	\$102	-	\$102	\$169	-	\$169
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$102	\$-	\$102	\$169	\$-	\$169

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	NT\$			NT\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$6,933	\$-	\$6,933	\$12,419	\$-	\$12,419
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	6,933	-	6,933	12,419	-	12,419
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$6,933	\$-	\$6,933	\$12,419	\$-	\$12,419

	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2012		
	US\$			US\$		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Direct insurance claim payments	\$231	\$-	\$231	\$417	\$-	\$417
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	231	-	231	417	-	417
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$231	\$-	\$231	\$417	\$-	\$417

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

35. Personnel expenses, depreciation and amortization – The Company and Subsidiaries

Item	For the three-month period ended 30 June 2013			For the three-month period ended 30 June 2013		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$3,312,529	\$716,216	\$4,028,745	\$110,565	\$23,906	\$134,471
Labor and health insurance expenses	429,520	89,179	518,699	14,336	2,977	17,313
Pension expenses	281,058	54,057	335,115	9,381	1,804	11,185
Other expenses	315,664	79,674	395,338	10,536	2,659	13,195
Depreciation	11,668	737,995	749,663	389	24,633	25,022
Amortization	415	16,143	16,558	14	539	553

Item	For the three-month period ended 30 June 2012			For the three-month period ended 30 June 2012		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$2,928,199	\$677,737	\$3,605,936	\$98,262	\$22,743	\$121,005
Labor and health insurance expenses	412,787	82,701	495,488	13,852	2,775	16,627
Pension expenses	269,892	49,955	319,847	9,057	1,676	10,733
Other expenses	336,069	75,437	411,506	11,277	2,531	13,808
Depreciation	10,756	686,586	697,342	361	23,040	23,401
Amortization	166	23,271	23,437	6	781	787

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	For the six-month period ended 30 June 2013			For the six-month period ended 30 June 2013		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$6,605,429	\$1,514,057	\$8,119,486	\$220,475	\$50,536	\$271,011
Labor & health insurance expenses	952,974	195,460	1,148,434	31,808	6,524	38,332
Pension expenses	565,730	108,381	674,111	18,883	3,618	22,501
Other expenses	624,154	159,724	783,878	20,833	5,331	26,164
Depreciation	22,334	1,487,183	1,509,517	745	49,639	50,384
Amortization	803	33,567	34,370	27	1,120	1,147

Item	For the six-month period ended 30 June 2012			For the six-month period ended 30 June 2012		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$5,878,136	\$1,367,302	\$7,245,438	\$197,253	\$45,883	\$243,136
Labor & health insurance expenses	825,185	163,369	988,554	27,691	5,482	33,173
Pension expenses	539,494	100,154	639,648	18,104	3,361	21,465
Other expenses	703,314	164,213	867,527	23,601	5,511	29,112
Depreciation	21,244	1,386,162	1,407,406	713	46,515	47,228
Amortization	347	50,682	51,029	11	1,701	1,712

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

36. Non-operating income and expenses

	For the three-month period ended 30 June 2013		For the three-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Losses on disposal of property and equipment	\$ (925)	\$ (31)	\$ (1,187)	\$ (40)
Dividend on preferred stock liabilities	(226,378)	(7,556)	(225,759)	(7,576)
Other	571,442	19,073	480,930	16,139
Total	\$344,139	\$11,486	\$253,984	\$8,523

	For the six-month period ended 30 June 2013		For the six-month period ended 30 June 2012	
	NT\$	US\$	NT\$	US\$
Losses on disposal of property and equipment	\$ (1,022)	\$ (34)	\$ (1,220)	\$ (41)
Dividend on preferred stock liabilities	(450,268)	(15,029)	(451,519)	(15,152)
Other	954,145	31,847	932,331	31,287
Total	\$502,855	\$16,784	\$479,592	\$16,094

37. Components of other comprehensive income

	For the three-month period ended 30 June 2013				
		NT\$			
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$99,030	\$-	\$99,030	\$-	\$99,030
Unrealized valuation losses from available-for-sale financial assets	(11,883,740)	(5,120,488)	(17,004,228)	2,956,539	(14,047,689)
Effective portion of losses on hedging instruments in cash flow hedges	(6,842)	(180,932)	(187,774)	31,922	(155,852)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(13,487)	-	(13,487)	-	(13,487)
Total	\$(11,805,039)	\$(5,301,420)	\$(17,106,459)	\$2,988,461	\$(14,117,998)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the three-month period ended 30 June 2013				
	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$3,305	\$-	\$3,305	\$-	\$3,305
Unrealized valuation losses from available-for-sale financial assets	(396,653)	(170,911)	(567,564)	98,683	(468,881)
Effective portion of losses on hedging instruments in cash flow hedges	(228)	(6,039)	(6,267)	1,065	(5,202)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(450)	-	(450)	-	(450)
Total	\$(394,026)	\$(176,950)	\$(570,976)	\$99,748	\$(471,228)

	For the three-month period ended 30 June 2012				
	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$16,172	\$-	\$16,172	\$-	\$16,172
Unrealized valuation losses from available-for-sale financial assets	(11,970,514)	(6,098,342)	(18,068,856)	924,625	(17,144,231)
Effective portion of losses on hedging instruments in cash flow hedges	102,378	(203,531)	(101,153)	17,196	(83,957)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(38,388)	-	(38,388)	-	(38,388)
Total	\$(11,890,352)	\$(6,301,873)	\$(18,192,225)	\$941,821	\$(17,250,404)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the three-month period ended 30 June 2012				
	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$542	\$-	\$542	\$-	\$542
Unrealized valuation losses from available-for-sale financial assets	(401,695)	(204,642)	(606,337)	31,027	(575,310)
Effective portion of losses on hedging instruments in cash flow hedges	3,436	(6,830)	(3,394)	577	(2,817)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(1,288)	-	(1,288)	-	(1,288)
Total	\$(399,005)	\$(211,472)	\$(610,477)	\$31,604	\$(578,873)

	For the six-month period ended 30 June 2013				
	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$228,844	\$-	\$228,844	\$-	\$228,844
Unrealized valuation losses from available-for-sale financial assets	(7,802,908)	(9,196,242)	(16,999,150)	2,764,256	(14,234,894)
Effective portion of losses on hedging instruments in cash flow hedges	(14,756)	(372,084)	(386,840)	65,763	(321,077)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	9,053	-	9,053	-	9,053
Total	\$(7,579,767)	\$(9,568,326)	\$(17,148,093)	\$2,830,019	\$(14,318,074)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013				
	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$7,639	\$-	\$7,639	\$-	\$7,639
Unrealized valuation losses from available-for-sale financial assets	(260,445)	(306,950)	(567,395)	92,265	(475,130)
Effective portion of losses on hedging instruments in cash flow hedges	(493)	(12,419)	(12,912)	2,195	(10,717)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	302	-	302	-	302
Total	\$(252,997)	\$(319,369)	\$(572,366)	\$94,460	\$(477,906)

	For the six-month period ended 30 June 2012				
	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$(52,248)	\$-	\$(52,248)	\$-	\$(52,248)
Unrealized valuation gains from available-for-sale financial assets	14,466,609	(10,260,183)	4,206,426	62,072	4,268,498
Effective portion of losses on hedging instruments in cash flow hedges	(8,655)	(401,185)	(409,840)	69,672	(340,168)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(39,569)	-	(39,569)	-	(39,569)
Total	\$14,366,137	\$(10,661,368)	\$3,704,769	\$131,744	\$3,836,513

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2012				
	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expenses)	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$ (1,753)	\$-	\$ (1,753)	\$-	\$ (1,753)
Unrealized valuation gains from available-for-sale financial assets	485,456	(344,301)	141,155	2,083	143,238
Effective portion of losses on hedging instruments in cash flow hedges	(290)	(13,463)	(13,753)	2,338	(11,415)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(1,328)	-	(1,328)	-	(1,328)
Total	\$482,085	\$(357,764)	\$124,321	\$4,421	\$128,742

38. Income taxes

The major components of income tax expense (benefit) are as follows:

Income tax expense (benefit) recognized in profit or loss

	For the three-month period ended 30 June 2013	For the three-month period ended 30 June 2013
	NT\$	US\$
Current income tax expense (benefit)		
Current income tax charge	\$440	\$15
Adjustments in respect of current income tax of prior periods	(228,628)	(7,631)
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	1,428,808	47,690
Other		
Tax effect under consolidated income tax systems	(831,928)	(27,768)
Withholding tax for overseas investments	22,037	736
China corporate income tax	316	10
Total income tax expense (benefit)	\$391,045	\$13,052

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the three-month period ended 30 June 2012	For the three-month period ended 30 June 2012
	NT\$	US\$
Current income tax expense (benefit)		
Current income tax charge	\$(260,540)	\$(8,743)
Adjustments in respect of current income tax of prior periods	(3,349)	(112)
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	599,696	20,124
Other		
Tax effect under basic tax systems	(6,949)	(233)
Tax effect under consolidated income tax systems	(346,038)	(11,612)
Withholding tax for overseas investments	9,334	313
China corporate income tax	199	6
Total income tax expense (benefit)	<u>\$(7,647)</u>	<u>\$(257)</u>
	For the six-month period ended 30 June 2013	For the six-month period ended 30 June 2013
	NT\$	US\$
Current income tax expense (benefit)		
Current income tax charge	\$1,085	\$36
Adjustments in respect of current income tax of prior periods	(228,628)	(7,631)
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	1,896,686	63,307
Other		
Tax effect under consolidated income tax systems	(1,077,652)	(35,970)
Withholding tax for overseas investments	25,033	836
China corporate income tax	542	18
Total income tax expense (benefit)	<u>\$617,066</u>	<u>\$20,596</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2012	For the six-month period ended 30 June 2012
	NT\$	US\$
Current income tax expense (benefit)		
Current income tax charge	\$6,296	\$211
Adjustments in respect of current income tax of prior periods	36,941	1,240
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	(548,675)	(18,412)
Other		
Tax effect under basic tax systems	55,517	1,863
Tax effect under consolidated income tax systems	(408,504)	(13,708)
Withholding tax for overseas investments	9,334	313
China corporate income tax	327	11
Total income tax expense (benefit)	<u>\$(848,764)</u>	<u>\$(28,482)</u>

Income taxes relating to components of other comprehensive income

	For the three-month period ended 30 June 2013	For the three-month period ended 30 June 2013
	NT\$	US\$
Deferred tax expense		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(2,956,539)	\$(98,683)
Effective portion of losses on hedging instruments in cash flow hedges	(31,922)	(1,065)
Income taxes relating to components of other comprehensive income	<u>\$(2,988,461)</u>	<u>\$(99,748)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the three-month period ended 30 June 2012 NT\$	For the three-month period ended 30 June 2012 US\$
Deferred tax expense		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(924,625)	\$(31,027)
Effective portion of losses on hedging instruments in cash flow hedges	(17,196)	(577)
Income taxes relating to components of other comprehensive income	\$(941,821)	\$(31,604)
	For the six-month period ended 30 June 2013 NT\$	For the six-month period ended 30 June 2013 US\$
Deferred tax expense		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(2,764,256)	\$(92,265)
Effective portion of losses on hedging instruments in cash flow hedges	(65,763)	(2,195)
Income taxes relating to components of other comprehensive income	\$(2,830,019)	\$(94,460)
	For the six-month period ended 30 June 2012 NT\$	For the six-month period ended 30 June 2012 US\$
Deferred tax expense		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(62,072)	\$(2,083)
Effective portion of losses on hedging instruments in cash flow hedges	(69,672)	(2,338)
Income taxes relating to components of other comprehensive income	\$(131,744)	\$(4,421)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

A reconciliation between tax expense (benefit) and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the six-month period ended 30 June 2013 NT\$	For the six-month period ended 30 June 2013 US\$
Accounting profit (loss) before tax from continuing operations	\$8,315,117	\$277,540
Tax at the domestic rates applicable to profits in the country concerned	\$1,429,975	\$47,729
Tax effect of revenue exempt from taxation	(1,522,436)	(50,816)
Tax effect of expenses not deductible for tax purposes	43,508	1,452
Add back of cash dividends received	63,366	2,115
Unrecognized tax loss of deferred tax assets	1,903,268	63,527
Tax effect of deferred tax assets/liabilities	(19,910)	(664)
Adjustments in respect of current income tax of prior periods	(228,628)	(7,631)
Other		
Tax effect under consolidated income tax systems	(1,077,652)	(35,970)
Withholding tax for overseas investments	25,033	836
China corporate income tax	542	18
Total income tax expense (benefit) recognized in profit or loss	\$617,066	\$20,596
	For the six-month period ended 30 June 2012 NT\$	For the six-month period ended 30 June 2012 US\$
Accounting (loss) profit before tax from continuing operations	\$(2,353,905)	\$(78,990)
Tax at the domestic rates applicable to profits in the country concerned	\$(390,001)	\$(13,087)
Tax effect of revenue exempt from taxation	(867,377)	(29,107)
Tax effect of expenses not deductible for tax purposes	63,342	2,125
Add back of cash dividends received	65,390	2,194
Unrecognized tax loss of deferred tax assets	595,187	19,973
Tax effect of deferred tax assets/liabilities	(8,920)	(299)
Adjustments in respect of current income tax of prior periods	36,941	1,240
Other		
Tax effect under basic tax systems	55,517	1,863
Tax effect under consolidated income tax systems	(408,504)	(13,708)
Withholding tax for overseas investments	9,334	313
China corporate income tax	327	11
Total income tax (benefit) expense recognized in profit or loss	\$(848,764)	\$(28,482)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Deferred tax assets (liabilities) relate to the following:

	For the six-month period ended 30 June 2013				
	NT\$				
	Beginning	Recognized in	Recognized in	Exchange	Ending
	balance	profit or loss	comprehensive	differences	balance
			other		
			income		
Temporary differences					
Property and equipment	\$640,592	\$14,940	\$-	\$-	\$655,532
Investment property	(7,798,917)	(7,227)	-	-	(7,806,144)
Financial assets at fair value through profit or loss	(776,481)	(389,927)	-	-	(1,166,408)
Available-for-sale financial assets	(5,827,809)	-	3,504,106	-	(2,323,703)
Derivative financial assets for hedging	(196,534)	-	65,763	-	(130,771)
Bond investments for which no active market exists	50,801	9,212	-	-	60,013
Prepaid pension	-	-	-	(267)	(267)
Guarantee deposits paid	1,250	(8,039)	-	-	(6,789)
Financial liabilities at fair value through profit or loss	358,911	3,143,352	-	-	3,502,263
Other receivables	(46,622)	(1,553)	-	-	(48,175)
Employee benefit liability	591,438	12,516	-	-	603,954
Contribution in aid of construction costs	22	(6)	-	-	16
Office supplies	5,596	-	-	-	5,596
Foreign exchange losses (gains)	14,458,060	(5,414,194)	(739,850)	-	8,304,016
Special reserve	(744,240)	744,240	-	-	-
Deferred tax benefit (expenses)		<u>\$ (1,896,686)</u>	<u>\$ 2,830,019</u>	<u>\$ (267)</u>	
Deferred tax assets-Net	<u>\$716,067</u>				<u>\$1,649,133</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$16,106,670</u>				<u>\$13,131,390</u>
Deferred tax liabilities	<u>\$(15,390,603)</u>				<u>\$(11,482,257)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013				
	US\$				
	Beginning	Recognized in	Recognized in	Exchange	Ending
	balance	profit or loss	comprehensive	differences	balance
			income		
			other		
Temporary differences					
Property and equipment	\$21,381	\$499	\$-	\$-	\$21,880
Investment property	(260,311)	(241)	-	-	(260,552)
Financial assets at fair value through profit or loss	(25,917)	(13,015)	-	-	(38,932)
Available-for-sale financial assets	(194,520)	-	116,960	-	(77,560)
Derivative financial assets for hedging	(6,560)	-	2,195	-	(4,365)
Bond investments for which no active market exists	1,695	307	-	-	2,002
Prepaid pension	-	-	-	(9)	(9)
Guarantee deposits paid	41	(268)	-	-	(227)
Financial liabilities at fair value through profit or loss	11,980	104,918	-	-	116,898
Other receivables	(1,556)	(52)	-	-	(1,608)
Employee benefit liability	19,741	418	-	-	20,159
Contribution in aid of construction costs	1	-	-	-	1
Office supplies	187	-	-	-	187
Foreign exchange losses (gains)	482,579	(180,714)	(24,695)	-	277,170
Special reserve	(24,841)	24,841	-	-	-
Deferred tax benefit (expenses)		<u>\$(63,307)</u>	<u>\$94,460</u>	<u>\$(9)</u>	
Deferred tax assets-Net	<u>\$23,900</u>				<u>\$55,044</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$537,605</u>				<u>\$438,297</u>
Deferred tax liabilities	<u>\$(513,705)</u>				<u>\$(383,253)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2012				
	NT\$				
	Beginning balance	Recognized in profit or loss	Recognized in comprehensive income	Exchange differences	Ending balance
Temporary differences					
Property and equipment	\$385,821	\$148,020	\$-	\$-	\$533,841
Investment property	(7,604,517)	(110,577)	-	-	(7,715,094)
Financial assets at fair value through profit or loss	(623,153)	56,617	-	-	(566,536)
Available-for-sale financial assets	(3,517,957)	839	(282,241)	-	(3,799,359)
Derivative financial assets for hedging	(339,526)	-	69,672	-	(269,854)
Bond investments for which no active market exists	48,034	1,020	-	-	49,054
Guarantee deposits paid	109	1,796	-	-	1,905
Financial liabilities at fair value through profit or loss	2,975,117	(1,436,671)	-	-	1,538,446
Other receivables	(61,699)	8,872	-	-	(52,827)
Employee benefit liability	560,927	16,127	-	-	577,054
Contribution in aid of construction costs	42	(15)	-	-	27
Office supplies	3,796	-	-	-	3,796
Foreign exchange losses (gains)	8,013,736	1,847,514	344,313	16	10,205,579
Special reserve	(766,939)	15,133	-	-	(751,806)
Deferred tax benefit (expenses)		<u>\$548,675</u>	<u>\$131,744</u>	<u>\$16</u>	
Deferred tax liabilities-Net	<u>\$(926,209)</u>				<u>\$(245,774)</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$11,989,836</u>				<u>\$12,911,940</u>
Deferred tax liabilities	<u>\$(12,916,045)</u>				<u>\$(13,157,714)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The following table contains information of the unused tax losses of the Company:

Unused tax losses						
NT\$						
Year	Tax losses	31 December		1 January		Expiration year
		30 June 2013	2012	30 June 2012	2012	
2006	\$8,251,573	\$6,902,325	\$8,251,573	\$8,251,573	\$8,251,573	2016
2008	3,927,234	3,927,234	3,927,234	3,927,234	3,927,234	2018
2009	12,173,664	12,173,664	12,173,664	12,173,664	12,173,664	2019
		<u>\$23,003,223</u>	<u>\$24,352,471</u>	<u>\$24,352,471</u>	<u>\$24,352,471</u>	

Unused tax losses						
US\$						
Year	Tax losses	31 December		1 January		Expiration year
		30 June 2013	2012	30 June 2012	2012	
2006	\$275,420	\$230,385	\$284,047	\$276,898	\$272,599	2016
2008	131,083	131,083	135,189	131,786	129,740	2018
2009	406,331	406,331	419,059	408,512	402,169	2019
		<u>\$767,799</u>	<u>\$838,295</u>	<u>\$817,196</u>	<u>\$804,508</u>	

Details of the Company's unused tax credit are as follows:

		Unused tax deduction				Expiration year
Laws and regulations	Items	30 June 2013		31 December 2012		
		NT\$	US\$	NT\$	US\$	
The Act for Upgrading Industries	Education and training	\$-	\$-	\$-	\$-	2012
The Act for Upgrading Industries	Education and training	-	-	8,755	301	2013
		<u>\$-</u>	<u>\$-</u>	<u>\$8,755</u>	<u>\$301</u>	

		Unused tax deduction				Expiration year
Laws and regulations	Items	30 June 2012		1 January 2012		
		NT\$	US\$	NT\$	US\$	
The Act for Upgrading Industries	Education and training	\$12,478	\$419	\$12,478	\$412	2012
The Act for Upgrading Industries	Education and training	8,755	294	8,755	289	2013
		<u>\$21,233</u>	<u>\$713</u>	<u>\$21,233</u>	<u>\$701</u>	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Unrecognized deferred tax assets

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amounted to NT\$5,324,938 (US\$177,735) thousands, NT\$5,056,568 (US\$174,064) thousands, NT\$4,995,103 (US\$167,621) thousands and NT\$5,021,288 (US\$165,883) thousands, respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liability has not been recognized, aggregated to NT\$12,096 (US\$404) thousands, NT\$10,550 (US\$363) thousands, NT\$12,949 (US\$435) thousands and NT\$14,795 (US\$489) thousands, respectively.

Imputation credit information

	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Balances of imputation credit amounts	\$4,907,198	\$163,792	\$5,584,641	\$192,242

	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Balances of imputation credit amounts	\$4,060,149	\$136,247	\$4,368,541	\$144,319

The actual creditable ratio for 2012 and 2011 were 20.48% and 20.48%, respectively.

The Company's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated.

The assessment of income tax returns

As of 30 June 2013, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2007
Symphox Information	Assessed and approved up to 2010

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Due to disagreements on premiums on bonds investment amortized to interest revenue, the Company has filed appeals for fiscal year of 2003 and 2005 through 2006. The appeals have no material impact on the Company as the amounts in dispute did not exceed tax losses reported for the years.

39. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

The Company and Subsidiaries did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted.

	For the three-month period ended 30 June 2013 NT\$	For the three-month period ended 30 June 2013 US\$
Profit attributable to ordinary equity holders of the Company	\$3,650,296	\$121,839
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (In dollars)	\$0.69	\$0.02
	For the three-month period ended 30 June 2012 NT\$	For the three-month period ended 30 June 2012 US\$
Profit attributable to ordinary equity holders of the Company	\$(31,066)	\$(1,042)
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (In dollars)	\$(0.01)	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	For the six-month period ended 30 June 2013 NT\$	For the six-month period ended 30 June 2013 US\$
Profit attributable to ordinary equity holders of the Company	\$7,647,814	\$255,267
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (In dollars)	\$1.44	\$0.05

	For the six-month period ended 30 June 2012 NT\$	For the six-month period ended 30 June 2012 US\$
Profit attributable to ordinary equity holders of the Company	\$(1,528,331)	\$(51,286)
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (In dollars)	\$(0.29)	\$(0.01)

If foreign exchange volatility reserve was not applied, basic earnings per share would be NT\$0.76 (US\$0.03) and NT\$0.06 (US\$0) for the three-month periods ended 30 June 2013 and 2012, respectively. If foreign exchange volatility reserve was not applied, basic earnings per share would be NT\$2.02 (US\$0.07) and NT\$(0.20) (US\$(0.01)) for the six-month periods ended 30 June 2013 and 2012, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be NT\$0.22 (US\$0.01) for the three-month period ended 30 June 2013. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be NT\$0.50 (US\$0.02) for the six-month period ended 30 June 2013.

