

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**For The Nine-month Periods Ended**  
**30 September 2013 and 2012**  
**With Independent Auditors' Review 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.

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**Review Report of Independent Auditors**  
English Translation of a Report Originally Issued in Chinese

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

We have reviewed the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the “Company”) and its subsidiaries (the “Subsidiaries”) as of 30 September 2013, 31 December 2012, 30 September 2012, and 1 January 2012, the related consolidated statements of comprehensive income for the three-month and nine-month periods ended 30 September 2013 and 2012, and the related consolidated statements of changes in equity and cash flows for the nine-month periods ended 30 September 2013 and 2012. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with Statements of Auditing Standards No.36 “Review of Financial statements” of the Republic of China (“R.O.C.”). A review consists principally of inquiries, comparison and analytical procedures. A review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with 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.

EY  
Certified Public Accountants  
Taipei, Taiwan, R.O.C.  
28 October 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 review 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**

**Unaudited consolidated balance sheets**

**As at 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012**

**(Expressed in thousands of dollars)**

Assets	Notes	30 September 2013		31 December 2012		30 September 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6,47,48	\$280,847,168	\$9,500,919	\$366,121,804	\$12,603,160	\$394,811,451	\$13,479,394	\$374,053,580	\$12,357,237
Receivables	4,7,47,48	58,807,165	1,989,417	60,991,054	2,099,520	51,473,527	1,757,376	46,488,157	1,535,783
Financial assets at fair value through profit or loss	4,5,8,14,47,48	73,430,784	2,484,127	72,964,811	2,511,697	69,169,564	2,361,542	60,150,749	1,987,141
Available-for-sale financial assets	4,5,9,14,47	1,245,381,277	42,130,625	1,227,321,172	42,248,577	1,229,018,186	41,960,334	1,292,029,178	42,683,488
Derivative financial assets for hedging	4,5,10,47	570,013	19,283	1,142,094	39,315	1,365,092	46,606	1,957,846	64,679
Investments accounted for using the equity method - Net	4,5,11,47	1,155,580	39,093	947,731	32,624	1,092,491	37,299	1,423,015	47,011
Bond investments for which no active market exists	4,5,12,47,48	961,782,807	32,536,631	816,904,617	28,120,641	762,012,685	26,016,138	515,028,639	17,014,491
Other financial assets - Net	4,5,13,47	39,409,505	1,333,204	23,500,010	808,950	24,000,000	819,392	13,300,000	439,379
Investment property	4,5,15,47,48	199,921,385	6,763,240	201,293,052	6,929,193	200,890,643	6,858,677	201,945,170	6,671,463
Investment property under construction	4,5,15,47,48	13,053,129	441,581	7,519,477	258,846	6,576,431	224,528	5,459,223	180,351
Prepayments for buildings and land - Investments	4,5,15,47,48	1,612,861	54,562	1,581,767	54,450	9,009,190	307,586	20,469	676
Loans	4,16,47,48	611,903,897	20,700,403	516,503,876	17,779,824	499,860,514	17,065,910	489,801,740	16,181,095
Reinsurance assets	4,17,47	4,042,165	136,744	9,170,196	315,669	9,176,979	313,314	9,174,128	303,076
Property and equipment	4,18,47,48	48,092,582	1,626,948	48,356,882	1,664,609	29,806,154	1,017,622	23,618,343	780,256
Intangible assets	4,19,47	239,820	8,113	254,878	8,774	346,289	11,823	396,833	13,110
Deferred tax assets	4,5,38,47	13,435,350	454,511	16,106,670	554,446	14,898,544	508,656	11,989,836	396,096
Other assets	20,21,47,48,49	18,131,377	613,375	16,739,474	576,230	23,917,306	816,569	18,231,605	602,300
Separate account product assets	4,40,47	367,150,507	12,420,518	329,557,246	11,344,484	317,518,669	10,840,515	294,051,012	9,714,272
Total assets		<u>\$3,938,967,372</u>	<u>\$133,253,294</u>	<u>\$3,716,976,811</u>	<u>\$127,951,009</u>	<u>\$3,644,943,715</u>	<u>\$124,443,281</u>	<u>\$3,359,119,523</u>	<u>\$110,971,904</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012 were NT\$29.56, NT\$29.05, NT\$29.29 and NT\$30.27 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets - (continued)

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

(Expressed in thousands of dollars)

Liabilities and equity	Notes	30 September 2013		31 December 2012		30 September 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	47	\$293,692	\$9,935	\$297,268	\$10,233	\$77,030	\$2,630	\$201,158	\$6,646
Payables	22,47,48	41,157,093	1,392,324	38,073,655	1,310,625	27,272,049	931,105	22,611,251	746,986
Financial liabilities at fair value through profit or loss	4,23,47	8,750,413	296,022	2,079,457	71,582	1,687,225	57,604	17,468,901	577,103
Preferred stock liability	24,47,48	30,000,000	1,014,885	30,000,000	1,032,702	30,000,000	1,024,240	30,000,000	991,080
Insurance liabilities	4,5,25,47	3,272,418,801	110,704,290	3,082,659,251	106,115,637	3,021,298,065	103,151,180	2,787,557,192	92,089,765
Reserve for insurance contracts with feature of financial instrument	4,25,47	58,276,729	1,971,473	61,350,872	2,111,906	62,524,655	2,134,676	66,884,712	2,209,604
Foreign exchange volatility reserve	4,25,47	8,544,887	289,069	4,270,856	147,017	4,286,477	146,346	-	-
Provisions	4,5,26,27,47	3,931,978	133,017	3,812,483	131,239	3,774,529	128,867	3,645,727	120,440
Deferred tax liabilities	4,5,38,47	11,620,098	393,102	15,390,603	529,797	16,180,741	552,432	12,916,045	426,695
Other liabilities	28,29,47,48	5,841,177	197,604	11,525,810	396,758	20,421,842	697,229	6,480,715	214,097
Separate account product liabilities	4,40,47	367,150,507	12,420,518	329,557,246	11,344,484	317,518,669	10,840,515	294,051,012	9,714,272
Total liabilities		3,807,985,375	128,822,239	3,579,017,501	123,201,980	3,505,041,282	119,666,824	3,241,816,713	107,096,688
Equity attributable to equity holders of the parent									
Capital stock									
Common stock	30	53,065,274	1,795,172	53,065,274	1,826,688	53,065,274	1,811,720	53,065,274	1,753,065
Capital surplus	31	13,009,649	440,110	13,009,649	447,836	13,009,649	444,166	13,009,649	429,787
Retained earnings									
Legal capital reserve	32	9,897,228	334,818	9,241,230	318,115	9,241,230	315,508	9,150,054	302,281
Special capital reserve		36,324,677	1,228,846	32,111,919	1,105,401	30,992,192	1,058,115	31,369,439	1,036,321
Unappropriated retained earnings		15,862,379	536,616	5,048,506	173,787	5,239,212	178,874	2,708,494	89,477
Other equity		1,793,060	60,658	24,469,760	842,332	27,219,852	929,323	6,866,131	226,830
Non-controlling interests	32	1,029,730	34,835	1,012,972	34,870	1,135,024	38,751	1,133,769	37,455
Total equity		130,981,997	4,431,055	137,959,310	4,749,029	139,902,433	4,776,457	117,302,810	3,875,216
Total liabilities and equity		\$3,938,967,372	\$133,253,294	\$3,716,976,811	\$127,951,009	\$3,644,943,715	\$124,443,281	\$3,359,119,523	\$110,971,904

(The exchange rates provided by the Federal Reserve Bank of New York on 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012 were NT\$29.56, NT\$29.05, NT\$29.29 and NT\$30.27 to US\$1.00)

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

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

Item	Notes	1 July-30 September 2013		1 July-30 September 2012	
		NT\$	US\$	NT\$	US\$
Operating revenue	4,48				
Direct premium income	33	\$100,643,437	\$3,404,717	\$106,869,967	\$3,648,685
Reinsurance premium income	33	46,470	1,572	47,517	1,622
Premium income	33	100,689,907	3,406,289	106,917,484	3,650,307
Deduct: Premiums ceded to reinsurers	33	(4,951,759)	(167,516)	(7,513,147)	(256,509)
Changes in unearned premium reserve	33	(476,659)	(16,125)	264,235	9,021
Retained earned premium	33	95,261,489	3,222,648	99,668,572	3,402,819
Reinsurance commission earned		2,681,775	90,723	3,481,574	118,866
Handling fees earned	40	754,274	25,517	708,249	24,181
Net investment profits and losses					
Interest income		23,566,461	797,242	23,510,192	802,670
Gains from financial assets and liabilities at fair value through profit or loss		10,587,103	358,156	13,102,445	447,335
Realized gains from available-for-sale financial assets		14,075,378	476,163	10,483,944	357,936
Realized gains from bond investments for which no active market exists		2,118,537	71,669	1,095,802	37,412
Share of the losses of associates and joint ventures accounted for using the equity method		(76,025)	(2,572)	(80,515)	(2,749)
Foreign exchange losses		(11,755,491)	(397,682)	(16,336,026)	(557,734)
Changes in foreign exchange volatility reserve	25	(549,484)	(18,589)	779,948	26,628
Gains from investment property		1,714,459	57,999	1,396,543	47,680
Other operating revenue		330,573	11,183	441,336	15,068
Separate account product revenue	4,40	24,248,660	820,320	48,274,384	1,648,152
Subtotal		162,957,709	5,512,777	186,526,448	6,368,264
Operating costs	4,48				
Insurance claim payments	34	(58,976,354)	(1,995,141)	(62,381,239)	(2,129,779)
Deduct: Claims recovered from reinsurers	34	2,756,221	93,242	3,136,017	107,067
Retained claim payments	34	(56,220,133)	(1,901,899)	(59,245,222)	(2,022,712)
Changes in insurance liabilities	25	(61,704,694)	(2,087,439)	(61,313,291)	(2,093,318)
Changes in reserve for insurance contracts with feature of financial instruments	25	(146,187)	(4,945)	(50,959)	(1,740)
Brokerage expenses	35	(3,636,803)	(123,031)	(4,670,193)	(159,447)
Commission expenses		(4,180,560)	(141,426)	(4,709,529)	(160,790)
Other operating costs		(1,265,739)	(42,819)	(1,248,438)	(42,623)
Finance costs		25,678	868	146,060	4,987
Separate account product expenses	4,40	(24,248,660)	(820,320)	(48,274,384)	(1,648,152)
Subtotal		(151,377,098)	(5,121,011)	(179,365,956)	(6,123,795)
Operating expenses	4,35,48				
Business expenses		(2,092,856)	(70,800)	(2,157,957)	(73,676)
Administrative and general expenses		(2,387,377)	(80,764)	(2,275,398)	(77,685)
Employee training expenses		(13,755)	(465)	(11,252)	(384)
Subtotal		(4,493,988)	(152,029)	(4,444,607)	(151,745)
Operating income		7,086,623	239,737	2,715,885	92,724
Non-operating income and expenses	4,36,48	339,469	11,484	102,902	3,513
Income from continuing operations before income tax		7,426,092	251,221	2,818,787	96,237
Income tax benefit	4,5,38	610,593	20,656	956,543	32,658
Net income from continuing operations		8,036,685	271,877	3,775,330	128,895
Net income		8,036,685	271,877	3,775,330	128,895
Other comprehensive income	37				
Exchange differences resulting from translating the financial statements of foreign operations		(109,678)	(3,710)	(33,114)	(1,131)
Unrealized valuation (losses) gains from available-for-sale financial assets		(7,991,182)	(270,338)	17,722,734	605,078
Effective portion of losses on hedging instruments in cash flow hedges		(197,743)	(6,690)	(202,891)	(6,927)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method		6,941	235	(15,943)	(544)
Other comprehensive income, before tax		(8,291,662)	(280,503)	17,470,786	596,476
Income taxes relating to components of other comprehensive income		(84,199)	(2,848)	(953,820)	(32,565)
Other comprehensive income, net of tax		(8,375,861)	(283,351)	16,516,966	563,911
Total comprehensive income		\$(339,176)	\$(11,474)	\$20,292,296	\$692,806
Net income attributable to:					
Equity holders of the parent		\$8,034,815	\$271,814	\$3,772,978	\$128,815
Non-controlling interests		\$1,870	\$63	\$2,352	\$80
Total comprehensive income attributable to:					
Equity holders of the parent		\$(294,206)	\$(9,953)	\$20,314,629	\$693,568
Non-controlling interests		\$(44,970)	\$(1,521)	\$(22,333)	\$(762)
Basic earnings per share (In dollars)	39				
Net income from continuing operations		\$1.51	\$0.05	\$0.71	\$0.02

(The exchange rates provided by the Federal Reserve Bank of New York on 30 September 2013 and 2012 were NT\$29.56 and NT\$29.29 to US\$1.00)

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

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

Item	Notes	1 January-30 September 2013		1 January-30 September 2012	
		NT\$	US\$	NT\$	US\$
Operating revenue	4,48				
Direct premium income	33	\$293,979,072	\$9,945,165	\$364,775,914	\$12,453,940
Reinsurance premium income	33	153,164	5,181	139,826	4,774
Premium income	33	294,132,236	9,950,346	364,915,740	12,458,714
Deduct: Premiums ceded to reinsurers	33	(13,733,659)	(464,603)	(21,343,075)	(728,681)
Changes in unearned premium reserve	33	(5,353,252)	(181,098)	405,085	13,830
Retained earned premium	33	275,045,325	9,304,645	343,977,750	11,743,863
Reinsurance commission earned		8,733,193	295,440	10,961,916	374,255
Handling fees earned	40	2,389,978	80,852	1,762,647	60,179
Net investment profits and losses					
Interest income		70,092,654	2,371,199	68,363,676	2,334,028
(Losses) gains from financial assets and liabilities at fair value through profit or loss		(20,338,522)	(688,042)	21,594,917	737,280
Realized gains from available-for-sale financial assets		25,713,773	869,884	22,130,816	755,576
Realized gains from bond investments for which no active market exists		9,997,303	338,204	2,425,135	82,797
Share of the losses of associates and joint ventures accounted for using the equity method		(224,099)	(7,581)	(173,749)	(5,932)
Foreign exchange gains (losses)		22,006,379	744,465	(29,412,682)	(1,004,189)
Changes in foreign exchange volatility reserve	25	(4,274,031)	(144,588)	224,929	7,679
Gains from investment property		5,224,805	176,752	4,818,084	164,496
Other operating revenue		1,012,370	34,248	1,253,673	42,802
Separate account product revenue	4,40	68,699,351	2,324,064	75,965,729	2,593,572
Subtotal		464,078,479	15,699,542	523,892,841	17,886,406
Operating costs	4,48				
Insurance claim payments	34	(161,219,587)	(5,453,978)	(171,354,676)	(5,850,279)
Deduct: Claims recovered from reinsurers	34	8,826,920	298,610	8,624,521	294,453
Retained claim payments	34	(152,392,667)	(5,155,368)	(162,730,155)	(5,555,826)
Changes in insurance liabilities	25	(186,957,534)	(6,324,680)	(243,133,814)	(8,300,916)
Changes in reserve for insurance contracts with feature of financial instruments	25	(270,677)	(9,157)	(596,562)	(20,367)
Brokerage expenses	35	(12,212,742)	(413,151)	(12,582,417)	(429,581)
Commission expenses		(12,544,945)	(424,389)	(13,106,739)	(447,482)
Other operating costs		(3,996,759)	(135,208)	(3,570,956)	(121,917)
Finance costs		384,786	13,017	549,846	18,772
Separate account product expenses	4,40	(68,699,351)	(2,324,064)	(75,965,729)	(2,593,572)
Subtotal		(436,689,889)	(14,773,000)	(511,136,526)	(17,450,889)
Operating expenses	4,35,48				
Business expenses		(5,050,513)	(170,856)	(5,854,252)	(199,872)
Administrative and general expenses		(7,406,768)	(250,567)	(6,991,235)	(238,690)
Employee training expenses		(32,424)	(1,097)	(28,440)	(971)
Subtotal		(12,489,705)	(422,520)	(12,873,927)	(439,533)
Operating income (loss)		14,898,885	504,022	(117,612)	(4,016)
Non-operating income and expenses	4,36,48	842,324	28,495	582,494	19,887
Income from continuing operations before income tax		15,741,209	532,517	464,882	15,871
Income tax (expense) benefit	4,5,38	(6,473)	(219)	1,805,307	61,636
Net income from continuing operations		15,734,736	532,298	2,270,189	77,507
Net income		15,734,736	532,298	2,270,189	77,507
Other comprehensive income	37				
Exchange differences resulting from translating the financial statements of foreign operations		119,166	4,031	(85,362)	(2,914)
Unrealized valuation (losses) gains from available-for-sale financial assets		(24,990,332)	(845,410)	21,929,160	748,691
Effective portion of losses on hedging instruments in cash flow hedges		(584,583)	(19,776)	(612,731)	(20,920)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method		15,994	541	(55,512)	(1,895)
Other comprehensive income, before tax		(25,439,755)	(860,614)	21,175,555	722,962
Income taxes relating to components of other comprehensive income		2,745,820	92,890	(822,076)	(28,067)
Other comprehensive income, net of tax		(22,693,935)	(767,724)	20,353,479	694,895
Total comprehensive income		\$(6,959,199)	\$(235,426)	\$22,623,668	\$772,402
Net income attributable to:					
Equity holders of the parent		\$15,682,629	\$530,535	\$2,244,647	\$76,635
Non-controlling interests		\$52,107	\$1,763	\$25,542	\$872
Total comprehensive income attributable to:					
Equity holders of the parent		\$(6,994,071)	\$(236,606)	\$22,598,368	\$771,538
Non-controlling interests		\$34,872	\$1,180	\$25,300	\$864
Basic earnings per share (In dollars)	39				
Net income from continuing operations		\$2.96	\$0.10	\$0.42	\$0.01

(The exchange rates provided by the Federal Reserve Bank of New York on 30 September 2013 and 2012 were NT\$29.56 and NT\$29.29 to US\$1.00)

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

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

Summary	Equity attributable to equity holders of the parent																					
	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		NTS	US\$	NTS	US\$	NTS	US\$
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on 1 January 2012	\$53,065,274	\$1,811,720	\$13,009,649	\$444,166	\$9,150,054	\$312,395	\$31,369,439	\$1,070,995	\$2,708,494	\$92,472	\$(304,530)	\$(10,397)	\$5,512,974	\$188,221	\$1,657,687	\$56,596	\$116,169,041	\$3,966,168	\$1,133,769	\$38,708	\$117,302,810	\$4,004,876
Appropriation and distribution of earnings for the year 2011																						
Legal capital reserve	-	-	-	-	91,176	3,113	-	-	(91,176)	(3,113)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	742,961	25,365	(742,961)	(25,365)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits	-	-	-	-	-	-	(1,120,208)	(38,245)	1,120,208	38,245	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2012	-	-	-	-	-	-	-	-	2,244,647	76,635	-	-	-	-	-	-	2,244,647	76,635	25,542	872	2,270,189	77,507
Other comprehensive income for the nine-month period ended 30 September 2012	-	-	-	-	-	-	-	-	-	-	(77,531)	(2,647)	20,939,819	714,913	(508,567)	(17,363)	20,353,721	694,903	(242)	(8)	20,353,479	694,895
Total comprehensive income for the nine-month period ended 30 September 2012	-	-	-	-	-	-	-	-	2,244,647	76,635	(77,531)	(2,647)	20,939,819	714,913	(508,567)	(17,363)	22,598,368	771,538	25,300	864	22,623,668	772,402
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,045)	(821)	(24,045)	(821)
Balance on 30 September 2012	<u>\$53,065,274</u>	<u>\$1,811,720</u>	<u>\$13,009,649</u>	<u>\$444,166</u>	<u>\$9,241,230</u>	<u>\$315,508</u>	<u>\$30,992,192</u>	<u>\$1,058,115</u>	<u>\$5,239,212</u>	<u>\$178,874</u>	<u>\$(382,061)</u>	<u>\$(13,044)</u>	<u>\$26,452,793</u>	<u>\$903,134</u>	<u>\$1,149,120</u>	<u>\$39,233</u>	<u>\$138,767,409</u>	<u>\$4,737,706</u>	<u>\$1,135,024</u>	<u>\$38,751</u>	<u>\$139,902,433</u>	<u>\$4,776,457</u>
Balance on 1 January 2013	\$53,065,274	\$1,795,172	\$13,009,649	\$440,110	\$9,241,230	\$312,626	\$32,111,919	\$1,086,331	\$5,048,506	\$170,788	\$(428,258)	\$(14,488)	\$23,938,471	\$809,826	\$959,547	\$32,461	\$136,946,338	\$4,632,826	\$1,012,972	\$34,268	\$137,959,310	\$4,667,094
Special capital reserve recognized in accordance with Order No. 10202508140 issued by Insurance Bureau	-	-	-	-	-	-	2,708,494	91,627	(2,708,494)	(91,627)	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation and distribution of earnings for the year 2012																						
Legal capital reserve	-	-	-	-	655,998	22,192	-	-	(655,998)	(22,192)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	1,538,957	52,062	(1,538,957)	(52,062)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits	-	-	-	-	-	-	(34,693)	(1,174)	34,693	1,174	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2013	-	-	-	-	-	-	-	-	15,682,629	530,535	-	-	-	-	-	-	15,682,629	530,535	52,107	1,763	15,734,736	532,298
Other comprehensive income for the nine-month period ended 30 September 2013	-	-	-	-	-	-	-	-	-	-	98,410	3,329	(22,289,906)	(754,056)	(485,204)	(16,414)	(22,676,700)	(767,141)	(17,235)	(583)	(22,693,935)	(767,724)
Total comprehensive income for the nine-month period ended 30 September 2013	-	-	-	-	-	-	-	-	15,682,629	530,535	98,410	3,329	(22,289,906)	(754,056)	(485,204)	(16,414)	(6,994,071)	(236,606)	34,872	1,180	(6,959,199)	(235,426)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(18,114)	(613)	(18,114)	(613)
Balance on 30 September 2013	<u>\$53,065,274</u>	<u>\$1,795,172</u>	<u>\$13,009,649</u>	<u>\$440,110</u>	<u>\$9,897,228</u>	<u>\$334,818</u>	<u>\$36,324,677</u>	<u>\$1,228,846</u>	<u>\$15,862,379</u>	<u>\$536,616</u>	<u>\$(329,848)</u>	<u>\$(11,159)</u>	<u>\$1,648,565</u>	<u>\$55,770</u>	<u>\$474,343</u>	<u>\$16,047</u>	<u>\$129,952,267</u>	<u>\$4,396,220</u>	<u>\$1,029,730</u>	<u>\$34,835</u>	<u>\$130,981,997</u>	<u>\$4,431,055</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 30 September 2013 and 2012 were NTS29.56 and NTS29.29 to US\$1.00)

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



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

	1 January-30 September 2013		1 January-30 September 2012	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income, before tax	\$15,741,209	\$532,517	\$464,882	\$15,871
Adjustments:				
Non-cash revenue and expense items				
Depreciation	2,235,635	75,630	2,096,487	71,577
Amortization	49,450	1,673	72,266	2,467
Bad debt expenses	1,239,676	41,938	997,541	34,057
Net losses (gains) from financial assets and liabilities at fair value through profit or loss	20,784,820	703,140	(21,077,416)	(719,611)
Net gains from available-for-sale financial assets	(13,622,175)	(460,831)	(11,554,204)	(394,476)
Net gains from bond investments for which no active market exists	(9,997,303)	(338,204)	(2,425,135)	(82,797)
Interest expenses	39,436	1,334	64,420	2,199
Interest income	(70,092,654)	(2,371,199)	(68,363,676)	(2,334,028)
Dividend income	(12,537,896)	(424,151)	(11,094,112)	(378,767)
Changes in insurance liabilities	189,759,550	6,419,471	233,740,873	7,980,228
Changes in reserve for insurance contracts with feature of financial instruments	(3,074,143)	(103,997)	(4,360,057)	(148,858)
Changes in foreign exchange volatility reserve	4,274,031	144,588	4,286,477	146,346
Share of the losses of associates and joint ventures accounted for using the equity method	224,099	7,581	173,749	5,932
Losses on disposal or scrapping of property and equipment	1,181	40	1,826	62
Gains on disposal of investment property	-	-	(89,808)	(3,066)
Subtotal	109,283,707	3,697,013	122,469,231	4,181,265
Changes in operating assets and liabilities				
Decrease in financial assets at fair value through profit or loss	11,750,750	397,522	38,856,510	1,326,613
Increase in derivative financial assets for hedging	(12,502)	(423)	(19,977)	(682)
Decrease in premiums receivable	24,318	823	18,868	644
Decrease in notes receivable	770,666	26,071	750,707	25,630
Decrease in other accounts receivable	4,236,418	143,316	868,863	29,664
Decrease in prepaid expenses and other prepayments	170,668	5,773	250,838	8,564
(Increase) decrease in guarantee deposits paid	(1,774,498)	(60,030)	1,972,679	67,350
Decrease (increase) in reinsurance assets	5,128,031	173,479	(2,851)	(97)
Increase in other financial assets	(15,909,495)	(538,210)	(10,700,000)	(365,312)
Increase in other assets	(9,673)	(327)	(7,910,289)	(270,068)
Decrease in financial liabilities at fair value through profit or loss	(26,108,986)	(883,254)	(42,579,586)	(1,453,724)
Increase (decrease) in notes payable	840	28	(1,317)	(45)
Increase in life insurance proceeds payable	10,394	352	44,557	1,521
Increase in other payables	7,560,938	255,783	4,362,763	148,951
(Decrease) increase in due to reinsurers and ceding companies	(4,161,175)	(140,770)	1,346,830	45,983
Increase in reinsurance proceeds payable	8,952	303	10	-
Decrease in commissions payable	(336,511)	(11,384)	(1,086,572)	(37,097)
Increase (decrease) in accounts collected in advance	20,787	703	(80,052)	(2,733)
Increase in guarantee deposits received	96,673	3,270	101,947	3,481
Increase in provisions	9,555	323	-	-
Decrease in deferred handling fees	(8,883)	(301)	-	-
(Decrease) increase in other liabilities	(5,793,210)	(195,981)	13,919,232	475,221
Increase in provision for employee benefits	109,940	3,719	128,802	4,397
Subtotal	(24,216,003)	(819,215)	241,962	8,261
Cash generated from operating activities	100,808,913	3,410,315	123,176,075	4,205,397
Interest received	68,776,809	2,326,685	65,635,272	2,240,876
Dividends received	12,594,426	426,063	11,148,177	380,614
Interest paid	(39,436)	(1,334)	(69,883)	(2,386)
Income taxes paid	(191,096)	(6,465)	(2,545,195)	(86,896)
Net cash provided by operating activities	181,949,616	6,155,264	197,344,446	6,737,605
Cash flows from investing activities				
Acquisition of available-for-sale financial assets	(664,112,677)	(22,466,599)	(500,953,422)	(17,103,224)
Disposal of available-for-sale financial assets	634,684,415	21,471,056	597,447,779	20,397,671
Acquisition of bond investments for which no active market exists	(429,235,137)	(14,520,810)	(570,407,871)	(19,474,492)
Disposal of bond investments for which no active market exists	294,354,250	9,957,857	325,848,960	11,124,922
Acquisition of investments accounted for using the equity method	(485,551)	(16,426)	-	-
Disinvestment of investments accounted for using the equity method	13,067	442	47,198	1,611
Acquisition of property and equipment	(364,367)	(12,326)	(527,057)	(17,994)
Disposal of property and equipment	402	14	89	3
Acquisition of intangible assets	(32,676)	(1,105)	(24,510)	(837)
Increase in loans	(96,340,107)	(3,259,138)	(11,067,306)	(377,853)
Acquisition of investment property	(5,678,948)	(192,116)	(16,837,998)	(574,872)
Disposal of investment property	-	-	112,580	3,844
Net cash used in investing activities	(267,197,329)	(9,039,151)	(176,361,558)	(6,021,221)
Cash flows from financing activities				
Decrease in notes and bonds with repurchase agreements	(3,576)	(121)	(124,127)	(4,238)
Cash dividends paid	(18,114)	(613)	(24,045)	(821)
Net cash used in financing activities	(21,690)	(734)	(148,172)	(5,059)
Effects of exchange rate changes on cash and cash equivalents	(5,233)	(177)	(76,835)	(2,623)
(Decrease) increase in cash and cash equivalents	(85,274,636)	(2,884,798)	20,757,881	708,702
Cash and cash equivalents at the beginning of the periods	366,121,804	12,385,717	374,053,580	12,770,692
Cash and cash equivalents at the end of the periods	\$280,847,168	\$9,500,919	\$394,811,461	\$13,479,394

(The exchange rates provided by the Federal Reserve Bank of New York on 30 September 2013 and 2012 were NT\$29.56 and NT\$29.29 to US\$1.00)

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

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

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

**Notes to unaudited consolidated financial statements**

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

**For the nine-month periods ended 30 September 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 nine-month periods ended 30 September 2013 and 2012 were authorized to issue in accordance with resolution of the Company’s board of directors on 28 October 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. The impact of adopting the remaining two phases of IFRS 9 on the Company and Subsidiaries could not be determined at this stage.

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 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</i> (Amendments to IFRS 1)	Annual periods beginning on or after 1 July 2010
<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> (Amendments to IFRS 1)	Annual periods beginning on or after 1 July 2011
Amendments to IFRS 7	Annual periods beginning on or after 1 July 2011
<i>Deferred Tax: Recovery of Underlying Assets</i> (Amendments to IAS 12 <i>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</i> (Amendments to IAS 1)	Annual periods beginning on or after 1 July 2012
Amendments to IAS 19 <i>Employee Benefits</i>	Annual periods beginning on or after 1 January 2013
<i>Government Loans</i> (Amendments to IFRS 1)	Annual periods beginning on or after 1 January 2013
<i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> (Amendments to IFRS 7)	Annual periods beginning on or after 1 January 2013
<i>Offsetting Financial Assets and Financial Liabilities</i> (Amendments to IAS 32 <i>Financial Instruments: Presentation</i> )	Annual periods beginning on or after 1 January 2014

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 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 emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with 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 derecognised in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognised in their entirety.

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 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 income (expense). (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.

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

**Improvements to IFRSs 2009-2011 Cycle**

***IAS 1 Presentation of Financial Statements***

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. 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. The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position (known as 'the third balance sheet') 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, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.

**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).

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

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

**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.

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. The Company and Subsidiaries are still currently determining the potential impact of the standards and interpretations.

**4. Summary of significant accounting policies**

**(1) Statement of compliance**

The consolidated financial statements of the Company and Subsidiaries for the nine-month periods ended 30 September 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 unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 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			
			2013.9.30	2012.12.31	2012.9.30	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	100.00	-



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As of 30 September 2013 and 2012, the consolidated financial statements exclude the following:

Investors	Investees	Business	Ownership interest				Notes
			2013.9.30	2012.12.31	2012.9.30	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.

Transactions in foreign currencies are initially recorded by the Company and Subsidiaries at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. 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 a 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 a 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.

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**(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 that includes 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 that includes 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 on 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.

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**(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:

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- a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- b. Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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

**B. 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.

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**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.

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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 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.

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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.

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**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.



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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.

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

At the inception of a hedge relationship, the Company and Subsidiaries formally designate and 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.

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

**A. Fair value hedges**

The carrying amount of the hedged item is adjusted and gain or loss attributable to the hedged risk is recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the 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**

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.

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If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, 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.

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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 additional paid-in capital 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 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*.

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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.

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

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**(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 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
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Investment properties are derecognized when either 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.

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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 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.



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

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 is 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.

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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 at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to 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.

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- (15) Insurance liabilities, reserve for insurance contracts with feature of financial instruments, 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 accidental 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 Section 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the manual published by each authority of insurance products.

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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.

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**(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.

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, 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.

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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.

**e. Premium deficiency reserve**

For the contracts over 1 year of life insurance, health insurance, or annuities contracts commencing on 1 January 2001, the following rules apply: If the written premiums are lower than those of providing policy reserves, the special premium deficiency reserve will be set aside based on the premium deficiencies.

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 serves 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.

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**h. Foreign exchange volatility reserve**

The beginning balance of foreign exchange volatility reserve is NT\$4,511,406 (US\$154,025) 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 September 2013, the amount set aside was NT\$8,544,887 (US\$289,069) thousands.

**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.

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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.”

**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.



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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:

- 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.

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**(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.

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.

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**(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.

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 to 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.

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**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.

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:

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- 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.

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.

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In accordance with guidelines for the preparation of financial statements in the insurance industry, 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 revenue and expenditures, this method is consistent with IFRS 4 *Insurance Contracts*’ definition for separate account insurance products’ income and expenses, separately recognizing as “separate account product revenue” and “separate account product expenses.”

**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.

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**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.

**(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.

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**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.

**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, target markets and own experiences.

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.



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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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Cash on hand and revolving funds	\$215,357	\$7,285	\$202,262	\$6,963
Cash in banks	55,451,133	1,875,884	83,168,415	2,862,940
Time deposits	214,727,384	7,264,120	245,620,182	8,455,083
Cash equivalents	10,453,294	353,630	37,130,945	1,278,174
Total	<u>\$280,847,168</u>	<u>\$9,500,919</u>	<u>\$366,121,804</u>	<u>\$12,603,160</u>

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Cash on hand and revolving funds	\$201,540	\$6,881	\$196,035	\$6,476
Cash in banks	98,562,289	3,365,049	86,712,363	2,864,630
Time deposits	268,850,372	9,178,913	273,956,453	9,050,428
Cash equivalents	27,197,250	928,551	13,188,729	435,703
Total	<u>\$394,811,451</u>	<u>\$13,479,394</u>	<u>\$374,053,580</u>	<u>\$12,357,237</u>

**7. Receivables**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Note receivable - Net	\$2,190,124	\$74,091	\$2,960,789	\$101,920
Premium receivable - Net	52,417	1,773	76,735	2,642
Other receivable - Net	56,564,624	1,913,553	57,953,530	1,994,958
Total	<u>\$58,807,165</u>	<u>\$1,989,417</u>	<u>\$60,991,054</u>	<u>\$2,099,520</u>

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	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Note receivable - Net	\$2,668,389	\$91,103	\$3,419,095	\$112,953
Premium receivable - Net	60,071	2,051	78,940	2,608
Other receivable - Net	48,745,067	1,664,222	42,990,122	1,420,222
Total	<u>\$51,473,527</u>	<u>\$1,757,376</u>	<u>\$46,488,157</u>	<u>\$1,535,783</u>

**8. Financial assets at fair value through profit or loss**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$13,404,021	\$453,451	\$10,883,272	\$374,639
Beneficiary certificates	37,876,745	1,281,351	35,827,323	1,233,298
Exchange traded funds	68,454	2,316	492,845	16,965
Overseas bonds	106,439	3,601	124,249	4,277
Corporate bonds	1,866,807	63,153	810,122	27,887
Government bonds	1,440,882	48,745	1,525,293	52,506
Derivative financial instruments	6,338,736	214,436	4,967,364	170,994
Structured time deposits	12,328,700	417,074	18,334,343	631,131
Total	<u>\$73,430,784</u>	<u>\$2,484,127</u>	<u>\$72,964,811</u>	<u>\$2,511,697</u>

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$11,215,399	\$382,909	\$6,995,561	\$231,106
Overseas stocks	-	-	250,299	8,269
Beneficiary certificates	25,257,607	862,329	32,999,866	1,090,184
Exchange traded funds	112,378	3,837	1,602,986	52,956
Overseas bonds	170,274	5,813	262,850	8,684
Corporate bonds	897,100	30,628	1,320,205	43,614
Government bonds	1,535,309	52,417	1,561,879	51,598
Derivative financial instruments	13,476,848	460,118	4,184,376	138,235
Structured time deposits	16,504,649	563,491	10,972,727	362,495
Total	<u>\$69,169,564</u>	<u>\$2,361,542</u>	<u>\$60,150,749</u>	<u>\$1,987,141</u>

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As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, Symphox Information Co., Ltd. has pledged NT\$47,345 (US\$1,602) thousands, NT\$45,103 (US\$1,553) thousands, NT\$45,632 (US\$1,558) 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.

**9. Available-for-sale financial assets**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$255,557,078	\$8,645,368	\$204,284,325	\$7,032,163
Overseas stocks	116,896,314	3,954,544	74,422,673	2,561,882
Beneficiary certificates	102,596,268	3,470,780	85,183,983	2,932,323
Collateralized loans obligation and collateralized bonds obligation	6,140,504	207,730	6,430,972	221,376
Exchange traded funds	9,335,865	315,828	6,761,735	232,762
Real estate investment trust	12,475,151	422,028	11,687,066	402,309
Financial debentures	188,850,460	6,388,716	198,212,492	6,823,149
Corporate bonds	54,962,526	1,859,355	51,709,182	1,780,006
Government bonds	210,849,008	7,132,916	212,364,770	7,310,319
Overseas bonds	297,229,542	10,055,127	385,787,280	13,280,113
Subtotal	1,254,892,716	42,452,392	1,236,844,478	42,576,402
Less: Litigation deposits	(27,904)	(944)	-	-
Less: Securities serving as deposits paid-bonds	(9,483,535)	(320,823)	(9,523,306)	(327,825)
Total	<u>\$1,245,381,277</u>	<u>\$42,130,625</u>	<u>\$1,227,321,172</u>	<u>\$42,248,577</u>

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$209,503,656	\$7,152,737	\$200,492,027	\$6,623,456
Overseas stocks	69,579,970	2,375,554	44,264,013	1,462,306
Beneficiary certificates	76,128,860	2,599,142	62,074,959	2,050,709
Collateralized loans obligation and collateralized bonds obligation	6,446,943	220,107	8,916,718	294,572
Exchange traded funds	6,806,812	232,394	5,993,731	198,009
Real estate investment trust	11,360,607	387,866	10,978,376	362,682
Financial debentures	199,070,505	6,796,535	193,960,046	6,407,666
Corporate bonds	53,262,530	1,818,454	48,782,633	1,611,584
Government bonds	204,595,972	6,985,182	184,735,945	6,102,938
Overseas bonds	401,820,139	13,718,680	542,445,856	17,920,247
Subtotal	1,238,575,994	42,286,651	1,302,644,304	43,034,169
Less: Securities serving as deposits paid-bonds	(9,557,808)	(326,317)	(10,615,126)	(350,681)
Total	<u>\$1,229,018,186</u>	<u>\$41,960,334</u>	<u>\$1,292,029,178</u>	<u>\$42,683,488</u>

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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 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the Company and Subsidiaries recognized impairment losses amounting to NT\$1,673,957 (US\$56,629) thousands, NT\$1,697,370 (US\$58,429) thousands, NT\$1,667,019 (US\$56,914) 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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
IRS	\$570,013	\$19,283	\$1,142,094	\$39,315

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
IRS	\$1,365,092	\$46,606	\$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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$112,283	\$3,799	\$101,761	\$3,503
Cathay Securities Investment Consulting Co., Ltd.	186,266	6,301	170,659	5,875
Total	\$298,549	\$10,100	\$272,420	\$9,378

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**For the nine-month periods ended 30 September 2013 and 2012**

Investee	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$111,318	\$3,801	\$126,731	\$4,187
Cathay Securities Investment Consulting Co., Ltd.	155,361	5,304	161,913	5,349
Total	<u>\$266,679</u>	<u>\$9,105</u>	<u>\$288,644</u>	<u>\$9,536</u>

**(2) Investments in associates:**

Investee	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$263,757	\$8,923	\$279,441	\$9,619
Vista Technology Venture Capital Corp.	4,501	152	7,451	256
Omnitek Venture Capital Corp.	39,648	1,341	31,694	1,091
IBT Venture Capital Corp.	47,175	1,596	56,435	1,943
Cathay Insurance Company Limited (China)	501,950	16,981	300,290	10,337
Total	<u>\$857,031</u>	<u>\$28,993</u>	<u>\$675,311</u>	<u>\$23,246</u>

Investee	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$293,049	\$10,005	\$336,538	\$11,118
Vista Technology Venture Capital Corp.	16,909	577	27,325	903
Omnitek Venture Capital Corp.	38,068	1,300	63,705	2,104
IBT Venture Capital Corp.	56,516	1,929	77,733	2,568
Cathay Insurance Company Limited (China)	421,270	14,383	629,070	20,782
Total	<u>\$825,812</u>	<u>\$28,194</u>	<u>\$1,134,371</u>	<u>\$37,475</u>

No quoted price for above associates.

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As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the carrying amount of investments in associates accounted for using the equity method amounted to NT\$857,031 (US\$28,993) thousands, NT\$675,311 (US\$23,246) thousands, NT\$825,812 (US\$28,194) 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\$(117,976) (US\$(3,991)) thousands and NT\$(96,307) (US\$(3,288)) thousands for the three-month periods ended 30 September 2013 and 2012, respectively. The share of the losses of associates accounted for using the equity method amounted to NT\$(304,936) (US\$(10,316)) thousands and NT\$(209,656) (US\$(7,158)) thousands for the nine-month periods ended 30 September 2013 and 2012, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to NT\$8,442 (US\$286) thousands and NT\$(13,833) (US\$(472)) thousands for the three-month periods ended 30 September 2013 and 2012, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to NT\$14,172 (US\$479) thousands and NT\$(51,705) (US\$(1,765)) thousands for the nine-month periods ended 30 September 2013 and 2012, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unreviewed amounted to NT\$355,081 (US\$12,012) thousands and NT\$404,542 (US\$13,812) thousands, as at 30 September 2013 and 2012, respectively. The share of the profits of these associates accounted for using the equity method amounted to NT\$6,086 (US\$206) thousands and NT\$1,931 (US\$66) thousands for the three-month periods ended 30 September 2013 and 2012, respectively. The share of the losses of these associates accounted for using the equity method amounted to NT\$(14,084) (US\$(476)) thousands and NT\$(14,961) (US\$(511)) thousands for the nine-month periods ended 30 September 2013 and 2012, respectively.

No investment in associates was pledged.

Financial information of the associates is summarized below:

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Total assets (100%)	\$4,981,471	\$168,521	\$3,782,690	\$130,213
Total liabilities (100%)	2,379,725	80,505	1,494,250	51,437

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Total assets (100%)	\$3,948,356	\$134,802	\$4,341,697	\$143,432
Total liabilities (100%)	1,290,583	44,062	835,821	27,612
	For the three-month period ended 30 September 2013		For the three-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Revenue (100%)	\$553,734	\$18,733	\$414,637	\$14,156
Profit (loss) (100%)	(221,457)	(7,492)	(188,025)	6,419
	For the nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Revenue (100%)	\$1,631,248	\$55,184	\$974,790	\$33,281
Profit (loss) (100%)	(645,413)	(21,834)	(466,012)	(15,910)

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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$7,531,287	\$254,780	\$7,531,287	\$259,253
Corporate bonds	13,000,000	439,784	13,500,000	464,716
Financial debentures	11,350,000	383,965	8,950,000	308,089
Overseas bonds	919,802,245	31,116,449	768,043,949	26,438,690
Time deposits	9,999,275	338,270	18,879,381	649,893
Beneficial right of real estate	100,000	3,383	-	-
Total	\$961,782,807	\$32,536,631	\$816,904,617	\$28,120,641

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Stocks	\$7,531,287	\$257,128	\$2,108,000	\$69,640
Corporate bonds	13,500,000	460,908	15,500,000	512,058
Financial debentures	3,500,000	119,495	-	-
Overseas bonds	718,033,430	24,514,627	492,425,639	16,267,778
Time deposits	19,447,968	663,980	4,995,000	165,015
Total	<u>\$762,012,685</u>	<u>\$26,016,138</u>	<u>\$515,028,639</u>	<u>\$17,014,491</u>

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company and Subsidiaries. As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the Company and Subsidiaries recognized impairment losses amounting to NT\$385,710 (US\$13,048) thousands, NT\$378,768 (US\$13,038) thousands, NT\$381,446 (US\$13,023) thousands and NT\$393,770 (US\$13,008) thousands, respectively.

As of 30 September 2013, 31 December 2012, 30 September 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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Structured deposits	\$39,400,000	\$1,332,882	\$23,500,000	\$808,950
Other	9,505	322	10	-
Total	<u>\$39,409,505</u>	<u>\$1,333,204</u>	<u>\$23,500,010</u>	<u>\$808,950</u>

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Structured deposits	<u>\$24,000,000</u>	<u>\$819,392</u>	<u>\$13,300,000</u>	<u>\$439,379</u>



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**14. Structured notes**

The financial asset investment portfolio belonging to structured notes amounted to NT\$7,336,793 (US\$248,200) thousands, NT\$7,840,496 (US\$269,897) thousands, NT\$7,865,450 (US\$268,537) thousands and NT\$8,776,116 (US\$289,928) thousands as of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, respectively. The details of structured notes are listed below:

Item	30 September 2013					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$80,390	\$2,720	\$26,049	\$881	\$106,439	\$3,601
Available-for-sale financial assets	6,972,450	235,874	257,904	8,725	7,230,354	244,599
Total	<u>\$7,052,840</u>	<u>\$238,594</u>	<u>\$283,953</u>	<u>\$9,606</u>	<u>\$7,336,793</u>	<u>\$248,200</u>

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	<u>\$7,526,121</u>	<u>\$259,075</u>	<u>\$314,375</u>	<u>\$10,822</u>	<u>\$7,840,496</u>	<u>\$269,897</u>

Item	30 September 2012					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$97,978	\$3,345	\$26,125	\$892	\$124,103	\$4,237
Available-for-sale financial assets	7,482,210	255,453	259,137	8,847	7,741,347	264,300
Total	<u>\$7,580,188</u>	<u>\$258,798</u>	<u>\$285,262</u>	<u>\$9,739</u>	<u>\$7,865,450</u>	<u>\$268,537</u>

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	<u>\$8,532,755</u>	<u>\$281,888</u>	<u>\$243,361</u>	<u>\$8,040</u>	<u>\$8,776,116</u>	<u>\$289,928</u>

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**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	-	2,413	4,739,790	36,399	4,778,602
Additions from subsequent expenditure	-	-	900,346	-	900,346
Transfers from (to) investment property under construction and prepayments for buildings and land	5,305	106,484	(106,484)	(5,305)	-
Disposals	-	-	-	-	-
30 September 2013	<u>\$155,798,494</u>	<u>\$57,462,861</u>	<u>\$13,053,129</u>	<u>\$1,612,861</u>	<u>\$227,927,345</u>

	US\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Cost:					
1 January 2013	\$5,270,406	\$1,940,256	\$254,380	\$53,510	\$7,518,552
Additions from acquisitions	-	82	160,345	1,231	161,658
Additions from subsequent expenditure	-	-	30,458	-	30,458
Transfers from (to) investment property under construction and prepayments for buildings and land	179	3,602	(3,602)	(179)	-
Disposals	-	-	-	-	-
30 September 2013	<u>\$5,270,585</u>	<u>\$1,943,940</u>	<u>\$441,581</u>	<u>\$54,562</u>	<u>\$7,710,668</u>

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	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	-	1,875	1,716,651	14,874,235	16,592,761
Additions from subsequent expenditure	-	-	245,237	-	245,237
Transfers from (to) property and equipment	(1,090,884)	(1,912,626)	-	-	(3,003,510)
Transfers from (to) investment property under construction and prepayments for buildings and land	1,157,824	1,181,882	(844,680)	(5,885,514)	(4,390,488)
Disposals	(22,772)	-	-	-	(22,772)
30 September 2012	<u>\$156,598,627</u>	<u>\$56,853,506</u>	<u>\$6,576,431</u>	<u>\$9,009,190</u>	<u>\$229,037,754</u>

	US\$				
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Cost:					
1 January 2012	\$5,344,980	\$1,965,940	\$186,385	\$699	\$7,498,004
Additions from acquisitions	-	64	58,609	507,826	566,499
Additions from subsequent expenditure	-	-	8,373	-	8,373
Transfers from (to) property and equipment	(37,244)	(65,300)	-	-	(102,544)
Transfers from (to) investment property under construction and prepayments for buildings and land	39,530	40,351	(28,839)	(200,939)	(149,897)
Disposals	(778)	-	-	-	(778)
30 September 2012	<u>\$5,346,488</u>	<u>\$1,941,055</u>	<u>\$224,528</u>	<u>\$307,586</u>	<u>\$7,819,657</u>

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

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	-	(1,485,869)	-	-	(1,485,869)
30 September 2013	\$(19,426)	\$(13,320,544)	\$-	\$-	\$(13,339,970)

US\$					
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Depreciation and impairment:					
1 January 2013	\$(657)	\$(400,361)	\$-	\$-	\$(401,018)
Depreciation	-	(50,267)	-	-	(50,267)
30 September 2013	\$(657)	\$(450,628)	\$-	\$-	\$(451,285)

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	-	(803,097)	-	-	(803,097)
Transfers (from) to property and equipment	-	433,271	-	-	433,271
30 September 2012	\$(19,426)	\$(12,542,064)	\$-	\$-	\$(12,561,490)

US\$					
	Land	Buildings	Investment property under construction	Prepayments for buildings and land - Investments	Total
Depreciation and impairment:					
1 January 2012	\$(663)	\$(415,577)	\$-	\$-	\$(416,240)
Depreciation	-	(27,419)	-	-	(27,419)
Transfers (from) to property and equipment	-	14,793	-	-	14,793
30 September 2012	\$(663)	\$(428,203)	\$-	\$-	\$(428,866)

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**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	NT\$				
	Land	Buildings	Investment	Prepayments for	Total
			property under	buildings and	
			construction	land - Investments	
Net carrying amount as at:					
30 September 2013	\$155,779,068	\$44,142,317	\$13,053,129	\$1,612,861	\$214,587,375
31 December 2012	\$155,773,763	\$45,519,289	\$7,519,477	\$1,581,767	\$210,394,296
30 September 2012	\$156,579,201	\$44,311,442	\$6,576,431	\$9,009,190	\$216,476,264
1 January 2012	\$156,535,033	\$45,410,137	\$5,459,223	\$20,469	\$207,424,862

	US\$				
	Land	Buildings	Investment	Prepayments for	Total
			property under	buildings and	
			construction	land - Investments	
Net carrying amount as at:					
30 September 2013	\$5,269,928	\$1,493,312	\$441,581	\$54,562	\$7,259,383
31 December 2012	\$5,362,264	\$1,566,929	\$258,846	\$54,450	\$7,242,489
30 September 2012	\$5,345,825	\$1,512,852	\$224,528	\$307,586	\$7,390,791
1 January 2012	\$5,171,293	\$1,500,170	\$180,351	\$676	\$6,852,490

	For the three-month		For the three-month	
	period ended		period ended	
	30 September 2013		30 September 2012	
	NT\$	US\$	NT\$	US\$
Rental income from investment property	\$1,718,540	\$58,137	\$1,400,621	\$47,819
Less:				
Direct operating expenses from investment				
property generating rental income	(60,666)	(2,052)	(64,953)	(2,218)
Direct operating expenses from investment				
property not generating rental income	(3,680)	(124)	(4,136)	(141)
Total	\$1,654,194	\$55,961	\$1,331,532	\$45,460

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Rental income from investment property	\$5,237,042	\$177,166	\$4,742,043	\$161,900
Less:				
Direct operating expenses from investment property generating rental income	(233,883)	(7,912)	(228,417)	(7,799)
Direct operating expenses from investment property not generating rental income	(13,074)	(442)	(9,989)	(341)
Total	<u>\$4,990,085</u>	<u>\$168,812</u>	<u>\$4,503,637</u>	<u>\$153,760</u>

The fair value of investment property was NT\$259,179,565 (US\$8,768,915) thousands, NT\$247,528,274 (US\$8,520,767) thousands, NT\$236,140,967 (US\$8,062,170) thousands, and NT\$223,805,088 (US\$7,393,627) thousands, as at 30 September 2013, 31 December 2012, 30 September 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:

	30 September 2013	31 December 2012	30 September 2012	1 January 2012
Discount rate	2.5%~4.5%	2.5%~4.5%	2.5%~4.5%	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 September 2013, 31 December 2012, 30 September 2012, and 1 January 2012, no investments in real estate were pledged as collateral.

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**16. Loans**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Policy loans	\$170,490,284	\$5,767,601	\$175,865,592	\$6,053,893
Automatic premium loans	6,040,754	204,356	6,045,296	208,100
Secured loans	435,372,859	14,728,446	334,592,988	11,517,831
Total	<u>\$611,903,897</u>	<u>\$20,700,403</u>	<u>\$516,503,876</u>	<u>\$17,779,824</u>

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Policy loans	\$176,283,370	\$6,018,551	\$182,048,566	\$6,014,158
Automatic premium loans	6,084,222	207,724	6,312,018	208,524
Secured loans	317,492,922	10,839,635	301,441,156	9,958,413
Total	<u>\$499,860,514</u>	<u>\$17,065,910</u>	<u>\$489,801,740</u>	<u>\$16,181,095</u>

- (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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Secured loans	\$434,956,922	\$14,714,375	\$333,064,485	\$11,465,215
Secured loans - Related parties	3,580,480	121,126	3,677,241	126,583
Less: Allowance for bad debts	(3,248,777)	(109,905)	(2,289,452)	(78,811)
Subtotal	<u>435,288,625</u>	<u>14,725,596</u>	<u>334,452,274</u>	<u>11,512,987</u>
Overdue receivables	483,156	16,345	558,875	19,238
Less: Allowance for bad debts	(398,922)	(13,495)	(418,161)	(14,394)
Subtotal	<u>84,234</u>	<u>2,850</u>	<u>140,714</u>	<u>4,844</u>
Total	<u>\$435,372,859</u>	<u>\$14,728,446</u>	<u>\$334,592,988</u>	<u>\$11,517,831</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Secured loans	\$315,678,482	\$10,777,688	\$298,732,859	\$9,868,941
Secured loans - Related parties	3,628,509	123,882	3,783,742	125,000
Less: Allowance for bad debts	(1,986,303)	(67,815)	(1,337,090)	(44,172)
Subtotal	317,320,688	10,833,755	301,179,511	9,949,769
Overdue receivables	594,895	20,311	324,987	10,736
Less: Allowance for bad debts	(422,661)	(14,431)	(63,342)	(2,092)
Subtotal	172,234	5,880	261,645	8,644
Total	\$317,492,922	\$10,839,635	\$301,441,156	\$9,958,413

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	\$47,303	\$1,309,318	\$44,294	\$2,707,613	\$91,597
Charge (reversal) for the current period	162,389	5,494	393,591	13,315	555,980	18,809
Write off	-	-	(21,570)	(730)	(21,570)	(730)
Minimum of statutory reserve	(38,305)	(1,296)	443,981	15,020	405,676	13,724
30 September 2013	\$1,522,379	\$51,501	\$2,125,320	\$71,899	\$3,647,699	\$123,400

	Individually impaired		Collectively impaired		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
1 January 2012	\$549,936	\$18,776	\$850,496	\$29,037	\$1,400,432	\$47,813
Charge (reversal) for the current period	673,020	22,978	113,137	3,863	786,157	26,841
Write off	-	-	(27,200)	(929)	(27,200)	(929)
Minimum of statutory reserve	(51)	(2)	249,626	8,523	249,575	8,521
30 September 2012	\$1,222,905	\$41,752	\$1,186,059	\$40,494	\$2,408,964	\$82,246



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17. Reinsurance assets

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$34	\$1	\$1,014	\$35
Due from reinsurers and ceding companies	177,019	5,988	3,547	122
Reinsurance reserve assets				
Ceded unearned premium reserve	3,169,790	107,233	8,384,281	288,615
Ceded reserve for claims	695,322	23,522	781,354	26,897
Subtotal	3,865,112	130,755	9,165,635	315,512
Total	\$4,042,165	\$136,744	\$9,170,196	\$315,669

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$1,014	\$34	\$2,940	\$97
Due from reinsurers and ceding companies	67,418	2,302	2,755	91
Reinsurance reserve assets				
Ceded unearned premium reserve	8,346,778	284,970	8,617,664	284,693
Ceded reserve for claims	761,769	26,008	550,769	18,195
Subtotal	9,108,547	310,978	9,168,433	302,888
Total	\$9,176,979	\$313,314	\$9,174,128	\$303,076

Above reinsurance assets were not impaired.

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**18. Property and equipment**

NT\$									
				Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
	Land	Buildings and construction	Computer equipment						
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	-	21,207	49,012	-	152,679	15,030	-	39,525	277,453
Additions from subsequent expenditure	-	-	-	-	-	-	-	99,564	99,564
Transfers	-	11,991	(10,942)	-	2,881	-	-	(11,991)	(8,061)
Disposals	-	-	(23,872)	-	(32,136)	-	-	-	(56,008)
Exchange differences	-	121,864	9,717	138	472	4,724	-	-	136,915
30 September 2013	<u>\$29,580,787</u>	<u>\$30,914,283</u>	<u>\$2,541,583</u>	<u>\$16,017</u>	<u>\$4,089,840</u>	<u>\$143,834</u>	<u>\$275,652</u>	<u>\$247,774</u>	<u>\$67,809,770</u>
US\$									
				Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
	Land	Buildings and construction	Computer equipment						
Cost:									
1 January 2013	\$1,000,703	\$1,040,569	\$85,172	\$537	\$134,166	\$4,198	\$9,325	\$4,082	\$2,278,752
Additions from acquisitions	-	717	1,658	-	5,165	508	-	1,337	9,385
Additions from subsequent expenditure	-	-	-	-	-	-	-	3,369	3,369
Transfers	-	406	(370)	-	97	-	-	(406)	(273)
Disposals	-	-	(808)	-	(1,087)	-	-	-	(1,895)
Exchange differences	-	4,123	329	5	16	160	-	-	4,633
30 September 2013	<u>\$1,000,703</u>	<u>\$1,045,815</u>	<u>\$85,981</u>	<u>\$542</u>	<u>\$138,357</u>	<u>\$4,866</u>	<u>\$9,325</u>	<u>\$8,382</u>	<u>\$2,293,971</u>

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	NT\$								
				Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
	Land	Buildings and construction	Computer equipment	transportation equipment	Other equipment	Leasehold improvement	Leased assets	equipment	
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	-	4,212	56,452	5,670	99,563	5,721	275,652	240	447,510
Additions from subsequent expenditure	-	-	-	-	-	-	-	81,240	81,240
Transfers	5,324,155	2,090,913	1,969	-	-	-	-	(22,699)	7,394,338
Disposals	-	-	(82,600)	(680)	(14,515)	-	-	-	(97,795)
Exchange differences	-	-	(8,812)	(115)	(432)	(3,515)	-	(32)	(12,906)
30 September 2012	\$17,759,457	\$22,621,435	\$2,504,211	\$18,375	\$3,909,261	\$118,118	\$275,652	\$97,618	\$47,304,127

	US\$								
				Communication			Construction in		
		Buildings and	Computer	transportation	Other	Leasehold	progress and		
				and			prepayment for		
							real estate		
	Land	construction	equipment	equipment	equipment	improvement	Leased assets	equipment	
								Total	
Cost:									
1 January 2012	\$424,558	\$700,796	\$86,623	\$461	\$130,579	\$3,957	\$-	\$1,327	\$1,348,301
Additions from acquisitions	-	144	1,928	194	3,399	195	9,411	8	15,279
Additions from subsequent									
expenditure	-	-	-	-	-	-	-	2,774	2,774
Transfers	181,774	71,387	67	-	-	-	-	(775)	252,453
Disposals	-	-	(2,820)	(23)	(496)	-	-	-	(3,339)
Exchange differences	-	-	(301)	(4)	(15)	(120)	-	(1)	(441)
30 September 2012	\$606,332	\$772,327	\$85,497	\$628	\$133,467	\$4,032	\$9,411	\$3,333	\$1,615,027

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NT\$

							Construction in		
							progress and		
							prepayment for		
							real estate		
	Land	Buildings and	Computer	transportation	Other	Leasehold			
		construction	equipment	equipment	equipment	improvement	Leased assets	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	-	(519,761)	(64,597)	(1,140)	(100,827)	(11,756)	(51,685)	-	(749,766)
Transfers	-	-	7,020	-	(11,859)	-	-	-	(4,839)
Disposals	-	-	20,895	-	31,143	-	-	-	52,038
Exchange differences	-	(1,507)	(5,867)	(113)	(418)	(3,691)	-	-	(11,596)
30 September 2013	\$(105,610)	\$(13,630,674)	\$(2,261,179)	\$(10,905)	\$(3,516,038)	\$(112,383)	\$(80,399)	\$-	\$(19,717,188)

US\$

							Construction in		
							progress and		
							prepayment for		
							real estate		
	Land	Buildings and	Computer	transportation	Other	Leasehold			
		construction	equipment	equipment	equipment	improvement	Leased assets	equipment	Total
Depreciation and impairment:									
1 January 2013	\$(3,573)	\$(443,485)	\$(75,055)	\$(327)	\$(116,173)	\$(3,279)	\$(972)	\$-	\$(642,864)
Depreciation	-	(17,583)	(2,185)	(38)	(3,411)	(398)	(1,748)	-	(25,363)
Transfers	-	-	237	-	(401)	-	-	-	(164)
Disposals	-	-	706	-	1,054	-	-	-	1,760
Exchange differences	-	(51)	(198)	(4)	(14)	(125)	-	-	(392)
30 September 2013	\$(3,573)	\$(461,119)	\$(76,495)	\$(369)	\$(118,945)	\$(3,802)	\$(2,720)	\$-	\$(667,023)