40. Separate account insurance products

(1) The Company

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	30 June 2013		Item	30 June 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$389,246	\$12,992	Other payables	\$1,337,721	\$44,650
Financial assets at fair value through profit or loss	345,200,911	11,522,060	Reserve for separate account-Insurance contracts	310,397,040	10,360,382
Other receivables	5,956,612	198,819	Reserve for separate account-Investment contracts	39,812,008	1,328,839
Total	\$351,546,769	\$11,733,871	Total	\$351,546,769	\$11,733,871

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Assets			Liabilities		
Item	31 December 2012		Item	31 December 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$1,269,067	\$43,686	Other payables	\$1,439,828	\$49,564
Financial assets at fair value through profit or loss	319,027,929	10,982,028	Reserve for separate account-Insurance contracts	299,194,942	10,299,309
Other receivables	8,903,802	306,499	Reserve for separate account-Investment contracts	28,566,028	983,340
Total	\$329,200,798	\$11,332,213	Total	\$329,200,798	\$11,332,213

Assets			Liabilities		
Item	30 June 2012		Item	30 June 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$298,684	\$10,023	Other payables	\$2,871,592	\$96,362
Financial assets at fair value through profit or loss	289,988,474	9,731,157	Reserve for separate account-Insurance contracts	272,515,142	9,144,803
Interest receivable	5,417	181	Reserve for separate account-Investment contracts	19,014,808	638,081
Other receivables	4,108,967	137,885			
Total	\$294,401,542	\$9,879,246	Total	\$294,401,542	\$9,879,246

Assets			Liabilities		
Item	1 January 2012		Item	1 January 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$859,684	\$28,401	Other payables	\$2,436,877	\$80,505
Financial assets at fair value through profit or loss	288,778,425	9,540,087	Reserve for separate account-Insurance contracts	272,543,995	9,003,766
Interest receivable	5,464	180	Reserve for separate account-Investment contracts	18,574,650	613,632
Other receivables	3,911,949	129,235			
Total	\$293,555,522	\$9,697,903	Total	\$293,555,522	\$9,697,903

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

B. Separate account insurance products - revenue and expenses

Expenses			Revenue		
Item	1 April - 30 June 2013		Item	1 April - 30 June 2013	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$2,549,612	\$85,100	Premium income	\$26,551,025	\$886,216
Cash surrender value	13,631,384	454,986	Interest income	3,114	104
Dividends	77	3	(Losses) gains from		
Recovery of separate account reserve	(10,510,953)	(350,833)	financial assets and liabilities at fair value		
Gains on surrender	(3)	-	through profit or loss	(10,920,395)	(364,499)
Administrative expenses	871,835	29,100	Foreign exchange losses	(9,118,521)	(304,357)
Non-operating income and expenses	(26,729)	(892)			
Total	\$6,515,223	\$217,464	Total	\$6,515,223	\$217,464

Expenses			Revenue		
Item	1 April - 30 June 2012		Item	1 April - 30 June 2012	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$2,462,069	\$82,620	Premium income	\$10,046,593	\$337,134
Cash surrender value	8,599,732	288,582	Interest income	1,505	51
Dividends	353	12	(Losses) gains from		
Recovery of separate account reserve	(6,042,180)	(202,758)	financial assets and liabilities at fair value		
Administrative expenses	937,873	31,472	through profit or loss	(3,656,580)	(122,704)
			Foreign exchange losses	(453,828)	(15,229)
			Non-operating income and expenses	20,157	676
Total	\$5,957,847	\$199,928	Total	\$5,957,847	\$199,928

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Expenses			Revenue		
Item	1 January - 30 June 2013		Item	1 January - 30 June 2013	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$4,981,431	\$166,269	Premium income	\$51,841,656	\$1,730,362
Cash surrender value	26,486,982	884,078	Interest income	5,990	200
Dividends	159	5	(Losses) gains from		
Provision for separate			financial assets and		
account reserve	11,202,127	373,903	liabilities at fair value		
Gains on surrender	(3)	-	through profit or loss	(6,238,349)	(208,222)
Administrative expenses	1,772,659	59,168	Foreign exchange losses	(1,212,113)	(40,458)
Non-operating income and					
expenses	(46,171)	(1,541)			
Total	\$44,397,184	\$1,481,882	Total	\$44,397,184	\$1,481,882

Expenses			Revenue		
Item	1 January - 30 June 2012		Item	1 January - 30 June 2012	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$4,061,235	\$136,283	Premium income	\$17,879,270	\$599,976
Cash surrender value	21,683,742	727,642	Interest income	2,077	70
Dividends	692	23	Gains (losses) from		
Recovery of separate			financial assets and		
account reserve	(29,259)	(981)	liabilities at fair value		
Administrative expenses	1,873,447	62,867	through profit or loss	11,789,460	395,619
			Foreign exchange losses	(2,110,911)	(70,836)
			Non-operating income and		
			expenses	29,961	1,005
Total	\$27,589,857	\$925,834	Total	\$27,589,857	\$925,834

C. The commission earned for the sales of separate account insurance products from counterparties for the three-month periods ended 30 June 2013 and 2012 were NT\$324,577 (US\$10,834) thousands and NT\$240,321 (US\$8,064) thousands, respectively. The commission earned for the sales of separate account insurance products from counterparties for the six-month periods ended 30 June 2013 and 2012 were NT\$629,687 (US\$21,018) thousands and NT\$489,516 (US\$16,427) thousands, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Cathay life (China)

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	30 June 2013		Item	30 June 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$19,059	\$636	Other payables	\$1,108	\$37
Financial assets at fair value through profit or loss	337,191	11,255	Reserve for separate account	343,435	11,463
Interest receivable	12	-	Other	11,719	391
Total	\$356,262	\$11,891	Total	\$356,262	\$11,891

Assets			Liabilities		
Item	31 December 2012		Item	31 December 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$18,089	\$623	Other payables	\$414	\$15
Financial assets at fair value through profit or loss	338,194	11,642	Reserve for separate account	344,846	11,871
Interest receivable	165	6	Other	11,188	385
Total	\$356,448	\$12,271	Total	\$356,448	\$12,271

Assets			Liabilities		
Item	30 June 2012		Item	30 June 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$43,200	\$1,450	Other payables	\$6,548	\$220
Financial assets at fair value through profit or loss	337,991	11,342	Reserve for separate account	374,749	12,576
Interest receivable	106	4	Other	-	-
Total	\$381,297	\$12,796	Total	\$381,297	\$12,796

Assets			Liabilities		
Item	1 January 2012		Item	1 January 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$19,135	\$632	Other payables	\$1,378	\$46
Financial assets at fair value through profit or loss	476,195	15,732	Reserve for separate account	480,999	15,890
Interest receivable	160	5	Other	13,113	433
Total	\$495,490	\$16,369	Total	\$495,490	\$16,369

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

B. Separate account insurance products - revenue and expenses

Expenses			Revenue		
Item	1 April - 30 June 2013		Item	1 April - 30 June 2013	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$16,899	\$564	Premium income	\$5,375	\$180
Losses (gains) from financial assets and liabilities at fair value through profit or loss	9,229	308	Interest income	26	1
Administrative expenses	1,300	44	Tax expenses	120	4
			Recovery of separate account reserve	31,375	1,047
			Gains (losses) from financial assets and liabilities at fair value through profit or loss	(9,468)	(316)
Total	\$27,428	\$916	Total	\$27,428	\$916

Expenses			Revenue		
Item	1 April - 30 June 2012		Item	1 April - 30 June 2012	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$69,146	\$2,320	Premium income	\$13,223	\$444
Losses (gains) from financial assets and liabilities at fair value through profit or loss	(5,019)	(168)	Interest income	453	15
Recovery of separate account reserve	(15,651)	(525)	Tax expenses	2,033	68
Administrative expenses	968	32	Recovery of separate account reserve	27,207	913
Other	601	20	Gains (losses) from financial assets and liabilities at fair value through profit or loss	7,129	239
Total	\$50,045	\$1,679	Total	\$50,045	\$1,679

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Expenses			Revenue		
Item	1 January - 30 June 2013		Item	1 January - 30 June 2013	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$32,958	\$1,100	Premium income	\$21,894	\$731
Losses (gains) from financial assets and liabilities at fair value through profit or loss	18,386	614	Interest income	55	2
Administrative expenses	2,163	72	Tax expenses	183	6
			Recovery of separate account reserve	31,375	1,047
Total	\$53,507	\$1,786	Total	\$53,507	\$1,786

Expenses			Revenue		
Item	1 January - 30 June 2012		Item	1 January - 30 June 2012	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$89,949	\$3,019	Premium income	\$41,499	\$1,393
Losses (gains) from financial assets and liabilities at fair value through profit or loss	8,549	287	Interest income	536	18
Administrative expenses	2,389	80	Tax expenses	2,033	68
Other	601	20	Recovery of separate account reserve	27,207	913
			Gains (losses) from financial assets and liabilities at fair value through profit or loss	30,213	1,014
Total	\$101,488	\$3,406	Total	\$101,488	\$3,406

41. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

(1) Objectives of risk management

The Company's risk management policy aims to promote operational efficiency, to ensure assets safety, to increase shareholder value, and to comply with any and all applicable regulations for the purpose of steady growth and sustainable management.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Framework of risk management, organization structure and responsibilities

A. Board of directors

- a. The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.
- b. The board of directors and senior management should promote and execute risk management policies and standards. Furthermore, they should keep the policies and standards in line with the Company's operational objective and strategy.
- c. The board of directors should acknowledge the risk arising from daily operation, ensure the effectiveness of risk management and assume the ultimate responsibility for risk management.
- d. The board of directors should delegate authority to risk management department to deal with violation of risk limits by other departments.

B. Risk management committee

- a. The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.
- b. The committee should execute the risk management decisions set by the board of directors and evaluate the results of developing and executing risk management mechanisms.
- c. The committee should assist and monitor the risk management activities.
- d. The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

e. The committee should enhance cross-department interaction and communication.

C. Risk management department

a. The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.

b. The department should perform the following functions with regard to different business activities:

(A) Propose and execute the risk management policies set by the board of directors.

(B) Suggest the risk limits based on risk appetite.

(C) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with departments respectively.

(D) Regularly generate risk management related reports.

(E) Regularly review all department's risk limits and cope with the violation of such limits.

(F) Execute stress testing and back testing if necessary.

(G) Manage other risk management issues.

D. Operating departments

a. Managers of the operating departments shall:

(A) be responsible for such department's daily risk management reporting and report issues if necessary; and

(B) urge the disclosure of risk management information regularly to the risk management department.

b. Operating departments shall:

(A) identify and measure risks and report risk exposure and potential influence against the Company on time;

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (B) regularly review the risk limits. Any excess of such limits should be reported along with any actions taken against such excess;
- (C) assist with developing the risk model and to ensure that the risk measurement, the model application and the assumptions behind the model are reasonable and consistent;
- (D) ensure that internal control operates effectively to comply with relevant regulations and the Company's risk management policies; and
- (E) assist in risk management data collection.

E. Audit department

The department is required to audit all departments and to figure out the status of risk management policies execution pursuant to the relevant regulations and the Company's risk management policies.

(3) The scope and types of risk assessment and reporting

The Company's procedures for risk management include risk identification, risk measurement, risk control process and risk management reporting. The Company sets its risk management standards for a broad variety of risks as specified below, i.e. market risk, credit risk, sovereign risk, liquidity risk, operation risk, insurance risk, and assets/liability matching risk as well as for the capital adequacy. The Company also monitors the Company's risks and regularly provides the risk management reports.

A. Market risk

This risk can be defined as the risk of losses in value of the Company's financial assets arising from adverse movements in market prices of financial instruments. The Company applies one-week 95% and 99% value-at-risk (VaR) to measuring market risk. The Company also uses back testing regularly to ensure the accuracy of the market risk model. Furthermore, the Company applies scenario analysis and stress testing to evaluating the changes in the value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, the Company determines the ceiling of foreign exchange risk, implements early warning system and also monitors the foreign exchange risk regularly.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

B. Credit risk

This risk refers to the Company's losses due to the default of debtors or counterparties. The measurements that the Company uses include credit rating, concentration analysis and value-at-risk (VaR) under 95% confidence level. Furthermore, the Company applies scenario analysis and stress testing to evaluate the changes in the value of the asset groups due to significant domestic and/or international events.

C. Sovereign risk

It means that the Company suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. The Company takes international credit rating agencies' ratings and other economic indexes into consideration to measure the sovereign risk and to set the investment ceiling for specific countries. The Company reviews and adjusts the ceiling on a regular basis.

D. Liquidity risk

Liquidity risk includes 'funding liquidity risk' and 'market liquidity risk'. The former is the risk of insufficient funding to meet the Company's commitment when due. The Company uses current ratio to measure funding liquidity risk and maintains the ratio below high risk. Operating departments have established funding communication system. The risk management department manages funding liquidity based on the information provided by the operating departments. Furthermore, operating departments have also built up their own cash flow analysis models and monitor the result of the analysis regularly. They also set the annual assets allocation plan to better maintain the liquidity of funding. 'Market liquidity risk' occurs when drastic change of market price is triggered by market turmoil or lack of market depth. All investment departments have evaluated the market trading volumes and adequacy of holding positions based on the characteristics and objectives of current investment portfolio.

E. Operating risk

This risk occurs when there are errors caused by internal processes, employees, system breakdowns or external issues such as the legislative risk; however, the strategic risk and the reputation risk are excluded. The Company had set the standard operating procedures based on all characteristics of operations and established losses reporting system as well to manage operating risk losses information.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

F. Insurance risk

The Company assumes that certain risks transfer from policy holders to the Company after collecting premiums from policy holders and, as a result, the Company may bear a loss for paying a claim due to unexpected changes. This risk generally happens because of the policy design, pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

G. Asset and liability matching risk

It happens when the changes in the value of assets and liabilities are not equal. The Company measures the risk with capital costs, duration, cash flow management and scenario analysis.

H. Risk-based capital (RBC) ratio

The RBC ratio regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies is the total capital of the Company divided by the Company's risk-based capital. The Company regards such ratio as an indicator for capital adequacy.

(4) The process of assuming, measuring, monitoring and controlling risks and the way to determine a proper risk classification, a premium level and underwriting policies

A. The process of assuming, measuring, monitoring and controlling risks:

- a. Promulgate the Company's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.
- b. Establish methods to evaluate insurance risks.
- c. Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- d. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in the Company and that in the Cathay Financial Holdings.
- B. The way to determine a proper risk classification, a premium level and underwriting policies:
- a. Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.
 - b. The Company has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.
 - c. The Company has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.
- (5) The scope of insurance risk assessment and management from a company-wise perspective
- A. Insurance risk assessment covers the following topics:
- a. Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.
 - b. Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
 - c. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- d. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company's credit rating and solvency.
- e. Claim risk: This risk arises from mishandling claims.
- f. Risk of insufficient reserve: It happens when the Company does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.

B. The scope of management of insurance risk

- a. Build up a top-down framework of the Company's insurance risk management and empower relevant parties to execute risk management.
 - b. Establish the Company's insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.
 - c. Develop action plans in consideration of the Company's growth strategy and the global financial environment.
 - d. Determine methods to measure insurance risks.
 - e. Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
 - f. Manage other risk management issues.
- (6) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

The method that the Company mainly uses to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk is the reinsurance management plan which is made considering the Company's risk profiling and risk taking ability, legal issues and technical factors. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, the Company has established reinsurer selection standards.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(7) Asset/liability management

A. The Company has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.

B. Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of the Company. Furthermore, the annual report should be delivered to the risk management committee of the Cathay Financial Holdings.

C. When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in the Company and that in the Cathay Financial Holdings.

(8) The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

Pursuant to the applicable laws and regulations, the Company is required to maintain a certain Risk-based capital (RBC) ratio. In order to enhance the Company's capital management and to comply with such RBC ratio, the Company has established a set of capital adequacy management standards as follows:

A. Capital adequacy management

a. Regularly provide capital adequacy management reports and analysis to the finance department of the Cathay Financial Holdings.

b. Regularly provide the risk management committee the capital adequacy management analysis report.

c. Conduct scenario analysis to figure out how the use of funding, the changes of the financial environment or the amendments of applicable laws and regulations can affect RBC ratio.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

d. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

B. Exception management process

When RBC ratio exceeds the standard given or other exceptions occur, the Company is required to notify the risk management department and finance department of the Cathay Financial Holdings together with the capital adequacy analysis report and possible solution(s).

(9) Risk mitigation and avoidance policies and risk monitoring procedures

A. The Company also enters into derivative transactions such as stock index options, index futures, interest rate future, interest rate swaps, currency forwards, cross currency swap and credit default swaps to hedge risks arising from investments, such as equity risk, interest rate risk, foreign exchange risk and credit risk. To clarify, the Company does not enter into derivative transactions for the purpose of increasing investment income; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

B. Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. The Company executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

C. The Company assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

(10) The policies and procedures against the concentration of credit and investment risks

Credit and investment limits to a group of companies are set by the Company. When such limits have been reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loan or make investment to such group in general. However, if there is any individual reason to require the Company to undertake it, the expected investment or loan needs to be reviewed by the loan review or investment decision committee and approved by the risk management department of the Cathay Financial Holdings.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

42. Information of insurance risk

(1) Sensitivity of insurance risk - Insurance contracts and financial instruments with discretionary participation features:

A. The Company

For the six-month period ended 30 June 2013

		NT\$	
		Change in income	
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	966,264	801,999
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,296,474	1,076,074
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	152,681	126,725
Rate of return	+0.1%	Increase 1,622,308	Increase 1,346,515
Rate of return	-0.1%	Decrease 1,623,111	Decrease 1,347,182

For the six-month period ended 30 June 2013

		US\$	
		Change in income	
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	32,252	26,769
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	43,273	35,917
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	5,096	4,230
Rate of return	+0.1%	Increase 54,149	Increase 44,944
Rate of return	-0.1%	Decrease 54,176	Decrease 44,966

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For the six-month period ended 30 June 2012			
NT\$			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	1,008,317	836,903
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,268,342	1,052,724
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	161,125	133,734
Rate of return	+0.1%	Increase 1,470,082	Increase 1,220,168
Rate of return	-0.1%	Decrease 1,470,810	Decrease 1,220,773

For the six-month period ended 30 June 2012			
US\$			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	33,836	28,084
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	42,562	35,326
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	5,407	4,488
Rate of return	+0.1%	Increase 49,332	Increase 40,945
Rate of return	-0.1%	Decrease 49,356	Decrease 40,966

B. Cathay life (China)

For the six-month period ended 30 June 2013			
NT\$			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	41,124	30,843
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	37,020	27,765
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	13,067	9,800
Rate of return	+0.25%	Increase 158,192	Increase 118,644
Rate of return	-0.25%	Decrease 143,174	Decrease 107,380

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For the six-month period ended 30 June 2013			
US\$			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	1,373	1,029
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,236	927
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	436	327
Rate of return	+0.25%	Increase 5,280	Increase 3,960
Rate of return	-0.25%	Decrease 4,779	Decrease 3,584

For the six-month period ended 30 June 2012			
NT\$			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	34,026	25,519
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	32,720	24,540
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	17,491	13,118
Rate of return	+0.25%	Increase 113,160	Increase 84,870
Rate of return	-0.25%	Decrease 123,301	Decrease 92,476

For the six-month period ended 30 June 2012			
US\$			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	1,142	856
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,098	823
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	587	440
Rate of return	+0.25%	Increase 3,797	Increase 2,848
Rate of return	-0.25%	Decrease 4,138	Decrease 3,103

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

C. Cathay Life (Vietnam)

For the six-month period ended 30 June 2013

NT\$

	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	146	110
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	4,628	3,471
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	324	243
Rate of return	+0.1%	Increase 1,194	Increase 895
Rate of return	-0.1%	Decrease 1,194	Decrease 896

For the six-month period ended 30 June 2013

US\$

	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	5	4
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	154	116
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	11	8
Rate of return	+0.1%	Increase 40	Increase 30
Rate of return	-0.1%	Decrease 40	Decrease 30

For the six-month period ended 30 June 2012

NT\$

	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	81	61
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	6,911	5,183
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	3,505	2,629
Rate of return	+0.1%	Increase 774	Increase 580
Rate of return	-0.1%	Decrease 774	Decrease 581

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For the six-month period ended 30 June 2012			
US\$			
	Scenarios	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	3	2
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	232	174
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	118	88
Rate of return	+0.1%	Increase 26	Increase 19
Rate of return	-0.1%	Decrease 26	Decrease 19

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the six-month periods ended 30 June 2013 and 2012. The influence on equities of the Company, Cathay Life (China) and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 25% individually.
- b. An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows the Company's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.
- c. Sensitivity Test
- (A) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
- (B) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
- (C) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(D) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.

Note 2: The rate of returns is measured by $2 \times (\text{net profits or losses on investment} - \text{finance costs}) / (\text{the beginning balance of usable capital} + \text{the ending balance of usable capital} - \text{net profits or losses on investment} + \text{finance costs})$ and it needs to be annualized.