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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	-	(1,106,928)	(65,306)	(634)	(92,746)	(16,290)	(11,486)	-	(1,293,390)
Transfers	-	(433,271)	-	-	-	-	-	-	(433,271)
Disposals	-	-	79,309	680	14,199	-	-	-	94,188
Exchange differences	-	-	4,937	70	373	2,517	-	-	7,897
30 September 2012	\$(105,610)	\$(11,767,323)	\$(2,136,902)	\$(11,703)	\$(3,371,891)	\$(93,058)	\$(11,486)	\$-	\$(17,497,973)

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	\$(3,606)	\$(349,168)	\$(73,603)	\$(404)	\$(112,452)	\$(2,707)	\$-	\$-	\$(541,940)
Depreciation	-	(37,792)	(2,230)	(22)	(3,166)	(556)	(392)	-	(44,158)
Transfers	-	(14,792)	-	-	-	-	-	-	(14,792)
Disposals	-	-	2,708	23	485	-	-	-	3,216
Exchange differences	-	-	168	2	13	86	-	-	269
30 September 2012	\$(3,606)	\$(401,752)	\$(72,957)	\$(401)	\$(115,120)	\$(3,177)	\$(392)	\$-	\$(597,405)

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 September 2013	\$29,475,177	\$17,283,609	\$280,404	\$5,112	\$573,802	\$31,451	\$195,253	\$247,774	\$48,092,582
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 September 2012	\$17,653,847	\$10,854,112	\$367,309	\$6,672	\$537,370	\$25,060	\$264,166	\$97,618	\$29,806,154
1 January 2012	\$12,329,692	\$10,299,186	\$381,360	\$1,681	\$530,928	\$36,627	\$-	\$38,869	\$23,618,343

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**For the nine-month periods ended 30 September 2013 and 2012**

	US\$								
				Communication and				Construction in progress and prepayment for real estate	
	Land	Buildings and construction	Computer equipment	transportation equipment	Other equipment	Leasehold improvement	Leased assets	equipment	Total
Net carrying amount as at:									
30 September 2013	\$997,130	\$584,696	\$9,486	\$173	\$19,412	\$1,064	\$6,605	\$8,382	\$1,626,948
31 December 2012	\$1,014,636	\$607,567	\$10,294	\$215	\$18,309	\$934	\$8,500	\$4,154	\$1,664,609
30 September 2012	\$602,726	\$370,575	\$12,540	\$227	\$18,347	\$855	\$9,019	\$3,333	\$1,017,622
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**

	Computer software	
Cost:	NT\$	US\$
1 January 2013	\$1,716,232	\$58,059
Addition — acquired separately	32,676	1,106
Transfers	(4,265)	(144)
Exchange differences	6,745	228
30 September 2013	\$1,751,388	\$59,249

	Computer software	
Cost:	NT\$	US\$
1 January 2012	\$1,682,975	\$57,459
Addition — acquired separately	24,510	837
Transfers	(340)	(12)
Exchange differences	(6,312)	(215)
30 September 2012	\$1,700,833	\$58,069

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	Computer software	
Amortization and impairment:	NT\$	US\$
1 January 2013	\$(1,461,354)	\$(49,437)
Amortization	(49,450)	(1,673)
Transfers	2,535	86
Exchange differences	(3,299)	(112)
30 September 2013	<u>\$(1,511,568)</u>	<u>\$(51,136)</u>

	Computer software	
Amortization and impairment:	NT\$	US\$
1 January 2012	\$(1,286,142)	\$(43,910)
Amortization	(71,195)	(2,431)
Transfers	-	-
Exchange differences	2,793	95
30 September 2012	<u>\$(1,354,544)</u>	<u>\$(46,246)</u>

	Computer software	
Net carrying amount as at:	NT\$	US\$
30 September 2013	<u>\$239,820</u>	<u>\$8,113</u>
31 December 2012	<u>\$254,878</u>	<u>\$8,774</u>
30 September 2012	<u>\$346,289</u>	<u>\$11,823</u>
1 January 2012	<u>\$396,833</u>	<u>\$13,110</u>

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

	For the three-month period ended 30 September 2013		For the three-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	<u>\$441</u>	<u>\$15</u>	<u>\$155</u>	<u>\$5</u>
Operating expenses — business expenses	<u>\$9,750</u>	<u>\$330</u>	<u>\$14,211</u>	<u>\$485</u>
Operating expenses — administrative and general expenses	<u>\$4,889</u>	<u>\$165</u>	<u>\$6,519</u>	<u>\$223</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$1,244	\$42	\$502	\$17
Operating expenses — business expenses	\$30,382	\$1,028	\$51,239	\$1,750
Operating expenses — administrative and general expenses	\$17,824	\$603	\$19,454	\$664

20. Other assets

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Prepayment	\$520,161	\$17,597	\$690,829	\$23,781
Deferred acquisition costs	45,918	1,553	51,659	1,778
Guarantee deposits paid	15,929,017	538,871	14,376,119	494,875
Other assets - other	1,636,281	55,354	1,620,867	55,796
Total	\$18,131,377	\$613,375	\$16,739,474	\$576,230

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Prepayment	\$84,162	\$2,873	\$335,000	\$11,067
Guarantee deposits paid	13,723,242	468,530	15,695,921	518,531
Other assets - other	10,109,902	345,166	2,200,684	72,702
Total	\$23,917,306	\$816,569	\$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 nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$51,659	\$1,747	\$-	\$-
Amortization	(5,741)	(194)	-	-
Ending balance	\$45,918	\$1,553	\$-	\$-



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**22. Payables**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Notes payable	\$1,944	\$66	\$1,104	\$38
Life insurance proceeds payable	254,108	8,596	243,714	8,390
Reinsurance proceeds payable	8,952	303	-	-
Commissions payable	308,379	10,432	644,891	22,199
Due to reinsurers and ceding companies	3,895,167	131,772	8,056,342	277,327
Other payables	36,688,543	1,241,155	29,127,604	1,002,671
Total	<u>\$41,157,093</u>	<u>\$1,392,324</u>	<u>\$38,073,655</u>	<u>\$1,310,625</u>

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Notes payable	\$1,111	\$38	\$2,428	\$80
Life insurance proceeds payable	198,046	6,762	153,489	5,071
Commissions payable	164,325	5,610	1,250,897	41,325
Due to reinsurers and ceding companies	7,561,559	258,162	6,214,729	205,310
Other payables	19,347,008	660,533	14,989,708	495,200
Total	<u>\$27,272,049</u>	<u>\$931,105</u>	<u>\$22,611,251</u>	<u>\$746,986</u>

**23. Financial liabilities at fair value through profit or loss**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Held for trading:				
Derivatives that are not designated hedging				
Forward	\$2,903,236	\$98,215	\$726,786	\$25,018
CS	5,766,275	195,070	1,246,005	42,892
IRS	80,902	2,737	106,666	3,672
Total	<u>\$8,750,413</u>	<u>\$296,022</u>	<u>\$2,079,457</u>	<u>\$71,582</u>

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	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Held for trading:				
Derivatives that are not designated hedging				
CDS	\$-	\$-	\$2,356	\$78
Forward	820,244	28,004	1,435,728	47,431
CS	740,300	25,275	15,666,231	517,550
IRS	126,681	4,325	364,586	12,044
Total	<u>\$1,687,225</u>	<u>\$57,604</u>	<u>\$17,468,901</u>	<u>\$577,103</u>

**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.

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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.
- (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.

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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".

- 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:

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**For the nine-month periods ended 30 September 2013 and 2012**

**(1) The Company**

**A. Reserve for life insurance liabilities:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$2,720,191,764	\$42,693,646	\$2,762,885,410	\$2,540,691,009	\$44,435,855	\$2,585,126,864
Injury insurance	7,902,089	-	7,902,089	7,888,169	-	7,888,169
Health insurance	304,012,874	-	304,012,874	270,513,728	-	270,513,728
Annuity insurance	1,233,184	107,190,683	108,423,867	1,226,217	124,300,017	125,526,234
Investment-linked insurance	1,084,585	-	1,084,585	1,059,809	-	1,059,809
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
<b>Total</b>	<b>\$3,034,487,788</b>	<b>\$149,884,329</b>	<b>\$3,184,372,117</b>	<b>\$2,821,442,224</b>	<b>\$168,735,872</b>	<b>\$2,990,178,096</b>

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$92,022,726	\$1,444,305	\$93,467,031	\$87,459,243	\$1,529,634	\$88,988,877
Injury insurance	267,324	-	267,324	271,538	-	271,538
Health insurance	10,284,603	-	10,284,603	9,312,004	-	9,312,004
Annuity insurance	41,718	3,626,207	3,667,925	42,211	4,278,830	4,321,041
Investment-linked insurance	36,691	-	36,691	36,482	-	36,482
Recover from major incident reserve	2,141	-	2,141	2,179	-	2,179
<b>Total</b>	<b>\$102,655,203</b>	<b>\$5,070,512</b>	<b>\$107,725,715</b>	<b>\$97,123,657</b>	<b>\$5,808,464</b>	<b>\$102,932,121</b>

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	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$2,491,984,798	\$44,767,606	\$2,536,752,404	\$2,262,171,695	\$44,410,268	\$2,306,581,963
Injury insurance	7,807,817	-	7,807,817	7,663,561	-	7,663,561
Health insurance	257,677,467	-	257,677,467	228,602,480	-	228,602,480
Annuity insurance	1,355,427	126,034,356	127,389,783	1,468,242	149,221,880	150,690,122
Investment-linked insurance	1,023,872	-	1,023,872	1,217,774	-	1,217,774
Recover from major incident						
reserve	47,469	-	47,469	-	-	-
Total	\$2,759,896,850	\$170,801,962	\$2,930,698,812	\$2,501,123,752	\$193,632,148	\$2,694,755,900

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$85,079,713	\$1,528,426	\$86,608,139	\$74,733,125	\$1,467,138	\$76,200,263
Injury insurance	266,570	-	266,570	253,174	-	253,174
Health insurance	8,797,455	-	8,797,455	7,552,114	-	7,552,114
Annuity insurance	46,276	4,302,983	4,349,259	48,505	4,929,695	4,978,200
Investment-linked insurance	34,956	-	34,956	40,230	-	40,230
Recover from major incident						
reserve	1,621	-	1,621	-	-	-
Total	\$94,226,591	\$5,831,409	\$100,058,000	\$82,627,148	\$6,396,833	\$89,023,981

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**For the nine-month periods ended 30 September 2013 and 2012**

Reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation 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	294,039,548	8,835,260	302,874,808	360,091,700	773,556	360,865,256
Recover	(84,159,837)	(27,003,557)	(111,163,394)	(97,200,619)	(23,591,552)	(120,792,171)
Losses (gains) on foreign						
exchange	3,165,853	(683,246)	2,482,607	(4,117,983)	(12,190)	(4,130,173)
Ending balance	\$3,034,487,788	\$149,884,329	\$3,184,372,117	\$2,759,896,850	\$170,801,962	\$2,930,698,812

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$95,447,978	\$5,708,250	\$101,156,228	\$85,391,729	\$6,610,862	\$92,002,591
Reserve	9,947,211	298,893	10,246,104	12,294,015	26,410	12,320,425
Recover	(2,847,085)	(913,517)	(3,760,602)	(3,318,560)	(805,447)	(4,124,007)
Losses (gains) on foreign						
exchange	107,099	(23,114)	83,985	(140,593)	(416)	(141,009)
Ending balance	\$102,655,203	\$5,070,512	\$107,725,715	\$94,226,591	\$5,831,409	\$100,058,000

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**B. Unearned premium reserve:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	332,622	\$-	332,622	286,321	\$-	286,321
Individual injury insurance	4,570,534	-	4,570,534	4,528,407	-	4,528,407
Individual health insurance	6,077,191	-	6,077,191	6,135,137	-	6,135,137
Group insurance	816,036	-	816,036	780,294	-	780,294
Investment-linked insurance	111,070	-	111,070	118,616	-	118,616
Total	11,907,453	-	11,907,453	11,848,775	-	11,848,775
Less ceded unearned premium reserve:						
Individual life insurance	2,666,995	-	2,666,995	3,686,613	-	3,686,613
Individual injury insurance	474,167	-	474,167	4,690,419	-	4,690,419
Group insurance	558	-	558	89	-	89
Total	3,141,720	-	3,141,720	8,377,121	-	8,377,121
Net	\$8,765,733	\$-	\$8,765,733	\$3,471,654	\$-	\$3,471,654

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$11,253	\$-	\$11,253	\$9,856	\$-	\$9,856
Individual injury insurance	154,619	-	154,619	155,883	-	155,883
Individual health insurance	205,588	-	205,588	211,192	-	211,192
Group insurance	27,606	-	27,606	26,861	-	26,861
Investment-linked insurance	3,757	-	3,757	4,083	-	4,083
Total	402,823	-	402,823	407,875	-	407,875
Less ceded unearned premium reserve:						
Individual life insurance	90,223	-	90,223	126,906	-	126,906
Individual injury insurance	16,041	-	16,041	161,460	-	161,460
Group insurance	19	-	19	3	-	3
Total	106,283	-	106,283	288,369	-	288,369
Net	\$296,540	\$-	\$296,540	\$119,506	\$-	\$119,506



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	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$256,348	\$2	\$256,350	\$209,502	\$4	\$209,506
Individual injury insurance	4,419,759	-	4,419,759	4,346,188	-	4,346,188
Individual health insurance	5,739,354	-	5,739,354	5,762,270	-	5,762,270
Group insurance	746,941	-	746,941	1,579,244	-	1,579,244
Investment-linked insurance	113,228	-	113,228	120,773	-	120,773
Total	11,275,630	2	11,275,632	12,017,977	4	12,017,981
Less ceded unearned premium reserve:						
Individual life insurance	3,745,639	-	3,745,639	2,513,030	-	2,513,030
Individual injury insurance	4,593,414	-	4,593,414	4,807,267	-	4,807,267
Group insurance	574	-	574	826	-	826
Investment-linked insurance	-	-	-	1,289,194	-	1,289,194
Total	8,339,627	-	8,339,627	8,610,317	-	8,610,317
Net	\$2,936,003	\$2	\$2,936,005	\$3,407,660	\$4	\$3,407,664

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$8,752	\$-	\$8,752	\$6,921	\$-	\$6,921
Individual injury insurance	150,896	-	150,896	143,581	-	143,581
Individual health insurance	195,949	-	195,949	190,362	-	190,362
Group insurance	25,502	-	25,502	52,172	-	52,172
Investment-linked insurance	3,866	-	3,866	3,990	-	3,990
Total	384,965	-	384,965	397,026	-	397,026
Less ceded unearned premium reserve:						
Individual life insurance	127,881	-	127,881	83,021	-	83,021
Individual injury insurance	156,825	-	156,825	158,813	-	158,813
Group insurance	20	-	20	27	-	27
Investment-linked insurance	-	-	-	42,590	-	42,590
Total	284,726	-	284,726	284,451	-	284,451
Net	\$100,239	\$-	\$100,239	\$112,575	\$-	\$112,575

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

Unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$11,848,775	\$-	\$11,848,775	\$12,017,977	\$4	\$12,017,981
Reserve	11,907,454	-	11,907,454	11,275,630	2	11,275,632
Recover	(11,848,775)	-	(11,848,775)	(12,017,977)	(4)	(12,017,981)
Losses (gains) on foreign exchange	(1)	-	(1)	-	-	-
Ending balance	11,907,453	-	11,907,453	11,275,630	2	11,275,632
Less ceded unearned premium reserve:						
Beginning balance-Net	8,377,121	-	8,377,121	8,610,317	-	8,610,317
Increase	153,150	-	153,150	-	-	-
Decrease	(5,388,551)	-	(5,388,551)	(270,690)	-	(270,690)
Ending balance-Net	3,141,720	-	3,141,720	8,339,627	-	8,339,627
Total	\$8,765,733	\$-	\$8,765,733	\$2,936,003	\$2	\$2,936,005

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$400,838	\$-	\$400,838	\$410,310	\$-	\$410,310
Reserve	402,823	-	402,823	384,965	-	384,965
Recover	(400,838)	-	(400,838)	(410,310)	-	(410,310)
Losses (gains) on foreign exchange	-	-	-	-	-	-
Ending balance	402,823	-	402,823	384,965	-	384,965
Less ceded unearned premium reserve:						
Beginning balance-Net	283,394	-	283,394	293,968	-	293,968
Increase	5,181	-	5,181	-	-	-
Decrease	(182,292)	-	(182,292)	(9,242)	-	(9,242)
Ending balance-Net	106,283	-	106,283	284,726	-	284,726
Total	\$296,540	\$-	\$296,540	\$100,239	\$-	\$100,239

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

**C. Reserve for claims:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$144,252	\$797	\$145,049	\$105,856	\$797	\$106,653
— Unreported claim	50,314	-	50,314	49,750	-	49,750
Individual injury insurance						
— Reported but not paid						
claim	123,140	-	123,140	147,062	-	147,062
— Unreported claim	1,073,809	-	1,073,809	1,024,487	-	1,024,487
Individual health insurance						
— Reported but not paid						
claim	143,528	-	143,528	124,100	-	124,100
— Unreported claim	1,690,386	-	1,690,386	1,535,223	-	1,535,223
Group insurance						
— Reported but not paid						
claim	24,279	-	24,279	36,141	-	36,141
— Unreported claim	948,204	-	948,204	1,124,644	-	1,124,644
Investment-linked insurance						
— Reported but not paid						
claim	10,901	-	10,901	4,210	-	4,210
Total	4,208,813	797	4,209,610	4,151,473	797	4,152,270
Less ceded reserve for claims:						
Individual injury insurance	689,157	-	689,157	780,831	-	780,831
Net	\$3,519,656	\$797	\$3,520,453	\$3,370,642	\$797	\$3,371,439

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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$4,880	\$27	\$4,907	\$3,644	\$27	\$3,671
— Unreported claim	1,702	-	1,702	1,713	-	1,713
Individual injury insurance						
— Reported but not paid						
claim	4,166	-	4,166	5,062	-	5,062
— Unreported claim	36,327	-	36,327	35,266	-	35,266
Individual health insurance						
— Reported but not paid						
claim	4,855	-	4,855	4,272	-	4,272
— Unreported claim	57,185	-	57,185	52,848	-	52,848
Group insurance						
— Reported but not paid						
claim	821	-	821	1,244	-	1,244
— Unreported claim	32,077	-	32,077	38,714	-	38,714
Investment-linked insurance						
— Reported but not paid						
claim	369	-	369	145	-	145
Total	142,382	27	142,409	142,908	27	142,935
Less ceded reserve for claims:						
Individual injury insurance	23,314	-	23,314	26,879	-	26,879
Net	\$119,068	\$27	\$119,095	\$116,029	\$27	\$116,056

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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$158,934	\$2,459	\$161,393	\$139,018	\$3,242	\$142,260
— Unreported claim	45,709	-	45,709	33,877	-	33,877
Individual injury insurance						
— Reported but not paid						
claim	162,831	-	162,831	192,822	-	192,822
— Unreported claim	986,644	-	986,644	789,273	-	789,273
Individual health insurance						
— Reported but not paid						
claim	157,925	-	157,925	116,876	-	116,876
— Unreported claim	1,518,442	-	1,518,442	1,321,690	-	1,321,690
Group insurance						
— Reported but not paid						
claim	42,841	-	42,841	18,972	-	18,972
— Unreported claim	1,249,288	-	1,249,288	1,252,450	-	1,252,450
Investment-linked insurance						
— Reported but not paid						
claim	15,437	-	15,437	10,510	-	10,510
Total	4,338,051	2,459	4,340,510	3,875,488	3,242	3,878,730
Less ceded reserve for claims:						
Individual injury insurance	761,246	-	761,246	549,591	-	549,591
Net	\$3,576,805	\$2,459	\$3,579,264	\$3,325,897	\$3,242	\$3,329,139

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$5,426	\$84	\$5,510	\$4,593	\$107	\$4,700
— Unreported claim	1,561	-	1,561	1,119	-	1,119
Individual injury insurance						
— Reported but not paid						
claim	5,559	-	5,559	6,370	-	6,370
— Unreported claim	33,685	-	33,685	26,075	-	26,075
Individual health insurance						
— Reported but not paid						
claim	5,392	-	5,392	3,861	-	3,861
— Unreported claim	51,842	-	51,842	43,663	-	43,663
Group insurance						
— Reported but not paid						
claim	1,463	-	1,463	627	-	627
— Unreported claim	42,652	-	42,652	41,376	-	41,376
Investment-linked insurance						
— Reported but not paid						
claim	527	-	527	347	-	347
Total	148,107	84	148,191	128,031	107	128,138
Less ceded reserve for claims:						
Individual injury insurance	25,990	-	25,990	18,156	-	18,156
Net	\$122,117	\$84	\$122,201	\$109,875	\$107	\$109,982

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

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**For the nine-month periods ended 30 September 2013 and 2012**

Reserve for claims is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,151,473	\$797	\$4,152,270	\$3,875,488	\$3,242	\$3,878,730
Reserve	4,208,831	797	4,209,628	4,338,056	2,459	4,340,515
Recover	(4,151,473)	(797)	(4,152,270)	(3,875,488)	(3,242)	(3,878,730)
(Gains) losses on foreign exchange	(18)	-	(18)	(5)	-	(5)
Ending balance	4,208,813	797	4,209,610	4,338,051	2,459	4,340,510
Less ceded reserve for claims:						
Beginning balance-Net	780,831	-	780,831	549,591	-	549,591
Increase	-	-	-	211,655	-	211,655
Decrease	(91,674)	-	(91,674)	-	-	-
Ending balance-Net	689,157	-	689,157	761,246	-	761,246
Total	\$3,519,656	\$797	\$3,520,453	\$3,576,805	\$2,459	\$3,579,264

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$140,442	\$27	\$140,469	\$132,314	\$111	\$132,425
Reserve	142,383	27	142,410	148,107	84	148,191
Recover	(140,442)	(27)	(140,469)	(132,314)	(111)	(131,425)
(Gains) losses on foreign exchange	(1)	-	(1)	-	-	-
Ending balance	142,382	27	142,409	148,107	84	148,191
Less ceded reserve for claims:						
Beginning balance-Net	26,415	-	26,415	18,764	-	18,764
Increase	-	-	-	7,226	-	7,226
Decrease	(3,101)	-	(3,101)	-	-	-
Ending balance-Net	23,314	-	23,314	25,990	-	25,990
Total	\$119,068	\$27	\$119,095	\$122,117	\$84	\$122,201

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**For the nine-month periods ended 30 September 2013 and 2012**

**D. Special reserve:**

	30 September 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	\$1,683	\$-	\$-	\$1,683	\$1,970	\$-	\$-	\$1,970
Special reserve for								
revaluation								
increments of								
property	-	-	47,946,619	47,946,619	-	-	55,416,619	55,416,619
Total	\$1,683	\$-	\$47,946,619	\$47,948,302	\$1,970	\$-	\$55,416,619	\$55,418,589

	30 September 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
Participating policies								
dividends reserve	\$57	\$-	\$-	\$57	\$68	\$-	\$-	\$68
Special reserve for								
revaluation								
increments of								
property	-	-	1,622,010	1,622,010	-	-	1,907,629	1,907,629
Total	\$57	\$-	\$1,622,010	\$1,622,067	\$68	\$-	\$1,907,629	\$1,907,697



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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 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
Participating policies								
dividends reserve	\$1,521	\$-	\$-	\$1,521	\$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
<b>Total</b>	<b>\$1,521</b>	<b>\$-</b>	<b>\$55,416,619</b>	<b>\$55,418,140</b>	<b>\$4,511,634</b>	<b>\$-</b>	<b>\$55,416,619</b>	<b>\$59,928,253</b>

	30 September 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
Participating policies								
dividends reserve	\$52	\$-	\$-	\$52	\$8	\$-	\$-	\$8
Reclassify to foreign exchange volatility reserve	-	-	-	-	149,038	-	-	149,038
Special reserve for revaluation increments of property	-	-	1,891,998	1,891,998	-	-	1,830,744	1,830,744
<b>Total</b>	<b>\$52</b>	<b>\$-</b>	<b>\$1,891,998</b>	<b>\$1,892,050</b>	<b>\$149,046</b>	<b>\$-</b>	<b>\$1,830,744</b>	<b>\$1,979,790</b>

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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

Special reserve is summarized below:

	For the nine-month period ended 30 September 2013				For the nine-month period ended 30 September 2012			
	NT\$				NT\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Beginning balance	\$1,970	\$-	\$55,416,619	\$55,418,589	\$4,511,634	\$-	\$55,416,619	\$59,928,253
Reserves for								
participating								
policies dividends								
reserve	908	-	-	908	1,614	-	-	1,614
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)	-	-	(7,470,000)	(7,470,000)	-	-	-	-
Ending balance	\$1,683	\$-	\$47,946,619	\$47,948,302	\$1,521	\$-	\$55,416,619	\$55,418,140

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2013				For the nine-month period ended 30 September 2012			
	US\$				US\$			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Beginning balance	\$67	\$-	\$1,874,716	\$1,874,783	\$154,033	\$-	\$1,891,998	\$2,046,031
Reserves for								
participating								
policies dividends								
reserve	31	-	-	31	55	-	-	55
Recover from								
participating								
policies dividends								
reserve	(41)	-	-	(41)	(11)	-	-	(11)
Reclassify to foreign								
exchange volatility								
reserve	-	-	-	-	(154,025)	-	-	(154,025)
Recover from special								
reserve for								
revaluation								
increments of								
property (Note)	-	-	(252,706)	(252,706)	-	-	-	-
Ending balance	\$57	\$-	\$1,622,010	\$1,622,067	\$52	\$-	\$1,891,998	\$1,892,050

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.

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

	30 September 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 September 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	\$3,046	\$-	\$-	\$3,046	\$2,725	\$-	\$-	\$2,725
Individual injury insurance	47,698	-	-	47,698	41,117	-	-	41,117
Individual health insurance	99,591	-	-	99,591	81,276	-	-	81,276
Group insurance	74,799	-	-	74,799	64,050	-	-	64,050
Total	\$225,134	\$-	\$-	\$225,134	\$189,168	\$-	\$-	\$189,168

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012				1 January 2012			
	NT\$				NT\$			
	Financial instruments with discretionary Insurance participation				Financial instruments with discretionary Insurance participation			
	contract	feature	Other	Total	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

	30 September 2012				1 January 2012			
	US\$				US\$			
	Financial instruments with discretionary Insurance participation				Financial instruments with discretionary Insurance participation			
	contract	feature	Other	Total	contract	feature	Other	Total
Individual life insurance	\$2,976	\$-	\$-	\$2,976	\$2,879	\$-	\$-	\$2,879
Individual injury insurance	38,539	-	-	38,539	37,291	-	-	37,291
Individual health insurance	69,970	-	-	69,970	67,705	-	-	67,705
Group insurance	41,687	-	-	41,687	40,338	-	-	40,338
Total	\$153,172	\$-	\$-	\$153,172	\$148,213	\$-	\$-	\$148,213

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**For the nine-month periods ended 30 September 2013 and 2012**

**F. Premium deficiency reserve:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$18,667,313	\$-	\$18,667,313	\$16,389,516	\$-	\$16,389,516
Individual health insurance	614,810	-	614,810	690,546	-	690,546
Group insurance	1,461	-	1,461	41,573	-	41,573
Total	\$19,283,584	\$-	\$19,283,584	\$17,121,635	\$-	\$17,121,635

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$631,506	\$-	\$631,506	\$564,183	\$-	\$564,183
Individual health insurance	20,799	-	20,799	23,771	-	23,771
Group insurance	49	-	49	1,431	-	1,431
Total	\$652,354	\$-	\$652,354	\$589,385	\$-	\$589,385

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$15,160,562	\$-	\$15,160,562	\$12,872,878	\$-	\$12,872,878
Individual health insurance	686,928	-	686,928	673,880	-	673,880
Group insurance	44,213	-	44,213	52,969	-	52,969
Total	\$15,891,703	\$-	\$15,891,703	\$13,599,727	\$-	\$13,599,727

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

**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$517,602	\$-	\$517,602	\$425,268	\$-	\$425,268
Individual health insurance	23,453	-	23,453	22,262	-	22,262
Group insurance	1,509	-	1,509	1,750	-	1,750
Total	\$542,564	\$-	\$542,564	\$449,280	\$-	\$449,280

Premium deficiency reserve is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$17,121,635	\$-	\$17,121,635	\$13,599,727	\$-	\$13,599,727
Reserve	2,382,523	-	2,382,523	2,475,914	-	2,475,914
Recover	(347,578)	-	(347,578)	-	-	-
Losses (gains) on foreign exchange	127,004	-	127,004	(183,938)	-	(183,938)
Ending balance	\$19,283,584	\$-	\$19,283,584	\$15,891,703	\$-	\$15,891,703

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$579,216	\$-	\$579,216	\$464,313	\$-	\$464,313
Reserve	80,600	-	80,600	84,531	-	84,531
Recover	(11,758)	-	(11,758)	-	-	-
Losses (gains) on foreign exchange	4,296	-	4,296	(6,280)	-	(6,280)
Ending balance	\$652,354	\$-	\$652,354	\$542,564	\$-	\$542,564

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**G. Liability adequacy reserve:**

	30 September 2013	30 September 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	\$3,184,372,117	\$107,725,715
Unearned premium reserve	11,907,453	402,823
Premium deficiency reserve	19,283,584	652,354
Total	\$3,215,563,154	\$108,780,892
Book value of insurance liabilities	\$3,215,563,154	\$108,780,892
Estimated present value of cash flows	\$2,765,190,669	\$93,545,016
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	\$-	\$-



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	30 September 2012	30 September 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	\$2,930,698,812	\$100,058,000
Unearned premium reserve	11,275,632	384,965
Premium deficiency reserve	15,891,703	542,564
Total	\$2,957,866,147	\$100,985,529
Book value of insurance liabilities	\$2,957,866,147	\$100,985,529
Estimated present value of cash flows	\$2,134,485,986	\$72,874,223
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	\$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.

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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.

Liability adequacy testing methodology is listed as follows:

	30 September 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 September 2013.
	(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 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.

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 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 September 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.

	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 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, reserve for insurance contracts with feature of financial instruments is summarized below:

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$53,779,822	\$1,819,344	\$56,461,371	\$1,943,593
Investment-linked insurance	161	6	-	-
Total	<u>\$53,779,983</u>	<u>\$1,819,350</u>	<u>\$56,461,371</u>	<u>\$1,943,593</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$57,412,318	\$1,960,134	\$60,624,750	\$2,002,800

	For the nine-month period ended 30 September 2013	For the nine-month period ended 30 September 2013
	NT\$	US\$
Beginning balance	\$56,461,371	\$1,910,060
Premiums received (returned)	231	8
Insurance claim payments	(3,370,718)	(114,030)
Net provision of statutory reserve	689,099	23,312
Ending balance	\$53,779,983	\$1,819,350

	For the nine-month period ended 30 September 2012	For the nine-month period ended 30 September 2012
	NT\$	US\$
Beginning balance	\$60,624,750	\$2,069,811
Premiums received (returned)	(5,029)	(172)
Insurance claim payments	(3,930,141)	(134,180)
Net provision of statutory reserve	722,738	24,675
Ending balance	\$57,412,318	\$1,960,134

**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.

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b. Adjustment in foreign exchange volatility reserve:

	For the nine-month period ended 30 September 2013 NT\$	For the nine-month period ended 30 September 2013 US\$
Beginning balance	\$4,270,856	\$144,482
Reserve:		
Compulsory reserve	1,658,930	56,120
Extra reserve	3,558,051	120,367
Subtotal	5,216,981	176,487
Recover	(942,950)	31,900
Ending balance	\$8,544,887	\$289,069

  

	For the seven-month period ended 30 September 2012 (Note) NT\$	For the seven-month period ended 30 September 2012 (Note) US\$
Beginning balance	\$4,511,406	\$154,025
Reserve:		
Compulsory reserve	1,095,032	37,386
Extra reserve	944,888	32,260
Subtotal	2,039,920	69,646
Recover	(2,264,849)	77,325
Ending balance	\$4,286,477	\$146,346

Note: The Company has applied foreign exchange volatility reserve since 1 March 2012 in accordance with regulations.

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c. Effects due to foreign exchange volatility reserve:

For the nine-month period ended 30 September 2013						
Item	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net income (loss)						
attributable to equity						
holders of the parent	\$19,230,075	\$650,543	\$15,682,629	\$530,535	\$(3,547,446)	\$(120,008)
Earnings per share	3.62	0.12	2.96	0.10	(0.66)	(0.02)
Foreign exchange volatility						
reserve	-	-	8,544,887	289,069	8,544,887	289,069
Equity attributable to equity						
holders of the parent	133,300,056	4,509,474	129,952,267	4,396,220	(3,347,789)	(113,254)
For the nine-month period ended 30 September 2012						
Item	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net income (loss)						
attributable to equity						
holders of the parent	\$2,057,956	\$70,261	\$2,244,647	\$76,635	\$186,691	\$6,374
Earnings per share	0.39	0.12	0.42	0.01	0.03	-
Foreign exchange volatility						
reserve	-	-	4,286,477	146,346	4,286,477	146,346
Equity attributable to equity						
holders of the parent	138,580,718	4,731,332	138,767,409	4,737,706	186,691	6,374

(2) Cathay Life (China)

A. Reserve for life insurance liabilities:

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,383,115	\$-	\$3,383,115	\$2,875,460	\$-	\$2,875,460
Health insurance	197,647	-	197,647	58,989	-	58,989
Investment-linked insurance	6,758	-	6,758	50,436	-	50,436
Total	\$3,587,520	\$-	\$3,587,520	\$2,984,885	\$-	\$2,984,885

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$114,449	\$-	\$114,449	\$98,983	\$-	\$98,983
Health insurance	6,686	-	6,686	2,031	-	2,031
Investment-linked insurance	229	-	229	1,736	-	1,736
Total	\$121,364	\$-	\$121,364	\$102,750	\$-	\$102,750

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$2,577,168	\$-	\$2,577,168	\$2,417,929	\$-	\$2,417,929
Health insurance	58,921	-	58,921	44,343	-	44,343
Investment-linked insurance	50,378	-	50,378	19,226	-	19,226
Total	\$2,686,467	\$-	\$2,686,467	\$2,481,498	\$-	\$2,481,498

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$87,988	\$-	\$87,988	\$79,879	\$-	\$79,879
Health insurance	2,012	-	2,012	1,465	-	1,465
Investment-linked insurance	1,720	-	1,720	635	-	635
Total	\$91,720	\$-	\$91,720	\$81,979	\$-	\$81,979

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**For the nine-month periods ended 30 September 2013 and 2012**

Reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$2,984,885	\$-	\$2,984,885	\$2,481,498	\$-	\$2,481,498
Reserve	1,492,799	-	1,492,799	622,741	-	622,741
Recover	(1,005,056)	-	(1,005,056)	(341,071)	-	(341,071)
Losses (gains) on foreign exchange	114,892	-	114,892	(76,701)	-	(76,701)
Ending balance	\$3,587,520	\$-	\$3,587,520	\$2,686,467	\$-	\$2,686,467

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$100,977	\$-	\$100,977	\$84,722	\$-	\$84,722
Reserve	50,501	-	50,501	21,261	-	21,261
Recover	(34,001)	-	(34,001)	(11,644)	-	(11,644)
Losses (gains) on foreign exchange	3,887	-	3,887	(2,619)	-	(2,619)
Ending balance	\$121,364	\$-	\$121,364	\$91,720	\$-	\$91,720



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**B. Unearned premium reserve:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$10,602	\$-	\$10,602	\$6,787	\$-	\$6,787
Individual health insurance	975	-	975	624	-	624
Group insurance	309,531	-	309,531	245,310	-	245,310
Total	321,108	-	321,108	252,721	-	252,721
Less ceded unearned premium reserve:						
Individual life insurance	20	-	20	61	-	61
Individual injury insurance	288	-	288	66	-	66
Individual health insurance	4,519	-	4,519	2,862	-	2,862
Group insurance	23,243	-	23,243	4,171	-	4,171
Total	28,070	-	28,070	7,160	-	7,160
Net	\$293,038	\$-	\$293,038	\$245,561	\$-	\$245,561

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$359	\$-	\$359	\$234	\$-	\$234
Individual health insurance	33	-	33	22	-	22
Group insurance	10,471	-	10,471	8,444	-	8,444
Total	10,863	-	10,863	8,700	-	8,700
Less ceded unearned premium reserve:						
Individual life insurance	1	-	1	2	-	2
Individual injury insurance	10	-	10	2	-	2
Individual health insurance	153	-	153	98	-	98
Group insurance	786	-	786	144	-	144
Total	950	-	950	246	-	246
Net	\$9,913	\$-	\$9,913	\$8,454	\$-	\$8,454

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$6,779	\$-	\$6,779	\$8,653	\$-	\$8,653
Individual health insurance	623	-	623	682	-	682
Group insurance	291,138	-	291,138	229,383	-	229,383
Total	298,540	-	298,540	238,718	-	238,718
Less ceded unearned premium reserve:						
Individual life insurance	61	-	61	62	-	62
Individual injury insurance	66	-	66	68	-	68
Individual health insurance	2,858	-	2,858	2,937	-	2,937
Group insurance	4,166	-	4,166	4,280	-	4,280
Total	7,151	-	7,151	7,347	-	7,347
Net	\$291,389	\$-	\$291,389	\$231,371	\$-	\$231,371

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$232	\$-	\$232	\$286	\$-	\$286
Individual health insurance	21	-	21	23	-	23
Group insurance	9,940	-	9,940	7,578	-	7,578
Total	10,193	-	10,193	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	98	-	98	97	-	97
Group insurance	142	-	142	141	-	141
Total	244	-	244	242	-	242
Net	\$9,949	\$-	\$9,949	\$7,645	\$-	\$7,645

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Unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$252,721	\$-	\$252,721	\$238,718	\$-	\$238,718
Reserve	270,984	-	270,984	232,210	-	232,210
Recover	(212,494)	-	(212,494)	(164,643)	-	(164,643)
Losses (gains) on foreign exchange	9,897	-	9,897	(7,745)	-	(7,745)
Ending balance	321,108	-	321,108	298,540	-	298,540
Less ceded unearned premium reserve:						
Beginning balance-Net	7,160	-	7,160	7,347	-	7,347
Increase	20,445	-	20,445	24	-	24
Decrease	-	-	-	-	-	-
Gains (losses) on foreign exchange	465	-	465	(220)	-	(220)
Ending balance-Net	28,070	-	28,070	7,151	-	7,151
Total	\$293,038	\$-	\$293,038	\$291,389	\$-	\$291,389

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$8,549	\$-	\$8,549	\$8,150	\$-	\$8,150
Reserve	9,167	-	9,167	7,928	-	7,928
Recover	(7,188)	-	(7,188)	(5,621)	-	(5,621)
Losses (gains) on foreign exchange	335	-	335	(264)	-	(264)
Ending balance	10,863	-	10,863	10,193	-	10,193
Less ceded unearned premium reserve:						
Beginning balance-Net	242	-	242	251	-	251
Increase	692	-	692	1	-	1
Decrease	-	-	-	-	-	-
Gains (losses) on foreign exchange	16	-	16	(8)	-	(8)
Ending balance-Net	950	-	950	244	-	244
Total	\$9,913	\$-	\$9,913	\$9,949	\$-	\$9,949

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**C. Reserve for claims:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$3,103	\$-	\$3,103	\$2,899	\$-	\$2,899
— Unreported claim	2,524	-	2,524	2,358	-	2,358
Individual injury insurance						
— Reported but not paid						
claim	3,868	-	3,868	3,613	-	3,613
— Unreported claim	3,233	-	3,233	3,020	-	3,020
Individual health insurance						
— Reported but not paid						
claim	3,516	-	3,516	3,285	-	3,285
— Unreported claim	7,888	-	7,888	7,369	-	7,369
Group insurance						
— Reported but not paid						
claim	70,823	-	70,823	66,165	-	66,165
— Unreported claim	344,971	-	344,971	307,740	-	307,740
Total	439,926	-	439,926	396,449	-	396,449
Less ceded reserve for claims:						
Individual health insurance	6,165	-	6,165	523	-	523
Net	\$433,761	\$-	\$433,761	\$395,926	\$-	\$395,926

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	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$105	\$-	\$105	\$100	\$-	\$100
— Unreported claim	85	-	85	81	-	81
Individual injury insurance						
— Reported but not paid						
claim	131	-	131	124	-	124
— Unreported claim	109	-	109	104	-	104
Individual health insurance						
— Reported but not paid						
claim	119	-	119	113	-	113
— Unreported claim	267	-	267	254	-	254
Group insurance						
— Reported but not paid						
claim	2,396	-	2,396	2,278	-	2,278
— Unreported claim	11,670	-	11,670	10,594	-	10,594
Total	14,882	-	14,882	13,648	-	13,648
Less ceded reserve for claims:						
Individual health insurance	208	-	208	18	-	18
Net	\$14,674	\$-	\$14,674	\$13,630	\$-	\$13,630

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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$2,895	\$-	\$2,895	\$19	\$-	\$19
— Unreported claim	2,356	-	2,356	2,118	-	2,118
Individual injury insurance						
— Reported but not paid						
claim	3,609	-	3,609	2,509	-	2,509
— Unreported claim	3,017	-	3,017	286	-	286
Individual health insurance						
— Reported but not paid						
claim	3,281	-	3,281	499	-	499
— Unreported claim	7,361	-	7,361	4,592	-	4,592
Group insurance						
— Reported but not paid						
claim	66,088	-	66,088	21,878	-	21,878
— Unreported claim	315,027	-	315,027	388,663	-	388,663
Total	403,634	-	403,634	420,564	-	420,564
Less ceded reserve for claims:						
Individual health insurance	523	-	523	1,178	-	1,178
Net	\$403,111	\$-	\$403,111	\$419,386	\$-	\$419,386

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid						
claim	\$99	\$-	\$99	\$1	\$-	\$1
— Unreported claim	81	-	81	70	-	70
Individual injury insurance						
— Reported but not paid						
claim	123	-	123	83	-	83
— Unreported claim	103	-	103	9	-	9
Individual health insurance						
— Reported but not paid						
claim	112	-	112	16	-	16
— Unreported claim	251	-	251	152	-	152
Group insurance						
— Reported but not paid						
claim	2,256	-	2,256	723	-	723
— Unreported claim	10,756	-	10,756	12,840	-	12,840
Total	13,781	-	13,781	13,894	-	13,894
Less ceded reserve for claims:						
Individual health insurance	18	-	18	39	-	39
Net	\$13,763	\$-	\$13,763	\$13,855	\$-	\$13,855

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

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**For the nine-month periods ended 30 September 2013 and 2012**

Reserve for claims is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$396,449	\$-	\$396,449	\$420,564	\$-	\$420,564
Reserve	391,773	-	391,773	658,110	-	658,110
Recover	(363,199)	-	(363,199)	(662,513)	-	(662,513)
Losses (gains) on foreign exchange	14,903	-	14,903	(12,527)	-	(12,527)
Ending balance	439,926	-	439,926	403,634	-	403,634
Less ceded reserve for claims:						
Beginning balance-Net	523	-	523	1,178	-	1,178
Increase	5,568	-	5,568	-	-	-
Decrease	-	-	-	(626)	-	(626)
Gains (losses) on foreign exchange	74	-	74	(29)	-	(29)
Ending balance-Net	6,165	-	6,165	523	-	523
Total	\$433,761	\$-	\$433,761	\$403,111	\$-	\$403,111

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$13,412	\$-	\$13,412	\$14,359	\$-	\$14,359
Reserve	13,253	-	13,253	22,469	-	22,469
Recover	(12,287)	-	(12,287)	(22,619)	-	(22,619)
Losses (gains) on foreign exchange	504	-	504	(428)	-	(428)
Ending balance	14,882	-	14,882	13,781	-	13,781
Less ceded reserve for claims:						
Beginning balance-Net	18	-	18	40	-	40
Increase	188	-	188	-	-	-
Decrease	-	-	-	(21)	-	(21)
Gains (losses) on foreign exchange	2	-	2	(1)	-	(1)
Ending balance-Net	208	-	208	18	-	18
Total	\$14,674	\$-	\$14,674	\$13,763	\$-	\$13,763



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**For the nine-month periods ended 30 September 2013 and 2012**

**D. Liability adequacy reserve:**

	30 September 2013 NT\$	30 September 2013 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,587,520	\$121,364
Unearned premium reserve	321,108	10,863
Total	\$3,908,628	\$132,227
Book value of insurance liabilities	\$3,908,628	\$132,227
Estimated present value of cash flows	\$3,126,903	\$105,782
Balance of liability adequacy reserve	\$-	\$-
	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 September 2012 NT\$	30 September 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	\$2,686,467	\$91,720
Unearned premium reserve	298,540	10,193
Total	\$2,985,007	\$101,913
Book value of insurance liabilities	\$2,985,007	\$101,913
Estimated present value of cash flows	\$2,316,890	\$79,102
Balance of liability adequacy reserve	\$-	\$-

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**For the nine-month periods ended 30 September 2013 and 2012**

	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	\$-	\$-

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 September 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 September 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.

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**For the nine-month periods ended 30 September 2013 and 2012**

	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.
	30 September 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 September 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.

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**For the nine-month periods ended 30 September 2013 and 2012**

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

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

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$4,496,746	\$152,123	\$4,889,501	\$168,313

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Life insurance	\$5,112,337	\$174,542	\$6,259,962	\$206,804

	For the nine-month period ended 30 September 2013	For the nine-month period ended 30 September 2013
	NT\$	US\$
Beginning balance	\$4,889,501	\$165,410
Premiums received	1,084,051	36,673
Insurance claim payments	(495,471)	(16,762)
Net recovery of statutory reserve	(1,156,099)	(39,110)
Losses (gains) on foreign exchange	174,764	5,912
Ending balance	\$4,496,746	\$152,123

	For the nine-month period ended 30 September 2012	For the nine-month period ended 30 September 2012
	NT\$	US\$
Beginning balance	\$6,259,962	\$213,723
Premiums received	1,253,266	42,788
Insurance claim payments	(706,453)	(24,119)
Net recovery of statutory reserve	(1,516,172)	(51,764)
(Gains) losses on foreign exchange	(178,266)	(6,086)
Ending balance	\$5,112,337	\$174,542

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**For the nine-month periods ended 30 September 2013 and 2012**

**(3) Cathay Life (Vietnam)**

**A. Reserve for life insurance liabilities:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$345,277	\$-	\$345,277	\$299,490	\$-	\$299,490
Investment – linked insurance	35	-	35	9	-	9
Total	\$345,312	\$-	\$345,312	\$299,499	\$-	\$299,499

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$11,681	\$-	\$11,681	\$10,309	\$-	\$10,309
Investment – linked insurance	1	-	1	-	-	-
Total	\$11,682	\$-	\$11,682	\$10,309	\$-	\$10,309

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$280,480	\$-	\$280,480	\$231,165	\$-	\$231,165
Investment – linked insurance	8	-	8	-	-	-
Total	\$280,488	\$-	\$280,488	\$231,165	\$-	\$231,165

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$9,576	\$-	\$9,576	\$7,636	\$-	\$7,636
Investment – linked insurance	-	-	-	-	-	-
Total	\$9,576	\$-	\$9,576	\$7,636	\$-	\$7,636

Reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$299,499	\$-	\$299,499	\$231,165	\$-	\$231,165
Reserve	45,328	-	45,328	54,952	-	54,952
Losses (gains) on foreign exchange	485	-	485	(5,629)	-	(5,629)
Ending balance	\$345,312	\$-	\$345,312	\$280,488	\$-	\$280,488

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$10,132	\$-	\$10,132	\$7,892	\$-	\$7,892
Reserve	1,534	-	1,534	1,876	-	1,876
Losses (gains) on foreign exchange	16	-	16	(192)	-	(192)
Ending balance	\$11,682	\$-	\$11,682	\$9,576	\$-	\$9,576

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**B. Unearned premium reserve:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$1,484	\$-	\$1,484	\$1,666	\$-	\$1,666
Individual health insurance	1,241	-	1,241	1,614	-	1,614
Total	\$2,725	\$-	\$2,725	\$3,280	\$-	\$3,280

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$50	\$-	\$50	\$57	\$-	\$57
Individual health insurance	42	-	42	56	-	56
Total	\$92	\$-	\$92	\$113	\$-	\$113

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$1,232	\$-	\$1,232	\$1,484	\$-	\$1,484
Individual health insurance	1,048	-	1,048	1,850	-	1,850
Total	\$2,280	\$-	\$2,280	\$3,334	\$-	\$3,334

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$42	\$-	\$42	\$49	\$-	\$49
Individual health insurance	36	-	36	61	-	61
Total	\$78	\$-	\$78	\$110	\$-	\$110

Unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$3,280	\$-	\$3,280	\$3,334	\$-	\$3,334
Recover	(575)	-	(575)	(994)	-	(994)
Losses (gains) on foreign exchange	20	-	20	(60)	-	(60)
Ending balance	\$2,725	\$-	\$2,725	\$2,280	\$-	\$2,280

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$111	\$-	\$111	\$114	\$-	\$114
Recover	(20)	-	(20)	(34)	-	(34)
Losses (gains) on foreign exchange	1	-	1	(2)	-	(2)
Ending balance	\$92	\$-	\$92	\$78	\$-	\$78



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**C. Reserve for claims:**

	30 September 2013			31 December 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$250	\$-	\$250	\$1,251	\$-	\$1,251
Individual injury insurance						
— Reported but not paid claim	3	-	3	231	-	231
— Unreported claim	167	-	167	163	-	163
Individual health insurance						
— Reported but not paid claim	65	-	65	206	-	206
— Unreported claim	142	-	142	294	-	294
Investment-linked insurance						
— Reported but not paid claim	-	-	-	390	-	390
Total	\$627	\$-	\$627	\$2,535	\$-	\$2,535

	30 September 2013			31 December 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$8	\$-	\$8	\$43	\$-	\$43
Individual injury insurance						
— Reported but not paid claim	-	-	-	8	-	8
— Unreported claim	6	-	6	6	-	6
Individual health insurance						
— Reported but not paid claim	2	-	2	7	-	7
— Unreported claim	5	-	5	10	-	10
Investment-linked insurance						
— Reported but not paid claim	-	-	-	13	-	13
Total	\$21	\$-	\$21	\$87	\$-	\$87

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**For the nine-month periods ended 30 September 2013 and 2012**

	30 September 2012			1 January 2012		
	NT\$			NT\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$600	\$-	\$600	\$302	\$-	\$302
Individual injury insurance						
— Reported but not paid claim	139	-	139	139	-	139
— Unreported claim	161	-	161	141	-	141
Individual health insurance						
— Reported but not paid claim	275	-	275	98	-	98
— Unreported claim	163	-	163	109	-	109
Total	\$1,338	\$-	\$1,338	\$789	\$-	\$789

	30 September 2012			1 January 2012		
	US\$			US\$		
	Financial			Financial		
	instruments with			instruments with		
	discretionary			discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$20	\$-	\$20	\$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	9	-	9	3	-	3
— Unreported claim	6	-	6	4	-	4
Total	\$45	\$-	\$45	\$26	\$-	\$26

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**For the nine-month periods ended 30 September 2013 and 2012**

Reserve for claims is summarized below:

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$2,535	\$-	\$2,535	\$789	\$-	\$789
Reserve	-	-	-	573	-	573
Recover	(1,945)	-	(1,945)	-	-	-
Losses (gains) on foreign exchange	37	-	37	(24)	-	(24)
Ending balance	\$627	\$-	\$627	\$1,338	\$-	\$1,338

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$86	\$-	\$86	\$27	\$-	\$27
Reserve	-	-	-	19	-	19
Recover	(66)	-	(66)	-	-	-
Losses (gains) on foreign exchange	1	-	1	(1)	-	(1)
Ending balance	\$21	\$-	\$21	\$45	\$-	\$45

**D. Special reserve:**

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

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

	30 September 2012				1 January 2012			
	NT\$				NT\$			
	Financial instruments with				Financial instruments with			
	Insurance	discretionary			Insurance	discretionary		
	contract	participation feature	Other	Total	contract	participation feature	Other	Total
Others	\$521	\$-	\$-	\$521	\$533	\$-	\$-	\$533

	30 September 2012				1 January 2012			
	US\$				US\$			
	Financial instruments with				Financial instruments with			
	Insurance	discretionary			Insurance	discretionary		
	contract	participation feature	Other	Total	contract	participation feature	Other	Total
Others	\$17	\$-	\$-	\$17	\$18	\$-	\$-	\$18

Special reserve is summarized below:

	For the nine-month period ended 30 September 2013				For the nine-month period ended 30 September 2012			
	NT\$				NT\$			
	Financial instruments with				Financial instruments with			
	discretionary				discretionary			
	Insurance	participation			Insurance	participation		
	contract	feature	Other	Total	contract	feature	Other	Total
Beginning balance	\$517	\$-	\$-	\$517	\$533	\$-	\$-	\$533
Losses (gains) on								
foreign exchange	-	-	-	-	(12)	-	-	(12)
Ending balance	\$517	\$-	\$-	\$517	\$521	\$-	\$-	\$521

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**For the nine-month periods ended 30 September 2013 and 2012**

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

**E. Liability adequacy reserve:**

	30 September 2013 NT\$	30 September 2013 US\$
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$345,312	\$11,682
Unearned premium reserve	2,725	92
Total	\$348,037	\$11,774
Book value of insurance liabilities	\$348,037	\$11,774
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-

  

	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	\$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	\$-	\$-

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	30 September 2012 NT\$	30 September 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	\$280,488	\$9,576
Unearned premium reserve	2,280	78
Total	\$282,768	\$9,654
Book value of insurance liabilities	\$282,768	\$9,654
Estimated present value of cash flows	Negative amount	Negative amount
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	\$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.

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**26. Post-employment benefits**

**Defined contribution plan**

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 to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' 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 plan for the three-month periods ended 30 September 2013 and 2012 were NT\$232,466 (US\$7,864) thousands and NT\$226,724 (US\$7,741) thousands, respectively. Expenses under the defined contribution plan for the nine-month periods ended 30 September 2013 and 2012 were NT\$732,651 (US\$24,785) thousands and NT\$674,671 (US\$23,034) thousands, respectively.

**Defined benefits plan**

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 benefits plan.

The benefit expense under the defined benefits plan recognized in the statement of comprehensive income:

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2013		For the three-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$71,865	\$2,431	\$80,629	\$2,753
Operating expenses	15,091	511	15,213	519
Total	\$86,956	\$2,942	\$95,842	\$3,272

	For the nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Operating costs	\$218,087	\$7,378	\$242,588	\$8,282
Operating expenses	42,795	1,448	44,955	1,535
Total	\$260,882	\$8,826	\$287,543	\$9,817

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	-	109,940	119,495
30 September 2013	\$9,555	\$333,439	\$3,588,984	\$3,931,978

	US\$			
	Decommissioning liability	Litigation liability	Employee benefit liability	Total
1 January 2013	\$-	\$11,280	\$117,694	\$128,974
Increase	323	-	3,720	4,043
30 September 2013	\$323	\$11,280	\$121,414	\$133,017



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**28. Other liabilities**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Accounts collected in advance	\$321,605	\$10,880	\$300,819	\$10,355
Deferred handling fees	91,319	3,089	100,202	3,449
Guarantee deposits received	2,174,426	73,560	2,077,752	71,524
Other liabilities - Other	3,253,827	110,075	9,047,037	311,430
Total	<u>\$5,841,177</u>	<u>\$197,604</u>	<u>\$11,525,810</u>	<u>\$396,758</u>

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Accounts collected in advance	\$317,503	\$10,840	\$397,555	\$13,134
Guarantee deposits received	2,062,861	70,429	1,960,914	64,781
Other liabilities - Other	18,041,478	615,960	4,122,246	136,182
Total	<u>\$20,421,842</u>	<u>\$697,229</u>	<u>\$6,480,715</u>	<u>\$214,097</u>

**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 nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$100,202	\$3,390	\$-	\$-
Amortization	(11,330)	(383)	-	-
Losses (gains) on foreign exchange	2,447	82	-	-
Ending balance	<u>\$91,319</u>	<u>\$3,089</u>	<u>\$-</u>	<u>\$-</u>

**30. Common stock**

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

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31. Capital surplus

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital	\$13,000,000	\$439,784	\$13,000,000	\$447,504
Other	9,649	326	9,649	332
Total	<u>\$13,009,649</u>	<u>\$440,110</u>	<u>\$13,009,649</u>	<u>\$447,836</u>

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital	\$13,000,000	\$443,837	\$13,000,000	\$429,468
Other	9,649	329	9,649	319
Total	<u>\$13,009,649</u>	<u>\$444,166</u>	<u>\$13,009,649</u>	<u>\$429,787</u>

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves 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.

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On 30 April 2013, the Company's board of directors resolved to recognize the legal capital reserves of NT\$655,998 (US\$22,192) thousands. On 24 April 2012, the Company's board of directors resolved to use the legal capital reserves to offset the cumulative deficits amounting to NT\$91,176 (US\$3,113) 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.

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 resolved to use the special capital reserves to offset the cumulative deficits amounting to NT\$34,693 (US\$1,174) thousands after recognizing special capital reserves of NT\$2,658,684 (US\$89,942) thousands, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of NT\$1,119,727 (US\$37,880) 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.

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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 NT\$2,708,494 (US\$91,627) thousands shall be set aside under special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102508861.

**(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.
- 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 nine-month periods ended 30 September 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 September 2013, the reserves amounted to NT\$1,069,565 (US\$36,183) thousands.