(2) Interpretation of concentration of insurance risks

The Company's insurance business is mainly in Taiwan, Republic of China. All the insurance policies have similar risks of exposure, for example, the exposure of the unexpected changes in trend (ex: mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by single specific event (ex: the simultaneous exposure of life insurance, health insurance, and accidental insurance caused by one earthquake). The Company reduces the risk of exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

The Company reviews the profits and losses on compensation and the capability of assuming risk as a whole periodically. The Company will also evaluate the retention amount according to the risk features and approve by competent authority. For the excess of retention amount, the Company cedes this portion of amounts to reinsurers. At the same time, the Company takes the possibility of unexpected human and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. The Company determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", the annual increase of after-tax amount of special capital reserve for major incidents and fluctuation of risks for the abnormal changes of the loss ratio of each type of insurance and claims needs to be recognized and recorded in special capital reserve of equity in accordance with IAS 12.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Claim development trend

A. The Company

a. Direct business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	12,336,380	14,502,340	14,632,397	14,678,842	14,712,774	14,769,456	14,776,158	-
2007Q3~2008Q2	12,562,311	14,951,930	15,117,368	15,170,737	15,224,557	15,248,250	15,255,072	6,822
2008Q3~2009Q2	13,615,581	16,157,704	16,359,090	16,445,402	16,499,836	16,540,216	16,547,698	47,862
2009Q3~2010Q2	14,369,300	17,331,855	17,588,505	17,676,347	17,729,838	17,772,884	17,780,834	104,487
2010Q3~2011Q2	14,582,924	17,837,368	18,127,956	18,204,101	18,259,664	18,303,196	18,311,401	183,445
2011Q3~2012Q2	14,768,726	18,234,468	18,461,078	18,536,419	18,590,001	18,631,169	18,639,302	404,834
2012Q3~2013Q2	13,685,926	16,384,332	16,576,360	16,637,616	16,676,716	16,712,075	16,718,808	3,032,882

Expected future payment	\$3,780,332
Less: Expected reported but not paid claim	175,975
Add: Assumed reserve for incurred but not reported claim	44,813
Reserve for unreported claim	3,649,170
Add: Reported but not paid claim	509,738
Claims reserve balance	<u>\$4,158,908</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	411,762	484,057	488,398	489,948	491,081	492,972	493,196	-
2007Q3~2008Q2	419,303	499,063	504,585	506,366	508,163	508,954	509,181	227
2008Q3~2009Q2	454,459	539,309	546,031	548,912	550,729	552,077	552,326	1,597
2009Q3~2010Q2	479,616	578,500	587,066	589,998	591,784	593,220	593,486	3,488
2010Q3~2011Q2	486,746	595,373	605,072	607,614	609,468	610,921	611,195	6,123
2011Q3~2012Q2	492,948	608,627	616,191	618,706	620,494	621,868	622,140	13,513
2012Q3~2013Q2	456,807	546,874	553,283	555,328	556,633	557,813	558,038	101,231

Expected future payment	\$126,179
Less: Expected reported but not paid claim	5,874
Add: Assumed reserve for incurred but not reported claim	1,496
Reserve for unreported claim	121,801
Add: Reported but not paid claim	17,014
Claims reserve balance	<u>\$138,815</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

b. Retained business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	12,413,696	14,610,937	14,745,902	14,794,180	14,828,325	14,886,748	14,907,600	-
2007Q3~2008Q2	12,639,506	15,053,678	15,222,108	15,276,127	15,331,740	15,368,979	15,375,890	6,911
2008Q3~2009Q2	13,537,558	15,929,860	16,116,206	16,200,664	16,270,279	16,309,512	16,316,835	46,556
2009Q3~2010Q2	12,732,253	15,076,313	15,255,486	15,337,287	15,378,080	15,409,389	15,415,718	78,431
2010Q3~2011Q2	12,730,314	15,320,635	15,543,753	15,598,674	15,640,105	15,670,572	15,676,975	133,222
2011Q3~2012Q2	12,945,954	15,771,093	15,938,995	15,993,500	16,033,208	16,061,549	16,067,912	296,819
2012Q3~2013Q2	12,112,947	14,359,497	14,503,556	14,547,781	14,575,541	14,600,419	14,605,705	2,492,758

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	\$3,054,697
Less: Expected reported but not paid claim	175,975
Add: Reported but not paid claim	509,738
Retained claims reserve balance	<u>\$3,388,460</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	414,342	487,681	492,186	493,798	494,937	496,887	497,583	-
2007Q3~2008Q2	421,879	502,459	508,081	509,884	511,740	512,983	513,214	231
2008Q3~2009Q2	451,854	531,704	537,924	540,743	543,067	544,376	544,621	1,554
2009Q3~2010Q2	424,975	503,215	509,195	511,925	513,287	514,332	514,543	2,618
2010Q3~2011Q2	424,910	511,370	518,817	520,650	522,033	523,050	523,263	4,446
2011Q3~2012Q2	432,108	526,405	532,009	533,828	535,154	536,100	536,312	9,907
2012Q3~2013Q2	404,304	479,289	484,097	485,573	486,500	487,330	487,507	83,203

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	\$101,959
Less: Expected reported but not paid claim	5,874
Add: Reported but not paid claim	17,014
Retained claims reserve balance	<u>\$113,099</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

B. Cathay life (China)

a. Direct business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	28	54	55	55	55	55	55	-
2007Q3~2008Q2	822	3,306	3,318	3,318	3,318	3,318	3,318	-
2008Q3~2009Q2	9,442	18,186	18,991	18,991	18,991	18,991	18,991	-
2009Q3~2010Q2	52,029	117,636	123,810	123,810	123,810	123,810	123,810	-
2010Q3~2011Q2	97,862	195,850	208,386	208,386	208,386	208,386	208,386	-
2011Q3~2012Q2	131,722	362,578	381,814	381,814	381,814	381,814	381,814	19,236
2012Q3~2013Q2	149,742	528,804	546,800	577,909	577,909	577,909	577,909	428,167

Expected future payment	\$447,403
Less: Expected reported but not paid claim	32,494
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	414,909
Add: Reported but not paid claim	54,889
Claims reserve balance	<u>\$469,798</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	1	2	2	2	2	2	2	-
2007Q3~2008Q2	27	110	111	111	111	111	111	-
2008Q3~2009Q2	315	607	634	634	634	634	634	-
2009Q3~2010Q2	1,737	3,926	4,133	4,133	4,133	4,133	4,133	-
2010Q3~2011Q2	3,266	6,537	6,955	6,955	6,955	6,955	6,955	-
2011Q3~2012Q2	4,397	12,102	12,744	12,744	12,744	12,744	12,744	642
2012Q3~2013Q2	4,998	17,650	18,251	19,290	19,290	19,290	19,290	14,292

Expected future payment	\$14,934
Less: Expected reported but not paid claim	1,085
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	13,849
Add: Reported but not paid claim	1,832
Claims reserve balance	<u>\$15,681</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

b. Retained business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	28	54	55	55	55	55	55	-
2007Q3~2008Q2	822	3,306	3,318	3,318	3,318	3,318	3,318	-
2008Q3~2009Q2	9,442	18,186	18,991	18,991	18,991	18,991	18,991	-
2009Q3~2010Q2	52,059	117,636	123,810	123,810	123,810	123,810	123,810	-
2010Q3~2011Q2	97,862	195,713	208,246	208,246	208,246	208,246	208,246	-
2011Q3~2012Q2	121,500	368,548	379,842	379,842	379,842	379,842	379,842	11,294
2012Q3~2013Q2	140,371	486,599	519,445	519,445	519,445	519,445	519,445	379,074

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

Expected future payment	\$390,368
Less: Expected reported but not paid claim	32,494
Add: Reported but not paid claim	54,889
Retained claims reserve balance	<u>\$412,763</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q3~2007Q2	1	2	2	2	2	2	2	-
2007Q3~2008Q2	27	110	111	111	111	111	111	-
2008Q3~2009Q2	315	607	634	634	634	634	634	-
2009Q3~2010Q2	1,737	3,926	4,133	4,133	4,133	4,133	4,133	-
2010Q3~2011Q2	3,266	6,532	6,951	6,951	6,951	6,951	6,951	-
2011Q3~2012Q2	4,055	12,301	12,678	12,678	12,678	12,678	12,678	377
2012Q3~2013Q2	4,685	16,242	17,338	17,338	17,338	17,338	17,338	12,653

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

Expected future payment	\$13,030
Less: Expected reported but not paid claim	1,085
Add: Reported but not paid claim	1,832
Retained claims reserve balance	<u>\$13,777</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The Company and Cathay Life (China) recognize claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying the Company and Cathay Life (China). Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year NT\$				
	1	2	3	4	5
2008Q3~2009Q2	3	6	6	6	6
2009Q3~2010Q2	202	212	212	212	212
2010Q3~2011Q2	145	224	224	224	224
2011Q3~2012Q2	807	1,007	1,007	1,007	1,007
2012Q3~2013Q2	1,027	1,287	1,287	1,287	1,287

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Accident year	Development year				
	US \$				
	1	2	3	4	5
2008Q3~2009Q2	-	-	-	-	-
2009Q3~2010Q2	7	7	7	7	7
2010Q3~2011Q2	5	7	7	7	7
2011Q3~2012Q2	27	34	34	34	34
2012Q3~2013Q2	34	43	43	43	43

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts that need to be paid for each event year as time passes.

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments.

43. Credit risk, liquidity risk, and market risk for insurance contracts

(1) Credit risk

This risk represents the Company's financial loss due to the default of reinsurers; therefore, may cause impairment of reinsurance assets.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of concentration of credit risk in reinsurers. To reduce this risk, the Company chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with the Company's "Reinsurance Risk Management Plan" and "Evaluation Standards for Reinsurers."

The credit ratings of the Company's reinsurers are satisfactory and above certain level, complying with the Company's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company in terms of assets; therefore, no significant credit risks exist.

(2) Liquidity risk

The chart below is the analysis (undiscounted) of insurance contracts and net cash flows of liabilities of financial instruments with discretionary participation features. The figures shown in this chart are the total insurance payments and expenses of valid insurance contracts at specific times in the future on the balance sheet date. The actual future payment amounts will not be the same as expected due to the difference between the actual and expected experiences.

30 June 2013	Unit: Billion		
NT\$	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments			
with discretionary participation features	(59.2)	132.1	10,211.9

30 June 2013	Unit: Billion		
US\$	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments			
with discretionary participation features	(1.98)	4.41	340.85

Note: Separate account products are not included.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Market risk

When the Company measures insurance liabilities, the discounted rate required by the regulator is applied. The regulator reviews the discount rate assumption which has been used for reserves periodically. However, the discount rate assumption does not move at the same time in the same direction with the market price and interest rate, and is only applied to new businesses. Thus, those possible variables in market risk to the Company's valid insurance contracts have slight impact on profit and loss or equity. When the regulator changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonably possible change on the market risk will probably have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonably possible changes of current market risk, it has little impact on the adequacy of current recognized insurance liabilities.

44. Credit risk, liquidity risk and market risk of financial instrument

(1) Credit risk analysis

A. Sources of credit risk

Credit risks from financial transactions include issuer credit risk, counterparty risk and underlying assets credit risk:

- a. Issuer credit risk represents a risk that the Company may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which the Company holds.
- b. Counterparty credit risk represents the risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and the Company is exposed to the risk of financial losses.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- c. Underlying asset credit risk represents the risk that the Company may encounter the losses from the fact that the credit quality turns weak and credit risk premium increases, credit rating is downgraded, or the terms of contract are violated from underlying asset which is related to a certain financial instruments.

B. Concentration risk

Regional distribution of credit risk exposure for financial assets of the Company:

30 June 2013

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$170,572,676	\$-	\$-	\$59,077,870	\$64,810,039	\$294,460,585
Financial assets at fair value through profit or loss	31,787,493	977,054	3,811,205	2,609,852	-	39,185,604
Available-for-sale financial assets	452,990,021	16,788,042	69,441,872	202,212,308	34,812,205	776,244,448
Derivative financial assets for hedging	200,697	23,203	436,255	103,531	-	763,686
Bond investments for which no active market exists	39,484,287	38,074,249	214,779,904	332,764,137	244,022,310	869,124,887
Other financial assets	29,900,000	-	3,500,000	-	-	33,400,000
Total	\$724,935,174	\$55,862,548	\$291,969,236	\$596,767,698	\$343,644,554	\$2,013,179,210
Proportion	36.0%	2.8%	14.5%	29.6%	17.1%	100.0%

30 June 2013

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$5,693,347	\$-	\$-	\$1,971,891	\$2,163,219	\$9,828,457
Financial assets at fair value through profit or loss	1,060,998	32,612	127,209	87,111	-	1,307,930
Available-for-sale financial assets	15,119,827	560,349	2,317,820	6,749,409	1,161,956	25,909,361
Derivative financial assets for hedging	6,699	774	14,561	3,456	-	25,490
Bond investments for which no active market exists	1,317,900	1,270,836	7,168,889	11,106,947	8,144,937	29,009,509
Other financial assets	997,997	-	116,823	-	-	1,114,820
Total	\$24,196,768	\$1,864,571	\$9,745,302	\$19,918,814	\$11,470,112	\$67,195,567
Proportion	36.0%	2.8%	14.5%	29.6%	17.1%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

31 December 2012

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$258,608,542	\$584,173	\$-	\$58,326,827	\$45,054,311	\$362,573,853
Financial assets at fair value through profit or loss	21,526,712	539,836	2,428,269	1,266,554	-	25,761,371
Available-for-sale financial assets	459,194,110	17,971,724	101,366,905	224,125,202	37,659,604	840,317,545
Derivative financial assets for hedging	292,518	33,903	661,251	154,422	-	1,142,094
Bond investments for which no active market exists	46,944,287	45,480,295	198,308,459	288,690,084	235,030,705	814,453,830
Other financial assets	19,000,000	-	4,500,000	-	-	23,500,000
Total	\$805,566,169	\$64,609,931	\$307,264,884	\$572,563,089	\$317,744,620	\$2,067,748,693
Proportion	39.0%	3.1%	14.8%	27.7%	15.4%	100.0%

31 December 2012

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$8,902,188	\$20,109	\$-	\$2,007,808	\$1,550,923	\$12,481,028
Financial assets at fair value through profit or loss	741,023	18,583	83,589	43,600	-	886,795
Available-for-sale financial assets	15,807,026	618,648	3,489,394	7,715,153	1,296,372	28,926,593
Derivative financial assets for hedging	10,069	1,167	22,763	5,316	-	39,315
Bond investments for which no active market exists	1,615,982	1,565,587	6,826,453	9,937,696	8,090,558	28,036,276
Other financial assets	654,045	-	154,905	-	-	808,950
Total	\$27,730,333	\$2,224,094	\$10,577,104	\$19,709,573	\$10,937,853	\$71,178,957
Proportion	39.0%	3.1%	14.8%	27.7%	15.4%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

30 June 2012

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$275,484,206	\$-	\$598,146	\$35,499,083	\$53,344,725	\$364,926,160
Financial assets at fair value through profit or loss	14,347,535	106,523	2,264,724	1,253,151	92,133	18,064,066
Available-for-sale financial assets	446,881,828	10,126,739	105,086,983	258,930,210	46,746,290	867,772,050
Derivative financial assets for hedging	387,837	4,023	913,771	213,597	42,374	1,561,602
Bond investments for which no active market exists	37,807,287	30,918,348	182,552,126	255,194,298	209,651,500	716,123,559
Other financial assets	22,000,000	-	2,500,000	-	-	24,500,000
Total	\$796,908,693	\$41,155,633	\$293,915,750	\$551,090,339	\$309,877,022	\$1,992,947,437
Proportion	40.0%	2.1%	14.7%	27.6%	15.6%	100.0%

30 June 2012

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$9,244,436	\$-	\$20,073	\$1,191,244	\$1,790,091	\$12,245,844
Financial assets at fair value through profit or loss	481,461	3,575	75,997	42,052	3,092	606,177
Available-for-sale financial assets	14,996,035	339,824	3,526,409	8,688,933	1,568,667	29,119,868
Derivative financial assets for hedging	13,015	135	30,663	7,168	1,422	52,403
Bond investments for which no active market exists	1,268,701	1,037,528	6,125,910	8,563,567	7,035,286	24,030,992
Other financial assets	738,255	-	83,892	-	-	822,147
Total	\$26,741,903	\$1,381,062	\$9,862,944	\$18,492,964	\$10,398,558	\$66,877,431
Proportion	40.0%	2.1%	14.7%	27.6%	15.6%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

1 January 2012

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$249,558,854	\$2,272,850	\$-	\$77,704,927	\$42,321,940	\$371,858,571
Financial assets at fair value through profit or loss	13,226,453	149,567	3,082,507	1,772,838	-	18,231,365
Available-for-sale financial assets	425,780,216	17,290,834	141,002,858	319,162,107	59,602,578	962,838,593
Derivative financial assets for hedging	476,092	58,573	1,153,942	269,239	-	1,957,846
Bond investments for which no active market exists	19,908,000	31,273,782	161,572,591	177,478,409	121,571,482	511,804,264
Other financial assets	10,800,000	-	2,500,000	-	-	13,300,000
Total	\$719,749,615	\$51,045,606	\$309,311,898	\$576,387,520	\$223,496,000	\$1,879,990,639
Proportion	38.3%	2.7%	16.4%	30.7%	11.9%	100.0%

1 January 2012

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$8,244,428	\$75,086	\$-	\$2,567,061	\$1,398,148	\$12,284,723
Financial assets at fair value through profit or loss	436,950	4,941	101,834	58,567	-	602,292
Available-for-sale financial assets	14,066,079	571,220	4,658,172	10,543,842	1,969,031	31,808,344
Derivative financial assets for hedging	15,728	1,935	38,121	8,895	-	64,679
Bond investments for which no active market exists	657,681	1,033,161	5,337,714	5,863,178	4,016,237	16,907,971
Other financial assets	356,789	-	82,590	-	-	439,379
Total	\$23,777,655	\$1,686,343	\$10,218,431	\$19,041,543	\$7,383,416	\$62,107,388
Proportion	38.3%	2.7%	16.4%	30.7%	11.9%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

C. Credit Quality

Classification of credit quality for financial assets of the Company:

30 June 2013

NT\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$294,458,515	\$2,070	\$-	\$-	\$-	\$294,460,585
Financial assets at fair value through profit or loss	38,087,631	1,097,973	-	-	-	39,185,604
Available-for-sale financial assets	767,169,442	8,989,544	-	820,462	(735,000)	776,244,448
Derivative financial assets for hedging	763,686	-	-	-	-	763,686
Bond investments for which no active market exists	865,719,219	3,405,668	-	391,560	(391,560)	869,124,887
Other financial assets	33,400,000	-	-	-	-	33,400,000
Total	\$1,999,598,493	\$13,495,255	\$-	\$1,212,022	\$(1,126,560)	\$2,013,179,210
Proportion	99.3%	0.7%	-	0.1%	(0.1)%	100.0%

30 June 2013

US\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$9,828,388	\$69	\$-	\$-	\$-	\$9,828,457
Financial assets at fair value through profit or loss	1,271,282	36,648	-	-	-	1,307,930
Available-for-sale financial assets	25,606,457	300,052	-	27,385	(24,533)	25,909,361
Derivative financial assets for hedging	25,490	-	-	-	-	25,490
Bond investments for which no active market exists	28,895,835	113,674	-	13,069	(13,069)	29,009,509
Other financial assets	1,114,820	-	-	-	-	1,114,820
Total	\$66,742,272	\$450,443	\$-	\$40,454	\$(37,602)	\$67,195,567
Proportion	99.3%	0.7%	-	0.1%	(0.1)%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

31 December 2012

NT\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$362,571,784	\$2,069	\$-	\$-	\$-	\$362,573,853
Financial assets at fair value through profit or loss	25,123,049	638,322	-	-	-	25,761,371
Available-for-sale financial assets	828,187,237	12,024,780	-	840,528	(735,000)	840,317,545
Derivative financial assets for hedging	1,142,094	-	-	-	-	1,142,094
Bond investments for which no active market exists	809,745,213	4,708,617	-	378,768	(378,768)	814,453,830
Other financial assets	23,500,000	-	-	-	-	23,500,000
Total	\$2,050,269,377	\$17,373,788	\$-	\$1,219,296	\$(1,113,768)	\$2,067,748,693
Proportion	99.2%	0.8%	-	0.1%	(0.1)%	100.0%

31 December 2012

US\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$12,480,957	\$71	\$-	\$-	\$-	\$12,481,028
Financial assets at fair value through profit or loss	864,821	21,974	-	-	-	886,795
Available-for-sale financial assets	28,509,027	413,933	-	28,934	(25,301)	28,926,593
Derivative financial assets for hedging	39,315	-	-	-	-	39,315
Bond investments for which no active market exists	27,874,190	162,086	-	13,038	(13,038)	28,036,276
Other financial assets	808,950	-	-	-	-	808,950
Total	\$70,577,260	\$598,064	\$-	\$41,972	\$(38,339)	\$71,178,957
Proportion	99.2%	0.8%	-	0.1%	(0.1)%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

30 June 2012

NT\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$364,924,092	\$2,068	\$-	\$-	\$-	\$364,926,160
Financial assets at fair value through profit or loss	17,700,391	363,675	-	-	-	18,064,066
Available-for-sale financial assets	858,421,880	9,220,176	-	864,994	(735,000)	867,772,050
Derivative financial assets for hedging	1,561,602	-	-	-	-	1,561,602
Bond investments for which no active market exists	708,496,543	7,627,016	-	388,700	(388,700)	716,123,559
Other financial assets	24,500,000	-	-	-	-	24,500,000
Total	\$1,975,604,508	\$17,212,935	\$-	\$1,253,694	\$(1,123,700)	\$1,992,947,437
Proportion	99.1%	0.9%	-	0.1%	(0.1)%	100.0%

30 June 2012

US\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$12,245,775	\$69	\$-	\$-	\$-	\$12,245,844
Financial assets at fair value through profit or loss	593,973	12,204	-	-	-	606,177
Available-for-sale financial assets	28,806,103	309,402	-	29,027	(24,664)	29,119,868
Derivative financial assets for hedging	52,403	-	-	-	-	52,403
Bond investments for which no active market exists	23,775,052	255,940	-	13,044	(13,044)	24,030,992
Other financial assets	822,147	-	-	-	-	822,147
Total	\$66,295,453	\$577,615	\$-	\$42,071	\$(37,708)	\$66,877,431
Proportion	99.1%	0.9%	-	0.1%	(0.1)%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

1 January 2012

NT\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$371,856,505	\$2,066	\$-	\$-	\$-	\$371,858,571
Financial assets at fair value through profit or loss	17,427,130	804,235	-	-	-	18,231,365
Available-for-sale financial assets	953,687,768	9,010,797	-	875,028	(735,000)	962,838,593
Derivative financial assets for hedging	1,957,846	-	-	-	-	1,957,846
Bond investments for which no active market exists	499,911,200	11,893,064	-	393,770	(393,770)	511,804,264
Other financial assets	13,300,000	-	-	-	-	13,300,000
Total	\$1,858,140,449	\$21,710,162	\$-	\$1,268,798	\$(1,128,770)	\$1,879,990,639
Proportion	98.8%	1.2%	-	0.1%	(0.1)%	100.0%

1 January 2012

US\$

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$12,284,654	\$69	\$-	\$-	\$-	\$12,284,723
Financial assets at fair value through profit or loss	575,723	26,569	-	-	-	602,292
Available-for-sale financial assets	31,506,038	297,681	-	28,907	(24,282)	31,808,344
Derivative financial assets for hedging	64,679	-	-	-	-	64,679
Bond investments for which no active market exists	16,515,072	392,899	-	13,008	(13,008)	16,907,971
Other financial assets	439,379	-	-	-	-	439,379
Total	\$61,385,545	\$717,218	\$-	\$41,915	\$(37,290)	\$62,107,388
Proportion	98.8%	1.2%	-	0.1%	(0.1)%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

D. Regional distribution of credit risk exposure for secured loans and overdue receivables:

30 June 2013				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$273,680,019	\$47,718,318	\$84,524,377	\$405,922,714
Overdue receivables	40,770	411,689	64,395	516,854
Total	\$273,720,789	\$48,130,007	\$84,588,772	\$406,439,568
Proportion	67%	12%	21%	100%

30 June 2013				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$9,134,847	\$1,592,734	\$2,821,241	\$13,548,822
Overdue receivables	1,361	13,741	2,150	17,252
Total	\$9,136,208	\$1,606,475	\$2,823,391	\$13,566,074
Proportion	67%	12%	21%	100%