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**(4) Non-controlling interests**

	For the nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,012,972	\$34,268	\$1,133,769	\$38,708
Profit attributable to non-controlling interests	52,107	1,763	25,542	872
Other comprehensive income attributable to non-controlling interests:				
Exchange differences resulting from translating the financial statements of a foreign operation	30,002	1,015	(29,141)	(995)
Unrealized (losses) gains from available-for-sale financial assets	(47,237)	(1,598)	28,899	987
Other	(18,114)	(613)	(24,045)	(821)
Ending balance	\$1,029,730	\$34,835	\$1,135,024	\$38,751

**33. Retained earned premium**

**(1) The Company**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$97,288,649	\$2,633,347	\$99,921,996	\$102,112,193	\$4,125,299	\$106,237,492
Reinsurance premium income	46,470	-	46,470	47,517	-	47,517
Premium income	97,335,119	2,633,347	99,968,466	102,159,710	4,125,299	106,285,009
Less:						
Premiums ceded to reinsurers	(4,871,549)	-	(4,871,549)	(7,509,589)	-	(7,509,589)
Changes in unearned premium reserve	(390,688)	-	(390,688)	329,309	3	329,312
Subtotal	(5,262,237)	-	(5,262,237)	(7,180,280)	3	(7,180,277)
Retained earned premium	\$92,072,882	\$2,633,347	\$94,706,229	\$94,979,430	\$4,125,302	\$99,104,732

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	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$3,291,226	\$89,085	\$3,380,311	\$3,486,248	\$140,843	\$3,627,091
Reinsurance premium income	1,572	-	1,572	1,622	-	1,622
Premium income	3,292,798	89,085	3,381,883	3,487,870	140,843	3,628,713
Less:						
Premiums ceded to reinsurers	(164,802)	-	(164,802)	(256,387)	-	(256,387)
Changes in unearned premium reserve	(13,217)	-	(13,217)	11,243	-	11,243
Subtotal	(178,019)	-	(178,019)	(245,144)	-	(245,144)
Retained earned premium	\$3,114,779	\$89,085	\$3,203,864	\$3,242,726	\$140,843	\$3,383,569

  

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$285,110,439	\$6,977,321	\$292,087,760	\$352,873,074	\$10,158,304	\$363,031,378
Reinsurance premium income	153,164	-	153,164	139,826	-	139,826
Premium income	285,263,603	6,977,321	292,240,924	353,012,900	10,158,304	363,171,204
Less:						
Premiums ceded to reinsurers	(13,643,663)	-	(13,643,663)	(21,332,262)	-	(21,332,262)
Changes in unearned premium reserve	(5,294,080)	-	(5,294,080)	471,657	2	471,659
Subtotal	(18,937,743)	-	(18,937,743)	(20,860,605)	2	(20,860,603)
Retained earned premium	\$266,325,860	\$6,977,321	\$273,303,181	\$332,152,295	\$10,158,306	\$342,310,601

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	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$9,645,144	\$236,039	\$9,881,183	\$12,047,561	\$346,818	\$12,394,379
Reinsurance premium income	5,181	-	5,181	4,744	-	4,744
Premium income	9,650,325	236,039	9,886,364	12,052,335	346,818	12,399,153
Less:						
Premiums ceded to reinsurers	(461,558)	-	(461,558)	(728,312)	-	(728,312)
Changes in unearned premium reserve	(179,096)	-	(179,096)	16,103	-	16,103
Subtotal	(640,654)	-	(646,654)	(712,209)	-	(712,209)
Retained earned premium	\$9,009,671	\$236,039	\$9,245,710	\$11,340,126	\$346,818	\$11,686,944

**(2) Cathay life (China)**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$685,495	\$-	\$685,495	\$590,996	\$-	\$590,996
Reinsurance premium income	-	-	-	-	-	-
Premium income	685,495	-	685,495	590,996	-	590,996
Less:						
Premiums ceded to reinsurers	(80,210)	-	(80,210)	(3,558)	-	(3,558)
Changes in unearned premium reserve	(85,876)	-	(85,876)	(66,877)	-	(66,877)
Subtotal	(166,086)	-	(166,086)	(70,435)	-	(70,435)
Retained earned premium	\$519,409	\$-	\$519,409	\$520,561	\$-	\$520,561

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$23,190	\$-	\$23,190	\$20,177	\$-	\$20,177
Reinsurance premium income	-	-	-	-	-	-
Premium income	23,190	-	23,190	20,177	-	20,177
Less:						
Premiums ceded to reinsurers	(2,714)	-	(2,714)	(122)	-	(122)
Changes in unearned premium reserve	(2,905)	-	(2,905)	(2,283)	-	(2,283)
Subtotal	(5,619)	-	(5,619)	(2,405)	-	(2,405)
Retained earned premium	\$17,571	\$-	\$17,571	\$17,772	\$-	\$17,772

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$1,807,152	\$-	\$1,807,152	\$1,617,817	\$-	\$1,617,817
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,807,152	-	1,807,152	1,617,817	-	1,617,817
Less:						
Premiums ceded to reinsurers	(89,996)	-	(89,996)	(10,813)	-	(10,813)
Changes in unearned premium reserve	(59,747)	-	(59,747)	(67,568)	-	(67,568)
Subtotal	(149,743)	-	(149,743)	(78,381)	-	(78,381)
Retained earned premium	\$1,657,409	\$-	\$1,657,409	\$1,539,436	\$-	\$1,539,436



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	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$61,135	\$-	\$61,135	\$55,235	\$-	\$55,235
Reinsurance premium income	-	-	-	-	-	-
Premium income	61,135	-	61,135	55,235	-	55,235
Less:						
Premiums ceded to reinsurers	(3,045)	-	(3,045)	(369)	-	(369)
Changes in unearned premium reserve	(2,021)	-	(2,021)	(2,307)	-	(2,307)
Subtotal	(5,066)	-	(5,066)	(2,676)	-	(2,676)
Retained earned premium	\$56,069	\$-	\$56,069	\$52,559	\$-	\$52,559

**(3) Cathay life (Vietnam)**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$35,946	\$-	\$35,946	\$41,479	\$-	\$41,479
Reinsurance premium income	-	-	-	-	-	-
Premium income	35,946	-	35,946	41,479	-	41,479
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium reserve	(95)	-	(95)	1,800	-	1,800
Subtotal	(95)	-	(95)	1,800	-	1,800
Retained earned premium	\$35,851	\$-	\$35,851	\$43,279	\$-	\$43,279

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

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$1,216	\$-	\$1,216	\$1,417	\$-	\$1,417
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,216	-	1,216	1,417	-	1,417
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium reserve	(3)	-	(3)	61	-	61
Subtotal	(3)	-	(3)	61	-	61
Retained earned premium	\$1,213	\$-	\$1,213	\$1,478	\$-	\$1,478

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$84,160	\$-	\$84,160	\$126,719	\$-	\$126,719
Reinsurance premium income	-	-	-	-	-	-
Premium income	84,160	-	84,160	126,719	-	126,719
Less:						
Changes in unearned premium reserve	575	-	575	994	-	994
Subtotal	575	-	575	994	-	994
Retained earned premium	\$84,735	\$-	\$84,735	\$127,713	\$-	\$127,713

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$2,847	\$-	\$2,847	\$4,326	\$-	\$4,326
Reinsurance premium income	-	-	-	-	-	-
Premium income	2,847	-	2,847	4,326	-	4,326
Less:						
Changes in unearned premium reserve	19	-	19	34	-	34
Subtotal	19	-	19	34	-	34
Retained earned premium	\$2,866	\$-	\$2,866	\$4,360	\$-	\$4,360

**34. Retained claim payment**

**(1) The Company**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$47,642,534	\$11,051,442	\$58,693,976	\$52,597,037	\$9,559,849	\$62,156,886
Reinsurance claim payments	22,353	-	22,353	29,219	-	29,219
Insurance claim payments	47,664,887	11,051,442	58,716,329	52,626,256	9,559,849	62,186,105
Less:						
Claims recovered from reinsures	(2,644,765)	-	(2,644,765)	(3,135,503)	-	(3,135,503)
Retained claim payments	\$45,020,122	\$11,051,442	\$56,071,564	\$49,490,753	\$9,559,849	\$59,050,602

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$1,611,723	\$373,865	\$1,985,588	\$1,795,734	\$326,386	\$2,122,120
Reinsurance claim payments	756	-	756	997	-	997
Insurance claim payments	1,612,479	373,865	1,986,344	1,796,731	326,386	2,123,117
Less:						
Claims recovered from reinsures	(89,471)	-	(89,471)	(107,050)	-	(107,050)
Retained claim payments	\$1,523,008	\$373,865	\$1,896,873	\$1,689,681	\$326,386	\$2,016,067

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$133,000,101	\$27,276,431	\$160,276,532	\$133,833,239	\$36,538,808	\$170,372,047
Reinsurance claim payments	138,077	-	138,077	95,728	-	95,728
Insurance claim payments	133,138,178	27,276,431	160,414,609	133,928,967	36,538,808	170,467,775
Less:						
Claims recovered from reinsures	(8,704,492)	-	(8,704,492)	(8,616,003)	-	(8,616,003)
Retained claim payments	\$124,433,686	\$27,276,431	\$151,710,117	\$125,312,964	\$36,538,808	\$161,851,772

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$4,499,327	\$922,748	\$5,422,075	\$4,569,247	\$1,247,484	\$5,816,731
Reinsurance claim payments	4,671	-	4,671	3,268	-	3,268
Insurance claim payments	4,503,998	922,748	5,426,746	4,572,515	1,247,484	5,819,999
Less:						
Claims recovered from reinsures	(294,469)	-	(294,469)	(294,162)	-	(294,162)
Retained claim payments	\$4,209,529	\$922,748	\$5,132,277	\$4,278,353	\$1,247,484	\$5,525,837

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**(2) Cathay life (China)**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$256,051	\$-	\$256,051	\$191,317	\$-	\$191,317
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	256,051	-	256,051	191,317	-	191,317
Less:						
Claims recovered from reinsures	(111,456)	-	(111,456)	(514)	-	(514)
Retained claim payments	\$144,595	\$-	\$144,595	\$190,803	\$-	\$190,803

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$8,663	\$-	\$8,663	\$6,532	\$-	\$6,532
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	8,663	-	8,663	6,532	-	6,532
Less:						
Claims recovered from reinsures	(3,771)	-	(3,771)	(17)	-	(17)
Retained claim payments	\$4,892	\$-	\$4,892	\$6,515	\$-	\$6,515

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$794,071	\$-	\$794,071	\$870,665	\$-	\$870,665
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	794,071	-	794,071	870,665	-	870,665
Less:						
Claims recovered from reinsures	(122,428)	-	(122,428)	(8,518)	-	(8,518)
Retained claim payments	\$671,643	\$-	\$671,643	\$862,147	\$-	\$862,147

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$26,863	\$-	\$26,863	\$29,726	\$-	\$29,726
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	26,863	-	26,863	29,726	-	29,726
Less:						
Claims recovered from reinsures	(4,141)	-	(4,141)	(291)	-	(291)
Retained claim payments	\$22,722	\$-	\$22,722	\$29,435	\$-	\$29,435

**(3) Cathay life (Vietnam)**

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$3,974	\$-	\$3,974	\$3,817	\$-	\$3,817
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	3,974	-	3,974	3,817	-	3,817
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$3,974	\$-	\$3,974	\$3,817	\$-	\$3,817

	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$134	\$-	\$134	\$130	\$-	\$130
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	134	-	134	130	-	130
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$134	\$-	\$134	\$130	\$-	\$130

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$10,907	\$-	\$10,907	\$16,236	\$-	\$16,236
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	10,907	-	10,907	16,236	-	16,236
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$10,907	\$-	\$10,907	\$16,236	\$-	\$16,236

	For the nine-month period ended 30 September 2013			For the nine-month period ended 30 September 2012		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$369	\$-	\$369	\$554	\$-	\$554
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	369	-	369	554	-	554
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$369	\$-	\$369	\$554	\$-	\$554

**35. Personnel expense, depreciation and amortizations – The Company and Subsidiaries**

Item	For the three-month period ended 30 September 2013			For the three-month period ended 30 September 2013		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$2,694,812	\$691,493	\$3,386,305	\$91,164	\$23,393	\$114,557
Labor & health insurance expenses	454,984	105,640	560,624	15,392	3,574	18,966
Pension expenses	263,409	56,013	319,422	8,911	1,895	10,806
Other expenses	313,436	73,988	387,424	10,603	2,503	13,106
Depreciation	11,333	714,785	726,118	383	24,181	24,564
Amortization	441	14,639	15,080	15	495	510

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Item	For the three-month period ended 30 September 2012 NT\$			For the three-month period ended 30 September 2012 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$3,681,350	\$904,653	\$4,586,003	\$125,686	\$30,886	\$156,572
Labor & health insurance expenses	412,745	84,786	497,531	14,091	2,895	16,986
Pension expenses	270,874	51,692	322,566	9,248	1,765	11,013
Other expenses	324,103	80,628	404,731	11,065	2,753	13,818
Depreciation	10,034	679,047	689,081	342	23,184	23,526
Amortization	155	21,082	21,237	5	720	725

Item	For the nine-month period ended 30 September 2013 NT\$			For the nine-month period ended 30 September 2013 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$9,300,241	\$2,205,550	\$11,505,791	\$314,622	\$74,613	\$389,235
Labor & health insurance expenses	1,407,958	301,100	1,709,058	47,631	10,186	57,817
Pension expenses	829,139	164,394	993,533	28,049	5,562	33,611
Other expenses	937,590	233,712	1,171,302	31,718	7,907	39,625
Depreciation	33,667	2,201,968	2,235,635	1,139	74,491	75,630
Amortization	1,244	48,206	49,450	42	1,631	1,673

Item	For the nine-month period ended 30 September 2012 NT\$			For the nine-month period ended 30 September 2012 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$9,559,486	\$2,271,955	\$11,831,441	\$326,374	\$77,567	\$403,941
Labor & health insurance expenses	1,237,930	248,155	1,486,085	42,265	8,472	50,737
Pension expenses	810,368	151,846	962,214	27,667	5,184	32,851
Other expenses	1,027,417	244,841	1,272,258	35,078	8,359	43,437
Depreciation	31,278	2,065,209	2,096,487	1,068	70,509	71,577
Amortization	502	71,764	72,266	17	2,450	2,467



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**36. Non-operating income and expenses**

	For the three-month period ended 30 September 2013		For the three-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Losses on disposal of property and equipment	\$(159)	\$(5)	\$(606)	\$(21)
Dividend on preferred stock liabilities	(228,866)	(7,742)	(228,241)	(7,792)
Other	568,494	19,231	331,749	11,326
<b>Total</b>	<b>\$339,469</b>	<b>\$11,484</b>	<b>\$102,902</b>	<b>\$3,513</b>
	For the nine-month period ended 30 September 2013		For the nine-month period ended 30 September 2012	
	NT\$	US\$	NT\$	US\$
Losses on disposal of property and equipment	\$(1,181)	\$(40)	\$(1,826)	\$(62)
Dividend on preferred stock liabilities	(679,134)	(22,975)	(679,760)	(23,208)
Other	1,522,639	51,510	1,264,080	43,157
<b>Total</b>	<b>\$842,324</b>	<b>\$28,495</b>	<b>\$582,494</b>	<b>\$19,887</b>

**37. Components of other comprehensive income**

	For the three-month period ended 30 September 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	\$(109,678)	\$-	\$(109,678)	\$-	\$(109,678)
Unrealized valuation gains (losses) from available-for-sale financial assets	(3,679,128)	(4,312,054)	(7,991,182)	(117,815)	(8,108,997)
Effective portion of losses on hedging instruments in cash flow hedges	(23,833)	(173,910)	(197,743)	33,616	(164,127)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	6,941	-	6,941	-	6,941
<b>Total</b>	<b>\$(3,805,698)</b>	<b>\$(4,485,964)</b>	<b>\$(8,291,662)</b>	<b>\$(84,199)</b>	<b>\$(8,375,861)</b>

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**For the nine-month periods ended 30 September 2013 and 2012**

For the three-month period ended 30 September 2013					
US\$					
	Reclassification	Other	Income tax	Other	
Arising during	adjustments	comprehensive	benefit	comprehensive	
the period	during the period	income	(expenses)	income, net of tax	
Exchange differences resulting from translating the financial statements of foreign operations					
Unrealized valuation gains (losses) from available-for-sale financial assets					
Effective portion of losses on hedging instruments in cash flow hedges					
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method					
Total					

For the three-month period ended 30 September 2012					
NT\$					
	Reclassification	Other	Income tax	Other	
Arising during	adjustments	comprehensive	benefit	comprehensive	
the period	during the period	income	(expenses)	income, net of tax	
Exchange differences resulting from translating the financial statements of foreign operations					
Unrealized valuation gains (losses) from available-for-sale financial assets					
Effective portion of losses on hedging instruments in cash flow hedges					
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method					
Total					

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**For the nine-month periods ended 30 September 2013 and 2012**

For the three-month period ended 30 September 2012					
US\$					
	Reclassification	Other	Income tax	Other	
Arising during	adjustments	comprehensive	benefit	comprehensive	
the period	during the period	income	(expenses)	income, net of tax	
Exchange differences resulting from translating the financial statements of foreign operations	\$ (1,131)	\$-	\$ (1,131)	\$-	\$ (1,131)
Unrealized valuation gains (losses) from available-for-sale financial assets	646,575	(41,497)	605,078	(33,742)	571,336
Effective portion of losses on hedging instruments in cash flow hedges	(118)	(6,809)	(6,927)	1,177	(5,750)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(544)	-	(544)	-	(544)
<b>Total</b>	<b>\$644,782</b>	<b>\$(48,306)</b>	<b>\$596,476</b>	<b>\$(32,565)</b>	<b>\$563,911</b>

For the nine-month period ended 30 September 2013					
NT\$					
	Reclassification	Other	Income tax	Other	
Arising during	adjustments	comprehensive	benefit	comprehensive	
the period	during the period	income	(expenses)	income, net of tax	
Exchange differences resulting from translating the financial statements of foreign operations	\$119,166	\$-	\$119,166	\$-	\$119,166
Unrealized valuation gains (losses) from available-for-sale financial assets	(11,482,036)	(13,508,296)	(24,990,332)	2,646,441	(22,343,891)
Effective portion of losses on hedging instruments in cash flow hedges	(38,589)	(545,994)	(584,583)	99,379	(485,204)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	15,994	-	15,994	-	15,994
<b>Total</b>	<b>\$(11,385,465)</b>	<b>\$(14,054,290)</b>	<b>\$(25,439,755)</b>	<b>\$2,745,820</b>	<b>\$(22,693,935)</b>

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For the nine-month period ended 30 September 2013					
US\$					
	Reclassification	Other	Income tax	Other	
Arising during	adjustments	comprehensive	benefit	comprehensive	
the period	during the period	income	(expenses)	income, net of tax	
Exchange differences resulting from translating the financial statements of foreign operations	\$4,031	\$-	\$4,031	\$-	\$4,031
Unrealized valuation gains (losses) from available-for-sale financial assets	(388,432)	(456,978)	(845,410)	89,528	(755,882)
Effective portion of losses on hedging instruments in cash flow hedges	(1,305)	(18,471)	(19,776)	3,362	(16,414)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	541	-	541	-	541
Total	<u>\$ (385,165)</u>	<u>\$ (475,449)</u>	<u>\$ (860,614)</u>	<u>\$ 92,890</u>	<u>\$ (767,724)</u>

For the nine-month period ended 30 September 2012					
NT\$					
	Reclassification	Other	Income tax	Other	
Arising during	adjustments	comprehensive	benefit	comprehensive	
the period	during the period	income	(expenses)	income, net of tax	
Exchange differences resulting from translating the financial statements of foreign operations	\$(85,362)	\$-	\$(85,362)	\$-	\$(85,362)
Unrealized valuation gains (losses) from available-for-sale financial assets	33,404,780	(11,475,620)	21,929,160	(926,240)	21,002,920
Effective portion of losses on hedging instruments in cash flow hedges	(12,097)	(600,634)	(612,731)	104,164	(508,567)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(55,512)	-	(55,512)	-	(55,512)
Total	<u>\$33,251,809</u>	<u>\$ (12,076,254)</u>	<u>\$ 21,175,555</u>	<u>\$ (822,076)</u>	<u>\$ 20,353,479</u>

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For the nine-month period ended 30 September 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	\$(2,914)	\$-	\$(2,914)	\$-	\$(2,914)
Unrealized valuation gains (losses) from available-for-sale financial assets	1,140,484	(391,793)	748,691	(31,623)	717,068
Effective portion of losses on hedging instruments in cash flow hedges	(414)	(20,506)	(20,920)	3,556	(17,364)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(1,895)	-	(1,895)	-	(1,895)
Total	<u>\$1,135,261</u>	<u>\$(412,299)</u>	<u>\$722,962</u>	<u>\$(28,067)</u>	<u>\$694,895</u>

**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 September 2013 NT\$	For the three-month period ended 30 September 2013 US\$
Current income tax expense (benefit)		
Current income tax charge	\$2,009	\$68
Adjustments in respect of current income tax of prior periods	-	-
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	(250,318)	(8,468)
Other		
Tax effect under consolidated income tax systems	(367,906)	(12,446)
Withholding tax for overseas investments	5,396	182
China corporate income tax	226	8
Total income tax expense (benefit)	<u>\$(610,593)</u>	<u>\$(20,656)</u>

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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2012 NT\$	For the three-month period ended 30 September 2012 US\$
Current income tax expense (benefit)		
Current income tax charge	\$1,577	\$54
Adjustments in respect of current income tax of prior periods	84	3
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	82,635	2,821
Other		
Tax effect under basic tax systems	(55,517)	(1,896)
Tax effect under consolidated income tax systems	(991,837)	(33,863)
Withholding tax for overseas investments	6,020	206
China corporate income tax	495	17
Total income tax expense (benefit)	<u>\$(956,543)</u>	<u>\$(32,658)</u>
	For the nine-month period ended 30 September 2013 NT\$	For the nine-month period ended 30 September 2013 US\$
Current income tax expense (benefit)		
Current income tax charge	\$3,094	\$105
Adjustments in respect of current income tax of prior periods	(228,628)	(7,734)
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	1,646,368	55,696
Other		
Tax effect under consolidated income tax systems	(1,445,558)	(48,903)
Withholding tax for overseas investments	30,429	1,029
China corporate income tax	768	26
Total income tax expense (benefit)	<u>\$6,473</u>	<u>\$219</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2012 NT\$	For the nine-month period ended 30 September 2012 US\$
Current income tax expense (benefit)		
Current income tax charge	\$7,873	\$269
Adjustments in respect of current income tax of prior periods	37,025	1,264
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	(466,040)	(15,911)
Other		
Tax effect under consolidated income tax systems	(1,400,341)	(47,810)
Withholding tax for overseas investments	15,354	524
China corporate income tax	822	28
Total income tax expense (benefit)	<u>\$(1,805,307)</u>	<u>\$(61,636)</u>

**Income taxes relating to components of other comprehensive income**

	For the three-month period ended 30 September 2013 NT\$	For the three-month period ended 30 September 2013 US\$
Deferred tax expense		
Unrealized valuation gains (losses) from available-for-sale financial assets	\$117,815	\$3,986
Effective portion of losses on hedging instruments in cash flow hedges	<u>(33,616)</u>	<u>(1,138)</u>
Income taxes relating to components of other comprehensive income	<u>\$84,199</u>	<u>\$2,848</u>

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**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2012 NT\$	For the three-month period ended 30 September 2012 US\$
Deferred tax expense		
Unrealized valuation gains (losses) from available-for-sale financial assets	\$988,312	\$33,742
Effective portion of losses on hedging instruments in cash flow hedges	(34,492)	(1,177)
Income taxes relating to components of other comprehensive income	<u>\$953,820</u>	<u>\$32,565</u>
	For the nine-month period ended 30 September 2013 NT\$	For the nine-month period ended 30 September 2013 US\$
Deferred tax expense		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(2,646,441)	\$(89,528)
Effective portion of losses on hedging instruments in cash flow hedges	(99,379)	(3,362)
Income taxes relating to components of other comprehensive income	<u>\$(2,745,820)</u>	<u>\$(92,890)</u>
	For the nine-month period ended 30 September 2012 NT\$	For the nine-month period ended 30 September 2012 US\$
Deferred tax expense		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$926,240	\$31,623
Effective portion of losses on hedging instruments in cash flow hedges	(104,164)	(3,556)
Income taxes relating to components of other comprehensive income	<u>\$822,076</u>	<u>\$28,067</u>



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**For the nine-month periods ended 30 September 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 nine-month period ended 30 September 2013 NT\$	For the nine-month period ended 30 September 2013 US\$
Accounting profit (loss) before tax from continuing operations	\$15,741,209	\$532,517
Tax at the domestic rates applicable to profits in the country concerned	\$2,692,746	\$91,094
Tax effect of revenue exempt from taxation	(3,863,620)	(130,704)
Tax effect of expenses not deductible for tax purposes	76,692	2,595
Add back of cash dividends received	1,843,606	62,368
Unrecognized deferred tax assets	918,006	31,056
Tax effect of deferred tax assets/liabilities	(17,968)	(608)
Adjustments in respect of current income tax of prior periods	(228,628)	(7,734)
Other		
Tax effect under consolidated income tax systems	(1,445,558)	(48,903)
Withholding tax for overseas investments	30,429	1,029
China corporate income tax	768	26
Total income tax expense (benefit) recognized in profit or loss	\$6,473	\$219

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2012 NT\$	For the nine-month period ended 30 September 2012 US\$
Accounting profit (loss) before tax from continuing operations	\$464,882	\$15,871
Tax at the domestic rates applicable to profits in the country concerned	\$89,595	\$3,059
Tax effect of revenue exempt from taxation	(2,465,152)	(84,164)
Tax effect of expenses not deductible for tax purposes	97,730	3,337
Add back of cash dividends received	1,826,962	62,375
Tax effect of deferred tax assets/liabilities	(5,966)	(204)
Investment losses	(1,336)	(45)
Adjustments in respect of current income tax of prior periods	37,025	1,264
Other		
Tax effect under basic tax systems	-	-
Tax effect under consolidated income tax systems	(1,400,341)	(47,810)
Withholding tax for overseas investments	15,354	524
China corporate income tax	822	28
Total income tax expense (benefit) recognized in profit or loss	\$(1,805,307)	\$(61,636)

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**For the nine-month periods ended 30 September 2013 and 2012**

Deferred tax assets (liabilities) relate to the following:

For the nine-month period ended 30 September 2013					
NT\$					
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Property and equipment	\$640,592	\$(162,336)	\$-	\$-	\$478,256
Investment property	(7,798,917)	176,443	-	-	(7,622,474)
Financial assets at fair value through profit or loss	(776,481)	(249,130)	-	-	(1,025,611)
Available-for-sale financial assets	(5,827,809)	-	3,003,810	-	(2,823,999)
Derivative financial assets for hedging	(196,534)	-	99,379	-	(97,155)
Bond investments for which no active market exists	50,801	(15,925)	-	-	34,876
Prepaid pension	-	-	-	(267)	(267)
Guarantee deposits paid	1,250	57,459	-	-	58,709
Financial liabilities at fair value through profit or loss	358,911	1,130,229	-	-	1,489,140
Other receivables	(46,622)	(3,970)	-	-	(50,592)
Employee benefit liability	591,438	18,690	-	-	610,128
Contribution in aid of construction costs	22	(9)	-	-	13
Office supplies	5,596	-	-	-	5,596
Foreign exchange losses (gains)	14,458,060	(3,342,059)	(357,369)	-	10,758,632
Special reserve	(744,240)	744,240	-	-	-
Deferred tax benefit (expenses)		<u>\$(1,646,368)</u>	<u>\$2,745,820</u>	<u>\$(267)</u>	
Deferred tax assets - Net	<u>\$716,067</u>				<u>\$1,815,252</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$16,106,670</u>				<u>\$13,435,350</u>
Deferred tax liabilities	<u>\$(15,390,603)</u>				<u>\$(11,620,098)</u>

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For the nine-month period ended 30 September 2013

	US\$				
	Recognized in				
	other				
	Beginning	Recognized in	comprehensive	Exchange	Ending
	balance	profit or loss	income	differences	balance
Temporary differences					
Property and equipment	\$21,671	\$(5,492)	\$-	\$-	\$16,179
Investment property	(363,834)	5,970	-	-	(357,864)
Financial assets at fair value					
through profit or loss	(26,268)	(8,428)	-	-	(34,696)
Available-for-sale financial					
assets	(197,152)	-	101,618	-	(95,534)
Derivative financial assets for					
hedging	(6,649)	-	3,362	-	(3,287)
Bond investments for which					
no active market exists	1,719	(539)	-	-	1,180
Prepaid pension	-	-	-	(9)	(9)
Guarantee deposits paid	42	1,944	-	-	1,986
Financial liabilities at fair					
value through profit or loss	12,142	38,235	-	-	50,377
Other receivables	(1,577)	(135)	-	-	(1,712)
Employee benefit liability	20,008	632	-	-	20,640
Contribution in aid of					
construction costs	1	-	-	-	1
Office supplies	189	-	-	-	189
Foreign exchange losses					
(gains)	489,109	(113,060)	(12,090)	-	363,959
Special reserve	(25,177)	25,177	-	-	-
Deferred tax benefit (expenses)		<u>\$(55,696)</u>	<u>\$92,890</u>	<u>\$(9)</u>	
Deferred tax assets - Net	<u>\$24,224</u>				<u>\$61,409</u>
Reflected in balance sheet as					
follows:					
Deferred tax assets	<u>\$544,881</u>				<u>\$454,511</u>
Deferred tax liabilities	<u>\$(520,657)</u>				<u>\$(393,102)</u>

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**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the nine-month period ended 30 September 2012				
	NT\$				
	Beginning	Recognized in	Recognized in	Exchange	Ending
	balance	profit or loss	comprehensive	differences	balance
			income		
Temporary differences					
Property and equipment	\$385,821	\$155,664	\$-	\$-	\$541,485
Investment property	(7,604,517)	(104,876)	-	-	(7,709,393)
Financial assets at fair value					
through profit or loss	(623,153)	(1,631,254)	-	-	(2,254,407)
Available-for-sale financial					
assets	(3,517,957)	9,582	(1,676,620)	-	(5,184,995)
Derivative financial assets for					
hedging	(339,526)	-	104,164	-	(235,362)
Bond investments for which					
no active market exists	48,034	2,274	-	-	50,308
Guarantee deposits paid	109	1,429	-	-	1,538
Financial liabilities at fair					
value through profit or loss	2,975,117	(2,682,885)	-	-	292,232
Other receivables	(61,699)	11,794	-	-	(49,905)
Employee benefit liability	560,927	21,896	-	-	582,823
Contribution in aid of					
construction costs	42	(21)	-	-	21
Office supplies	3,796	-	-	-	3,796
Foreign exchange losses	8,013,736	4,659,971	750,380	48	13,424,135
Special reserve	(766,939)	22,466	-	-	(744,473)
Deferred tax benefit (expenses)		\$466,040	\$(822,076)	\$48	
Deferred tax liabilities - Net	<u>\$(926,209)</u>				<u>\$(1,282,197)</u>
Reflected in balance sheet as					
follows:					
Deferred tax assets	<u>\$11,989,836</u>				<u>\$14,898,544</u>
Deferred tax liabilities	<u>\$(12,916,045)</u>				<u>\$(16,180,741)</u>

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For the nine-month period ended 30 September 2012

	US\$				
	Recognized in				
	other				
	Beginning	Recognized in	comprehensive	Exchange	Ending
	balance	profit or loss	income	differences	balance
Temporary differences					
Property and equipment	\$13,172	\$5,315	\$-	\$-	\$18,487
Investment property	(259,629)	(3,580)	-	-	(263,209)
Financial assets at fair value					
through profit or loss	(21,275)	(55,694)	-	-	(76,969)
Available-for-sale financial					
assets	(120,108)	327	(57,242)	-	(177,023)
Derivative financial assets for					
hedging	(11,592)	-	3,556	-	(8,036)
Bond investments for which					
no active market exists	1,640	78	-	-	1,718
Guarantee deposits paid	4	49	-	-	53
Financial liabilities at fair					
value through profit or loss	101,574	(91,597)	-	-	9,977
Other receivables	(2,106)	402	-	-	(1,704)
Employee benefit liability	19,151	747	-	-	19,898
Contribution in aid of					
construction costs	1	-	-	-	1
Office supplies	130	-	-	-	130
Foreign exchange losses	273,600	159,097	25,619	2	458,318
Special reserve	(26,184)	767	-	-	(25,417)
Deferred tax benefit (expenses)		<u>\$15,911</u>	<u>\$(28,067)</u>	<u>\$2</u>	
Deferred tax liabilities - Net	<u>\$(31,622)</u>				<u>\$(43,776)</u>
Reflected in balance sheet as					
follows:					
Deferred tax assets	<u>\$409,349</u>				<u>\$508,656</u>
Deferred tax liabilities	<u>\$(440,971)</u>				<u>\$(552,432)</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

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

		Unused tax losses				
		NT\$				
		30 September	31 December	30 September	1 January	
Year	Tax losses	2013	2012	2012	2012	Expiration year
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\$				
		30 September	31 December	30 September	1 January	
Year	Tax losses	2013	2012	2012	2012	Expiration year
2006	\$279,147	\$233,502	\$284,047	\$281,720	\$272,599	2016
2008	132,857	132,857	135,189	134,081	129,740	2018
2009	411,829	411,829	419,059	415,625	402,169	2019
		<u>\$778,188</u>	<u>\$838,295</u>	<u>\$831,426</u>	<u>\$804,508</u>	

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

		Unused tax losses				Expiration year
		30 September 2013		31 December 2012		
Laws and regulations	Items	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 losses				Expiration year
		30 September 2012		1 January 2012		
Laws and regulations	Items	NT\$	US\$	NT\$	US\$	
The Act for Upgrading Industries	Education and training	\$12,478	\$426	\$12,478	\$412	2012
The Act for Upgrading Industries	Education and training	8,755	299	8,755	289	2013
		<u>\$21,233</u>	<u>\$725</u>	<u>\$21,233</u>	<u>\$701</u>	

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**Unrecognized deferred tax assets**

As of 30 September 2013, 31 December 2012, 30 September 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\$4,756,384 (US\$160,906) thousands, NT\$5,056,568 (US\$174,064) thousands, NT\$4,992,189 (US\$170,440) 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 September 2013, 31 December 2012, 30 September 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\$12,339 (US\$417) thousands, NT\$10,550 (US\$363) thousands, NT\$12,175 (US\$416) thousands and NT\$14,795 (US\$489) thousands, respectively.

**Imputation credit information**

	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Balances of imputation credit amounts	\$5,312,045	\$179,704	\$5,584,641	\$192,242

  

	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Balances of imputation credit amounts	\$5,192,682	\$177,285	\$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.



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The assessment of income tax returns

As of 30 September 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 2011

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 year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

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 September 2013 NT\$	For the three-month period ended 30 September 2013 US\$
Profit attributable to ordinary equity holders of the Company	<u>\$8,034,815</u>	<u>\$271,814</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>5,306,527</u>	<u>5,306,527</u>
Basic earnings per share (In dollars)	<u>\$1.51</u>	<u>\$0.05</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

	For the three-month period ended 30 September 2012 NT\$	For the three-month period ended 30 September 2012 US\$
Profit attributable to ordinary equity holders of the Company	\$3,772,978	\$128,815
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)	\$0.71	\$0.02

	For the nine-month period ended 30 September 2013 NT\$	For the nine-month period ended 30 September 2013 US\$
Profit attributable to ordinary equity holders of the Company	\$15,682,629	\$530,535
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)	\$2.96	\$0.10

	For the nine-month period ended 30 September 2012 NT\$	For the nine-month period ended 30 September 2012 US\$
Profit attributable to ordinary equity holders of the Company	\$2,244,647	\$76,635
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)	\$0.42	\$0.01

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If foreign exchange volatility reserve was not applied, basic earnings per share would be NT\$1.60 (US\$0.05) and NT\$0.59 (US\$0.02) for the three-month periods ended 30 September 2013 and 2012, respectively. If foreign exchange volatility reserve was not applied, basic earnings per share would be NT\$3.62 (US\$0.12) and NT\$0.39 (US\$0.01) for the nine-month periods ended 30 September 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\$1.05 (US\$0.04) for the three-month period ended 30 September 2013. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be NT\$1.55 (US\$0.05) for the nine-month period ended 30 September 2013.

**40. Separate account insurance products**

**(1) The Company**

**A. Separate account insurance products - assets and liabilities**

Assets			Liabilities		
Item	30 September 2013		Item	30 September 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$664,797	\$22,490	Other payables	\$866,514	\$29,314
Financial assets at fair value through profit or loss	362,750,504	12,271,668	Reserve for separate account-Insurance contracts	323,052,793	10,928,714
Other receivables	3,383,153	114,450	Reserve for separate account-Investment contracts	42,879,147	1,450,580
Total	\$366,798,454	\$12,408,608	Total	\$366,798,454	\$12,408,608

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

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**For the nine-month periods ended 30 September 2013 and 2012**

Assets			Liabilities		
Item	30 September 2012		Item	30 September 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$818,158	\$27,933	Other payables	\$7,020,303	\$239,682
Financial assets at fair value through profit or loss	298,221,634	10,181,688	Reserve for separate account-Insurance contracts	288,670,162	9,855,588
Interest receivable	-	-	Reserve for separate account-Investment contracts	21,477,071	733,256
Other receivables	18,127,744	618,905			
Total	\$317,167,536	\$10,828,526	Total	\$317,167,536	\$10,828,526

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

**B. Separate account insurance products - revenue and expenses**

Expenses			Revenue		
Item	1 July - 30 September 2013		Item	1 July - 30 September 2013	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$2,890,307	\$97,777	Premium income	\$17,022,728	\$575,870
Cash surrender value	7,774,041	262,992	Interest income	1,386	47
Dividends	55	2	Gains (losses) from financial assets and liabilities at fair value through profit or loss	9,227,387	312,158
Provision for separate account reserve	12,655,727	428,137	Losses on foreign exchange	(2,001,236)	(67,701)
Administrative expenses	951,098	32,175			
Non-operating income and expenses	(20,963)	(709)			
Total	\$24,250,265	\$820,374	Total	\$24,250,265	\$820,374

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**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

Expenses			Revenue		
Item	1 July - 30 September 2012		Item	1 July - 30 September 2012	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$3,488,131	\$119,090	Premium income	\$36,251,223	\$1,237,665
Cash surrender value	27,661,484	944,400	Interest income	3,725	127
Dividends	760	26	Gains (losses) from		
Provision for separate			financial assets and		
account reserve	16,155,006	551,554	liabilities at fair		
Administrative expenses	969,363	33,095	value through profit		
Non-operating income and			or loss	12,562,646	428,906
expenses	-	-	Losses on foreign		
			exchange	(559,446)	(19,100)
			Non-operating income		
			and expenses	16,596	567
Total	\$48,274,744	\$1,648,165	Total	\$48,274,744	\$1,648,165

Expenses			Revenue		
Item	1 January - 30 September 2013		Item	1 January - 30 September 2013	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$7,871,738	\$266,297	Premium income	\$68,864,384	\$2,329,647
Cash surrender value	34,261,023	1,159,033	Interest income	7,376	250
Dividends	214	7	Gains (losses) from		
Provision for separate			financial assets and		
account reserve	23,857,854	807,099	liabilities at fair		
Gains on surrender	(3)	-	value through profit		
Administrative expenses	2,723,757	92,144	or loss	2,989,038	101,118
Non-operating income and			Losses on foreign		
expenses	(67,134)	(2,271)	exchange	(3,213,349)	(108,706)
Total	\$68,647,449	\$2,322,309	Total	\$68,647,449	\$2,322,309

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Expenses			Revenue		
Item	1 January - 30 September 2012		Item	1 January - 30 September 2012	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$7,549,366	\$257,746	Premium income	\$54,130,493	\$1,848,088
Cash surrender value	49,345,226	1,684,712	Interest income	5,802	198
Dividends	1,452	50	Gains (losses) from		
Provision for separate			financial assets and		
account reserve	16,125,747	550,555	liabilities at fair value		
Administrative expenses	2,842,810	97,057	through profit or loss	24,352,106	831,414
			Losses on foreign		
			exchange	(2,670,357)	(91,170)
			Non-operating income		
			and expenses	46,557	1,590
Total	\$75,864,601	\$2,590,120	Total	\$75,864,601	\$2,590,120

C. The commission earned for the sales of separate account insurance products from counterparties for the three-month periods ended 30 September 2013 and 2012 were NT\$392,312 (US\$13,272) thousands and NT\$288,370 (US\$9,845) thousands, respectively. The commission earned for the sales of separate account insurance products from counterparties for the nine-month periods ended 30 September 2013 and 2012 were NT\$1,021,999 (US\$34,574) thousands and NT\$777,886 (US\$26,558) thousands, respectively.

**(2) Cathay life (China)****A. Separate account insurance products - assets and liabilities**

Assets			Liabilities		
Item	30 September 2013		Item	30 September 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$15,660	\$530	Other payables	\$2,953	\$100
Financial assets at fair			Reserve for separate		
value through profit or loss	336,376	11,379	account	347,119	11,743
Interest receivable	17	1	Other	1,981	67
Total	\$352,053	\$11,910	Total	\$352,053	\$11,910

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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 September 2012		Item	30 September 2012	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$29,221	\$998	Other payables	\$499	\$17
Financial assets at fair value through profit or loss	321,748	10,985	Reserve for separate account	339,677	11,597
Interest receivable	164	6	Other	10,957	375
Total	\$351,133	\$11,989	Total	\$351,133	\$11,989

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

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**B. Separate account insurance products - revenue and expenses**

Expenses			Revenue		
Item	1 July - 30 September 2013		Item	1 July - 30 September 2013	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$14,952	\$506	Premium income	\$855	\$29
(Losses) gains from financial assets and liabilities at fair value through profit or loss	(18,386)	(622)	Interest income	31	1
Administrative expenses	1,217	41	Tax expenses	(183)	(6)
Tax expenses	612	21	Provision for separate account reserve	(19,247)	(651)
			Gains (losses) from financial assets and liabilities at fair value through profit or loss	16,939	573
<b>Total</b>	<b>\$(1,605)</b>	<b>\$(54)</b>	<b>Total</b>	<b>\$(1,605)</b>	<b>\$(54)</b>

Expenses			Revenue		
Item	1 July - 30 September 2012		Item	1 July - 30 September 2012	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$6,804	\$232	Premium income	\$2,380	\$81
(Losses) gains from financial assets and liabilities at fair value through profit or loss	(8,549)	(292)	Interest income	(161)	(6)
Administrative expenses	1,311	45	Tax expenses	165	6
Other	74	2	Provision for separate account reserve	20,901	713
			(Losses) gains from financial assets and liabilities at fair value through profit or loss	(23,645)	(807)
<b>Total</b>	<b>\$(360)</b>	<b>\$(13)</b>	<b>Total</b>	<b>\$(360)</b>	<b>\$(13)</b>



**English Translation of Financial Statements Originally Issued in Chinese****Cathay Life Insurance Co., Ltd. and Subsidiaries****Notes to unaudited consolidated financial statements-continued****(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)****For the nine-month periods ended 30 September 2013 and 2012**

Expenses			Revenue		
Item	1 January - 30 September 2013		Item	1 January - 30 September 2013	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$47,910	\$1,621	Premium income	\$22,749	\$769
Administrative expenses	3,380	114	Interest income	86	3
Tax expenses	612	20	Provision for separate account reserve	12,128	410
			Gains (losses) from financial assets and liabilities at fair value through profit or loss	16,939	573
Total	\$51,902	\$1,755	Total	\$51,902	\$1,755

Expenses			Revenue		
Item	1 January - 30 September 2012		Item	1 January - 30 September 2012	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$96,753	\$3,303	Premium income	\$43,879	\$1,498
Administrative expenses	3,700	127	Interest income	375	12
Other	675	22	Tax expenses	2,198	75
			Provision for separate account reserve	48,108	1,643
			Gains (losses) from financial assets and liabilities at fair value through profit or loss	6,568	224
Total	\$101,128	\$3,452	Total	\$101,128	\$3,452

## 41. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

## (1) Objectives of risk management

The Company's principal financial risk management objective is to promote operational efficiency, ensure assets safety, increase shareholder value, and ensure regulatory compliance; therefore, to accomplish objectives of steady growth and sustainable management.

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**(2) Framework for risk management, organization structure and responsibilities**

**A. Board of directors**

- a. The board of directors should establish appropriate risk management function 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 ensure the policies and standards are in line with the Company's operational objective and operational strategy.
- c. The board of directors should acknowledge the risk of 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 quotas by other departments.

**B. Risk management committee**

- a. The committee should draft the risk management policies, framework and organizational function to establish quantitative and qualitative risk management standards. The committee is also responsible to report the execution results to the board periodically and make necessary improvement suggestions.
- b. The committee should execute the risk management decisions set by the board of directors and evaluate the development, implementation and results of execution of the risk management function.
- c. The committee should assist and monitor the risk management activities.
- d. The committee should adjust the risk category, risk quota allocation and risk taking according to the change of the big environment.
- e. The committee should enhance cross-department interaction and communication.

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**C. Risk management department**

- a. The department is responsible for monitoring, measuring and evaluating daily risks. The department should execute its authority independently from the operating department.
- b. The department should perform the following functions based on activity categories:
  - (A) Assist with drafting and execute the risk management policies set by the board of directors.
  - (B) Assist with determining the risk quotas based on risk appetite.
  - (C) Summarize the risk information provided by all departments. Facilitate and communicate the execution of the policies as well as the risk quotas with departments.
  - (D) Periodically provide risk management related reports.
  - (E) Periodically monitor all operating department's risk quotas and manage the exceptions attributable to exceed the risk quotas granted.
  - (F) Assist in the pressure test. Execute back testing if necessary.
  - (G) Other risk management issues.

**D. Operating departments**

- a. Managers of the operating departments:
  - (A) Responsible for the departments' daily risk management report and respond to issues if necessary.
  - (B) Make sure to delivery risk management information periodically to the risk management department.
- b. Operating departments:
  - (A) Address and measure risks and report the pervasiveness of exposure.
  - (B) Periodically review the risk quotas. In the event of an exception, report the exceptions as well as the actions taken.
  - (C) Assist with developing the risk model. Ensure the measurement of risk, the usage of the model and the assumptions made are reasonable and has been applied consistently.
  - (D) Ensure internal control operates effectively to comply with relevant regulations and the Company's risk management policies.
  - (E) Assist with gathering risk management related data.

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**E. Audit department**

The department is required to audit all departments to determine the execution status of the risk management policies complies with the related regulations and the Company's risk management policies.

**(3) Reporting risk or measuring the range and characteristics of the system**

The Company's procedures for risk management include risk identification, risk measurement, risk control system, and risk management reporting. The Company set its risk management standards based on markets, credibility, sovereign, liquidity, operations, insurance, risks of matching between assets / liability positions and the capital adequacy. The Company also periodically provides the risk management report for monitoring the Company's risks.

**A. Market risk**

The risk represents decrease in value of the Company's financial asset due to the price fluctuation of the financial instrument market. The Company applies the 95% and 99% confidence levels as the benchmark to measure weekly market risk. The Company also applies back testing periodically to the market risk to ensure accuracy of the model. Furthermore, the Company applies scenario analysis and stress test to evaluate the change in value of the asset groups due to significant domestic and international incidents. In accordance with the adoption of foreign exchange volatility reserve, the Company sets the ceiling of foreign exchange risk and early warning system of the reserve, and also monitors foreign exchange risk regularly.

**B. Credit risk**

This risk represents the Company's loss 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 test to evaluate the change in value of the asset groups due to significant domestic and international incidents.

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**C. Sovereign risk**

This represents risks of the Company's investment positions caused by changes of the local government's politics or economy which further causes price fluctuation or default that eventually results in a loss. The Company takes international credit rating agency's rating and other economic indexes into consideration to measure the sovereign risk and set the investment ceiling for specific countries. The Company reviews and adjusts the ceiling periodically.

**D. Liquidity risk**

Liquidity risks include 'funding liquidity risk' and 'market liquidity risk'. Funding liquidity risk 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 manages to maintain 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. They also set the annual assets allocation plan to better maintain the liquidity of funding. 'Market liquidity risk' occurs when the market is under turmoil or lacks depth which further causes drastic change of market price. All investment departments have evaluated the market liquidity risk based on the characteristics and intentions of current investment portfolio.

**E. Operating risk**

This risk occurs when there are errors caused by internal process, employee or system breakdown or external issues including legislative risks, but not strategic risk and reputation risks. The Company had set the standard operating procedure based on all characteristics of operations meanwhile established losses reporting system to manage operating risk losses information.

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**F. Insurance risk**

This risk occurs after collecting premium from the policy holder. The Company assumes the risk transferred from the policy holder and when the Company pays the claim, due to unexpected change the Company assumes a loss. This generally happens because of the policy design, pricing risks, underwriting risks, reinsurance risks, catastrophe risks, claim risks and reserve related risks.

**G. Asset and liability matching risk**

The type of risks happens when the changes in value of assets and liability are not equal. The Company measures the risk by referencing capital costs, duration, cash flow management and scenario analysis.

**H. Capital adequacy rate**

Capital adequacy ratio is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies. The Company applies capital adequacy rate as the indicator for capital adequacy.

- (4) Manage the process of assuming, measuring, monitoring and controlling risks to ensure proper risk classification, 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 definition and range of risk, management structure, risk management indicators and other risk management measures.
- b. Establish methods to evaluate insurance risks.
- c. Periodically provide the insurance risk management report to the risk management committee for supervising insurance risks and developing insurance risk management strategies.

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- d. When a risk exceptional incident occurs, related departments should draft the responsive measure and submit it to the risk management committee and Cathay Financial Holding's risk management committee.

**B. Ensure proper risk classification and underwriting policies of premium level:**

- a. Underwriters should ensure the clients' financial underwriting, check insurance notification for exceptions, consider the amount insured, types of insurance, age, family members, reason for insurance, employment, etc., to confirm client's appropriateness of the amount insured and the ability to meet premium deadlines.
- b. The Company has an underwriter team dealing with controversial issues with respect to new business and change of conservation, to clarifying related underwriting standards.
- c. The Company has a review team for major insurance policies to enhance its risk management and prevent adverse selection and moral hazard.

**(5) Evaluation based on the corporate entity taken as a whole and range of insurance risk management**

**A. Evaluation of insurance risks includes the following risks:**

- a. Product design and pricing risks: This type of risk arises from improper design of products, inappropriate policies, inappropriate pricing, referencing the wrong source of information, inconsistency and unexpected changes.
- b. Underwriting risks: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
- c. Reinsurance risks: This type of risk arises from failing to reinsure the excess risk or reinsurer fails to fulfill its responsibility that results in loss in premium, claims or non-reimbursed expenses.

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- d. Catastrophe risks: This type of risk arises from accidents that cause a type or more than one type of insurance a loss which in aggregate might affect the Company's credit rating and solvency.
- e. Claim risks: This type of risk arises from inappropriate operation or mistakes while handling claims.
- f. Risk of insufficient reserve: This type of risk arises from insufficient reserve arising from underestimating liabilities. As a result, the Company fails to fulfill its anticipated responsibility.

**B. Range of managing insurance risks**

- a. Establish the Company's insurance risk management standards as the guidance of performing risk management.
  - b. Establish the Company's insurance risk management standards including the definition and range of risks, management structure, risk management indicators and other risk management measures.
  - c. Draft action plans to work in line with the Company's expanding strategy and the changes of the financial environment worldwide.
  - d. Establish methods to measure insurance risks.
  - e. Periodically provide insurance risks management report to monitor insurance risk and draft insurance management strategy.
  - f. Other issues related to insurance risks management.
- (6) Methods to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks

The method that the Company mainly uses to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks is the reinsurance management plan. The Company estimates the risk that the Company is able to assume including characteristics of the risk, regulatory issues and development technique factors all together to determine the scope of reinsurance. In order to maintain safety of risk transfer and control the risk of reinsurance transactions, the Company has established reinsurer selection standards.



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**(7) Methods for managing assets and liabilities**

- A. The Company has set up an assets and liabilities management committee to ensure full application of the management policy, establish management structure, integrate human capital and resources, review the strategy and practice periodically and further reduce all types of risks.
- B. Responsible departments will review the measurement of the matching risks of assets and liabilities periodically. The reports will be sent to the risk management committee. Furthermore, the reports should be delivered to the risk management committee of Cathay Financial Holding annually.
- C. When exceptional situation occurs, the related departments should hold a meeting to formulate possible action plans and deliver the report to assets and liabilities management committee, risk management committee and the risk management committee of Cathay Financial Holding.

**(8) When special incidence happens, the managing, monitoring and controlling procedures relating to extra liability or commitment of contributing extra owner equity are as following:**

To comply with the relevant laws and regulation, the Company is required to maintain its capital adequacy rate in a certain range. In order to enhance the Company's capital management and maintain its capital adequacy ratio, the Company has established a set of capital adequacy management standards as follows:

**A. Capital adequacy management**

- a. Periodically provide capital adequacy management reports and analysis to the finance department of Cathay Financial Holding.
- b. Periodically provide the risk management committee the capital adequacy management analysis report.

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- c. Implement scenario analysis for capital adequacy ratio focusing on the Company's use of funding, changes of the financial environment and updates of laws and regulations.
- d. Periodically review the capital adequacy ratio and related control standards to fulfill the management of capital adequacy.

**B. Exception management process**

When the Company's capital adequacy ratio exceeds the risk management standard or other exceptions occur, the Company is required to notify the risk management department and finance department of Cathay Financial Holding enclosed with the capital adequacy analysis report and related action plans.

**(9) Risk mitigation and avoidance policies and sustainable 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 protect against the price risk of stock value, interest rate risk, foreign currency risk and credit risk from investment activities. The Company does not enter into derivative transactions for 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; the copy of the assessment report is delivered to the compliance office for future reference.

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(10) The policies and procedures against the concentration of credit and investment risks

Management control indicators of credit and investment risks are set by the Company. When indicators show the Company reaches the credit and investment limit or the increase of the credit line or investment capital will exceed the limit, the Company does not undertake the loan or investment in general. However, if there is any individual reason to require the Company to undertake it, the anticipated investment or loan needs to be reviewed by the loan review or investment decision committee and approved by the risk management department of Cathay Financial Holdings.

42. Information of insurance risk

(1) Sensitivity of insurance risk - Insurance contracts and financial instruments with discretionary participation feature:

A. The Company

For the nine-month period ended 30 September 2013			
NT\$			
	Change in assumption	Change in income before tax	Change in equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,470,683	Decrease (increase) 1,220,667
Expense	×1.05 (×0.95)	Decrease (increase) 1,936,196	Decrease (increase) 1,607,043
Surrender rates	×1.05 (×0.95)	Increase (decrease) 240,101	Increase (decrease)
Investment return rate	+0.1%	Increase 2,425,167	Increase 2,012,888
Investment return rate	-0.1%	Decrease 2,426,957	Decrease 2,014,374

  

For the nine-month period ended 30 September 2013			
US\$			
	Change in assumption	Change in income before tax	Change in equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 49,752	Decrease (increase) 41,295
Expense	×1.05 (×0.95)	Decrease (increase) 65,501	Decrease (increase) 54,365
Surrender rates	×1.05 (×0.95)	Increase (decrease) 8,122	Increase (decrease) 6,742
Investment return rate	+0.1%	Increase 82,042	Increase 68,095
Investment return rate	-0.1%	Decrease 82,103	Decrease 68,145

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For the nine-month period ended 30 September 2012

NT\$

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.05 (×0.95)	1,528,313	1,268,500
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,978,469	1,642,130
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	242,238	201,058
Investment return rate	+0.1%	Increase 2,208,555	Increase 1,833,101
Investment return rate	-0.1%	Decrease 2,210,187	Decrease 1,834,455

For the nine-month period ended 30 September 2012

US\$

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.05 (×0.95)	52,179	43,308
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	67,548	56,065
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	8,270	6,864
Investment return rate	+0.1%	Increase 75,403	Increase 62,585
Investment return rate	-0.1%	Decrease 75,459	Decrease 62,631

**B. Cathay life (China)**

For the nine-month period ended 30 September 2013

NT\$

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.10 (×0.90)	60,919	45,689
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	54,840	41,130
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	19,356	14,517
Investment return rate	+0.25%	Increase 234,339	Increase 175,754
Investment return rate	-0.25%	Decrease 212,091	Decrease 159,068

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For the nine-month period ended 30 September 2013

US\$

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.10 (×0.90)	2,061	1,546
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,855	1,391
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	655	491
Investment return rate	+0.25%	Increase 7,928	Increase 5,946
Investment return rate	-0.25%	Decrease 7,175	Decrease 5,381

For the nine-month period ended 30 September 2012

NT\$

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.10 (×0.90)	33,759	25,319
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	32,463	24,347
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	17,354	13,015
Investment return rate	+0.25%	Increase 112,273	Increase 84,205
Investment return rate	-0.25%	Decrease 122,334	Decrease 91,751

For the nine-month period ended 30 September 2012

US\$

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.10 (×0.90)	1,153	864
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,108	831
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	592	444
Investment return rate	+0.25%	Increase 3,833	Increase 2,875
Investment return rate	-0.25%	Decrease 4,177	Decrease 3,133

**English Translation of Financial Statements Originally Issued in Chinese****Cathay Life Insurance Co., Ltd. and Subsidiaries****Notes to unaudited consolidated financial statements-continued****(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)****For the nine-month periods ended 30 September 2013 and 2012****C. Cathay Life (Vietnam)****For the nine-month period ended 30 September 2013****NT\$**

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.05 (×0.95)	182	137
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	6,757	5,068
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	478	359
Investment return rate	+0.1%	Increase 1,718	Increase 1,288
Investment return rate	-0.1%	Decrease 1,719	Decrease 1,289

**For the nine-month period ended 30 September 2013****US\$**

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.05 (×0.95)	6	5
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	229	171
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	116	12
Investment return rate	+0.1%	Increase 58	Increase 44
Investment return rate	-0.1%	Decrease 58	Decrease 44

**For the nine-month period ended 30 September 2012****NT\$**

	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.05 (×0.95)	172	129
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	9,639	7,229
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	2,276	1,707
Investment return rate	+0.1%	Increase 1,111	Increase 833
Investment return rate	-0.1%	Decrease 1,112	Decrease 834

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

For the nine-month period ended 30 September 2012			
US\$			
	Change in assumption	Change in income before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Life table/Morbidity	×1.05 (×0.95)	6	4
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	329	247
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	78	58
Investment return rate	+0.1%	Increase 38	Increase 28
Investment return rate	-0.1%	Decrease 38	Decrease 28

- a. Changes in income before tax listed above refer to the effects of income before tax arising from by the assumption for the nine-month periods ended 30 September 2013 and 2012. Equity changes of the Company, Cathay Life (China) and Cathay Life (Vietnam) are calculated by assuming 17%, 25% and 25%, respectively, of income tax rates.
- 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 adequate. However, if the discount rate keeps declining to a significant degree, income before tax and equity will probably be affected.
- c. Test of Sensitivity
- (A) Life Table/Morbidity test is measured by mortality, morbidity and the occurrence rate of injury insurance multiplied by changes in assumption, in relation to the change in income before tax.
- (B) Expense sensitivity is measured by all expenses listed in statements of comprehensive income (Note 1) multiplied by changes in assumption, in relation to the change in income before tax.

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

(C) Surrender rate sensitivity test is measured by surrender rate multiplied by changes in assumption, in relation to the change in income before tax.

(D) The rate of returns sensitivity test is measured by the rate of returns (Note 2) increases (decreases) change in assumption, in relation to income before tax.

Note 1: Expenses includes brokerage expenses, commission expenses, other operating expenses under operating costs as well as business expenses, administration expenses and staff training expenses under 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 on insurance risk**

The Company's insurance business mainly derives from Taiwan, Republic of China. All the insurance policies have the similar risks of exposure, for example, the exposure of the unanticipated changes in trend (ex: mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by a 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 making reinsurance arrangements.

The Company reviews the profits and losses on compensation as a whole and the capability of assuming risk periodically. Depending upon the feature of each risk, the Company assesses the amount of coverage a company retains on that risk, also called "net line," as well as reviewed and approved by each competent unit. For the excess of net line, the Company reinsures this portion of amount. 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 compensation on retained risks. Depending upon the dollar amount of losses and the capability of assuming risks, the Company makes the decision on whether it is necessary to adjust the insurance limits or reinsure the disasters. Hence, the insurance risk to some extent has been spread out to reduce the potential impact on unanticipated losses.



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

**Notes to unaudited consolidated financial statements-continued**

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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 which is based upon the loss ratio of each type of insurance and used for the abnormal movement of compensation needs to be recognized and recorded in appropriated retained earnings of equity in accordance with IAS 12.