31 December 2012				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$213,209,485	\$42,689,731	\$80,842,510	\$336,741,726
Overdue receivables	60,188	425,950	72,737	558,875
Total	\$213,269,673	\$43,115,681	\$80,915,247	\$337,300,601
Proportion	63%	13%	24%	100%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

31 December 2012				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$7,339,397	\$1,469,526	\$2,782,875	\$11,591,798
Overdue receivables	2,072	14,662	2,504	19,238
Total	\$7,341,469	\$1,484,188	\$2,785,379	\$11,611,036
Proportion	63%	13%	24%	100%

30 June 2012				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$191,388,050	\$43,102,713	\$81,729,307	\$316,220,070
Overdue receivables	86,565	75,191	100,822	262,578
Total	\$191,474,615	\$43,177,904	\$81,830,129	\$316,482,648
Proportion	60%	14%	26%	100%

30 June 2012				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$6,422,418	\$1,446,400	\$2,742,594	\$10,611,412
Overdue receivables	2,905	2,523	3,383	8,811
Total	\$6,425,323	\$1,448,923	\$2,745,977	\$10,620,223
Proportion	60%	14%	26%	100%

1 January 2012				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$172,316,301	\$46,878,325	\$83,321,975	\$302,516,601
Overdue receivables	100,706	96,439	127,842	324,987
Total	\$172,417,007	\$46,974,764	\$83,449,817	\$302,841,588
Proportion	57%	15%	28%	100%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

1 January 2012				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$5,692,643	\$1,548,673	\$2,752,625	\$9,993,941
Overdue receivables	3,327	3,186	4,223	10,736
Total	\$5,695,970	\$1,551,859	\$2,756,848	\$10,004,677
Proportion	57%	15%	28%	100%

E. Secured loans and overdue receivables

30 June 2013

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$186,043,414	\$129,421,506	\$36,223,954	\$115,809	\$4,419,516	\$356,224,199	\$1,655,444	\$354,568,755
Corporate finance	37,793,962	4,026,721	1,634,698	-	6,759,988	50,215,369	1,722,768	48,492,601
Total	\$223,837,376	\$133,448,227	\$37,858,652	\$115,809	\$11,179,504	\$406,439,568	\$3,378,212	\$403,061,356

30 June 2013

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$6,209,727	\$4,319,810	\$1,209,077	\$3,865	\$147,514	\$11,889,993	\$55,255	\$11,834,738
Corporate finance	1,261,481	134,403	54,563	-	225,634	1,676,081	57,503	1,618,578
Total	\$7,471,208	\$4,454,213	\$1,263,640	\$3,865	\$373,148	\$13,566,074	\$112,758	\$13,453,316

31 December 2012

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$160,007,455	\$111,309,534	\$31,154,571	\$183,942	\$2,199,549	\$304,855,051	\$1,225,852	\$303,629,199
Corporate finance	15,399,631	7,254,616	2,541,775	-	7,249,528	32,445,550	1,481,761	30,963,789
Total	\$175,407,086	\$118,564,150	\$33,696,346	\$183,942	\$9,449,077	\$337,300,601	\$2,707,613	\$334,592,988

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

31 December 2012

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$5,508,002	\$3,831,654	\$1,072,446	\$6,332	\$75,716	\$10,494,150	\$42,198	\$10,451,952
Corporate finance	530,108	249,728	87,497	-	249,553	1,116,886	51,007	1,065,879
Total	\$6,038,110	\$4,081,382	\$1,159,943	\$6,332	\$325,269	\$11,611,036	\$93,205	\$11,517,831

30 June 2012

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$148,573,480	\$103,355,465	\$28,928,296	\$604,216	\$3,498,822	\$284,960,279	\$998,530	\$283,961,749
Corporate finance	13,999,266	6,527,907	3,335,959	-	7,659,237	31,522,369	1,119,757	30,402,612
Total	\$162,572,746	\$109,883,372	\$32,264,255	\$604,216	\$11,158,059	\$316,482,648	\$2,118,287	\$314,364,361

30 June 2012

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$4,985,687	\$3,468,304	\$970,748	\$20,276	\$117,410	\$9,562,425	\$33,507	\$9,528,918
Corporate finance	469,774	219,057	111,945	-	257,022	1,057,798	37,576	1,020,222
Total	\$5,455,461	\$3,687,361	\$1,082,693	\$20,276	\$374,432	\$10,620,223	\$71,083	\$10,549,140

1 January 2012

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$146,316,092	\$101,785,108	\$28,488,767	\$179,570	\$3,635,491	\$280,405,028	\$794,405	\$279,610,623
Corporate finance	4,264,375	6,898,548	3,549,871	-	7,723,766	22,436,560	606,027	21,830,533
Total	\$150,580,467	\$108,683,656	\$32,038,638	\$179,570	\$11,359,257	\$302,841,588	\$1,400,432	\$301,441,156

1 January 2012

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$4,833,700	\$3,362,574	\$941,155	\$5,932	\$120,102	\$9,263,463	\$26,244	\$9,237,219
Corporate finance	140,878	227,900	117,274	-	255,162	741,214	20,020	721,194
Total	\$4,974,578	\$3,590,474	\$1,058,429	\$5,932	\$375,264	\$10,004,677	\$46,264	\$9,958,413

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

F. Ageing analysis of past due but not impaired secured loans and overdue receivables:

Based on the historical default rate, the Company believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

	Past due but not impaired		
	NT\$		
	Due in 1~2 months	Due in 2~3 months	Total
30 June 2013	\$101,687	\$14,122	\$115,809
31 December 2012	157,700	26,242	183,942
30 June 2012	589,115	15,101	604,216
1 January 2012	162,914	16,656	179,570

	Past due but not impaired		
	US\$		
	Due in 1~2 months	Due in 2~3 months	Total
30 June 2013	\$3,394	\$471	\$3,865
31 December 2012	5,429	903	6,332
30 June 2012	19,769	507	20,276
1 January 2012	5,382	550	5,932

(2) Liquidity risk analysis

A. Sources of liquidity risk

Liquidity risks of the financial instruments are classified to “funding liquidity risk” and “market liquidity risk.” “Funding liquidity risk” represents that the Company is not able to obtain sufficient funds at a reasonable funding cost to meet the demands within reasonable time. “Market liquidity risk” represents the risk that the Company sells at loss to meet the demand for cash.

B. Liquidity risk management

The Company assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, the Company manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The Company uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, the Company makes an emergency management operating procedure to deal with significant liquidity risks.

C. Maturity analysis of non-derivative financial liabilities:

The analysis of cash outflows to the Company and Subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on consolidated balance sheet.

30 June 2013	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$277,269	\$9,255	\$-	\$-	\$-	\$-
Payables	14,593,581	487,102	3,001,263	100,176	198	6
Preferred stock liability	-	-	457,732	15,278	908,000	30,307

30 June 2013	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$277,269	\$9,255
Payables	-	-	-	-	17,595,042	587,284
Preferred stock liability	26,361,254	879,882	5,080,005	169,559	32,806,991	1,095,026

31 December 2012	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$297,268	\$10,233	\$-	\$-	\$-	\$-
Payables	35,522,453	1,222,804	-	-	2,551,202	87,821
Preferred stock liability	-	-	-	-	908,000	31,257

31 December 2012	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$297,268	\$10,233
Payables	-	-	-	-	38,073,655	1,310,625
Preferred stock liability	27,176,254	935,499	5,173,005	178,072	33,257,259	1,144,828

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

30 June 2012	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$341,620	\$11,463	\$-	\$-	\$-	\$-
Payables	28,333,710	950,796	-	-	2,094,829	70,296
Preferred stock liability	-	-	456,481	15,318	908,000	30,470

30 June 2012	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$341,620	\$11,463
Payables	-	-	-	-	30,428,539	1,021,092
Preferred stock liability	27,176,254	911,955	5,173,005	173,591	33,713,740	1,131,334

1 January 2012	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$201,158	\$6,646	\$-	\$-	\$-	\$-
Payables	20,967,886	692,696	-	-	1,643,365	54,290
Preferred stock liability	-	-	-	-	908,000	29,997

1 January 2012	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$201,158	\$6,646
Payables	-	-	-	-	22,611,251	746,986
Preferred stock liability	27,713,931	915,558	5,543,328	183,129	34,165,259	1,128,684

D. Maturity analysis of derivative financial liability:

30 June 2013	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$53,669	\$1,792	\$52,914	\$1,766	\$48,722	\$1,626
Forward	1,499,177	50,039	5,388,726	179,864	-	-
CS	10,076,795	336,342	2,736,471	91,337	2,246,921	74,997

30 June 2013	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$5,574	\$186	\$-	\$-	\$160,879	\$5,370
Forward	-	-	-	-	6,887,903	229,903
CS	-	-	-	-	15,060,187	502,676

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

31 December 2012	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$58,699	\$2,021	\$49,783	\$1,714	\$85,971	\$2,959
Forward	1,844,950	63,509	-	-	-	-
CS	4,047,504	139,329	2,333,184	80,316	370,735	12,762

31 December 2012	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$18,019	\$620	\$-	\$-	\$212,472	\$7,314
Forward	-	-	-	-	1,844,950	63,509
CS	-	-	-	-	6,751,423	232,407

30 June 2012	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$127,377	\$4,274	\$72,330	\$2,427	\$96,089	\$3,225
Forward	1,203,779	40,395	46,855	1,573	-	-
CS	6,820,447	228,874	1,224,719	41,098	513,980	17,248

30 June 2012	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$64,037	\$2,149	\$-	\$-	\$359,833	\$12,075
Forward	-	-	-	-	1,250,634	41,968
CS	-	-	-	-	8,559,146	287,220

1 January 2012	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$125,651	\$4,151	\$124,034	\$4,097	\$223,693	\$7,390
Forward	1,285,060	42,453	234,750	7,755	-	-
CS	16,388,288	541,404	(8,290)	(274)	-	-

1 January 2012	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$251,996	\$8,325	\$-	\$-	\$725,374	\$23,963
Forward	-	-	-	-	1,519,810	50,208
CS	-	-	-	-	16,379,998	541,130

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Market risk analysis

A. Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

B. The Company assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

a. Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. The Company uses one-week 95% and 99% VaR to measure market risk.

b. Stress testing

The Company measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

The Company performs position stress testing regularly by using “Sensitivity Analysis” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

(A) Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

(B) Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(a) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, the Company simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(b) Hypothetical scenario

The Company makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. The Company's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing

For the six-month period ended 30 June 2013

Risk Factors	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(41,479,717)	\$(1,384,503)
Interest rate risk (Yield curve)	+20bps	(8,946,327)	(298,609)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(22,995,204)	(767,530)
Commodity risk (Price)	-10%	-	-

Table of Stress Testing

For the six-month period ended 30 June 2012

Risk Factors	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(33,962,752)	\$(1,139,690)
Interest rate risk (Yield curve)	+20bps	(10,213,544)	(342,736)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(21,352,147)	(716,515)
Commodity risk (Price)	-10%	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

c. Sensitivity Analysis

Summarization of Sensitivity Analysis

For the six-month period ended 30 June 2013

NT\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$4,806,626	\$2,077,394
	CNY/CNH appreciates 1%	1,208,361	64,550
	HKD appreciates 1%	14,150	397,854
	EUR appreciates 1%	291,047	119,479
	GBP appreciates 1%	264,167	25,108
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(167,897)
	Yield curve (AUD) shifts up 1 bp	-	(1,004)
	Yield curve (EUR) shifts up 1 bp	-	(2,322)
	Yield curve (NTD) shifts up 1 bp	(321)	(273,818)
Equity price risk	Equity price increases 1%	172,825	3,975,138

Summarization of Sensitivity Analysis

For the six-month period ended 30 June 2013

US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$160,435	\$69,339
	CNY/CNH appreciates 1%	40,332	2,155
	HKD appreciates 1%	472	13,280
	EUR appreciates 1%	9,715	3,988
	GBP appreciates 1%	8,817	838
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(5,604)
	Yield curve (AUD) shifts up 1 bp	-	(34)
	Yield curve (EUR) shifts up 1 bp	-	(78)
	Yield curve (NTD) shifts up 1 bp	(11)	(9,139)
Equity price risk	Equity price increases 1%	5,769	132,682

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Summarization of Sensitivity Analysis

For the six-month period ended 30 June 2012

NT\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$5,096,266	\$1,299,501
	CNY/CNH appreciates 1%	816,288	6,347
	HKD appreciates 1%	23,338	328,502
	EUR appreciates 1%	219,029	38,908
	GBP appreciates 1%	198,010	40,487
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(269,892)
	Yield curve (AUD) shifts up 1 bp	-	(2,577)
	Yield curve (EUR) shifts up 1 bp	-	(1,025)
	Yield curve (NTD) shifts up 1 bp	(464)	(234,535)
Equity price risk	Equity price increases 1%	160,096	3,236,179

Summarization of Sensitivity Analysis

For the six-month period ended 30 June 2012

US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$171,016	\$43,607
	CNY/CNH appreciates 1%	27,392	213
	HKD appreciates 1%	783	11,024
	EUR appreciates 1%	7,350	1,306
	GBP appreciates 1%	6,645	1,359
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(9,057)
	Yield curve (AUD) shifts up 1 bp	-	(86)
	Yield curve (EUR) shifts up 1 bp	-	(34)
	Yield curve (NTD) shifts up 1 bp	(16)	(7,870)
Equity price risk	Equity price increases 1%	5,372	108,597

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

45. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Item (NT\$)	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial assets at fair value through profit or loss				
Held for trading	\$106,798,023	\$72,964,811	\$55,576,993	\$60,150,749
Available-for-sale financial assets	1,261,793,260	1,227,321,172	1,244,090,897	1,292,029,178
Derivative financial assets for hedging	763,686	1,142,094	1,561,602	1,957,846
Loans and receivables:				
Cash and cash equivalents (Note)	298,595,813	365,919,542	366,499,003	373,857,545
Receivables	54,104,531	60,991,054	54,965,394	46,488,157
Bond investments for which no active market exists	871,670,407	816,904,617	719,558,647	515,028,639
Other financial assets	33,400,699	23,500,010	24,500,000	13,300,000
Loans	580,564,400	516,503,876	498,362,444	489,801,740
Guarantee deposits paid	14,936,159	14,376,119	15,498,211	15,695,921
Subtotal	1,853,272,009	1,798,195,218	1,679,383,699	1,454,172,002
Total	\$3,222,626,978	\$3,099,623,295	\$2,980,613,191	\$2,808,309,775

Item (US\$)	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial assets at fair value through profit or loss				
Held for trading	\$3,564,687	\$2,511,697	\$1,865,000	\$1,987,141
Available-for-sale financial assets	42,115,930	42,248,577	41,748,017	42,683,488
Derivative financial assets for hedging	25,490	39,315	52,403	64,679
Loans and receivables:				
Cash and cash equivalents (Note)	9,966,482	12,596,197	12,298,624	12,350,761
Receivables	1,805,892	2,099,520	1,844,476	1,535,783
Bond investments for which no active market exists	29,094,473	28,120,641	24,146,263	17,014,491
Other financial assets	1,114,843	808,950	822,147	439,379
Loans	19,377,984	17,779,824	16,723,572	16,181,095
Guarantee deposits paid	498,536	494,875	520,074	518,531
Subtotal	61,858,210	61,900,007	56,355,156	48,040,040
Total	\$107,564,317	\$106,699,596	\$100,020,576	\$92,775,348

Note: Exclude cash on hand and revolving funds.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Financial liabilities

Item (NT\$)	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial liabilities at fair value through profit or loss				
Held for trading	\$20,569,762	\$2,079,457	\$9,017,899	\$17,468,901
Financial liabilities at amortized cost:				
Short-term debts	277,269	297,268	341,620	201,158
Payables	17,595,042	38,073,655	30,428,539	22,611,251
Preferred stock liability	30,000,000	30,000,000	30,000,000	30,000,000
Guarantee deposits received	2,086,676	2,077,752	2,003,034	1,960,914
Subtotal	49,958,987	70,448,675	62,773,193	54,773,323
Total	\$70,528,749	\$72,528,132	\$71,791,092	\$72,242,224

Item (US\$)	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial liabilities at fair value through profit or loss				
Held for trading	\$686,574	\$71,582	\$302,614	\$577,103
Financial liabilities at amortized cost:				
Short-term debts	9,255	10,233	11,463	6,646
Payables	587,284	1,310,625	1,021,092	746,986
Preferred stock liability	1,001,335	1,032,702	1,006,712	991,080
Guarantee deposits received	69,649	71,524	67,216	64,781
Subtotal	1,667,523	2,425,084	2,106,483	1,809,493
Total	\$2,354,097	\$2,496,666	\$2,409,097	\$2,386,596

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Fair value of financial instruments

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

- a. The fair value of the Company and Subsidiaries' short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. Short-term financial instruments include cash, cash equivalents, resale bonds and notes, receivables, short-term debts and payables.
- b. The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as the Company and Subsidiaries predict the future cash inflow or outflow will be of similar amount to the carrying value.
- c. Quoted market price, if available, is utilized as estimates of the fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets, bond investments for which no active market exists and derivative financial instruments for hedging. If no quoted market prices exist for the Company and Subsidiaries' financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that is available to market participants, such as yield curves, exchange rates, etc., and takes into account characteristics of financial instruments, including credit ratings, residual periods of debt securities, currencies and fair value of similar instruments. The Company and Subsidiaries thus adopt the methods and assumptions that market participants would use in setting prices.
- d. Loans are interest-bearing financial assets. The fair value of loans is their carrying amount after deducting the allowance for bad debts.

B. Fair value of financial instruments measured at amortized cost

Other than those listed in the table below, the carrying amount of the Company and Subsidiaries' financial instruments measured at amortized cost approximates their fair value:

	Carrying amount (NT\$)			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial assets				
Bond investment for which no active market exists	\$871,670,407	\$816,904,617	\$719,558,647	\$515,028,639

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

	Carrying amount (US\$)			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial assets				
Bond investment for which no				
active market exists	\$29,094,473	\$28,120,641	\$24,146,263	\$17,014,491

	Fair value (NT\$)			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial assets				
Bond investment for which no				
active market exists	\$851,583,795	\$867,272,570	\$720,601,740	\$515,895,424

	Fair value (US\$)			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Financial assets				
Bond investment for which no				
active market exists	\$28,424,025	\$29,854,477	\$24,181,266	\$17,043,126

C. The three levels of fair value hierarchy

To provide disclosure of information, the Company and Subsidiaries use the three levels of fair value hierarchy to reflect the significance of fair value inputs during measurement. The three levels of fair value hierarchy is shown below:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use unobservable inputs or inputs which have a significant effect on the recorded fair value that are not based on observable market data.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

a. Fair value hierarchy

					30 June 2013			
					NT\$			
Item		Total	Level 1	Level 2	Level 3			
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
	Stocks	\$15,377,555	\$15,377,555	\$-	\$-			
	Bonds	3,611,809	2,001,316	1,610,493	-			
	Other	80,499,255	52,234,864	28,264,391	-			
Available-for-sale financial assets								
	Stocks	361,119,150	355,956,921	5,162,229	-			
	Bonds	775,446,336	40,698,631	734,747,705	-			
	Other	125,227,774	92,486,020	23,009,852	9,731,902			
Derivative financial instruments								
Assets								
	Financial assets at fair value through profit or loss	7,309,404	90	7,309,314	-			
	Derivative financial assets for hedging	763,686	-	763,686	-			
Liabilities								
	Financial liabilities at fair value through profit or loss	20,569,762	-	20,569,762	-			
					30 June 2013			
					US\$			
Item		Total	Level 1	Level 2	Level 3			
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
	Stocks	\$513,270	\$513,270	\$-	\$-			
	Bonds	120,554	66,799	53,755	-			
	Other	2,686,891	1,743,487	943,404	-			
Available-for-sale financial assets								
	Stocks	12,053,376	11,881,072	172,304	-			
	Bonds	25,882,722	1,358,432	24,524,290	-			
	Other	4,179,832	3,086,983	768,019	324,830			

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2013			
	US\$			
	Total	Level 1	Level 2	Level 3
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	243,972	3	243,969	-
Derivative financial assets for hedging	25,490	-	25,490	-
Liabilities				
Financial liabilities at fair value through profit or loss	686,574	-	686,574	-
	31 December 2012			
	NT\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$10,883,272	\$10,883,272	\$-	\$-
Bonds	2,459,664	810,122	1,649,542	-
Other	54,654,511	36,311,221	18,343,290	-
Available-for-sale financial assets				
Stocks	278,706,999	273,346,288	5,360,711	-
Bonds	838,550,417	39,891,903	798,658,514	-
Other	110,063,756	82,471,511	19,951,630	7,640,615
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4,967,364	-	4,967,364	-
Derivative financial assets for hedging	1,142,094	-	1,142,094	-
Liabilities				
Financial liabilities at fair value through profit or loss	2,079,457	-	2,079,457	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	31 December 2012			
	US\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$374,639	\$374,639	\$-	\$-
Bonds	84,670	27,887	56,783	-
Other	1,881,394	1,249,956	631,438	-
Available-for-sale financial assets				
Stocks	9,594,045	9,409,511	184,534	-
Bonds	28,865,762	1,373,215	27,492,547	-
Other	3,788,770	2,838,950	686,804	263,016
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
	170,994	-	170,994	-
Derivative financial assets for hedging				
	39,315	-	39,315	-
Liabilities				
Financial liabilities at fair value through profit or loss				
	71,582	-	71,582	-
Item	30 June 2012			
	NT\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$14,584,223	\$14,584,223	\$-	\$-
Bonds	2,643,886	882,609	1,761,277	-
Other	34,737,204	34,716,421	20,783	-
Available-for-sale financial assets				
Stocks	282,843,974	276,365,778	6,478,196	-
Bonds	865,905,324	15,128,715	850,776,609	-
Other	95,341,599	70,172,883	19,101,592	6,067,124

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2012			
	NT\$			
	Total	Level 1	Level 2	Level 3
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	3,611,680	-	3,611,680	-
Derivative financial assets for hedging	1,561,602	-	1,561,602	-
Liabilities				
Financial liabilities at fair value through profit or loss	9,017,899	-	9,017,899	-