**(3) Trend of the development on claims**

**A. The Company**

**a. Direct business trend of development**

	Development period (years)							Expected future payment
	NT\$							
Accident year	1	2	3	4	5	6	7	
2006Q4~2007Q3	12,374,187	14,656,331	14,786,549	14,848,145	14,877,814	14,930,922	14,938,703	-
2007Q4~2008Q3	12,783,636	15,205,962	15,380,662	15,435,648	15,496,567	15,521,291	15,529,318	8,027
2008Q4~2009Q3	14,093,398	16,952,010	17,187,343	17,269,392	17,320,234	17,362,963	17,371,943	51,709
2009Q4~2010Q3	13,987,020	17,033,181	17,304,931	17,391,259	17,442,167	17,482,575	17,491,444	100,185
2010Q4~2011Q3	14,706,765	18,104,960	18,434,572	18,515,456	18,570,414	18,615,945	18,625,385	190,813
2011Q4~2012Q3	14,695,125	17,851,082	18,085,626	18,160,138	18,209,227	18,247,293	18,256,528	405,446
2012Q4~2013Q3	13,727,342	16,473,448	16,683,611	16,746,183	16,783,003	16,817,981	16,826,575	3,099,233

Expected future payment	\$3,855,413
Less: Expected reported but not paid claim	137,355
Add: Assumed reserve for incurred but not reported claim	44,655
Reserve for unreported claim	3,762,713
Add: Reported but not paid claim	446,897
Reserve claim balance	<u>\$4,209,610</u>

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**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

Accident year	Development period (years)							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	418,613	495,816	500,222	502,305	503,309	505,106	505,369	-
2007Q4~2008Q3	432,464	514,410	520,300	522,180	524,241	525,077	525,349	272
2008Q4~2009Q3	476,773	573,478	581,439	584,215	585,935	587,380	587,684	1,749
2009Q4~2010Q3	473,174	576,224	585,417	588,338	590,060	591,427	591,727	3,389
2010Q4~2011Q3	497,522	612,482	623,632	626,369	628,228	629,768	630,087	6,455
2011Q4~2012Q3	494,129	603,893	611,828	614,348	616,009	617,297	617,609	13,716
2012Q4~2013Q3	464,389	557,288	564,398	566,515	567,761	568,944	569,235	104,846

Expected future payment \$130,427

Less: Expected reported but not paid claim 4,647

Add: Assumed reserve for incurred but not reported claim 1,511

Reserve for unreported claim 127,291

Add: Reported but not paid claim 15,118

Reserve claim balance \$142,409

**b. Retained business trend of development**

Accident year	Development period (years)							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	12,437,182	14,765,445	14,905,939	14,962,421	14,991,748	15,045,974	15,066,651	-
2007Q4~2008Q3	12,863,789	15,317,597	15,488,906	15,544,002	15,606,343	15,644,322	15,652,468	8,146
2008Q4~2009Q3	13,684,254	16,249,006	16,454,191	16,527,815	16,590,899	16,630,217	16,638,527	47,628
2009Q4~2010Q3	12,196,792	14,610,767	14,798,898	14,881,636	14,919,031	14,947,662	14,954,219	72,583
2010Q4~2011Q3	12,826,507	15,522,187	15,772,327	15,834,146	15,874,604	15,907,495	15,914,456	142,129
2011Q4~2012Q3	12,912,737	15,465,512	15,636,784	15,693,795	15,729,569	15,756,032	15,762,990	297,478
2012Q4~2013Q3	12,415,113	14,781,811	14,946,932	14,997,037	15,024,370	15,051,087	15,058,060	2,642,947

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment \$3,210,911

Less: Expected reported but not paid claim (137,355)

Add: Reported but not paid claim 446,897

Retained reserve claim balance \$3,520,453

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**Notes to unaudited consolidated financial statements-continued**

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

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Accident year	Development period (years)							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	420,744	499,508	504,260	506,171	507,163	508,998	509,697	-
2007Q4~2008Q3	435,176	518,187	523,982	525,846	527,955	529,240	529,516	276
2008Q4~2009Q3	462,931	549,696	556,637	559,128	561,262	562,592	562,873	1,611
2009Q4~2010Q3	412,611	494,275	500,639	503,439	504,703	505,672	505,894	2,455
2010Q4~2011Q3	433,914	525,108	533,570	535,661	537,030	538,143	538,378	4,808
2011Q4~2012Q3	436,831	523,191	528,985	530,913	532,123	533,019	533,255	10,064
2012Q4~2013Q3	419,997	500,061	505,647	507,342	508,267	509,171	509,407	89,410

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	\$108,624
Less: Expected reported but not paid claim	4,647
Add: Reported but not paid claim	15,118
Retained reserve claim balance	<u>\$119,095</u>

**B. Cathay life (China)**

**a. Direct business trend of development**

Accident year	Development period (years)							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	27	53	55	55	55	55	55	-
2007Q4~2008Q3	812	3,265	3,277	3,277	3,277	3,277	3,277	-
2008Q4~2009Q3	9,325	17,960	18,755	18,755	18,755	18,755	18,755	-
2009Q4~2010Q3	51,412	116,174	122,271	122,271	122,271	122,271	122,271	-
2010Q4~2011Q3	96,646	193,416	205,796	205,796	205,796	205,796	205,796	-
2011Q4~2012Q3	130,085	358,071	377,068	377,068	377,068	377,068	377,068	18,997
2012Q4~2013Q3	147,881	522,231	519,590	519,590	519,590	519,590	519,590	371,709

Expected future payment	\$390,706
Less: Expected reported but not paid claim	32,090
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	358,616
Add: Reported but not paid claim	81,310
Reserve claim balance	<u>\$439,926</u>

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**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

Accident year	Development period (years)							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	1	2	2	2	2	2	2	-
2007Q4~2008Q3	27	110	111	111	111	111	111	-
2008Q4~2009Q3	315	608	634	634	634	634	634	-
2009Q4~2010Q3	1,739	3,930	4,136	4,136	4,136	4,136	4,136	-
2010Q4~2011Q3	3,269	6,543	6,962	6,962	6,962	6,962	6,962	-
2011Q4~2012Q3	4,401	12,113	12,756	12,756	12,756	12,756	12,756	643
2012Q4~2013Q3	5,002	17,667	17,577	17,577	17,577	17,577	17,577	12,575

Expected future payment \$13,217

Less: Expected reported but not paid claim 1,086

Add: Assumed reserve for incurred but not reported claim -

Reserve for unreported claim 12,131

Add: Reported but not paid claim 2,751

Reserve claim balance \$14,882

**b. Retained business trend of development**

Accident year	Development period (years)							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	27	53	55	55	55	55	55	-
2007Q4~2008Q3	812	3,265	3,277	3,277	3,277	3,277	3,277	-
2008Q4~2009Q3	9,325	17,960	18,755	18,755	18,755	18,755	18,755	-
2009Q4~2010Q3	51,412	116,174	122,271	122,271	122,271	122,271	122,271	-
2010Q4~2011Q3	96,646	193,280	205,658	205,658	205,658	205,658	205,658	-
2011Q4~2012Q3	119,990	363,967	375,121	375,121	375,121	375,121	375,121	11,154
2012Q4~2013Q3	138,626	480,551	512,013	512,013	512,013	512,013	512,013	373,387

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

Expected future payment \$384,541

Less: Expected reported but not paid claim 32,090

Add: Reported but not paid claim 81,310

Retained reserve claim balance \$433,761

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**For the nine-month periods ended 30 September 2013 and 2012**

Accident year	Development period (years)							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2006Q4~2007Q3	1	2	2	2	2	2	2	-
2007Q4~2008Q3	27	110	111	111	111	111	111	-
2008Q4~2009Q3	315	608	634	634	634	634	634	-
2009Q4~2010Q3	1,739	3,930	4,136	4,136	4,136	4,136	4,136	-
2010Q4~2011Q3	3,269	6,539	6,957	6,957	6,957	6,957	6,957	-
2011Q4~2012Q3	4,059	12,313	12,690	12,690	12,690	12,690	12,690	377
2012Q4~2013Q3	4,689	16,257	17,321	17,321	17,321	17,321	17,321	12,632

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

Expected future payment	\$13,009
Less: Expected reported but not paid claim	(1,086)
Add: Reported but not paid claim	2,751
Retained reserve claim balance	<u>\$14,674</u>

The Company and Cathay Life (China) record and recognize reserve for claim for anticipated payment of reported and unreported claims. Due to the factors of uncertainty, estimation, and judgment involved in recording and recognition, there is a high degree of complexity of reserve for claim. Any change of the estimation or judgment is treated as the change of the accounting principle and recorded and recognized as profit and loss in current year. Some claims of compensation are delayed notification. When making claim estimates of unreported cases, subjective judgment and historical experiences are involved. Thus, uncertainty exists that the estimated reserve for claim in balance sheet date will be not equal to the final settled amount of claim. The reserve for claim recorded on the book is estimated based upon the currently available information. However, the settled amount probably will deviate from the original estimates because of the follow-up events.

The chart above has shown the development trend of claims. The accident year is the actual year for the occurrence of the claimed accident; 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 accident 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 accident year as time passes. It is possible that the circumstances and trends affecting dollar amount of recording and recognition to the reserve for claim in current year will be different from that in the future. Thus, the anticipated dollar amounts to be paid for the settlement cases cannot be determined from this chart.

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**C. Cathay life (Vietnam)**

Direct business trend of development (and retained business trend of development)

Accident year	Development period (years)				
	NT\$				
	1	2	3	4	5
2008Q4~2009Q3	6	9	9	9	9
2009Q4~2010Q3	215	225	225	225	225
2010Q4~2011Q3	230	326	326	326	326
2011Q4~2012Q3	1,070	1,238	1,238	1,238	1,238
2012Q4~2013Q3	774	915	915	915	915

Accident year	Development period (years)				
	US \$				
	1	2	3	4	5
2008Q4~2009Q3	-	-	-	-	-
2009Q4~2010Q3	7	8	8	8	8
2010Q4~2011Q3	8	11	11	11	11
2011Q4~2012Q3	36	42	42	42	42
2012Q4~2013Q3	26	31	31	31	31

The chart above has shown the development trend of claims. The accident year is the actual year for the occurrence of the claimed accident; 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 accident 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 accident year as time passes.

Cathay Life (Vietnam) records and recognizes loss reserve for anticipated payment of reported claims and unreported claims. The estimation method of unreported claim is earned premium reserve multiplied by claim rate based upon the past loss experiences instead of loss triangle method, which was approved by Vietnam local authorities. Thus, the anticipated dollar amounts need to be paid for the settlement cases cannot be determined from this chart. When making claim estimates of unreported cases, subjective judgment and historical experiences are involved. Thus, uncertainty exists that the estimated reserve for claim in balance sheet date will not be equal to the final settled amount of claim.

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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.

Due to the nature of reinsurance market and the qualification of reinsurer under the relevant regulations, the insurers in Taiwan sustain certain degree of concentration of credit risk in reinsurer. To reduce this risk, the Company chooses the counterparty carefully and also reviews its credit rating periodically. Also, the Company monitors and controls the risk of reinsurance transactions properly in accordance with the Company's "Reinsurance Risk Management Plan" and "Reinsurance Entity Assessment Procedures."

The credit rating of the Company's reinsurer is 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; 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 every payment time in the future on the balance sheet date. The actual dollar amounts paid in the future will not be the same due to the difference between the actual and anticipated experiences.

30 September 2013			Unit: Billion
NT\$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments			
with discretionary participation feature	(52.1)	115.2	10,315.2

  

30 September 2013			Unit: Billion
US\$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments			
with discretionary participation feature	(1.76)	3.90	348.96

Note: Separate account products are not included in.

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**(3) Market risk**

When the Company measures insurance liabilities, the discounted rate approved by the competent authority is applied. The competent authority reviews periodically the discount rate assumption which has been used for reserves. However, the discount rate assumption is not necessarily the same of the time, dollar amount, and direction with those variables (ex: yield rate) in market risk. 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 competent authority 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 reasonable possibly change on the market risk probably will have impact on the insurance contracts which are estimated on balance sheet date based upon the currently available information and the future cash flows of financial instruments with discretionary participation features, used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonable and possible changes on current market risk, it has no or little impact on the adequacy of current recognized insurance liabilities.

**44. Credit risk, liquidity risk and market risk of financial instrument**

**(1) Credit risk**

**A. Credit risk**

Anticipated credit risks due to financial transactions conducted included the credit risks from issuers, counterparties, and underlying assets:

- 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.



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- 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.
- c. Underlying asset's credit risk represents the risk that the Company may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating 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 September 2013

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$160,662,827	\$-	\$-	\$45,914,778	\$70,937,222	\$277,514,827
Financial assets at fair value through profit or loss	16,418,379	430,790	3,067,253	2,165,142	-	22,081,564
Available-for-sale financial assets	451,291,059	16,307,479	67,437,034	179,059,884	28,277,036	742,372,492
Derivative financial assets for hedging	150,772	18,211	321,701	79,329	-	570,013
Bond investments for which no active market exists	40,284,287	56,432,715	243,311,221	364,283,722	254,383,479	958,695,424
Other financial assets	35,900,000	-	3,500,000	-	-	39,400,000
Total	\$704,707,324	\$73,189,195	\$317,637,209	\$591,502,855	\$353,597,737	\$2,040,634,320
Proportion	34.5%	3.6%	15.6%	29.0%	17.3%	100.0%

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30 September 2013

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$5,435,144	\$-	\$-	\$1,553,274	\$2,399,770	\$9,388,188
Financial assets at fair value through profit or loss	555,425	14,574	103,764	73,245	-	747,008
Available-for-sale financial assets	15,266,951	551,674	2,281,361	6,057,506	956,598	25,114,090
Derivative financial assets for hedging	5,100	616	10,883	2,684	-	19,283
Bond investments for which no active market exists	1,362,797	1,909,090	8,231,097	12,323,536	8,605,666	32,432,186
Other financial assets	1,214,479	-	118,403	-	-	1,332,882
Total	\$23,839,896	\$2,475,954	\$10,745,508	\$20,010,245	\$11,962,034	\$69,033,637
Proportion	34.5%	3.6%	15.6%	29.0%	17.3%	100.0%

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%

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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%

30 September 2012

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$253,736,751	\$1,320,390	\$-	\$81,704,668	\$52,568,832	\$389,330,641
Financial assets at fair value through profit or loss	21,849,370	559,413	5,432,548	4,696,678	-	32,538,009
Available-for-sale financial assets	453,818,142	16,803,594	104,200,675	238,119,793	38,114,271	851,056,475
Derivative financial assets for hedging	345,128	40,106	794,419	185,439	-	1,365,092
Bond investments for which no active market exists	40,991,287	45,477,396	186,761,973	267,800,446	217,480,058	758,511,160
Other financial assets	19,500,000	-	4,500,000	-	-	24,000,000
Total	\$790,240,678	\$64,200,899	\$301,689,615	\$592,507,024	\$308,163,161	\$2,056,801,377
Proportion	38.4%	3.1%	14.7%	28.8%	15.0%	100%

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30 September 2012

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$8,662,914	\$45,080	\$-	\$2,789,507	\$1,794,771	\$13,292,272
Financial assets at fair value through profit or loss	745,967	19,099	185,474	160,352	-	1,110,892
Available-for-sale financial assets	15,493,962	573,697	3,557,551	8,129,730	1,301,273	29,056,213
Derivative financial assets for hedging	11,783	1,369	27,123	6,331	-	46,606
Bond investments for which no active market exists	1,399,498	1,552,660	6,376,305	9,143,067	7,425,061	25,896,591
Other financial assets	665,756	-	153,636	-	-	819,392
Total	\$26,979,880	\$2,191,905	\$10,300,089	\$20,228,987	\$10,521,105	\$70,221,966
Proportion	38.4%	3.1%	14.7%	28.8%	15.0%	100%

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%

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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%

**C. Credit Quality**

Classification of credit quality for financial assets of the Company:

30 September 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	\$277,512,757	\$2,070	\$-	\$-	\$-	\$277,514,827
Financial assets at fair value through profit or loss	20,994,981	1,086,583	-	-	-	22,081,564
Available-for-sale financial assets	735,625,193	6,661,028	-	821,271	(735,000)	742,372,492
Derivative financial assets for hedging	570,013	-	-	-	-	570,013
Bond investments for which no active market exists	956,572,786	2,122,638	-	385,710	(385,710)	958,695,424
Other financial assets	39,400,000	-	-	-	-	39,400,000
Total	\$2,030,675,730	\$9,872,319	\$-	\$1,206,981	\$(1,120,710)	\$2,040,634,320
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

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30 September 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	\$9,388,118	\$70	\$-	\$-	\$-	\$9,388,188
Financial assets at fair value through profit or loss	710,249	36,759	-	-	-	747,008
Available-for-sale financial assets	24,885,832	225,339	-	27,783	(24,864)	25,114,090
Derivative financial assets for hedging	19,283	-	-	-	-	19,283
Bond investments for which no active market exists	32,360,378	71,808	-	13,049	(13,049)	32,432,186
Other financial assets	1,332,882	-	-	-	-	1,332,882
Total	\$68,696,742	\$333,976	\$-	\$40,832	\$(37,913)	\$69,033,637
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

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%

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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%

30 September 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	\$389,328,573	\$2,068	\$-	\$-	\$-	\$389,330,641
Financial assets at fair value through profit or loss	31,972,544	565,465	-	-	-	32,538,009
Available-for-sale financial assets	836,960,336	13,964,703	-	866,436	(735,000)	851,056,475
Derivative financial assets for hedging	1,365,092	-	-	-	-	1,365,092
Bond investments for which no active market exists	748,556,860	9,954,300	-	381,446	(381,446)	758,511,160
Other financial assets	24,000,000	-	-	-	-	24,000,000
Total	\$2,032,183,405	\$24,486,536	\$-	\$1,247,882	\$(1,116,446)	\$2,056,801,377
Proportion	98.8%	1.2%	-	0.1%	(0.1)%	100%

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30 September 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	\$13,292,201	\$71	\$-	\$-	\$-	\$13,292,272
Financial assets at fair value through profit or loss	1,091,586	19,306	-	-	-	1,110,892
Available-for-sale financial assets	28,574,952	476,774	-	29,581	(25,094)	29,056,213
Derivative financial assets for hedging	46,606	-	-	-	-	46,606
Bond investments for which no active market exists	25,556,738	339,853	-	13,023	(13,023)	25,896,591
Other financial assets	819,392	-	-	-	-	819,392
Total	\$69,381,475	\$836,004	\$-	\$42,604	\$(38,117)	\$70,221,966
Proportion	98.8%	1.2%	-	0.1%	(0.1)%	100.0%

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%



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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%

Investment grade assets are assets who are assigned credit ratings of “BBB-” or higher by a credit rating agency; non-investment grade assets are assets whose credit rating granted by a credit rating agency fails to meet “BBB-” or higher.

D. Regional distribution of credit risk exposure for secured loans and overdue receivables:

30 September 2013				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$301,764,015	\$49,896,205	\$86,877,182	\$438,537,402
Overdue receivables	32,184	407,174	43,798	483,156
Total	\$301,796,199	\$50,303,379	\$86,920,980	\$439,020,558
Proportion	69%	11%	20%	100%

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30 September 2013 US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$10,208,526	\$1,687,964	\$2,939,011	\$14,835,501
Overdue receivables	1,089	13,774	1,482	16,345
Total	\$10,209,615	\$1,701,738	\$2,940,493	\$14,851,846
Proportion	69%	11%	20%	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%

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 September 2012 NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$174,666,131	\$63,342,032	\$81,298,828	\$319,306,991
Overdue receivables	70,849	430,713	93,333	594,895
Total	\$174,736,980	\$63,772,745	\$81,392,161	\$319,901,886
Proportion	55%	20%	25%	100%

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30 September 2012 US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$5,963,337	\$2,162,582	\$2,775,651	\$10,901,570
Overdue receivables	2,419	14,705	3,187	20,311
Total	\$5,965,756	\$2,177,287	\$2,778,838	\$10,921,881
Proportion	55%	20%	25%	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%

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 September 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	\$202,939,223	\$141,175,112	\$39,513,686	\$128,972	\$3,833,764	\$387,590,757	\$1,908,052	\$385,682,705
Corporate finance	40,160,876	3,454,571	1,648,632	-	6,165,722	51,429,801	1,739,647	49,690,154
Total	\$243,100,099	\$144,629,683	\$41,162,318	\$128,972	\$9,999,486	\$439,020,558	\$3,647,699	\$435,372,859

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**For the nine-month periods ended 30 September 2013 and 2012**

30 September 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	\$6,865,332	\$4,775,884	\$1,336,728	\$4,363	\$129,694	\$13,112,001	\$64,548	\$13,047,453
Corporate finance	1,358,623	116,866	55,773	-	208,583	1,739,845	58,852	1,680,993
Total	\$8,223,955	\$4,892,750	\$1,392,501	\$4,363	\$338,277	\$14,851,846	\$123,400	\$14,728,446

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

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 September 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	\$151,248,368	\$105,216,256	\$29,449,115	\$163,695	\$4,225,546	\$290,302,980	\$1,116,755	\$289,186,225
Corporate finance	15,443,459	4,068,902	2,674,848	-	7,411,697	29,598,906	1,292,209	28,306,697
Total	\$166,691,827	\$109,285,158	\$32,123,963	\$163,695	\$11,637,243	\$319,901,886	\$2,408,964	\$317,492,922

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30 September 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	\$5,163,823	\$3,592,224	\$1,005,432	\$5,589	\$144,266	\$9,911,334	\$38,127	\$9,873,207
Corporate finance	527,260	138,918	91,323	-	253,045	1,010,546	44,118	966,428
Total	\$5,691,083	\$3,731,142	\$1,096,755	\$5,589	\$397,311	\$1,0921,880	\$82,245	\$10,839,635

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

**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 September 2013	\$111,323	\$17,649	\$128,972
31 December 2012	157,700	26,242	183,942
30 September 2012	143,704	19,991	163,695
1 January 2012	162,914	16,656	179,570

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	Past due but not impaired		
	US\$		
	Due in 1~2 months	Due in 2~3 months	Total
30 September 2013	\$3,766	\$597	\$4,363
31 December 2012	5,429	903	6,332
30 September 2012	4,906	683	5,589
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 “capital liquidity risk” and “market liquidity risk.” “Capital liquidity risk” represents the risk that the Company is not able to meet the demand for sufficient capital with reasonable costs in 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 whether market transactions and positions held match each other.

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 liquidity risk management of financial assets held and non-derivative financial liabilities**

Maturity Analysis of non-derivative financial liabilities:

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The analysis of cash outflows to the Company and its 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.

	Less than six months		Due in 6~12 months		Due in 1~2 years	
30 September 2013	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$293,692	\$9,935	\$-	\$-	\$-	\$-
Payables	37,926,768	1,283,044	3,230,129	109,274	196	6
Preferred stock liability	-	-	228,866	7,743	908,000	30,717

	Due in 2~5 years		Over 5 years		Total	
30 September 2013	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$293,692	\$9,935
Payables	-	-	-	-	41,157,093	1,392,324
Preferred stock liability	26,361,254	891,788	5,080,005	171,854	32,578,125	1,102,102

	Less than six months		Due in 6~12 months		Due in 1~2 years	
31 December 2012	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

	Due in 2~5 years		Over 5 years		Total	
30 September 2013	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

	Less than six months		Due in 6~12 months		Due in 1~2 years	
30 September 2012	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$77,030	\$2,630	\$-	\$-	\$-	\$-
Payables	24,949,085	851,796	-	-	2,322,964	79,309
Preferred stock liability	-	-	228,241	7,793	908,000	31,000

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	Due in 2~5 years		Over 5 years		Total	
30 September 2012	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$77,030	\$2,630
Payables	-	-	-	-	27,272,049	931,105
Preferred stock liability	27,176,254	927,834	5,173,005	176,613	33,485,500	1,143,240

	Less than six months		Due in 6~12 months		Due in 1~2 years	
1 January 2012	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

	Due in 2~5 years		Over 5 years		Total	
1 January 2012	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:**

	Less than six months		Due in 6~12 months		Due in 1~2 years	
30 September 2013	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$(31,484)	\$(1,065)	\$(38,734)	\$(1,310)	\$(108,475)	\$(3,670)
Forward	3,585,876	121,308	46,250	1,565	-	-
CS	4,941,531	167,170	408,530	13,820	1,229,031	41,577
Overseas future	428,428	14,494	-	-	-	-

	Due in 2~5 years		Over 5 years		Total	
30 September 2013	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$(355,822)	\$(12,037)	\$(682,410)	\$(23,086)	\$(1,216,925)	\$(41,168)
Forward	-	-	-	-	3,632,126	122,873
CS	-	-	-	-	6,579,092	222,567
Overseas future	-	-	-	-	428,428	14,494



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	Less than six months		Due in 6~12 months		Due in 1~2 years	
31 December 2012	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

	Due in 2~5 years		Over 5 years		Total	
31 December 2012	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

	Less than six months		Due in 6~12 months		Due in 1~2 years	
30 September 2012	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$30,604	\$1,045	\$27,892	\$952	\$51,773	\$1,768
Forward	820,460	28,012	-	-	-	-
CS	518,003	17,686	199,619	6,815	221,030	7,546

	Due in 2~5 years		Over 5 years		Total	
30 September 2012	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$1,091	\$37	\$-	\$-	\$111,360	\$3,802
Forward	-	-	-	-	820,460	28,012
CS	-	-	-	-	938,652	32,047

	Less than six months		Due in 6~12 months		Due in 1~2 years	
1 January 2012	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)	-	-

	Due in 2~5 years		Over 5 years		Total	
1 January 2012	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

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**(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 risk of the most probable loss on the portfolio in position arising from the movements in market risk factors by measuring portfolio over a specific time frame and at a certain confidence level. The Company measures VaR within an investment portfolio over a week and at 95% and 99% confidence level.

**b. Stress testing**

The Company measures and evaluates potential risks of the occurrence of extreme and abnormal events periodically in addition to Value at Risk models.

The Company performs position stress testing periodically by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss in all kinds of historical scenario and from movements of each risk factor:

**(A) Simple Sensitivity**

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

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**(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:

**(a) Historical scenario**

The Company assesses the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking into consideration the fluctuation of risk factor.

**(b) Hypothesis 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 factor.

Risk management department performs the stress testing with historical and hypothetical scenarios periodically. The Company's risk analysis, risk predictions, and business management are in accordance with the stress testing report.

Table of Stress Testing

For the nine-month period ended 30 September 2013

Risk simples	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(42,596,249)	\$(1,441,010)
Interest rate risk (Yield curve)	+20bps	(8,979,472)	(303,771)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(23,410,434)	(791,963)
Product risk (Price)	-10%	-	-

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Table of Stress Testing  
For the nine-month period ended 30 September 2012

Risk simples	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(32,703,705)	\$(1,116,548)
Interest rate risk (Yield curve)	+20bps	(10,077,056)	(344,044)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(20,946,510)	(715,142)
Product risk (Price)	-10%	-	-

Note: Impacts of credit charges are not included.

**c. Sensitivity analysis**

Summarization of Sensitivity analysis  
For the nine-month period ended 30 September 2013  
NT\$

Risk factors	Variables (+/-)	Change in income	Change in equity
Foreign currency risk	USD appreciates 1%	\$4,762,769	\$2,189,736
	CNY appreciates 1%	1,311,156	69,856
	HKD appreciates 1%	11,416	402,241
	EUR appreciates 1%	284,759	119,942
	GBP appreciates 1%	258,202	44,378
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(165,646)
	Yield curve (AUD) shifts up 1 bp	-	(873)
	Yield curve (EUR) shifts up 1 bp	-	(3,336)
	Yield curve (NTD) shifts up 1 bp	(293)	(276,155)
Equity price risk	Equity price increases 1%	169,489	4,090,136

Summarization of Sensitivity analysis  
For the nine-month period ended 30 September 2013  
US\$

Risk factors	Variables (+/-)	Change in income	Change in equity
Foreign currency risk	USD appreciates 1%	\$161,122	\$74,078
	CNY appreciates 1%	44,356	2,363
	HKD appreciates 1%	386	13,608
	EUR appreciates 1%	9,633	4,058
	GBP appreciates 1%	8,735	1,501
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(5,604)
	Yield curve (AUD) shifts up 1 bp	-	(30)
	Yield curve (EUR) shifts up 1 bp	-	(113)
	Yield curve (NTD) shifts up 1 bp	(10)	(9,342)
Equity price risk	Equity price increases 1%	5,734	138,367

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Summarization of Sensitivity analysis  
For the nine-month period 30 September 2012  
NT\$

Risk factors	Variables (+/-)	Change in income	Change in equity
Foreign currency risk	USD appreciates 1%	\$4,805,066	\$1,455,243
	CNY appreciates 1%	908,928	33,001
	HKD appreciates 1%	51,925	344,807
	EUR appreciates 1%	246,142	41,348
	GBP appreciates 1%	211,341	46,235
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(251,408)
	Yield curve (AUD) shifts up 1 bp	-	(3,893)
	Yield curve (EUR) shifts up 1 bp	-	(1,288)
	Yield curve (NTD) shifts up 1 bp	(441)	(248,319)
Equity price risk	Equity price increases 1%	118,581	3,151,789

Summarization of Sensitivity analysis  
For the nine-month period ended 30 September 2012  
US\$

Risk factors	Variables (+/-)	Change in income	Change in equity
Foreign currency risk	USD appreciates 1%	\$164,051	\$49,684
	CNY appreciates 1%	31,032	1,127
	HKD appreciates 1%	1,773	11,772
	EUR appreciates 1%	8,404	1,412
	GBP appreciates 1%	7,215	1,579
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(8,583)
	Yield curve (AUD) shifts up 1 bp	-	(133)
	Yield curve (EUR) shifts up 1 bp	-	(44)
	Yield curve (NTD) shifts up 1 bp	(15)	(8,478)
Equity price risk	Equity price increases 1%	4,049	107,606

Note 1: Impacts of credit charges are not included.

Note 2: Impacts of change in income are not included in the calculation of change in equity.

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45. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Item (NT\$)	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial assets at fair value through profit or loss				
Held for trading	\$73,430,784	\$72,964,811	\$69,169,564	\$60,150,749
Available-for-sale financial assets	1,245,381,277	1,227,321,172	1,229,018,186	1,292,029,178
Derivative financial assets for hedging	570,013	1,142,094	1,365,092	1,957,846
Loans and receivables:				
Cash and cash equivalents (Note)	280,631,811	365,919,542	394,609,911	373,857,545
Receivables	58,807,165	60,991,054	51,473,527	46,488,157
Bond investments for which no active market exists	961,782,807	816,904,617	762,012,685	515,028,639
Other financial assets	39,409,505	23,500,010	24,000,000	13,300,000
Loans	611,903,897	516,503,876	499,860,514	489,801,740
Guarantee deposits paid	15,929,017	14,376,119	13,723,242	15,695,921
Subtotal	1,968,464,202	1,798,195,218	1,745,679,879	1,454,172,002
Total	\$3,287,846,276	\$3,099,623,295	\$3,045,232,721	\$2,808,309,775

Item (US\$)	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial assets at fair value through profit or loss				
Held for trading	\$2,484,127	\$2,511,697	\$2,361,542	\$1,987,141
Available-for-sale financial assets	42,130,625	42,248,577	41,960,334	42,683,488
Derivative financial assets for hedging	19,283	39,315	46,606	64,679
Loans and receivables:				
Cash and cash equivalents (Note)	9,493,634	12,596,197	13,472,513	12,350,761
Receivables	1,989,417	2,099,520	1,757,376	1,535,783
Bond investments for which no active market exists	32,536,631	28,120,641	26,016,138	17,014,491
Other financial assets	1,333,204	808,950	819,392	439,379
Loans	20,700,403	17,779,824	17,065,910	16,181,095
Guarantee deposits paid	538,871	494,875	468,530	518,531
Subtotal	66,592,160	61,900,007	59,599,859	48,040,040
Total	\$111,226,195	\$106,699,596	\$103,968,341	\$92,775,348

Note: Exclude cash on hand and revolving funds.