Item	30 June 2012			
	US\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$489,404	\$489,404	\$-	\$-
Bonds	88,722	29,618	59,104	-
Other	1,165,677	1,164,980	697	-
Available-for-sale financial assets				
Stocks	9,491,409	9,274,020	217,389	-
Bonds	29,057,226	507,675	28,549,551	-
Other	3,199,382	2,354,794	640,993	203,595
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	121,197	-	121,197	-
Derivative financial assets for hedging	52,403	-	52,403	-
Liabilities				
Financial liabilities at fair value through profit or loss	302,614	-	302,614	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	1 January 2012			
	NT\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$7,245,860	\$7,245,860	\$-	\$-
Bonds	3,143,357	1,318,628	1,824,729	-
Other	45,577,156	45,545,961	31,195	-
Available-for-sale financial assets				
Stocks	244,756,040	237,523,681	7,232,359	-
Bonds	959,309,354	14,583,532	944,725,822	-
Other	87,963,784	62,320,251	20,427,218	5,216,315
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
	4,184,376	-	4,184,376	-
Derivative financial assets for hedging				
	1,957,846	-	1,957,846	-
Liabilities				
Financial liabilities at fair value through profit or loss				
	17,468,901	-	17,468,901	-
Item	1 January 2012			
	US\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$239,375	\$239,375	\$-	\$-
Bonds	103,844	43,562	60,282	-
Other	1,505,687	1,504,657	1,030	-
Available-for-sale financial assets				
Stocks	8,085,762	7,846,834	238,928	-
Bonds	31,691,754	481,782	31,209,972	-
Other	2,905,972	2,058,812	674,834	172,326

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	1 January 2012			
	US\$			
	Total	Level 1	Level 2	Level 3
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	138,235	-	138,235	-
Derivative financial assets for hedging	64,679	-	64,679	-
Liabilities				
Financial liabilities at fair value through profit or loss	577,103	-	577,103	-

b. Reconciliation for fair value measurements in Level 3 of the fair value hierarchy

(A) Financial assets

For the six-month period ended 30 June 2013								
NT\$								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$7,640,615	\$75,553	\$675,139	\$3,106,367	\$-	\$(1,765,772)	\$-	\$9,731,902

For the six-month period ended 30 June 2013								
US\$								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$255,027	\$2,522	\$22,535	\$103,684	\$-	\$(58,938)	\$-	\$324,830

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

For the six-month period ended 30 June 2012								
NT\$								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$5,216,315	\$116,153	\$79,189	\$2,200,834	\$-	\$(1,545,367)	\$-	\$6,067,124

For the six-month period ended 30 June 2012								
US\$								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$175,044	\$3,898	\$2,657	\$73,854	\$-	\$(51,858)	\$-	\$203,595

(B) Transfers between Level 1 and Level 2

During the six-month periods ended 30 June 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

(3) Hedged accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company's interest rate swaps for bonds used as hedging instruments as of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

A. 30 June 2013

Par value				
NT\$	US\$	Exchange rate	Frequency	Maturity date
\$2,700,000	\$90,120	90DCP+25bps	Quarterly	2013.8.24
3,000,000	100,134	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	66,756	90DCP	Yearly	2013.11.3
1,000,000	33,378	90DCP+26.5bps	Yearly	2013.12.14
500,000	16,689	90DCP+23bps	Yearly	2013.12.14
1,500,000	50,067	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,378	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,040	90DCP	Yearly	2014.3.12
1,000,000	33,378	90DCP	Yearly	2014.6.12
3,000,000	100,134	90DCP	Quarterly	2014.6.25
1,810,000	60,414	90DCP	Quarterly	2014.6.26
2,000,000	66,756	90DCP	Yearly	2014.6.29
5,000,000	166,889	90DCP	Yearly	2014.8.23
1,000,000	33,378	90DCP	Yearly	2014.9.20
3,200,000	106,809	90DCP	Yearly	2014.9.27
2,000,000	66,756	90DCP	Quarterly	2014.9.28
1,500,000	50,067	90DCP	Yearly	2014.9.29
2,500,000	83,445	90DCP	Yearly	2014.12.20
2,000,000	66,756	90DCP	Yearly	2014.12.24
2,300,000	76,769	90DCP	Quarterly	2015.3.25
1,500,000	50,067	90DCP	Quarterly	2015.5.9
2,543,500	84,897	90DCP	Quarterly	2016.10.23
900,000	30,040	90DCP	Quarterly	2016.10.24
1,200,000	40,053	90DCP	Quarterly	2017.10.25
1,400,000	46,729	90DCP	Quarterly	2017.12.9
600,000	20,027	90DCP	Quarterly	2020.9.23

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

B. 31 December 2012

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$2,000,000	\$68,847	90DCP	Yearly	2013.3.26
2,425,000	83,477	90DCP	Quarterly	2013.4.24
3,600,000	123,924	90DCP	Quarterly	2013.6.8
2,700,000	92,943	90DCP+25bps	Quarterly	2013.8.24
3,000,000	103,270	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,847	90DCP	Yearly	2013.11.3
1,000,000	34,423	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,212	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,635	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,423	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,981	90DCP	Yearly	2014.3.12
1,000,000	34,423	90DCP	Yearly	2014.6.12
3,000,000	103,270	90DCP	Quarterly	2014.6.25
1,810,000	62,306	90DCP	Quarterly	2014.6.26
2,000,000	68,847	90DCP	Yearly	2014.6.29
5,000,000	172,117	90DCP	Yearly	2014.8.23
1,000,000	34,423	90DCP	Yearly	2014.9.20
3,200,000	110,155	90DCP	Yearly	2014.9.27
2,000,000	68,847	90DCP	Quarterly	2014.9.28
1,500,000	51,635	90DCP	Yearly	2014.9.29
2,500,000	86,059	90DCP	Yearly	2014.12.20
2,000,000	68,847	90DCP	Yearly	2014.12.24
2,300,000	79,174	90DCP	Quarterly	2015.3.25
1,500,000	51,635	90DCP	Quarterly	2015.5.9
2,543,500	87,556	90DCP	Quarterly	2016.10.23
900,000	30,981	90DCP	Quarterly	2016.10.24
1,200,000	41,308	90DCP	Quarterly	2017.10.25
1,400,000	48,193	90DCP	Quarterly	2017.12.9
600,000	20,654	90DCP	Quarterly	2020.9.23

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

C. 30 June 2012

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$2,000,000	\$67,114	90DCP	Quarterly	2012.9.9
2,000,000	67,114	90DCP	Quarterly	2012.10.11
700,000	23,490	90DCP	Quarterly	2012.11.24
2,000,000	67,114	90DCP	Yearly	2013.3.26
2,425,000	81,376	90DCP	Quarterly	2013.4.24
3,600,000	120,805	90DCP	Quarterly	2013.6.8
2,700,000	90,604	90DCP+25bps	Quarterly	2013.8.24
3,000,000	100,671	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	67,114	90DCP	Yearly	2013.11.3
1,000,000	33,557	90DCP+26.5bps	Yearly	2013.12.14
500,000	16,779	90DCP+23bps	Yearly	2013.12.14
1,500,000	50,336	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,557	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,201	90DCP	Yearly	2014.3.12
1,000,000	33,557	90DCP	Yearly	2014.6.12
3,000,000	100,671	90DCP	Quarterly	2014.6.25
1,810,000	60,738	90DCP	Quarterly	2014.6.26
2,000,000	67,114	90DCP	Yearly	2014.6.29
5,000,000	167,785	90DCP	Yearly	2014.8.23
1,000,000	33,557	90DCP	Yearly	2014.9.20
3,200,000	107,383	90DCP	Yearly	2014.9.27
2,000,000	67,114	90DCP	Quarterly	2014.9.28
1,500,000	50,336	90DCP	Yearly	2014.9.29
2,500,000	83,893	90DCP	Yearly	2014.12.20
2,000,000	67,114	90DCP	Yearly	2014.12.24
2,300,000	77,181	90DCP	Quarterly	2015.3.25
1,500,000	50,336	90DCP	Quarterly	2015.5.9
2,543,500	85,352	90DCP	Quarterly	2016.10.23
900,000	30,201	90DCP	Quarterly	2016.10.24
1,200,000	40,268	90DCP	Quarterly	2017.10.25
1,400,000	46,980	90DCP	Quarterly	2017.12.9
600,000	20,134	90DCP	Quarterly	2020.9.23

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

D. 1 January 2012

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$1,000,000	\$33,036	90DCP	Quarterly	2012.6.26
2,000,000	66,072	90DCP	Quarterly	2012.9.9
2,000,000	66,072	90DCP	Quarterly	2012.10.11
700,000	23,125	90DCP	Quarterly	2012.11.24
2,000,000	66,072	90DCP	Yearly	2013.3.26
2,425,000	80,112	90DCP	Quarterly	2013.4.24
3,600,000	118,930	90DCP	Quarterly	2013.6.8
2,700,000	89,197	90DCP+25bps	Quarterly	2013.8.24
3,000,000	99,108	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	66,072	90DCP	Yearly	2013.11.3
500,000	16,518	90DCP+23bps	Yearly	2013.12.14
1,000,000	33,036	90DCP+26.5bps	Yearly	2013.12.14
1,500,000	49,554	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,036	90DCP+26.5bps	Yearly	2013.12.16
900,000	29,732	90DCP	Yearly	2014.3.12
1,000,000	33,036	90DCP	Yearly	2014.6.12
3,000,000	99,108	90DCP	Quarterly	2014.6.25
1,810,000	59,795	90DCP	Quarterly	2014.6.26
2,000,000	66,072	90DCP	Yearly	2014.6.29
5,000,000	165,180	90DCP	Yearly	2014.8.23
1,000,000	33,036	90DCP	Yearly	2014.9.20
3,200,000	105,715	90DCP	Yearly	2014.9.27
2,000,000	66,072	90DCP	Quarterly	2014.9.28
1,500,000	49,554	90DCP	Yearly	2014.9.29
2,500,000	82,590	90DCP	Yearly	2014.12.20
2,000,000	66,072	90DCP	Yearly	2014.12.24
2,300,000	75,983	90DCP	Quarterly	2015.3.25
1,500,000	49,554	90DCP	Quarterly	2015.5.9
2,543,500	84,027	90DCP	Quarterly	2016.10.23
900,000	29,732	90DCP	Quarterly	2016.10.24
1,200,000	39,643	90DCP	Quarterly	2017.10.25
1,400,000	46,250	90DCP	Quarterly	2017.12.9
600,000	19,822	90DCP	Quarterly	2020.9.23

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

The Company's interest rate swap agreements are considered to be highly effective cash flow hedges. As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, unrealized gains on these financial instruments recognized in equity were NT\$638,470 (US\$21,310) thousands, NT\$959,547 (US\$33,031) thousands, NT\$1,317,519 (US\$44,212) thousands and NT\$1,657,687 (US\$54,763) thousands, respectively.

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

	30 June 2013			31 December 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	36,319,950	30.120000	1,093,956,897	36,845,654	29.136000	1,073,534,986
AUD	(Note)	(Note)	(Note)	(Note)	(Note)	(Note)
EUR	745,359	39.296058	29,289,671	717,803	38.609570	27,714,068
GBP	577,227	45.939024	26,517,254	526,696	46.975973	24,742,075
CNH	23,715,221	4.907935	116,392,775	19,422,188	4.679730	90,890,601
<u>Non-Monetary Items</u>						
USD	3,835,551	30.120000	115,526,782	3,188,552	29.136000	93,069,180
HKD	10,245,590	3.883170	39,785,365	7,588,075	3.758611	28,520,621
<u>Investments accounted for using the equity method</u>						
CNY	27,939	4.907500	137,110	64,246	4.674100	300,290
USD	3,184	30.120000	95,904	3,493	29.136000	101,761
	30 June 2012			1 January 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	34,397,908	29.900000	1,028,497,452	33,563,805	30.290000	1,016,647,662
AUD	(Note)	(Note)	(Note)	1,549,838	30.751923	47,660,512
EUR	614,085	37.581310	23,078,100	515,132	39.199804	20,193,085
GBP	428,732	46.738185	20,038,168	332,656	46.751101	15,552,022
CNH	17,189,095	4.700704	80,800,841	2,765,935	4.774590	13,206,205
<u>Non-Monetary Items</u>						
USD	2,612,279	29.900000	78,173,378	2,407,923	30.290000	72,972,587
HKD	8,522,815	3.855179	32,856,980	8,310,042	3.898503	32,396,719
<u>Investments accounted for using the equity method</u>						
CNY	112,317	4.705600	528,520	130,716	4.812500	629,070
USD	3,875	29.900000	115,870	4,184	30.290000	126,731

Note: The amount did not have significant influence.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

47. Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date:

Item	30 June 2013		
	NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$298,802,946	\$-	\$298,802,946
Receivables	54,066,463	38,068	54,104,531
Financial assets at fair value through profit or loss	518,819	106,279,204	106,798,023
Available-for-sale financial assets	150,510,497	1,111,282,763	1,261,793,260
Derivative financial assets for hedging	146,632	617,054	763,686
Investments accounted for using the equity method - Net	-	739,113	739,113
Bond investments for which no active market exists	13,924,179	857,746,228	871,670,407
Other financial assets - Net	699	33,400,000	33,400,699
Investment property	-	200,376,362	200,376,362
Investment property under construction	-	10,859,660	10,859,660
Prepayments for buildings and land - Investments	-	1,592,343	1,592,343
Loans	23,659	580,540,741	580,564,400
Reinsurance assets	-	4,740,197	4,740,197
Property and equipment	-	48,259,605	48,259,605
Intangible assets	-	239,182	239,182
Deferred tax assets	-	13,131,390	13,131,390
Other assets	556,354	16,771,877	17,328,231
Separate account product assets	6,364,929	345,538,102	351,903,031
Total assets			<u>\$3,857,067,066</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2013		Total
	Settlement within 12 months	Settlement more than 12 months	
		NT\$	
Short-term debts	\$277,269	\$-	\$277,269
Payables	17,594,844	198	17,595,042
Financial liabilities at fair value through profit or loss	20,144	20,549,618	20,569,762
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,215,231,193	3,215,231,193
Reserve for insurance contracts with feature of financial instruments	-	58,842,583	58,842,583
Foreign exchange volatility reserve	-	7,995,402	7,995,402
Provisions	-	3,895,660	3,895,660
Deferred tax liabilities	-	11,482,257	11,482,257
Other liabilities	213,919	7,739,775	7,953,694
Separate account product liabilities	1,338,829	350,564,202	351,903,031
Total liabilities			\$3,725,745,893

Item	30 June 2013		Total
	Recovery within 12 months	Recovery more than 12 months	
		US\$	
Cash and cash equivalents	\$9,973,396	\$-	\$9,973,396
Receivables	1,804,621	1,271	1,805,892
Financial assets at fair value through profit or loss	17,317	3,547,370	3,564,687
Available-for-sale financial assets	5,023,715	37,092,215	42,115,930
Derivative financial assets for hedging	4,894	20,596	25,490
Investments accounted for using the equity method - Net	-	24,670	24,670
Bond investments for which no active market exists	464,759	28,629,714	29,094,473
Other financial assets - Net	23	1,114,820	1,114,843
Investment property	-	6,688,130	6,688,130
Investment property under construction	-	362,472	362,472
Prepayments for buildings and land - Investments	-	53,149	53,149
Loans	790	19,377,194	19,377,984
Reinsurance assets	-	158,218	158,218
Property and equipment	-	1,610,801	1,610,801
Intangible assets	-	7,983	7,983
Deferred tax assets	-	438,297	438,297
Other assets	18,570	559,809	578,379
Separate account product assets	212,447	11,533,315	11,745,762
Total assets			\$128,740,556

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2013 US\$		Total
	Settlement within 12 months	Settlement more than 12 months	
Short-term debts	\$9,255	\$-	\$9,255
Payables	587,278	6	587,284
Financial liabilities at fair value through profit or loss	672	685,902	686,574
Preferred stock liability	-	1,001,335	1,001,335
Insurance liabilities	-	107,317,463	107,317,463
Reserve for insurance contracts with feature of financial instruments	-	1,964,038	1,964,038
Foreign exchange volatility reserve	-	266,869	266,869
Provisions	-	130,029	130,029
Deferred tax liabilities	-	383,253	383,253
Other liabilities	7,140	258,337	265,477
Separate account product liabilities	44,687	11,701,075	11,745,762
Total liabilities			\$124,357,339

Item	31 December 2012 NT\$		Total
	Recovery within 12 months	Recovery more than 12 months	
Cash and cash equivalents	\$366,121,804	\$-	\$366,121,804
Receivables	60,980,567	10,487	60,991,054
Financial assets at fair value through profit or loss	241,912	72,722,899	72,964,811
Available-for-sale financial assets	153,831,479	1,073,489,693	1,227,321,172
Derivative financial assets for hedging	185,211	956,883	1,142,094
Investments accounted for using the equity method - Net	-	947,731	947,731
Bond investments for which no active market exists	6,968,205	809,936,412	816,904,617
Other financial assets - Net	10	23,500,000	23,500,010
Investment property	-	201,293,052	201,293,052
Investment property under construction	-	7,519,477	7,519,477
Prepayments for buildings and land - Investments	-	1,581,767	1,581,767
Loans	32,348	516,471,528	516,503,876
Reinsurance assets	-	9,170,196	9,170,196
Property and equipment	-	48,356,882	48,356,882
Intangible assets	-	254,878	254,878
Deferred tax assets	-	16,106,670	16,106,670
Other assets	589,418	16,150,056	16,739,474
Separate account product assets	1,287,322	328,269,924	329,557,246
Total assets			\$3,716,976,811

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	31 December 2012		
	NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$297,268	\$-	\$297,268
Payables	35,522,453	2,551,202	38,073,655
Financial liabilities at fair value			
through profit or loss	-	2,079,457	2,079,457
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,082,659,251	3,082,659,251
Reserve for insurance contracts with feature of financial instruments	-	61,350,872	61,350,872
Foreign exchange volatility reserve	-	4,270,856	4,270,856
Provisions	-	3,812,483	3,812,483
Deferred tax liabilities	-	15,390,603	15,390,603
Other liabilities	209,870	11,315,940	11,525,810
Separate account product liabilities	1,440,241	328,117,005	329,557,246
Total liabilities			<u>\$3,579,017,501</u>

Item	31 December 2012		
	US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$12,603,160	\$-	\$12,603,160
Receivables	2,099,159	361	2,099,520
Financial assets at fair value through profit or loss	8,327	2,503,370	2,511,697
Available-for-sale financial assets	5,295,404	36,953,173	42,248,577
Derivative financial assets for hedging	6,376	32,939	39,315
Investments accounted for using the equity method - Net	-	32,624	32,624
Bond investments for which no active market exists	239,870	27,880,771	28,120,641
Other financial assets - Net	-	808,950	808,950
Investment property	-	6,929,193	6,929,193
Investment property under construction	-	258,846	258,846
Prepayments for buildings and land - Investments	-	54,450	54,450
Loans	1,114	17,778,710	17,779,824
Reinsurance assets	-	315,669	315,669
Property and equipment	-	1,664,609	1,664,609
Intangible assets	-	8,774	8,774
Deferred tax assets	-	554,446	554,446
Other assets	20,290	555,940	576,230
Separate account product assets	44,314	11,300,170	11,344,484
Total assets			<u>\$127,951,009</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	31 December 2012		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$10,233	\$-	\$10,233
Payables	1,222,804	87,821	1,310,625
Financial liabilities at fair value			
through profit or loss	-	71,582	71,582
Preferred stock liability	-	1,032,702	1,032,702
Insurance liabilities	-	106,115,637	106,115,637
Reserve for insurance contracts with feature of financial instruments	-	2,111,906	2,111,906
Foreign exchange volatility reserve	-	147,017	147,017
Provisions	-	131,239	131,239
Deferred tax liabilities	-	529,797	529,797
Other liabilities	7,225	389,533	396,758
Separate account product liabilities	49,578	11,294,906	11,344,484
Total liabilities			\$123,201,980

Item	30 June 2012		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$366,681,652	\$-	\$366,681,652
Receivables	54,949,319	16,075	54,965,394
Financial assets at fair value through profit or loss	2,973,788	52,603,205	55,576,993
Available-for-sale financial assets	152,314,662	1,091,776,235	1,244,090,897
Derivative financial assets for hedging	61,138	1,500,464	1,561,602
Investments accounted for using the equity method - Net	-	1,225,696	1,225,696
Bond investments for which no active market exists	8,683,255	710,875,392	719,558,647
Other financial assets - Net	-	24,500,000	24,500,000
Investment property	-	199,140,989	199,140,989
Investment property under construction	-	6,609,518	6,609,518
Prepayments for buildings and land - Investments	-	5,532,506	5,532,506
Loans	25,658	498,336,786	498,362,444
Reinsurance assets	-	9,009,068	9,009,068
Property and equipment	-	25,210,684	25,210,684
Intangible assets	-	356,606	356,606
Deferred tax assets	-	12,911,940	12,911,940
Other assets	169,866	19,906,844	20,076,710
Separate account product assets	347,408	294,435,431	294,782,839
Total assets			\$3,540,154,185

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2012		Total
	Settlement within 12 months	Settlement more than 12 months	
		NT\$	
Short-term debts	\$341,620	\$-	\$341,620
Payables	28,333,710	2,094,829	30,428,539
Financial liabilities at fair value through profit or loss	-	9,017,899	9,017,899
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	2,963,321,010	2,963,321,010
Reserve for insurance contracts with feature of financial instruments	-	64,272,133	64,272,133
Foreign exchange volatility reserve	-	5,066,425	5,066,425
Provisions	-	3,740,588	3,740,588
Deferred tax liabilities	-	13,157,714	13,157,714
Other liabilities	206,855	6,208,426	6,415,281
Separate account product liabilities	2,878,554	291,904,285	294,782,839
Total liabilities			\$3,420,544,048

Item	30 June 2012		Total
	Recovery within 12 months	Recovery more than 12 months	
		US\$	
Cash and cash equivalents	\$12,304,753	\$-	\$12,304,753
Receivables	1,843,937	539	1,844,476
Financial assets at fair value through profit or loss	99,792	1,765,208	1,865,000
Available-for-sale financial assets	5,111,230	36,636,787	41,748,017
Derivative financial assets for hedging	2,052	50,351	52,403
Investments accounted for using the equity method - Net	-	41,131	41,131
Bond investments for which no active market exists	291,384	23,854,879	24,146,263
Other financial assets - Net	-	822,147	822,147
Investment property	-	6,682,583	6,682,583
Investment property under construction	-	221,796	221,796
Prepayments for buildings and land - Investments	-	185,655	185,655
Loans	861	16,722,711	16,723,572
Reinsurance assets	-	302,317	302,317
Property and equipment	-	845,996	845,996
Intangible assets	-	11,967	11,967
Deferred tax assets	-	433,287	433,287
Other assets	5,700	668,015	673,715
Separate account product assets	11,658	9,880,384	9,892,042
Total assets			\$118,797,120

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2012 US\$		Total
	Settlement within 12 months	Settlement more than 12 months	
Short-term debts	\$11,463	\$-	\$11,463
Payables	950,796	70,296	1,021,092
Financial liabilities at fair value through profit or loss	-	302,614	302,614
Preferred stock liability	-	1,006,712	1,006,712
Insurance liabilities	-	99,440,302	99,440,302
Reserve for insurance contracts with feature of financial instruments	-	2,156,783	2,156,783
Foreign exchange volatility reserve	-	170,015	170,015
Provisions	-	125,523	125,523
Deferred tax liabilities	-	441,534	441,534
Other liabilities	6,941	208,336	215,277
Separate account product liabilities	96,596	9,795,446	9,892,042
Total liabilities			\$114,783,357

Item	1 January 2012 NT\$		Total
	Recovery within 12 months	Recovery more than 12 months	
Cash and cash equivalents	\$374,053,580	\$-	\$374,053,580
Receivables	46,466,514	21,643	46,488,157
Financial assets at fair value through profit or loss	1,748,069	58,402,680	60,150,749
Available-for-sale financial assets	203,645,633	1,088,383,545	1,292,029,178
Derivative financial assets for hedging	20,940	1,936,906	1,957,846
Investments accounted for using the equity method - Net	-	1,423,015	1,423,015
Bond investments for which no active market exists	37,617,866	477,410,773	515,028,639
Other financial assets - Net	-	13,300,000	13,300,000
Investment property	-	201,945,170	201,945,170
Investment property under construction	-	5,459,223	5,459,223
Prepayments for buildings and land - Investments	-	20,469	20,469
Loans	19,403	489,782,337	489,801,740
Reinsurance assets	-	9,174,128	9,174,128
Property and equipment	-	23,618,343	23,618,343
Intangible assets	-	396,833	396,833
Deferred tax assets	-	11,989,836	11,989,836
Other assets	201,451	18,030,154	18,231,605
Separate account product assets	884,443	293,166,569	294,051,012
Total assets			\$3,359,119,523

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	1 January 2012 NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$201,158	\$-	\$201,158
Payables	20,967,886	1,643,365	22,611,251
Financial liabilities at fair value			
through profit or loss	-	17,468,901	17,468,901
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	2,787,557,192	2,787,557,192
Reserve for insurance contracts with feature of financial instruments	-	66,884,712	66,884,712
Foreign exchange volatility reserve	-	-	-
Provisions	-	3,645,727	3,645,727
Deferred tax liabilities	-	12,916,045	12,916,045
Other liabilities	278,236	6,202,479	6,480,715
Separate account product liabilities	2,438,256	291,612,756	294,051,012
Total liabilities			<u>\$3,241,816,713</u>

Item	1 January 2012 US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$12,357,237	\$-	\$12,357,237
Receivables	1,535,068	715	1,535,783
Financial assets at fair value through profit or loss	57,749	1,929,392	1,987,141
Available-for-sale financial assets	6,727,639	35,955,849	42,683,488
Derivative financial assets for hedging	692	63,987	64,679
Investments accounted for using the equity method - Net	-	47,011	47,011
Bond investments for which no active market exists	1,242,744	15,771,747	17,014,491
Other financial assets - Net	-	439,379	439,379
Investment property	-	6,671,463	6,671,463
Investment property under construction	-	180,351	180,351
Prepayments for buildings and land - Investments	-	676	676
Loans	641	16,180,454	16,181,095
Reinsurance assets	-	303,076	303,076
Property and equipment	-	780,256	780,256
Intangible assets	-	13,110	13,110
Deferred tax assets	-	396,096	396,096
Other assets	6,655	595,645	602,300
Separate account product assets	29,218	9,685,054	9,714,272
Total assets			<u>\$110,971,904</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	1 January 2012		
	US\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$6,646	\$-	\$6,646
Payables	692,696	54,290	746,986
Financial liabilities at fair value			
through profit or loss	-	577,103	577,103
Preferred stock liability	-	991,080	991,080
Insurance liabilities	-	92,089,765	92,089,765
Reserve for insurance contracts with feature of financial instruments	-	2,209,604	2,209,604
Foreign exchange volatility reserve	-	-	-
Provisions	-	120,440	120,440
Deferred tax liabilities	-	426,695	426,695
Other liabilities	9,192	204,905	214,097
Separate account product liabilities	80,550	9,633,722	9,714,272
Total liabilities			<u>\$107,096,688</u>

48. Related party transactions

Significant transactions with related parties

(1) Property transactions

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

A. Significant transactions of undertaking contracted projects with related parties are listed below:

Name	For the six-month period ended 30 June 2013		
	Item	NT\$	US\$
Other related parties			
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$9,992	\$334
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,018,531	33,996
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	6,290	210
Total		<u>\$1,034,813</u>	<u>\$34,540</u>

Name	For the six-month period ended 30 June 2012		
	Item	NT\$	US\$
Other related parties			
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$8,996	\$302
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	665,323	22,326
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	22,043	740
Total		<u>\$696,362</u>	<u>\$23,368</u>

The total amounts of contracted projects for real estate as of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, between the Company and Lin Yuan Property Management Co., Ltd. were NT\$12,189 (US\$407) thousands, NT\$3,408 (US\$117) thousands, NT\$0 (US\$0) thousands and NT\$0 (US\$0) thousands, respectively.

The total amounts of contracted projects for real estate as of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, between the Company and San Ching Engineering Co., Ltd. were NT\$5,493,034 (US\$183,346) thousands, NT\$5,483,615 (US\$188,765) thousands, NT\$5,483,615 (US\$184,014) thousands and NT\$5,483,615 (US\$181,157) thousands, respectively.

The total amounts of contracted projects for real estate of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, between the Company and Cathay Real Estate Development Co., Ltd. were NT\$49,306 (US\$1,646) thousands, NT\$49,306 (US\$1,697) thousands, NT\$49,306 (US\$1,655) thousands and NT\$49,306 (US\$1,629) thousands, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

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

Name	Rental income			
	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$7,871	\$263	\$6,922	\$232
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	2,181	73	2,074	70
Other related parties				
Cathay United Bank	92,891	3,101	108,623	3,645
Cathay Century Insurance Co., Ltd.	25,549	853	22,602	758
Cathay Securities Investment Trust Co., Ltd.	9,960	332	9,776	328
Cathay Securities Co., Ltd.	7,105	237	5,177	174
Cathay General Hospital	43,552	1,454	43,676	1,466
Cathay Real Estate Development Co., Ltd.	4,343	145	4,333	145
Cathay Healthcare Inc.	8,586	287	14,805	497
San Ching Engineering Co., Ltd.	1,508	50	1,537	52
Subtotal	193,494	6,459	210,529	7,065
Total	\$203,546	\$6,795	\$219,525	\$7,367

Name	Rental income			
	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$15,567	\$520	\$13,685	\$459
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	4,382	146	4,628	155
Other related parties				
Cathay United Bank	192,575	6,428	215,927	7,246
Cathay Century Insurance Co., Ltd.	51,443	1,717	46,145	1,549
Cathay Securities Investment Trust Co., Ltd.	19,883	664	19,521	655
Cathay Securities Co., Ltd.	13,393	447	10,797	362
Cathay General Hospital	87,104	2,907	87,352	2,931
Cathay Real Estate Development Co., Ltd.	8,686	290	8,655	291
Cathay Healthcare Inc.	17,189	574	14,805	497
San Ching Engineering Co., Ltd.	3,017	101	3,074	103
Subtotal	393,290	13,128	406,276	13,634
Total	\$413,239	\$13,794	\$424,589	\$14,248

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Name	Guarantee deposits received			
	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$7,115	\$237	\$6,604	\$227
Other related parties				
Cathay United Bank	89,267	2,980	85,466	2,942
Cathay Century Insurance Co., Ltd.	24,013	802	22,678	781
Cathay Securities Investment Trust Co., Ltd.	9,160	306	8,903	306
Cathay Securities Co., Ltd.	9,837	328	5,853	201
Cathay General Hospital	10,166	339	10,166	350
Cathay Real Estate Development Co., Ltd.	4,028	134	4,028	139
Cathay Healthcare Inc.	8,012	267	8,012	276
Subtotal	154,483	5,156	145,106	4,995
Total	\$161,598	\$5,393	\$151,710	\$5,222

Name	Guarantee deposits received			
	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$6,254	\$210	\$5,816	\$192
Other related parties				
Cathay United Bank	71,897	2,413	71,365	2,358
Cathay Century Insurance Co., Ltd.	22,801	765	23,234	768
Cathay Securities Investment Trust Co., Ltd.	8,903	299	8,903	294
Cathay Securities Co., Ltd.	6,106	205	5,182	171
Cathay General Hospital	10,166	341	13,194	436
Cathay Real Estate Development Co., Ltd.	4,028	135	4,028	133
Cathay Healthcare Inc.	8,373	281	6,894	228
Subtotal	132,274	4,439	132,800	4,388
Total	\$138,528	\$4,649	\$138,616	\$4,580

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

C. Real-estate rental expenses (to related parties):

Name	Rental expense			
	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Real Estate Development Co., Ltd.	\$2,146	\$72	\$2,130	\$71
Cathay United Bank	14,729	492	9,333	313
Total	<u>\$16,875</u>	<u>\$564</u>	<u>\$11,463</u>	<u>\$384</u>

Name	Rental expense			
	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Real Estate Development Co., Ltd.	\$3,926	\$131	\$3,910	\$131
Cathay United Bank	26,847	896	18,653	626
Total	<u>\$30,773</u>	<u>\$1,027</u>	<u>\$22,563</u>	<u>\$757</u>

Name	Guarantee deposits paid			
	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	<u>\$14,790</u>	<u>\$494</u>	<u>\$14,790</u>	<u>\$509</u>

Name	Guarantee deposits paid			
	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	<u>\$8,921</u>	<u>\$299</u>	<u>\$8,921</u>	<u>\$295</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Cash in banks

Name	Item	30 June 2013		31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Time deposit	\$44,625,382	\$1,489,499	\$57,331,216	\$1,973,536
	Cash in bank	9,101,516	303,788	16,746,027	576,455
Indovina Bank Limited	Time deposit	39,662	1,324	471	16
	Cash in bank	145,939	4,871	2,737	94
Total		<u>\$53,912,499</u>	<u>\$1,799,482</u>	<u>\$74,080,451</u>	<u>\$2,550,101</u>

Name	Item	30 June 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Time deposit	\$41,494,716	\$1,392,440	\$53,381,539	\$1,763,513
	Cash in bank	16,508,051	553,961	9,612,041	317,543
Indovina Bank Limited	Time deposit	4,140	139	32,811	1,084
	Cash in bank	3,706	124	1,622	55
Total		<u>\$58,010,613</u>	<u>\$1,946,664</u>	<u>\$63,028,013</u>	<u>\$2,082,195</u>

Interest income from Cathay United Bank for the three-month periods ended 30 June 2013 and 2012 were NT\$151,883 (US\$5,070) thousands and NT\$105,540 (US\$3,542) thousands, respectively.

Interest income from Cathay United Bank for the six-month periods ended 30 June 2013 and 2012 were NT\$280,253 (US\$9,354) thousands and NT\$219,460 (US\$7,364) thousands, respectively.

Interest income from Indovina Bank Limited for the three-month periods ended 30 June 2013 and 2012 were NT\$1,620 (US\$54) thousands and NT\$554 (US\$19) thousands, respectively.

Interest income from Indovina Bank Limited for the six-month periods ended 30 June 2013 and 2012 were NT\$3,057 (US\$102) thousands and NT\$1,415 (US\$47) thousands, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Bond investments for which no active market exists

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$6,000	\$200	\$10,482	\$361

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$5,382	\$181	\$2,382	\$79

(4) Secured loans

Name	For the six-month period ended 30 June 2013			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Other related parties				
Cathay General Hospital	\$3,210,519	\$39,048	2.43%~2.55%	\$3,070,405
Other	595,109	4,174	1.34%~3.88%	583,396
Total		\$43,222		\$3,653,801

Name	For the six-month period ended 30 June 2013			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Other related parties				
Cathay General Hospital	\$107,160	\$1,303	2.43%~2.55%	\$102,483
Other	19,863	139	1.34%~3.88%	19,473
Total		\$1,442		\$121,956

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Name	For the six-month period ended 30 June 2012			
	Maximum	Interest	Rate	Ending
	amount	income		balance
NT\$	NT\$	NT\$	NT\$	
Other related parties				
Cathay General Hospital	\$3,485,571	\$42,492	2.43%~2.55%	\$3,348,900
Other	331,242	2,400	1.53%~3.78%	317,872
Total		<u>\$44,892</u>		<u>\$3,666,772</u>

Name	For the six-month period ended 30 June 2012			
	Maximum	Interest	Rate	Ending
	amount	income		balance
US\$	US\$	US\$	US\$	
Other related parties				
Cathay General Hospital	\$116,965	\$1,426	2.43%~2.55%	\$112,379
Other	11,116	81	1.53%~3.78%	10,667
Total		<u>\$1,507</u>		<u>\$123,046</u>

(5) Financial assets at fair value through profit or loss (beneficiary certificates)

Name		30 June 2013		31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Securities Investment Trust Co., Ltd. managed funds	Market value	<u>\$1,976,270</u>	<u>\$65,964</u>	<u>\$2,319,889</u>	<u>\$79,858</u>
	Cost	<u>\$1,812,686</u>	<u>\$60,504</u>	<u>\$2,152,997</u>	<u>\$74,113</u>

Name		30 June 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Securities Investment Trust Co., Ltd. managed funds	Market value	<u>\$1,671,540</u>	<u>\$56,092</u>	<u>\$1,666,355</u>	<u>\$55,050</u>
	Cost	<u>\$1,544,534</u>	<u>\$51,830</u>	<u>\$1,548,899</u>	<u>\$51,169</u>

(6) Discretionary account management balance

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	<u>\$207,299,383</u>	<u>\$6,919,205</u>	<u>\$204,663,888</u>	<u>\$7,045,229</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	\$216,034,420	\$7,249,477	\$121,139,793	\$4,001,975

(7) Other receivables

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$6,487,242	\$216,530	\$5,235,287	\$180,216
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	7,582	253	-	-
Other related parties				
Cathay United Bank	24,156	806	12,396	427
Cathay Century Insurance Co., Ltd.	194,033	6,476	141,412	4,868
Cathay Securities Investment Trust Co., Ltd.	23,985	801	22,594	778
Cathay General Hospital	4,267	142	1,039	36

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$5,335,029	\$179,028	\$3,055,618	\$100,945
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	2,424	81	1,035	34
Other related parties				
Cathay United Bank	14,844	498	10,272	339
Cathay Century Insurance Co., Ltd.	175,910	5,903	217,861	7,197
Cathay Securities Investment Trust Co., Ltd.	20,519	689	21,131	698
Cathay General Hospital	1,563	52	1,847	61

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(8) Guarantee deposits paid

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Futures Co., Ltd.	\$660,047	\$22,031	\$364,739	\$12,556

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Futures Co., Ltd.	\$413,418	\$13,873	\$511,844	\$16,909

For the three-month periods ended 30 June 2013 and 2012, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$275 (US\$9) thousands and NT\$125 (US\$4) thousands, respectively.

For the six-month periods ended 30 June 2013 and 2012, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$431 (US\$14) thousands and NT\$238 (US\$8) thousands, respectively.

(9) Guarantee deposits received

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Healthcare Inc.	\$3,534	\$118	\$-	\$-
Lin Yuan Property Management Co., Ltd.	5,000	167	5,000	172
Total	\$8,534	\$285	\$5,000	\$172

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Healthcare Inc.	\$-	\$-	\$-	\$-
Lin Yuan Property Management Co., Ltd.	5,000	168	5,000	165
Total	\$5,000	\$168	\$5,000	\$165

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(10) Other payables

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$3,001,263	\$100,176	\$2,550,995	\$87,814
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	14,109	471	-	-
Other related parties				
Cathay Century Insurance Co., Ltd.	20,451	683	5,732	197
Cathay Securities Investment Trust Co., Ltd.	10,571	353	-	-
Lin Yuan Property Management Co., Ltd.	30,600	1,021	3,580	123
San Ching Engineering Co., Ltd.	13,939	465	326	11

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$2,094,514	\$70,286	\$1,642,995	\$54,278
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	64	2	64	2
Other related parties				
Cathay Century Insurance Co., Ltd.	16,281	546	1,635	54
Cathay Securities Investment Trust Co., Ltd.	-	-	-	-
Lin Yuan Property Management Co., Ltd.	7,674	258	5,294	175
San Ching Engineering Co., Ltd.	43,035	1,444	23,331	771

Note: The payables consist of interest expenses accrued from preferred stocks.

(11) Preferred stock liability

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$30,000,000	\$1,001,335	\$30,000,000	\$1,032,702

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$30,000,000	\$1,006,712	\$30,000,000	\$991,080

(12)Accounts collected in advance

Name	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$10,931	\$365	\$10,859	\$374
Cathay United Bank	23,720	792	26,517	913
Cathay Securities Co., Ltd.	4,310	144	3,993	137

Name	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$10,474	\$351	\$9,645	\$319
Cathay United Bank	28,888	969	32,817	1,084
Cathay Securities Co., Ltd.	3,878	130	3,627	120

(13)Premium income

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$174,847	\$5,836	\$160,187	\$5,375
Cathay General Hospital	9,858	329	9,895	332
Cathay Century Insurance Co., Ltd.	3,996	133	3,672	123
Other	24,869	830	31,382	1,053
Total	\$213,570	\$7,128	\$205,136	\$6,883

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$345,487	\$11,532	\$320,224	\$10,746
Cathay General Hospital	19,830	662	19,983	671
Cathay Century Insurance Co., Ltd.	6,193	207	6,116	205
Other	59,293	1,979	59,496	1,997
Total	<u>\$430,803</u>	<u>\$14,380</u>	<u>\$405,819</u>	<u>\$13,619</u>

(14) Insurance expenses

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	<u>\$24,002</u>	<u>\$801</u>	<u>\$16,169</u>	<u>\$543</u>

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	<u>\$99,596</u>	<u>\$3,324</u>	<u>\$97,863</u>	<u>\$3,284</u>

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT\$3,400 (US\$113) thousands and NT\$3,884 (US\$130) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in the above insurance expenses for the three-month periods ended 30 June 2013 and 2012, respectively.

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT\$5,950 (US\$199) thousands and NT\$6,722 (US\$226) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in the above insurance expenses for the six-month periods ended 30 June 2013 and 2012, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(15) Reinsurance income

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$29,916	\$999	\$28,989	\$973

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$70,082	\$2,339	\$63,460	\$2,130

On 1 April 2000, Cathay Insurance (Bermuda) Co., Ltd. engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the six-month periods ended 30 June 2013 and 2012, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

(16) Reinsurance service expenses

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$1,607	\$54	\$1,622	\$54

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$5,645	\$188	\$5,732	\$192

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(17) Reinsurance claim payments

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$73,242	\$2,445	\$25,325	\$850

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$103,263	\$3,447	\$58,724	\$1,971

(18) Other operating income

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$8,345	\$279	\$6,972	\$234
Cathay United Bank	100,161	3,343	102,978	3,456
Cathay General Hospital	55,154	1,841	4,403	148
Cathay Securities Co., Ltd.	1,990	66	1,414	47
Total	\$165,650	\$5,529	\$115,767	\$3,885

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$15,608	\$521	\$12,485	\$419
Cathay United Bank	206,968	6,908	213,882	7,177
Cathay General Hospital	57,660	1,925	32,144	1,079
Cathay Securities Co., Ltd.	3,931	131	2,813	94
Total	\$284,167	\$9,485	\$261,324	\$8,769

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(19) Miscellaneous income

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$311,368	\$10,393	\$283,943	\$9,528
Cathay United Bank	24,543	819	31,838	1,068
Cathay Securities Investment Trust Co., Ltd.	29,101	971	23,769	798
Total	\$365,012	\$12,183	\$339,550	\$11,394

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$632,539	\$21,113	\$571,489	\$19,177
Cathay United Bank	46,507	1,552	52,346	1,757
Cathay Securities Investment Trust Co., Ltd.	56,833	1,897	49,637	1,666
Total	\$735,879	\$24,562	\$673,472	\$22,600

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

(20) Operating expenses

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	\$3,295	\$110	\$3,295	\$111
Other related parties				
Seaward Card Co., Ltd.	27,044	903	33,355	1,119
Cathay United Bank	534,776	17,850	807,381	27,093
Cathay Venture Inc.	5,000	167	5,000	168
Cathay Securities Investment Trust Co., Ltd.	32,598	1,088	-	-
Lin Yuan Property Management Co., Ltd.	262,767	8,770	152,154	5,106
Cathay Real Estate Development Co., Ltd.	5,127	171	6,427	216
Cathay Healthcare Inc.	2,637	88	-	-
Subtotal	869,949	29,037	1,004,317	33,702
Total	\$873,244	\$29,147	\$1,007,612	\$33,813

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	\$6,589	\$220	\$6,589	\$221
Other related parties				
Seaward Card Co., Ltd.	56,374	1,882	52,702	1,769
Cathay United Bank	1,081,473	36,097	1,345,681	45,157
Cathay Venture Inc.	11,021	368	12,466	418
Cathay Securities Investment Trust Co., Ltd.	64,324	2,147	-	-
Lin Yuan Property Management Co., Ltd.	430,965	14,385	303,526	10,186
Cathay Real Estate Development Co., Ltd.	9,154	306	9,757	327
Cathay Healthcare Inc.	3,384	113	-	-
Subtotal	1,656,695	55,298	1,724,132	57,857
Total	\$1,663,284	\$55,518	\$1,730,721	\$58,078

(21) Non-operating income and expenses

Name	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$226,378	\$7,556	\$225,759	\$7,576

Name	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$450,268	\$15,029	\$451,591	\$15,152

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(22) Other

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

Item	30 June 2013		31 December 2012		30 June 2012		1 January 2012	
CS contracts	USD	885,000	USD	985,000	USD	1,771,000	USD	1,900,000

(23) Key management personnel compensation

	For the three-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$15,806	\$528	\$5,810	\$195

	For the six-month periods ended 30 June			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$42,628	\$1,423	\$33,925	\$1,138

The management of the Company includes directors, vice general managers and the above.

49. Pledged assets

(1) The Company

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the Company provided cash, time deposits and government bonds to its lessees as guarantees for the guarantee deposits received and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the “Guaranteed Depository Insurance”. Details are as follows:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid - Government bonds	\$9,568,912	\$319,389	\$9,523,306	\$327,825
Guarantee deposits paid - Time deposits	567,682	18,948	118,698	4,086
Guarantee deposits paid - Others	8,952	299	8,807	303
Total	\$10,145,546	\$338,636	\$9,650,811	\$332,214

Item	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid - Government bonds	\$10,577,082	\$354,936	\$10,615,126	\$350,682
Guarantee deposits paid - Time deposits	87,298	2,929	124,298	4,106
Guarantee deposits paid - Others	9,864	331	10,837	358
Total	\$10,674,244	\$358,196	\$10,750,261	\$355,146

Pledged assets are summarized based on the net carrying amounts.

(2) Symphox information

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the pledged property details are as follows:

Item	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Cash in bank (recognized as other financial assets)	\$699	\$23	\$10	\$-
Financial assets at fair value through profit and loss	47,491	1,585	45,103	1,553
Total	\$48,190	\$1,608	\$45,113	\$1,553

Item	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Cash in bank (recognized as other financial assets)	\$-	\$-	\$-	\$-
Financial assets at fair value through profit and loss	44,918	\$1,507	39,313	1,299
Total	\$44,918	\$1,507	\$39,313	\$1,299

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Symphox Information maintains a trust account at Cathay United Bank for its electronic gift certificates. As of 30 June 2013 and 31 December 2012, the account balance was NT\$699 (US\$23) thousands and NT\$10 (US\$0) thousands.

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

(3) Cathay life (China)

Item	30 June 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	<u>\$1,391,959</u>	<u>\$46,461</u>	<u>\$1,157,835</u>	<u>\$39,857</u>

Item	30 June 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	<u>\$1,195,485</u>	<u>\$40,117</u>	<u>\$1,192,563</u>	<u>\$39,398</u>

According to the requirement of the China Insurance Regulatory Commission, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Life (China) are time deposits.

50. Commitment and Contingencies

Legal claim contingency

The Company has its own response policies to legal claims. Once the losses can be reasonable estimated based on professional advices, the Company will recognize the losses and adjust negative impacts on financial affairs resulting from the claims.

51. Significant disaster damages

None.

52. Significant subsequent events

None.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

53. Others matters

(1) Discretionary account management

Item	30 June 2013			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$120,959,875	\$4,037,379	\$120,959,875	\$4,037,379
Overseas stocks	40,981,093	1,367,860	40,981,093	1,367,860
Repurchase bonds	200,000	6,676	200,000	6,676
Cash in banks	20,820,597	694,946	20,820,597	694,946
Beneficiary certificates	22,453,043	749,434	22,453,043	749,434
Futures and options	857,370	28,617	857,370	28,617
Corporate bonds	1,027,405	34,293	1,027,405	34,293
Total	<u>\$207,299,383</u>	<u>\$6,919,205</u>	<u>\$207,299,383</u>	<u>\$6,919,205</u>

Item	31 December 2012			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$100,690,134	\$3,466,098	\$100,690,134	\$3,466,098
Overseas stocks	28,173,078	969,813	28,173,078	969,813
Repurchase bonds	6,336,804	218,134	6,336,804	218,134
Cash in banks	38,106,426	1,311,753	38,106,426	1,311,753
Beneficiary certificates	29,184,078	1,004,616	29,184,078	1,004,616
Futures and options	1,482,600	51,036	1,482,600	51,036
Corporate bonds	690,768	23,779	690,768	23,779
Total	<u>\$204,663,888</u>	<u>\$7,045,229</u>	<u>\$204,663,888</u>	<u>\$7,045,229</u>

Item	30 June 2012			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$102,828,950	\$3,450,636	\$102,828,950	\$3,450,636
Overseas stocks	33,486,117	1,123,695	33,486,117	1,123,695
Repurchase bonds	1,618,056	54,297	1,618,056	54,297
Cash in banks	37,882,153	1,271,213	37,882,153	1,271,213
Beneficiary certificates	37,488,798	1,258,013	37,488,798	1,258,013
Futures and options	1,847,737	62,005	1,847,737	62,005
Corporate bonds	882,609	29,618	882,609	29,618
Total	<u>\$216,034,420</u>	<u>\$7,249,477</u>	<u>\$216,034,420</u>	<u>\$7,249,477</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Item	1 January 2012			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$90,957,252	\$3,004,865	\$90,957,252	\$3,004,865
Repurchase bonds	1,989,703	65,732	1,989,703	65,732
Cash in banks	25,585,086	845,229	25,585,086	845,229
Beneficiary certificates	748,618	24,731	748,618	24,731
Futures and options	1,859,134	61,418	1,859,134	61,418
Total	<u>\$121,139,793</u>	<u>\$4,001,975</u>	<u>\$121,139,793</u>	<u>\$4,001,975</u>

As of 30 June 2013, the Company entered into discretionary account management contracts in the amounts of NT\$140,000,000 (US\$4,672,897) thousands, US\$1,990,000 thousands, and HK\$2,000,000 (US\$257,865) thousands. As of 31 December 2012, the Company entered into discretionary account management contracts in the amounts of NT\$140,000,000 (US\$4,819,277) thousands, US\$2,090,000 thousands and HK\$2,000,000 (US\$258,041) thousands. As of 30 June 2012, the Company entered into discretionary account management contracts in the amounts of NT\$139,500,000 (US\$4,681,208) thousands, US\$2,340,000 thousands, and HK\$6,350,000 (US\$818,594) thousands. As of 1 January 2012, the amount was NT\$139,500,000 (US\$4,608,523) thousands.

- (2) Revenue and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are allocated to the Company and its affiliates based on the attribution of the transactions.
- (3) Capital management

A. Objectives

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

B. Policies

In order to assume all types of risks, the Company applies capital adequacy ratio as the indicator for capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically to monitor the status of capital adequacy in the short and mid-term. The Company sets business objectives and plans asset allocation based on the ratio.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

C. Procedures

a. Periodically

The Company regularly reviews the capital adequacy ratio. The Company uses assets and liabilities model based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario to estimate the capital adequacy ratio in the future year and analyzes solvency. If the expected ratio deviates from related control standards, the Company decreases the risk exposures or increases capital.

b. Aperiodically

The Company conducts scenario analysis for capital adequacy ratio focusing on the Company's use of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

54. Information regarding investment in Mainland China

On 25 December 2002 and 24 July 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 20 December 2010. Also, MOEAIC authorized the Company to remit US\$59,000 thousands as the registered capital again on 16 May 2008. The total registered capital was US\$107,330 thousands. On 25 September 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 29 December 2004. The Company has remitted US\$48,330 thousands to Cathay Life Insurance Ltd. (China) as of 31 December 2009, and injected another US\$29,880 thousands on 29 September 2010. As of 30 June 2013, the Company's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousands.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

On 17 October 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 the form of a joint venture with Cathay Century Insurance). On 6 March 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 26 August 2008. On 28 May 2013, MOEAIC authorized the Company to remit CNY\$200,000 thousands to increase the share capital. As of 30 June 2013, the Company's remittances to this general insurance company totaled approximately US\$44,534 thousands.

On 1 November 2011 and 11 April 2012, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$47,000 thousands and US\$80,000 thousands, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. As of 30 June 2013, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately US\$126,064 thousands.

55. Segment information

The Company abides by the provisions of insurance law for insurance business operations. In accordance with IFRS No.8, the Company provides insurance policy products and the overall business decision-makers make decisions based on resource allocation of the Company as a whole, making the entire company one functioning entity.

56. First-time adoption of TIFRS

For all periods up to and including the year ended 31 December 2012, the Company and Subsidiaries prepared their financial statements in accordance with generally accepted accounting principles in R.O.C. (R.O.C. GAAP). The consolidated financial statements for the three-month period ended 31 March 2013 are the first the Company and Subsidiaries have prepared in accordance with TIFRS.

Accordingly, the Company and Subsidiaries have prepared financial statements which comply with TIFRS and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises for periods beginning 1 January 2013 as described in the accounting policies under Note 4. Furthermore the first interim financial statements prepared under TIFRS also comply with the requirements under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The Company and Subsidiaries' opening consolidated balance sheet was prepared as at 1 January 2012, the Company and Subsidiaries' date of transition to TIFRS.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Exemptions applied in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 1 *First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Company and Subsidiaries have applied the following exemptions:

- (1) The Company and Subsidiaries have elected to use previous GAAP revaluation of certain land and buildings under property and equipment as their deemed costs at the date of the revaluation.
- (2) The Company and Subsidiaries have elected to use the fair value of certain investment properties on transition date to TIFRS as their deemed costs.
- (3) The Company and Subsidiaries have recognized all cumulative actuarial gains and losses on pensions as at the date of transition to TIFRS directly in retained earnings.
- (4) The Company and Subsidiaries have elected to disclose amounts required by Paragraph 120A(p) of IAS 19 prospectively from the date of transition to TIFRS.
- (5) The Company and Subsidiaries designate financial instruments which were recognized as financial assets carried at cost previously as available-for-sale financial assets at the date of transition.

Impacts of transitioning to TIFRS

Please refer to the consolidated financial statements of the Company and Subsidiaries for the three-month periods ended 31 March 2013 and 2012 for the reconciliation of consolidated balance sheets as at 1 January 2012 (the date of transition to TIFRS) and 31 December 2012 and consolidated statement of comprehensive income for the year ended 31 December 2012.

The following tables contain reconciliation of consolidated balance sheet as at 30 June 2012 and consolidated statements of comprehensive income for the three-month and six-month periods ended 30 June 2012:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(1) Reconciliation of consolidated balance sheet items as at 30 June 2012

R.O.C. GAAP		NT\$ Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	386,059,124		(19,377,472)	366,681,652	Cash and cash equivalents	1
Notes receivables - Net	2,957,330			2,957,330	Notes receivables - Net	
Premiums receivables -Net	72,500			72,500	Premiums receivables -Net	
Due from reinsurers and ceding companies -Net	222,203		(220,203)	-		11
Other receivables - Net	51,424,102	511,462		51,935,564	Other receivables - Net	2,8
Subtotal	54,674,135			54,965,394	Receivables	
Financial assets at fair value through profit or loss	55,576,993			55,576,993	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	1,233,710,135	10,380,762		1,244,090,897	Available-for-sale financial assets	3
Derivative financial assets for hedging	1,561,602			1,561,602	Derivative financial assets for hedging	
Financial assets carried at cost	9,691,980	(9,691,980)		-		3
Investments under the equity method - Net	1,225,696			1,225,696	Investments accounted for using the equity method - Net	
Investments in debt securities with no active market	700,181,175		19,377,472	719,558,647	Bond investments for which no active market exists	1
Other financial assets	24,500,000			24,500,000	Other financial assets - Net	
Investments in real estate - Net	150,021,745	61,261,268		211,283,013	Investment property - Net	4
Loans	498,362,444			498,362,444	Loans	
Subtotal	2,674,831,770					
Reinsurance reserve assets - Net	8,788,865		220,203	9,009,068	Reinsurance assets	11
Land	6,661,628	6,864,722		13,526,350	Land	4
Buildings and construction	12,544,396	9,888,066		22,432,462	Buildings and construction	4
Computer equipment	2,531,183			2,531,183	Computer equipment	
Communication and transportation equipment	13,074			13,074	Communication and transportation equipment	
Other equipment	3,885,758			3,885,758	Other equipment	
Leasehold improvements	117,225			117,225	Leasehold improvements	
Revaluation increments	620	(620)		-		4
Subtotal of cost and revaluation	25,753,884			42,506,052		
Less: Accumulated depreciation	(10,635,243)	(6,485,032)		(17,120,275)	Less: Accumulated depreciation	4,5
Less: Accumulated impairment	(140,412)	(118,096)		(258,508)	Less: Accumulated impairment	4
Construction in progress and prepayment for real estate equipment	83,415			83,415	Construction in progress and prepayment for real estate equipment	
Subtotal	15,061,644			25,210,684	Property and equipment	
Intangible assets	356,606			356,606	Intangible assets	
-	-		12,911,940	12,911,940	Deferred tax assets	11
Prepayment	82,365			82,365	Prepayment	
Guarantee deposits paid	15,498,211			15,498,211	Guarantee deposits paid	
Deferred income tax assets	15,500,363	(2,588,423)	(12,911,940)	-		10,11
Other assets - Other	4,496,134			4,496,134	Other assets - Other	
Subtotal	35,577,073			20,076,710	Other assets	
Separate account product assets	294,782,839			294,782,839	Separate account product assets	
Total assets	3,470,132,056			3,540,154,185	Total assets	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

R.O.C. GAAP		NT\$		TIFRS		Notes	
		Items	Amounts	Impact of transitioning to TIFRS Remeasurements	Presentation		Amounts
-	-		341,620		341,620	Short-term debts	11
Notes payable	1,123				1,123	Notes payable	
Life insurance proceeds payable	179,723				179,723	Life insurance proceeds payable	
Commissions payable	1,286,757				1,286,757	Commissions payable	
Due to reinsurers and ceding companies	6,901,704				6,901,704	Due to reinsurers and ceding companies	
Others payable	22,059,232				22,059,232	Others payable	
Subtotal	30,428,539				30,428,539	Payables	
Short-term debts	341,620		(341,620)		-	-	11
Financial liabilities at fair value through profit or loss	9,017,899				9,017,899	Financial liabilities at fair value through profit or loss	
Preferred stock liability	30,000,000				30,000,000	Preferred stock liability	
Subtotal	39,359,519						
Unearned premium reserve	11,540,377				11,540,377	Unearned premium reserve	
Reserve for claims	4,528,828				4,528,828	Reserve for claims	
Reserve for life insurance liabilities	2,876,701,183				2,876,701,183	Reserve for life insurance liabilities	
Special reserve	4,423,903	50,994,230			55,418,133	Special reserve	6,7
Premium deficiency reserve	15,132,489				15,132,489	Premium deficiency reserve	
Reserve for insurance contracts with feature of financial instruments	64,272,133		(62,272,133)		-	-	11
Foreign exchange volatility reserve	5,066,425		(5,066,425)		-	-	11
Subtotal	2,981,665,338				2,963,321,010	Insurance liabilities	
-	-		64,272,133		64,272,133	Reserve for insurance contracts with feature of financial instruments	11
-	-		5,066,425		5,066,425	Foreign exchange volatility reserve	11
-	-	346,155	3,394,433		3,740,588	Provisions	8,11
-	-		13,157,714		13,157,714	Deferred tax liabilities	11
Accounts collected in advance	340,756				340,756	Accounts collected in advance	
Guarantee deposits received	2,003,034				2,003,034	Guarantee deposits received	
Reserve for land revaluation increment tax	3,487	7,007,814	(7,011,301)		-	-	10,11
Accrued pension liability	2,003,143	1,391,290	(3,394,433)		-	-	9,11
Deferred income tax liabilities	-	6,146,413	(6,146,413)		-	-	10,11
Other liabilities - Other	4,071,491				4,071,491	Other liabilities - Other	
Subtotal	8,421,911				6,415,281	Other liabilities	
Separate account product liabilities	294,782,839				294,782,839	Separate account product liabilities	
Total liabilities	3,354,658,146				3,420,544,048	Total liabilities	
Capital stock						Capital stock	
Common stock	53,065,274				53,065,274	Common stock	
Capital surplus	13,009,649				13,009,649	Capital surplus	
Retained earnings						Retained earnings	
Legal capital reserve	9,241,230				9,241,230	Legal capital reserve	
Special capital reserve	27,247,725	3,744,467			30,992,192	Special capital reserve	6
Unappropriated retained earnings	(1,522,884)	2,989,118			1,466,234	Unappropriated retained earnings	2~5, 7~10
Equity adjustments			10,678,201		10,678,201	Other equity	11
Unrealized revaluation increments	1,462	(1,462)			-	-	5
Unrealized gains on financial instruments	14,135,071	(3,105,570)	(11,029,501)		-	-	3,10,1
Cumulative conversion adjustments	(351,300)		351,300		-	-	11
Net loss not recognized as pension cost	(509,674)	509,674			-	-	9
Minority interests	1,157,357				1,157,357	Non-controlling interests	
Total stockholders' equity	115,473,910				119,610,137	Total equity	
Total liabilities and stockholders' equity	3,470,132,056				3,540,154,185	Total liabilities and equity	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	12,955,004		(650,251)	12,304,753	Cash and cash equivalents	1
Notes receivables - Net	99,239			99,239	Notes receivables - Net	
Premiums receivables - Net	2,433			2,433	Premiums receivables - Net	
Due from reinsurers and ceding companies - Net	7,389		(7,389)	-		11
Other receivables - Net	1,725,641	17,163		1,742,804	Other receivables - Net	2,8
Subtotal	<u>1,834,072</u>			<u>1,844,476</u>	Receivables	
Financial assets at fair value through profit or loss	1,865,000			1,865,000	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	41,399,669	348,348		41,748,017	Available-for-sale financial assets	3
Derivative financial assets for hedging	52,403			52,403	Derivative financial assets for hedging	
Financial assets carried at cost	325,234	(325,234)		-		3
Investments under the equity method - Net	41,131			41,131	Investments accounted for using the equity method - Net	
Investments in debt securities with no active market	23,496,012		650,251	24,146,263	Bond investments for which no active market exists	1
Other financial assets	822,147			822,147	Other financial assets - Net	
Investments in real estate - Net	5,034,287	2,055,747		7,090,034	Investment property - Net	4
Loans	16,723,572			16,723,572	Loans	
Subtotal	<u>89,759,455</u>					
Reinsurance reserve assets - Net	294,928		7,389	302,317	Reinsurance assets	11
Land	223,545	230,360		453,905	Land	4
Buildings and construction	420,953	331,814		752,767	Buildings and construction	4
Computer equipment	84,939			84,939	Computer equipment	
Communication and transportation equipment	439			439	Communication and transportation equipment	
Other equipment	130,394			130,394	Other equipment	
Leasehold improvements	3,933			3,933	Leasehold improvements	
Revaluation increments	21	(21)		-		4
Subtotal of cost and revaluation	864,224			1,426,377		
Less: Accumulated depreciation	(356,887)	(217,618)		(574,505)	Less: Accumulated depreciation	4,5
Less: Accumulated impairment	(4,712)	(3,963)		(8,675)	Less: Accumulated impairment	4
Construction in progress and prepayment for real estate equipment	2,799			2,799	Construction in progress and prepayment for real estate equipment	
Subtotal	<u>505,424</u>			<u>845,996</u>	Property and equipment	
Intangible assets	11,967			11,967	Intangible assets	
-	-		433,287	433,287	Deferred tax assets	11
Prepayment	2,764			2,764	Prepayment	
Guarantee deposits paid	520,074			520,074	Guarantee deposits paid	
Deferred income tax assets	520,147	(86,860)	(433,287)	-		10,11
Other assets - Other	150,877			150,877	Other assets - Other	
Subtotal	<u>1,193,862</u>			<u>673,715</u>	Other assets	
Separate account product assets	9,892,042			9,892,042	Separate account product assets	
Total assets	<u>116,447,384</u>			<u>118,797,120</u>	Total assets	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

R.O.C. GAAP		US\$				
		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
-	-		11,463	11,463	Short-term debts	11
Notes payable	38			38	Notes payable	
Life insurance proceeds payable	6,031			6,031	Life insurance proceeds payable	
Commissions payable	43,180			43,180	Commissions payable	
Due to reinsurers and ceding companies	231,601			231,601	Due to reinsurers and ceding companies	
Others payable	740,242			740,242	Others payable	
Subtotal	1,021,092			1,021,092	Payables	
Short-term debts	11,463		(11,463)	-		11
Financial liabilities at fair value through profit or loss	302,614			302,614	Financial liabilities at fair value through profit or loss	
Preferred stock liability	1,006,712			1,006,712	Preferred stock liability	
Subtotal	1,320,789					
Unearned premium reserve	387,261			387,261	Unearned premium reserve	
Reserve for claims	151,974			151,974	Reserve for claims	
Reserve for life insurance liabilities	96,533,596			96,533,596	Reserve for life insurance liabilities	
Special reserve	148,453	1,711,216		1,859,669	Special reserve	6,7
Premium deficiency reserve	507,802			507,802	Premium deficiency reserve	
Reserve for insurance contracts with feature of financial instruments	2,156,783		(2,156,783)	-		11
Foreign exchange volatility reserve	170,015		(170,015)	-		11
Subtotal	100,055,884			99,440,302	Insurance liabilities	
-	-		2,156,783	2,156,783	Reserve for insurance contracts with feature of financial instruments	11
-	-		170,015	170,015	Foreign exchange volatility reserve	11
-	-	11,616	113,907	125,523	Provisions	8,11
-	-		441,534	441,534	Deferred tax liabilities	11
Accounts collected in advance	11,434			11,434	Accounts collected in advance	
Guarantee deposits received	67,216			67,216	Guarantee deposits received	
Reserve for land revaluation increment tax	117	235,162	(235,279)	-		10,11
Accrued pension liability	67,220	46,687	(113,907)	-		9,11
Deferred income tax liabilities	-	206,255	(206,255)	-		10,11
Other liabilities - Other	136,627			136,627	Other liabilities - Other	
Subtotal	282,614			215,277	Other liabilities	
Separate account product liabilities	9,892,042			9,892,042	Separate account product liabilities	
Total liabilities	112,572,421			114,783,357	Total liabilities	
Capital stock					Capital stock	
Common stock	1,780,714			1,780,714	Common stock	
Capital surplus	436,566			436,566	Capital surplus	
Retained earnings					Retained earnings	
Legal capital reserve	310,108			310,108	Legal capital reserve	
Special capital reserve	914,353	125,653		1,040,006	Special capital reserve	
Unappropriated retained earnings	(51,103)	100,306		49,203	Unappropriated retained earnings	6 2~5, 7~10
Equity adjustments			358,329	358,329	Other equity	11
Unrealized revaluation increments	49	(49)		-		5
Unrealized gains on financial instruments	474,331	(104,213)	(370,118)	-		3,10,11
Cumulative conversion adjustments	(11,789)		11,789	-		11
Net loss not recognized as pension cost	(17,103)	17,103		-		9
Minority interests	38,837			38,837	Non-controlling interests	
Total stockholders' equity	3,874,963			4,013,763	Total equity	
Total liabilities and stockholders' equity	116,447,384			118,797,120	Total liabilities and equity	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(2) Reconciliation of consolidated statement of comprehensive income items for the three-month period ended 30 June 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenue					Operating revenue	
Direct premium income	116,493,140			116,493,140	Direct premium income	
Reinsurance premium income	45,960			45,960	Reinsurance premium income	
Premium income	116,539,100			116,539,100	Premium income	
Deduct: Premiums ceded to reinsurers	(7,259,186)			(7,259,186)	Deduct: Premiums ceded to reinsurers	
Changes in unearned premium reserve	2,623			2,623	Changes in unearned premium reserve	
Retained earned premium	109,282,537			109,282,537	Retained earned premium	
Reinsurance commission earned	3,796,130			3,796,130	Reinsurance commission earned	
Handling fees earned	523,403			523,403	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	22,676,318		(375,289)	22,301,029	Interest income	11
Losses from valuation on financial assets	(3,462,282)		3,462,282	-	Losses from valuation on financial assets	11
Losses from valuation on financial liabilities	(3,096,999)		3,096,999	-	Losses from valuation on financial liabilities	11
Losses on equity investments	(72,214)		72,214	-	Losses on equity investments	11
-	-		(10,549,705)	(10,549,705)	Losses from financial assets and liabilities at fair value through profit or loss	11
-	-		6,744,464	6,744,464	Realized gains from available-for-sale financial assets	11
-	-		930,351	930,351	Realized gains from bond investments for which no active market exists	11
-	-		(72,214)	(72,214)	Share of the losses of associates and joint ventures accounted for using the equity method	11
Gains on foreign exchange	8,662,663			8,662,663	Foreign exchange gains	
Gains on disposal of investments	3,513,670		(3,513,670)	-	Changes in foreign exchange volatility reserve	11
Changes in foreign exchange volatility reserve	(402,691)			(402,691)		
Gains on investments - Real estate	1,653,526	(103,403)		1,550,123	Gains from investment property	2
Other operating revenue	345,849			345,849	Other operating revenue	
Separate account product revenue	6,007,892			6,007,892	Separate account product revenue	
Subtotal	149,427,802			149,119,831	Subtotal	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

NT\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claim payments	(54,039,888)			(54,039,888)	Insurance claim payments	
Deduct: Claims recovered from reinsures	2,938,582			2,938,582	Deduct: Claims recovered from reinsures	
Retained claim payments	(51,101,306)			(51,101,306)	Retained claim payments	
Changes in liability reserves			(78,727,901)	(78,727,901)	Changes in insurance liabilities	11
Changes in provision claim reserve	(1,399)		1,399	-		11
Changes in provision for life insurance	(78,075,926)		78,075,926	-		11
Changes in provision for special reserve	66,094	(66,376)	282	-		6,11
Changes in provision for premium deficiency reserve	(650,294)		650,294	-		11
Changes in reserve for insurance contracts with feature of financial instruments	(493,757)			(493,757)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(3,999,191)			(3,999,191)	Brokerage expenses	
Commission expenses	(3,671,517)			(3,671,517)	Commission expenses	
Other operating costs	(1,051,263)			(1,051,263)	Other operating costs	
-	-		204,568	204,568	Finance costs	11
Separate account product expenses	(6,007,892)			(6,007,892)	Separate account product expenses	
Subtotal	(144,986,451)			(144,848,259)	Subtotal	
Operating expenses	(4,498,360)	(88,698)		(4,587,058)	Operating expenses	4,5,9
Operating loss	(57,009)			(315,486)	Operating loss	
-	-		253,984	253,984	Non-operating income and expenses	11
Non-operating revenues and gains	483,454		(483,454)	-		11
Non-operating expenses and losses	(229,470)		229,470	-		11
Income from continuing operations before income tax	196,975			(61,502)	Loss from continuing operations before income tax	
Income tax expense	(36,294)	43,941		7,647	Income tax benefit	2,4~6, 8~10
Consolidated income	160,681			(53,855)	Net loss from continuing operations	
				(53,855)	Net loss	
				16,172	Other comprehensive income	
				(18,068,856)	Exchange differences resulting from translating the financial statements of foreign operations	
				(101,153)	Unrealized valuation losses from available-for-sale financial assets	
				(38,388)	Effective portion of losses on hedging instruments in cash flow hedges	
				941,821	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				(17,250,404)	Income taxes relating to components of other comprehensive income	
				(17,304,259)	Other comprehensive income, net of tax	
					Total comprehensive income	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

US\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenue					Operating revenue	
Direct premium income	3,909,166			3,909,166	Direct premium income	
Reinsurance premium income	1,542			1,542	Reinsurance premium income	
Premium income	3,910,708			3,910,708	Premium income	
Deduct: Premiums ceded to reinsurers	(243,597)			(243,597)	Deduct: Premiums ceded to reinsurers	
Changes in unearned premium reserve	88			88	Changes in unearned premium reserve	
Retained earned premium	3,667,199			3,667,199	Retained earned premium	
Reinsurance commission earned	127,387			127,387	Reinsurance commission earned	
Handling fees earned	17,564			17,564	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	760,950		(12,593)	748,357	Interest income	11
Losses from valuation on financial assets	(116,184)		116,184	-		11
Losses from valuation on financial liabilities	(103,926)		103,926	-		11
Losses on equity investments	(2,423)		2,423	-		11
					Losses from financial assets and liabilities at fair value through profit or loss	11
-	-		(354,017)	(354,017)	Realized gains from available-for-sale financial assets	11
-	-		226,324	226,324	Realized gains from bond investments for which no active market exists	11
-	-		31,220	31,220	Share of the losses of associates and joint ventures accounted for using the equity method	11
-	-		(2,423)	(2,423)	Foreign exchange gains	
Gains on foreign exchange	290,693			290,693	Changes in foreign exchange volatility reserve	
Gains on disposal of investments	117,908		(117,908)	-		11
Changes in foreign exchange volatility reserve	(13,513)			(13,513)	Gains from investment property	2
Gains on investments - Real estate	55,488	(3,471)		52,017	Other operating revenue	
Other operating revenue	11,606			11,606	Separate account product revenue	
Separate account product revenue	201,607			201,607	Subtotal	
Subtotal	5,014,356			5,004,021		

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

US\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating costs					Operating costs	
Insurance claim payments	(1,813,419)			(1,813,419)	Insurance claim payments	
Deduct: Claims recovered from reinsures	98,610			98,610	Deduct: Claims recovered from reinsures	
Retained claim payments	<u>(1,714,809)</u>			<u>(1,714,809)</u>	Retained claim payments	
Changes in liability reserves			(2,641,876)	(2,641,876)	Changes in insurance liabilities	11
Changes in provision claim reserve	(47)		47	-		11
Changes in provision for life insurance	(2,619,998)		2,619,998	-		11
Changes in provision for special reserve	2,218	(2,227)	9	-		6,11
Changes in provision for premium deficiency reserve	(21,822)		21,822	-		11
Changes in reserve for insurance contracts with feature of financial instruments	(16,569)			(16,569)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(134,201)			(134,201)	Brokerage expenses	
Commission expenses	(123,205)			(123,205)	Commission expenses	
Other operating costs	(35,277)			(35,277)	Other operating costs	
-	-		6,864	6,864	Finance costs	11
Separate account product expenses	<u>(201,607)</u>			<u>(201,607)</u>	Separate account product expenses	
Subtotal	<u>(4,865,317)</u>			<u>(4,860,680)</u>	Subtotal	
Operating expenses	<u>(150,952)</u>	(2,976)		<u>(153,928)</u>	Operating expenses	4,5,9
Operating loss	<u>(1,913)</u>	(8,674)		<u>(10,587)</u>	Operating loss	
-	-		8,523	8,523	Non-operating income and expenses	11
Non-operating revenues and gains	<u>16,223</u>		(16,223)	-		11
Non-operating expenses and losses	<u>(7,700)</u>		7,700	-		11
Income from continuing operations before income tax	6,610			(2,064)	Loss from continuing operations before income tax	
Income tax expense	<u>(1,218)</u>	1,475		257	Income tax benefit	2,4~6, 8~10
Consolidated income	<u><u>5,392</u></u>			<u>(1,807)</u>	Net loss from continuing operations	
				<u>(1,807)</u>	Net loss	
				542	Other comprehensive income	
				(606,337)	Exchange differences resulting from translating the financial statements of foreign operations	
				(3,394)	Unrealized valuation losses from available-for-sale financial assets	
					Effective portion of losses on hedging instruments in cash flow hedges	
				(1,288)	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				31,604	Income taxes relating to components of other comprehensive income	
				<u>(578,873)</u>	Other comprehensive income, net of tax	
				<u><u>(580,680)</u></u>	Total comprehensive income	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

(3) Reconciliation of consolidated statement of comprehensive income items for the six-month period ended 30 June 2012

R.O.C. GAAP		NT\$				Notes
		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenue					Operating revenue	
Direct premium income	257,905,947			257,905,947	Direct premium income	
Reinsurance premium income	92,309			92,309	Reinsurance premium income	
Premium income	257,998,256			257,998,256	Premium income	
Deduct: Premiums ceded to reinsurers	(13,829,928)			(13,829,928)	Deduct: Premiums ceded to reinsurers	
Changes in unearned premium reserve	140,850			140,850	Changes in unearned premium reserve	
Retained earned premium	244,309,178			244,309,178	Retained earned premium	
Reinsurance commission earned	7,480,342			7,480,342	Reinsurance commission earned	
Handling fees earned	1,054,398			1,054,398	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	45,453,690		(600,206)	44,853,484	Interest income	11
Losses from valuation on financial assets	(218,121)		218,121	-		11
Gains from valuation on financial liabilities	8,699,569		(8,699,569)	-		11
Losses on equity investments	(93,234)		93,234	-		11
-	-		8,492,472	8,492,472	Gains from financial assets and liabilities at fair value through profit or loss	11
-	-		11,646,872	11,646,872	Realized gains from available-for-sale financial assets	11
-	-		1,329,333	1,329,333	Realized gains from bond investments for which no active market exists	11
-	-		(93,234)	(93,234)	Share of the losses of associates and joint ventures accounted for using the equity method	11
Losses on foreign exchange	(13,076,656)			(13,076,656)	Foreign exchange losses	
Gains on disposal of investments	12,790,809		(12,790,809)	-		11
Changes in foreign exchange volatility reserve	(555,019)			(555,019)	Changes in foreign exchange volatility reserve	
Gains on investments - Real estate	3,473,723	(52,182)		3,421,541	Gains from investment property	2
Other operating revenue	812,337			812,337	Other operating revenue	
Separate account product revenue	27,691,345			27,691,345	Separate account product revenue	
Subtotal	337,822,361			337,366,393	Subtotal	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claim payments	(108,973,437)			(108,973,437)	Insurance claim payments	
Deduct: Claims recovered from reinsures	5,488,504			5,488,504	Deduct: Claims recovered from reinsures	
Retained claim payments	(103,484,933)			(103,484,933)	Retained claim payments	
Changes in liability reserves			(181,820,523)	(181,820,523)	Changes in insurance liabilities	11
Changes in provision claim reserve	(56,900)		56,900	-		11
Changes in provision for life insurance	(180,178,914)		180,178,914	-		11
Changes in provision for special reserve	88,259	(89,017)	758	-		6,11
Changes in provision for premium deficiency reserve	(1,583,951)		1,583,951	-		11
Changes in reserve for insurance contracts with feature of financial instruments	(545,603)			(545,603)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(7,912,224)			(7,912,224)	Brokerage expenses	
Commission expenses	(8,397,210)			(8,397,210)	Commission expenses	
Other operating costs	(2,322,518)			(2,322,518)	Other operating costs	
-	-		403,786	403,786	Finance costs	11
Separate account product expenses	(27,691,345)			(27,691,345)	Separate account product expenses	
Subtotal	(332,085,339)			(331,770,570)	Subtotal	
Operating expenses	(8,232,366)	(196,954)		(8,429,320)	Operating expenses	4,5,9
Operating loss	(2,495,344)			(2,833,497)	Operating loss	
-	-		497,592	497,592	Non-operating income and expenses	11
Non-operating revenues and gains	935,674		(935,674)	-		11
Non-operating expenses and losses	(456,082)		456,082	-		11
Loss from continuing operations before income tax	(2,015,752)			(2,353,905)	Loss from continuing operations before income tax	
Income tax benefit	516,058	332,706		848,764	Income tax benefit	2,4~6, 8~10
Consolidated loss	(1,499,694)			(1,505,141)	Net loss from continuing operations	
				(1,505,141)	Net loss	
				(52,248)	Other comprehensive income	
				4,206,426	Exchange differences resulting from translating the financial statements of foreign operations	
				(409,840)	Unrealized valuation gains from available-for-sale financial assets	
					Effective portion of losses on hedging instruments in cash flow hedges	
				(39,569)	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				131,744	Income taxes relating to components of other comprehensive income	
				3,836,513	Other comprehensive income, net of tax	
				2,331,372	Total comprehensive income	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenue					Operating revenue	
Direct premium income	8,654,562			8,654,562	Direct premium income	
Reinsurance premium income	3,098			3,098	Reinsurance premium income	
Premium income	8,657,660			8,657,660	Premium income	
Deduct: Premiums ceded to reinsurers	(464,092)			(464,092)	Deduct: Premiums ceded to reinsurers	
Changes in unearned premium reserve	4,727			4,727	Changes in unearned premium reserve	
Retained earned premium	8,198,295			8,198,295	Retained earned premium	
Reinsurance commission earned	251,018			251,018	Reinsurance commission earned	
Handling fees earned	35,382			35,382	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	1,525,291		(20,141)	1,505,150	Interest income	11
Losses from valuation on financial assets	(7,319)		7,319	-		11
Gains from valuation on financial liabilities	291,932		(291,932)	-		11
Losses on equity investments	(3,129)		3,129	-		11
-	-		284,983	284,983	Gains from financial assets and liabilities at fair value through profit or loss	11
-	-		390,835	390,835	Realized gains from available-for-sale financial assets	11
-	-		44,608	44,608	Realized gains from bond investments for which no active market exists	11
-	-		(3,129)	(3,129)	Share of the losses of associates and joint ventures accounted for using the equity method	11
Losses on foreign exchange	(438,814)			(438,814)	Foreign exchange losses	
Gains on disposal of investments	429,222		(429,222)	-		11
Changes in foreign exchange volatility reserve	(18,625)			(18,625)	Changes in foreign exchange volatility reserve	
Gains on investments - Real estate	116,568	(1,751)		114,817	Gains from investment property	2
Other operating revenue	27,260			27,260	Other operating revenue	
Separate account product revenue	929,240			929,240	Separate account product revenue	
Subtotal	11,336,321			11,321,020	Subtotal	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claim payments	(3,656,827)			(3,656,827)	Insurance claim payments	
Deduct : Claims recovered from reinsures	184,178			184,178	Deduct : Claims recovered from reinsures	
Retained claim payments	(3,472,649)			(3,472,649)	Retained claim payments	
Changes in liability reserves			(6,101,359)	(6,101,359)	Changes in insurance liabilities	11
Changes in provision claim reserve	(1,909)		1,909	-		11
Changes in provision for life insurance	(6,046,272)		6,046,272	-		11
Changes in provision for special reserve	2,962	(2,987)	25	-		6,11
Changes in provision for premium deficiency reserve	(53,153)		53,153	-		11
Changes in reserve for insurance contracts with feature of financial instruments	(18,309)			(18,309)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(265,511)			(265,511)	Brokerage expenses	
Commission expenses	(281,785)			(281,785)	Commission expenses	
Other operating costs	(77,937)			(77,937)	Other operating costs	
-	-		13,550	13,550	Finance costs	11
Separate account product expenses	(929,240)			(929,240)	Separate account product expenses	
Subtotal	(11,143,803)			(11,133,240)	Subtotal	
Operating expenses	(276,254)	(6,610)		(282,864)	Operating expenses	4,5,9
Operating loss	(83,736)			(95,084)	Operating loss	
-	-		16,094	16,094	Non-operating income and expenses	11
Non-operating revenues and gains	31,398		(31,398)	-		11
Non-operating expenses and losses	(15,304)		15,304	-		11
Loss from continuing operations before income tax	(67,642)			(78,990)	Loss from continuing operations before income tax	
Income tax benefit	17,317	11,165		28,482	Income tax benefit	2,4~6, 8~10
Consolidated loss	(50,325)			(50,508)	Net loss from continuing operations	
				(50,508)	Net loss	
				(1,753)	Other comprehensive income	
				141,155	Exchange differences resulting from translating the financial statements of foreign operations	
				(13,753)	Unrealized valuation gains from available-for-sale financial assets	
				(1,328)	Effective portion of losses on hedging instruments in cash flow hedges	
				4,421	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				128,742	Income taxes relating to components of other comprehensive income	
				78,234	Other comprehensive income, net of tax	
					Total comprehensive income	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

Material adjustments to the consolidated statement of cash flows for the six-month period ended 30 June 2012

The transition from R.O.C. GAAP to TIFRS has not had a material impact on the statement of cash flows. The statement of cash flows prepared under R.O.C. GAAP was reported using the indirect method. Furthermore, cash flows from interest and dividends received and interest paid were classified as cash flows from operating activities and interest and dividends received were not disclosed separately. However, in accordance with the requirements under IAS 7 *Statement of Cash Flows*, the interest and dividends received for the six-month period ended 30 June 2012 are separately disclosed in the statement of cash flows. Interest and dividends received and interest paid are classified as cash flows from operating activities

Apart from the aforementioned differences, there were no material differences between the statements of cash flows prepared under R.O.C. GAAP and TIFRS.

- (1) Under the requirements of IAS 7 *Statement of Cash Flows*, certain time deposits held by the Company and Subsidiaries are reclassified to bond investments for which no active market exists. As of 30 June 2012, cash and cash equivalents reclassified to bond investments for which no active market exists was NT\$19,377,472 (US\$650,251) thousands.
- (2) The Company and Subsidiaries adopted IAS 17 to recognize rent revenue under the straight-line method during the lease term. As of 30 June 2012, TIFRS adjustment resulted in increases of other receivables by NT\$310,753 (US\$10,428) thousands and retained earnings by NT\$301,236 (US\$10,109) thousands. For the three-month period ended 30 June 2012, TIFRS adjustment resulted in a decrease of rent revenue by NT\$103,403 (US\$3,471) thousands and an increase of income tax benefit by NT\$17,579 (US\$590) thousands. For the six-month period ended 30 June 2012, TIFRS adjustment resulted in a decrease of rent revenue by NT\$52,182 (US\$1,751) thousands and an increase of income tax benefit by NT\$8,871 (US\$298) thousands.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (3) According to IAS 39, the Company and Subsidiaries reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. As of 30 June 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT\$10,380,762 (US\$348,348) thousands and unrealized gains on financial instruments by NT\$697,793 (US\$23,416) thousands. The adjustment also made decreases of financial assets carried at cost by NT\$9,691,980 (US\$325,234) thousands and retained earnings by NT\$37,960 (US\$1,273) thousands.
- (4) According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IFRS 1, the Company and Subsidiaries identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions. The others were retrospectively applied to IAS 40. Upon assessment, the Company and Subsidiaries' net increase in fair value of investment property was NT\$75,820,050 (US\$2,544,296) thousands as of 30 June 2012. Also, a review of each significant components resulted in retrospectively recognizing accumulated depreciation by NT\$1,407,804 (US\$47,242) thousands, and an increase in retained earnings by NT\$66,157,740 (US\$2,220,058) thousands. For the three-month period ended 30 June 2012, the adjustment resulted in decreases of depreciation expense by NT\$738,411 (US\$24,779) thousands and income tax benefit by NT\$125,530 (US\$4,212) thousands. For the six-month period ended 30 June 2012, the adjustment resulted in decreases of depreciation expense by NT\$650,456 (US\$21,827) thousands and income tax benefit by NT\$110,578 (US\$3,711) thousands. In addition, the Company and Subsidiaries reclassified investment property to property and equipment by NT\$13,150,978 (US\$441,307) thousands.
- (5) The Company and Subsidiaries determined revalued amount of some properties as deemed cost according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and retrospectively adopted IAS 16. As of 30 June 2012, the Company and Subsidiaries assessed that significant components of property and equipment resulted in retrospectively recognizing accumulated depreciation by NT\$3,001,938 (US\$100,735) thousands, decreases of retained earnings and unrealized revaluation increments by NT\$1,767,459 (US\$59,310) thousands and NT\$1,462 (US\$49) thousands, respectively. For the three-month period ended 30 June 2012, the adjustment resulted in increases of depreciation expense and income tax benefit by NT\$838,759 (US\$28,146) thousands and NT\$142,589 (US\$4,785) thousands, respectively. For the six-month period ended 30 June 2012, the adjustment resulted in increases of depreciation expense and income tax benefit by NT\$870,709 (US\$29,218) thousands and NT\$148,021 (US\$4,967) thousands, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (6) In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the “Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 30 June 2012, the adjustment resulted in a decrease of “Special Reserve for Major Incidents” and “Special Reserve for Fluctuation of Risks” by NT\$4,422,389 (US\$148,402) thousands, and an increase of special capital reserve under retained earnings by NT\$3,744,467 (US\$125,653) thousands. For the three-month period ended 30 June 2012, the adjustment resulted in a decrease of changes in provision for special reserves by NT\$66,376 (US\$2,227) thousands and an increase of income tax benefit by NT\$11,284 (US\$379) thousands. For the six-month period ended 30 June 2012, the adjustment resulted in a decrease of changes in provision for special reserves by NT\$89,017 (US\$2,987) thousands and an increase of income tax benefit by NT\$15,133 (US\$508) thousands.
- (7) According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the excess should be recognized as special reserve under insurance liabilities by full amount at the date of transition. The transition resulted in recognizing special reserve by NT\$55,416,619 (US\$1,859,618) thousands and a corresponding decrease of retained earnings.
- (8) The Company and Subsidiaries adopted IAS 37 to assess the provisions due to taxation administrative remedy. After assessment, as of 30 June 2012, the Company and Subsidiaries should increase provisions by NT\$346,155 (US\$11,616) thousands and decrease retained earnings by NT\$406,637 (US\$13,646) thousands. In addition, the reversal recognition resulted in increases of tax receivables by NT\$200,709 (US\$6,735) thousands, and income tax benefit by NT\$0 (US\$0) thousands and NT\$261,192 (US\$8,765) thousands for the three-month and six-month periods ended 30 June 2012, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

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

For the six-month periods ended 30 June 2013 and 2012

- (9) The Company and Subsidiaries adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to IFRS 1. As of 30 June 2012, TIFRS adjustment resulted in an increase of accrual pension liability by NT\$1,391,290 (US\$46,687) thousands, and decreases of retained earnings by NT\$1,597,139 (US\$53,596) thousands and net loss not recognized as pension cost by NT\$509,674 (US\$17,103) thousands. For the three-month period ended 30 June 2012, the adjustment resulted in decreases of pension expense and income tax benefit by NT\$11,650 (US\$391) thousands and NT\$1,981 (US\$67) thousands, respectively. For the six-month period ended 30 June 2012, the adjustment resulted in decreases of pension expense and income tax benefit by NT\$23,299 (US\$781) thousands and NT\$3,961 (US\$132) thousands, respectively.
- (10) According to IAS 12, the Company and Subsidiaries reviewed income tax effects of the above adjustment items. As of 30 June 2012, the above adjustments collectively resulted in recognizing deferred tax assets and deferred tax liabilities by NT\$1,043,870 (US\$35,029) thousands and NT\$8,758,588 (US\$293,912) thousands, respectively. In addition, upon assessing income tax effects directly recognized in other comprehensive income or equity items, the Company and Subsidiaries should increase deferred tax liabilities and decrease unrealized gains or losses on financial instruments by NT\$3,803,363 (US\$127,629) thousands, respectively. Also, the Company and Subsidiaries assessed that unused tax loss carry-forward would probably not realize and resulted in decreases of retained earnings and deferred tax assets by NT\$4,238,597 (US\$142,235) thousands and NT\$4,224,569 (US\$141,765) thousands, and increases of income tax benefit by NT\$0 (US\$0) thousands and NT\$14,028 (US\$470) thousands for the three-month and six-month periods ended 30 June 2012, respectively. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT\$592,276 (US\$19,876) thousands.
- (11) Presentation of consolidated balance sheet and consolidated statement of comprehensive income

The Company and Subsidiaries prepared their consolidated balance sheets and consolidated statements of comprehensive income under the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises before revision. Upon transitioning to TIFRS, in order to comply with the presentation of financial statements under TIFRS and the revised Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, certain items have been reclassified. All other impact on the balance sheet and statement of comprehensive income as a result of adjustments upon transitioning to TIFRS has been described in item (1)-(10).