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**Financial liabilities**

Item (NT\$)	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial liabilities at fair value through profit or loss				
Held for trading	\$8,750,413	\$2,079,457	\$1,687,225	\$17,468,901
Financial liabilities at amortized cost:				
Short-term debts	293,692	297,268	77,030	201,158
Payables	41,157,093	38,073,655	27,272,049	22,611,251
Preferred stock liability	30,000,000	30,000,000	30,000,000	30,000,000
Guarantee deposits received	2,174,426	2,077,752	2,062,861	1,960,914
Subtotal	73,625,211	70,448,675	59,411,940	54,773,323
Total	\$82,375,624	\$72,528,132	\$61,099,165	\$72,242,224

Item (US\$)	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial liabilities at fair value through profit or loss				
Held for trading	\$296,022	\$71,582	\$57,604	\$577,103
Financial liabilities at amortized cost:				
Short-term debts	9,935	10,233	2,630	6,646
Payables	1,392,324	1,310,625	931,105	746,986
Preferred stock liability	1,014,885	1,032,702	1,024,240	991,080
Guarantee deposits received	73,560	71,524	70,429	64,781
Subtotal	2,490,704	2,425,084	2,028,404	1,809,493
Total	\$2,786,726	\$2,496,666	\$2,086,008	\$2,386,596

**(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.

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- 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\$)			
		2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial assets					
Bond investment for which					
no active market exists		\$961,782,807	\$816,904,617	\$762,012,685	\$515,028,639
		Carrying amount (US\$)			
		2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial assets					
Bond investment for which					
no active market exists		\$32,536,631	\$28,120,641	\$26,016,138	\$17,014,491



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		Fair value (NT\$)			
		2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial assets					
Bond investment for which					
no active market exists		\$933,213,374	\$867,272,570	\$812,916,582	\$515,895,424
		Fair value (US\$)			
		2013.9.30	2012.12.31	2012.9.30	2012.1.1
Financial assets					
Bond investment for which					
no active market exists		\$31,570,141	\$29,854,477	\$27,754,066	\$17,043,126

**(3) The three levels of fair value hierarchy**

The following table contains the fair value of financial instruments and the details of the three levels of fair value hierarchy:

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 inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**A. Fair value hierarchy**

		30 September 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		\$13,404,021	\$13,404,021	\$-	\$-
Bonds		3,414,128	1,866,807	1,547,321	-
Other		50,273,899	37,945,199	12,328,700	-
Available-for-sale financial assets					
Stocks		372,453,392	365,643,567	6,809,825	-
Bonds		742,380,097	17,435,360	724,944,737	-
Other		130,547,788	96,316,043	23,777,235	10,454,510

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30 September 2013				
NT\$				
Item	Total	Level 1	Level 2	Level 3
Derivative financial instruments				
Assets				
Financial assets at fair value				
through profit or loss	\$6,338,736	\$-	\$6,338,736	\$-
Derivative financial assets for				
hedging	570,013	-	570,013	-
Liabilities				
Financial liabilities at fair value				
through profit or loss	8,750,413	-	8,750,413	-

30 September 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	\$453,452	\$453,452	\$-	\$-
Bonds	115,498	63,153	52,345	-
Other	1,700,741	1,283,667	417,074	-
Available-for-sale financial assets				
Stocks	12,599,912	12,369,539	230,373	-
Bonds	25,114,347	589,830	24,524,517	-
Other	4,416,366	3,258,323	804,372	353,671
Derivative financial instruments				
Assets				
Financial assets at fair value				
through profit or loss	214,436	-	214,436	-
Derivative financial assets for				
hedging	19,283	-	19,283	-
Liabilities				
Financial liabilities at fair value				
through profit or loss	296,022	-	296,022	-

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31 December 2012				
NT\$				
Item	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	-

31 December 2012				
US\$				
Item	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

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31 December 2012				
US\$				
Item	Total	Level 1	Level 2	Level 3
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	-
30 September 2012				
NT\$				
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value				
through profit or loss				
Stocks	\$11,215,399	\$11,215,399	\$-	\$-
Bonds	2,602,683	943,271	1,659,412	-
Other	41,874,634	25,353,405	16,521,229	-
Available-for-sale financial assets				
Stocks	279,083,626	272,819,131	6,264,495	-
Bonds	849,191,338	41,237,389	807,953,949	-
Other	100,743,222	74,618,338	19,552,209	6,572,675
Derivative financial instruments				
Assets				
Financial assets at fair value				
through profit or loss	13,476,848	-	13,476,848	-
Derivative financial assets for				
hedging	1,365,092	-	1,365,092	-
Liabilities				
Financial liabilities at fair value				
through profit or loss	1,687,225	-	1,687,225	-

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30 September 2012				
US\$				
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$382,909	\$382,909	\$-	\$-
Bonds	88,859	32,204	56,655	-
Other	1,429,656	865,599	564,057	-
Available-for-sale financial assets				
Stocks	9,528,290	9,314,412	213,878	-
Bonds	28,992,535	1,407,900	27,584,635	-
Other	3,439,509	2,547,570	667,539	224,400
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	460,118	-	460,118	-
Derivative financial assets for hedging	46,606	-	46,606	-
Liabilities				
Financial liabilities at fair value through profit or loss	57,604	-	57,604	-
1 January 2012				
NT\$				
Item	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

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1 January 2012				
NT\$				
Item	Total	Level 1	Level 2	Level 3
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	-

1 January 2012				
US\$				
Item	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
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	-

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**B. Reconciliation for fair value measurements in Level 3 of the fair value hierarchy.**

**a. Financial assets**

For the nine-month period ended 30 September 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	\$83,070	\$600,912	\$4,674,981	\$-	\$(2,545,068)	\$-	\$10,454,510

For the nine-month period ended 30 September 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	\$258,478	\$2,810	\$20,329	\$158,152	\$-	\$(86,098)	\$-	\$353,671

For the nine-month period ended 30 September 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	\$11,876	\$212,431	\$2,950,065	\$-	\$(1,818,012)	\$-	\$6,572,675

For the nine-month period ended 30 September 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	\$178,092	\$405	\$7,253	\$100,719	\$-	\$(62,069)	\$-	\$224,400

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**b. Transfers between Level 1 and Level 2**

During the nine-month periods ended 30 September 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 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012:

**A. 30 September 2013**

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$3,000,000	\$101,488	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	67,659	90DCP	Yearly	2013.11.3
1,000,000	33,829	90DCP+26.5bps	Yearly	2013.12.14
500,000	16,915	90DCP+23bps	Yearly	2013.12.14
1,500,000	50,744	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,829	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,447	90DCP	Yearly	2014.3.12
1,000,000	33,829	90DCP	Yearly	2014.6.12
3,000,000	101,488	90DCP	Quarterly	2014.6.25
1,810,000	61,231	90DCP	Quarterly	2014.6.26
2,000,000	67,659	90DCP	Yearly	2014.6.29
5,000,000	169,147	90DCP	Yearly	2014.8.23
1,000,000	33,829	90DCP	Yearly	2014.9.20
3,200,000	108,254	90DCP	Yearly	2014.9.27
2,000,000	67,659	90DCP	Quarterly	2014.9.28
1,500,000	50,744	90DCP	Yearly	2014.9.29
2,500,000	84,574	90DCP	Yearly	2014.12.20
2,000,000	67,659	90DCP	Yearly	2014.12.24
2,300,000	77,808	90DCP	Quarterly	2015.3.25
1,500,000	50,744	90DCP	Quarterly	2015.5.9
2,543,500	86,045	90DCP	Quarterly	2016.10.23
900,000	30,447	90DCP	Quarterly	2016.10.24
1,200,000	40,595	90DCP	Quarterly	2017.10.25
1,400,000	47,361	90DCP	Quarterly	2017.12.9
600,000	20,298	90DCP	Quarterly	2020.9.23



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**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

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**C. 30 September 2012**

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$2,000,000	\$68,283	90DCP	Quarterly	2012.10.11
700,000	23,899	90DCP	Quarterly	2012.11.24
2,000,000	68,283	90DCP	Yearly	2013.3.26
2,425,000	82,793	90DCP	Quarterly	2013.4.24
3,600,000	122,909	90DCP	Quarterly	2013.6.8
2,700,000	92,182	90DCP+25bps	Quarterly	2013.8.24
3,000,000	102,424	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,283	90DCP	Yearly	2013.11.3
1,000,000	34,141	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,071	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,212	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,141	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,727	90DCP	Yearly	2014.3.12
1,000,000	34,141	90DCP	Yearly	2014.6.12
3,000,000	102,424	90DCP	Quarterly	2014.6.25
1,810,000	61,796	90DCP	Quarterly	2014.6.26
2,000,000	68,283	90DCP	Yearly	2014.6.29
5,000,000	170,707	90DCP	Yearly	2014.8.23
1,000,000	34,141	90DCP	Yearly	2014.9.20
3,200,000	109,252	90DCP	Yearly	2014.9.27
2,000,000	68,283	90DCP	Quarterly	2014.9.28
1,500,000	51,212	90DCP	Yearly	2014.9.29
2,500,000	85,353	90DCP	Yearly	2014.12.20
2,000,000	68,283	90DCP	Yearly	2014.12.24
2,300,000	78,525	90DCP	Quarterly	2015.3.25
1,500,000	51,212	90DCP	Quarterly	2015.5.9
2,543,500	86,839	90DCP	Quarterly	2016.10.23
900,000	30,727	90DCP	Quarterly	2016.10.24
1,200,000	40,970	90DCP	Quarterly	2017.10.25
1,400,000	47,798	90DCP	Quarterly	2017.12.9
600,000	20,485	90DCP	Quarterly	2020.9.23

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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.

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The Company's interest rate swap agreements are considered to be highly effective cash flow hedges. As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, unrealized gains on these financial instruments recognized in equity were NT\$474,343 (US\$16,047) thousands, NT\$959,547 (US\$33,031) thousands, NT\$1,149,120 (US\$39,233) 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 September 2013			31 December 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	37,987,142	29.670000	1,127,078,515	36,845,654	29.136000	1,073,534,986
AUD	1,030,969	27.618320	28,473,625	(Note)	(Note)	(Note)
EUR	792,131	40.053017	31,727,249	717,803	38.609570	27,714,068
GBP	546,524	47.876996	26,165,924	526,696	46.975973	24,742,075
CNH	26,091,419	4.849743	126,536,677	19,422,188	4.679730	90,890,601
<u>Non-Monetary Items</u>						
USD	4,275,037	29.670000	126,840,333	3,188,552	29.136000	93,069,180
HKD	10,512,487	3.826313	40,224,072	7,588,075	3.758611	28,520,621
<u>Investments accounted for using the equity method</u>						
CNY	103,570	4.846500	501,950	64,246	4.674100	300,290
USD	3,784	29.670000	112,283	3,493	29.136000	101,761
	30 September 2012			1 January 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	36,167,489	29.342000	1,061,226,449	33,563,805	30.290000	1,016,647,662
AUD	(Note)	(Note)	(Note)	1,549,838	30.751923	47,660,512
EUR	646,054	37.943607	24,513,620	515,132	39.199804	20,193,085
GBP	447,975	47.651408	21,346,618	332,656	46.751101	15,552,022
CNH	18,466,576	4.655982	85,980,049	2,765,935	4.774590	13,206,205
<u>Non-Monetary Items</u>						
USD	2,853,709	29.342000	83,870,382	2,407,923	30.290000	72,972,587
HKD	9,111,367	3.784355	34,480,651	8,310,042	3.898503	32,396,719
<u>Investments accounted for using the equity method</u>						
CNY	90,233	4.668700	421,270	130,716	4.812500	629,070
USD	3,794	29.342000	111,318	4,184	30.290000	126,731

Note: The amount did not have significant influence.

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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 September 2013 NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$280,847,168	\$-	\$280,847,168
Receivables	58,767,884	39,281	58,807,165
Financial assets at fair value through profit or loss	542,011	72,888,773	73,430,784
Available-for-sale financial assets	147,285,607	1,098,095,670	1,245,381,277
Derivative financial assets for hedging	294,800	275,213	570,013
Investments accounted for using the equity method - Net	-	1,155,580	1,155,580
Bond investments for which no active market exists	15,481,644	946,301,163	961,782,807
Other financial assets - Net	9,505	39,400,000	39,409,505
Investment property	-	199,921,385	199,921,385
Investment property under construction	-	13,053,129	13,053,129
Prepayments for buildings and land - Investments	-	1,612,861	1,612,861
Loans	31,592	611,872,305	611,903,897
Reinsurance assets	-	4,042,165	4,042,165
Property and equipment	-	48,092,582	48,092,582
Intangible assets	-	239,820	239,820
Deferred tax assets	-	13,435,350	13,435,350
Other assets	548,630	17,582,747	18,131,377
Separate account product assets	4,063,627	363,086,880	367,150,507
Total assets			<u>\$3,938,967,372</u>

Item	30 September 2013 NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$293,692	\$-	\$293,692
Payables	41,156,897	196	41,157,093
Financial liabilities at fair value through profit or loss	-	8,750,413	8,750,413
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,272,418,801	3,272,418,801
Reserve for insurance contracts with feature of financial instruments	-	58,276,729	58,276,729
Foreign exchange volatility reserve	-	8,544,887	8,544,887
Provisions	-	3,931,978	3,931,978
Deferred tax liabilities	-	11,620,098	11,620,098
Other liabilities	229,214	5,611,963	5,841,177
Separate account product liabilities	869,467	366,281,040	367,150,507
Total liabilities			<u>\$3,807,985,375</u>

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Item	30 September 2013		
	US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$9,500,919	\$-	\$9,500,919
Receivables	1,988,088	1,329	1,989,417
Financial assets at fair value through profit or loss	18,336	2,465,791	2,484,127
Available-for-sale financial assets	4,982,598	37,148,027	42,130,625
Derivative financial assets for hedging	9,973	9,310	19,283
Investments accounted for using the equity method - Net	-	39,093	39,093
Bond investments for which no active market exists	523,736	32,012,895	32,536,631
Other financial assets - Net	322	1,332,882	1,333,204
Investment property	-	6,763,240	6,763,240
Investment property under construction	-	441,581	441,581
Prepayments for buildings and land - Investments	-	54,562	54,562
Loans	1,069	20,699,334	20,700,403
Reinsurance assets	-	136,744	136,744
Property and equipment	-	1,626,948	1,626,948
Intangible assets	-	8,113	8,113
Deferred tax assets	-	454,511	454,511
Other assets	18,560	594,815	613,375
Separate account product assets	137,471	12,283,047	12,420,518
Total assets			<u>\$133,253,294</u>

Item	30 September 2013		
	US\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$9,935	\$-	\$9,935
Payables	1,392,317	7	1,392,324
Financial liabilities at fair value through profit or loss	-	296,022	296,022
Preferred stock liability	-	1,014,885	1,014,885
Insurance liabilities	-	110,704,290	110,704,290
Reserve for insurance contracts with feature of financial instruments	-	1,971,473	1,971,473
Foreign exchange volatility reserve	-	289,069	289,069
Provisions	-	133,017	133,017
Deferred tax liabilities	-	393,102	393,102
Other liabilities	7,754	189,850	197,604
Separate account product liabilities	29,414	12,391,104	12,420,518
Total liabilities			<u>\$128,822,239</u>

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Item	31 December 2012		
	NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
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			<u>\$3,716,976,811</u>

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>

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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>

Item	31 December 2012		
	US\$		
	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			<u>\$123,201,980</u>



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**For the nine-month periods ended 30 September 2013 and 2012**

Item	30 September 2012		
	NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$394,811,451	\$-	\$394,811,451
Receivables	51,462,082	11,445	51,473,527
Financial assets at fair value through profit or loss	299,963	68,869,601	69,169,564
Available-for-sale financial assets	157,072,610	1,071,945,576	1,229,018,186
Derivative financial assets for hedging	73,954	1,291,138	1,365,092
Investments accounted for using the equity method - Net	-	1,092,491	1,092,491
Bond investments for which no active market exists	6,512,166	755,500,519	762,012,685
Other financial assets - Net	-	24,000,000	24,000,000
Investment property	-	200,890,643	200,890,643
Investment property under construction	-	6,576,431	6,576,431
Prepayments for buildings and land - Investments	-	9,009,190	9,009,190
Loans	24,487	499,836,027	499,860,514
Reinsurance assets	-	9,176,979	9,176,979
Property and equipment	-	29,806,154	29,806,154
Intangible assets	-	346,289	346,289
Deferred tax assets	-	14,898,544	14,898,544
Other assets	184,242	23,733,064	23,917,306
Separate account product assets	847,543	316,671,126	317,518,669
Total assets			<u>\$3,644,943,715</u>

Item	30 September 2012		
	NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$77,030	\$-	\$77,030
Payables	24,949,085	2,322,964	27,272,049
Financial liabilities at fair value through profit or loss	-	1,687,225	1,687,225
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,021,298,065	3,021,298,065
Reserve for insurance contracts with feature of financial instruments	-	62,524,655	62,524,655
Foreign exchange volatility reserve	-	4,286,477	4,286,477
Provisions	-	3,774,529	3,774,529
Deferred tax liabilities	-	16,180,741	16,180,741
Other liabilities	211,529	20,210,313	20,421,842
Separate account product liabilities	7,020,802	310,497,867	317,518,669
Total liabilities			<u>\$3,505,041,282</u>

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Item	30 September 2012		
	US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$13,479,394	\$-	\$13,479,394
Receivables	1,756,985	391	1,757,376
Financial assets at fair value through profit or loss	10,241	2,351,301	2,361,542
Available-for-sale financial assets	5,362,670	36,597,664	41,960,334
Derivative financial assets for hedging	2,525	44,081	46,606
Investments accounted for using the equity method - Net	-	37,299	37,299
Bond investments for which no active market exists	222,334	25,793,804	26,016,138
Other financial assets - Net	-	819,392	819,392
Investment property	-	6,858,677	6,858,677
Investment property under construction	-	224,528	224,528
Prepayments for buildings and land - Investments	-	307,586	307,586
Loans	836	17,065,074	17,065,910
Reinsurance assets	-	313,314	313,314
Property and equipment	-	1,017,622	1,017,622
Intangible assets	-	11,823	11,823
Deferred tax assets	-	508,656	508,656
Other assets	6,290	810,279	816,569
Separate account product assets	28,937	10,811,578	10,840,515
Total assets			<u>\$124,443,281</u>

Item	30 September 2012		
	US\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$2,630	\$-	\$2,630
Payables	851,796	79,309	931,105
Financial liabilities at fair value through profit or loss	-	57,604	57,604
Preferred stock liability	-	1,024,240	1,024,240
Insurance liabilities	-	103,151,180	103,151,180
Reserve for insurance contracts with feature of financial instruments	-	2,134,676	2,134,676
Foreign exchange volatility reserve	-	146,346	146,346
Provisions	-	128,867	128,867
Deferred tax liabilities	-	552,432	552,432
Other liabilities	7,222	690,007	697,229
Separate account product liabilities	239,700	10,600,815	10,840,515
Total liabilities			<u>\$119,666,824</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

	1 January 2012		
	NT\$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
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

	1 January 2012		
	NT\$		
Item	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
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			\$3,241,816,713

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**For the nine-month periods ended 30 September 2013 and 2012**

Item	1 January 2012		Total
	Recovery within 12 months	Recovery more than 12 months	
	US\$		
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>

Item	1 January 2012		Total
	Settlement within 12 months	Settlement more than 12 months	
	US\$		
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
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>

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**For the nine-month periods ended 30 September 2013 and 2012**

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, construction, and lease transactions. The terms of such transactions are based on market surveys, the contracted terms of both parties and public bidding.

A. Significant transactions with related parties are listed below:

Name	For the nine-month period ended 30 September 2013		
	Item	NT\$	US\$
Other related parties			
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$26,423	\$894
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,452,857	49,149
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	12,580	426
Total		<u>\$1,491,860</u>	<u>\$50,469</u>

Name	For the nine-month period ended 30 September 2012		
	Item	NT\$	US\$
Other related parties			
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$12,999	\$444
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,107,444	37,809
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	23,601	806
Total		<u>\$1,144,044</u>	<u>\$39,059</u>

The total amounts of contracted projects for real estate as of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, between the Company and Lin Yuan Property Management Co., Ltd. were NT\$95,481 (US\$3,230) thousands, NT\$3,408 (US\$117) thousands, NT\$3,408 (US\$116) thousands and NT\$0 (US\$0) thousands, respectively.

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

The total amounts of contracted projects for real estate as of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, between the Company and San Ching Engineering Co., Ltd. were NT\$5,535,807 (US\$187,274) thousands, NT\$5,483,615 (US\$188,765) thousands, NT\$5,483,615 (US\$187,218) thousands and NT\$5,483,615 (US\$181,157) thousands, respectively.

The total amounts of contracted projects for real estate of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, between the Company and Cathay Real Estate Development Co., Ltd. were NT\$49,306 (US\$1,668) thousands, NT\$49,306 (US\$1,697) thousands, NT\$49,306 (US\$1,683) thousands and NT\$49,306 (US\$1,629) thousands, respectively.

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

Name	Rental income			
	For the three-month period ended 30			
	September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$8,240	\$278	\$7,445	\$254
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	2,211	75	2,308	79
Other related parties				
Cathay United Bank	92,883	3,142	110,451	3,771
Cathay Century Insurance Co., Ltd.	26,007	880	23,673	808
Cathay Securities Investment Trust Co., Ltd.	10,038	340	9,754	333
Cathay Securities Co., Ltd.	8,320	281	6,129	209
Cathay General Hospital	10,611	359	10,909	372
Cathay Real Estate Development Co., Ltd.	4,343	147	4,353	149
Cathay Healthcare Inc.	8,587	291	8,197	280
San Ching Engineering Co., Ltd.	1,404	47	1,537	53
Cathay Hospitality Management Co., Ltd.	9,283	314	199	7
Subtotal	171,476	5,801	175,202	5,982
Total	\$181,927	\$6,154	\$184,955	\$6,315

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Name	Rental income			
	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$23,807	\$805	\$21,130	\$721
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	6,593	223	6,936	237
Other related parties				
Cathay United Bank	285,458	9,657	326,378	11,143
Cathay Century Insurance Co., Ltd.	77,450	2,620	69,818	2,384
Cathay Securities Investment Trust Co., Ltd.	29,921	1,012	29,275	1,000
Cathay Securities Co., Ltd.	21,713	734	16,926	578
Cathay General Hospital	97,715	3,306	98,261	3,355
Cathay Real Estate Development Co., Ltd.	13,029	441	13,008	444
Cathay Healthcare Inc.	25,776	872	23,002	785
San Ching Engineering Co., Ltd.	4,421	150	4,611	157
Cathay Hospitality Management Co., Ltd.	11,358	384	331	11
Subtotal	566,841	19,176	581,610	19,857
Total	\$597,241	\$20,204	\$609,676	\$20,815

Name	Guarantee deposits received			
	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$8,282	\$280	\$6,604	\$227
Other related parties				
Cathay United Bank	90,138	3,049	85,466	2,942
Cathay Century Insurance Co., Ltd.	24,038	813	22,678	781
Cathay Securities Investment Trust Co., Ltd.	9,270	314	8,903	306
Cathay Securities Co., Ltd.	5,655	191	5,853	201
Cathay General Hospital	10,166	344	10,166	350
Cathay Real Estate Development Co., Ltd.	4,028	136	4,028	139
Cathay Healthcare Inc.	8,012	271	8,012	276
Cathay Insurance Co., Ltd. (China)	5,155	175	-	-
Subtotal	156,462	5,293	145,106	4,995
Total	\$164,744	\$5,573	\$151,710	\$5,222

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Name	Guarantee deposits received			
	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company	\$6,604	\$225	\$5,816	\$192
Cathay Financial Holding Co., Ltd.				
Other related parties	83,723	2,858	71,365	2,358
Cathay United Bank	22,435	766	23,234	767
Cathay Century Insurance Co., Ltd.	8,903	304	8,903	294
Cathay Securities Investment Trust Co., Ltd.	5,853	200	5,182	171
Cathay Securities Co., Ltd.	10,166	347	13,194	436
Cathay General Hospital	4,028	138	4,028	133
Cathay Real Estate Development Co., Ltd.	8,373	286	6,894	228
Cathay Healthcare Inc.	-	-	-	-
Subtotal	143,481	4,899	132,800	4,387
Total	\$150,085	\$5,124	\$138,616	\$4,579

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

**C. Real-estate rental expenses (to related parties):**

Name	Rental expense			
	For the three-month period ended 30			
	September			
	2013	2012	2013	2012
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Real Estate Development Co., Ltd.	\$1,963	\$66	\$1,963	\$67
Cathay United Bank	14,717	498	9,333	319
Total	\$16,680	\$564	\$11,296	\$386

Name	Rental expense			
	For the nine-month period ended 30 September			
	2013	2012	2013	2012
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Real Estate Development Co., Ltd.	\$5,889	\$199	\$5,873	\$201
Cathay United Bank	41,564	1,406	27,986	955
Total	\$47,453	\$1,605	\$33,859	\$1,156



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Name	Guarantee deposits paid			
	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$14,790	\$500	\$14,790	\$509

Name	Guarantee deposits paid			
	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$8,921	\$305	\$8,921	\$295

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

**(2) Cash in banks**

Name	Item	30 September 2013		31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Time deposit	\$12,086,482	\$408,880	\$57,338,698	\$1,973,794
	Cash in bank	13,675,551	462,637	16,746,027	573,455
Indovina Bank Limited	Time deposit	473	16	471	16
	Cash in bank	17,232	583	2,737	94
Total		\$25,779,738	\$872,116	\$74,087,933	\$2,550,359

Name	Item	30 September 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Time deposit	\$57,393,598	\$1,959,495	\$53,383,921	\$1,763,592
	Cash in bank	14,276,422	487,416	9,612,041	317,543
Indovina Bank Limited	Time deposit	4,080	139	32,811	1,084
	Cash in bank	3,216	110	1,622	54
Total		\$71,677,316	\$2,447,160	\$63,030,395	\$2,082,273

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

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Interest income from Cathay United Bank for the three-month periods ended 30 September 2013 and 2012 were NT\$35,216 (US\$1,191) thousands and NT\$112,001 (US\$3,824) thousands, respectively.

Interest income from Cathay United Bank for the nine-month periods ended 30 September 2013 and 2012 were NT\$315,469 (US\$10,672) thousands and NT\$331,461 (US\$11,317) thousands, respectively.

Interest income from Indovina Bank Limited for the three-month periods ended 30 September 2013 and 2012 were NT\$411 (US\$14) thousands and NT\$2,759 (US\$94) thousands, respectively.

Interest income from Indovina Bank Limited for the nine-month periods ended 30 September 2013 and 2012 were NT\$3,468 (US\$117) thousands and NT\$4,174 (US\$143) thousands, respectively.

**(3) Bond investments for which no active market exists**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$3,000	\$101	\$3,000	\$103

  

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$-	\$-	\$-	\$-

**(4) Secured loans**

Name	For the nine-month period ended 30 September 2013			
	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Other related parties				
Cathay General Hospital	\$3,210,519	\$55,817	2.43%~2.55%	\$2,998,743
Other	604,995	6,821	1.34%~3.88%	581,737
Total		\$62,638		\$3,580,480

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

**For the nine-month periods ended 30 September 2013 and 2012**

For the nine-month period ended 30 September 2013				
Name	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Other related parties				
Cathay General Hospital	\$108,610	\$1,888	2.43%~2.55%	\$101,446
Other	20,467	231	1.34%~3.88%	19,680
Total		<u>\$2,119</u>		<u>\$121,126</u>

For the nine-month period ended 30 September 2012				
Name	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Other related parties				
Cathay General Hospital	\$3,485,571	\$63,097	2.43%~2.55%	\$3,279,925
Other	367,758	4,162	1.53%~3.78%	348,584
Total		<u>\$67,259</u>		<u>\$3,628,509</u>

For the nine-month period ended 30 September 2012				
Name	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Other related parties				
Cathay General Hospital	\$119,002	\$2,154	2.43%~2.55%	\$111,981
Other	12,556	142	1.53%~3.78%	11,901
Total		<u>\$2,296</u>		<u>\$123,882</u>

**(5) Financial assets at fair value through profit or loss (beneficiary certificates)**

Name		30 September 2013		31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Securities Investment	Market value	<u>\$2,009,533</u>	<u>\$67,981</u>	<u>\$2,319,889</u>	<u>\$79,858</u>
Trust Co., Ltd. managed funds	Cost	<u>\$1,830,732</u>	<u>\$61,933</u>	<u>\$2,152,997</u>	<u>\$74,113</u>
Name		30 September 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Securities Investment	Market value	<u>\$1,671,579</u>	<u>\$57,070</u>	<u>\$1,666,355</u>	<u>\$55,050</u>
Trust Co., Ltd. managed funds	Cost	<u>\$1,549,016</u>	<u>\$52,885</u>	<u>\$1,548,899</u>	<u>\$51,169</u>

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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 2013 and 2012**

**(6) Discretionary account management balance**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust				
Co., Ltd.	<u>\$218,384,163</u>	<u>\$7,387,827</u>	<u>\$204,663,888</u>	<u>\$7,045,229</u>

  

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust				
Co., Ltd.	<u>\$220,241,403</u>	<u>\$7,519,338</u>	<u>\$121,139,793</u>	<u>\$4,001,975</u>

**(7) Other receivables**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$7,253,085	\$245,368	\$5,235,287	\$180,216
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	26,058	882	-	-
Other related parties				
Cathay United Bank	21,802	738	12,396	427
Cathay Century Insurance Co., Ltd.	210,106	7,108	141,412	4,868
Cathay Securities Investment Trust Co., Ltd.	24,035	813	22,594	778

  

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$6,767,349	\$231,046	\$3,055,618	\$100,945
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	658	22	1,035	34

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**For the nine-month periods ended 30 September 2013 and 2012**

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$8,367	\$286	\$10,272	\$339
Cathay Century Insurance Co., Ltd.	114,203	3,899	217,861	7,197
Cathay Securities Investment Trust Co., Ltd.	20,794	710	21,131	698

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

**(8) Guarantee deposits paid**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Futures Co., Ltd.	\$632,556	\$21,399	\$364,739	\$12,556

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Futures Co., Ltd.	\$257,000	\$8,774	\$511,844	\$16,909

For the three-month periods ended 30 September 2013 and 2012, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$185 (US\$6) thousands and NT\$94 (US\$3) thousands, respectively.

For the nine-month periods ended 30 September 2013 and 2012, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$616 (US\$21) thousands and NT\$332 (US\$11) thousands, respectively.

**(9) Guarantee deposits received**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Lin Yuan Property Management Co., Ltd.	\$5,000	\$169	\$5,000	\$172

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**For the nine-month periods ended 30 September 2013 and 2012**

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Lin Yuan Property Management Co., Ltd.	\$5,000	\$171	\$5,000	\$165

**(10) Other payables**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$3,230,129	\$109,274	\$2,550,995	\$87,814
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	14,109	477	-	-
Other related parties				
Cathay Century Insurance Co., Ltd.	16,459	557	5,732	197
Cathay Securities Investment Trust Co., Ltd.	11,296	382	-	-
Lin Yuan Property Management Co., Ltd.	44,132	1,493	3,580	123
San Ching Engineering Co., Ltd.	-	-	326	11

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$2,322,754	\$79,302	\$1,642,995	\$54,278
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	-	-	64	2
Other related parties				
Cathay Century Insurance Co., Ltd.	12,290	420	1,635	54
Lin Yuan Property Management Co., Ltd.	43,070	1,470	5,294	175
San Ching Engineering Co., Ltd.	1,569	54	23,331	771

Note: The payables consist of interest expenses accrued from preferred stocks.

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**For the nine-month periods ended 30 September 2013 and 2012**

**(11) Preferred stock liability**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$30,000,000</u>	<u>\$1,014,885</u>	<u>\$30,000,000</u>	<u>\$1,032,702</u>

  

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$30,000,000</u>	<u>\$1,024,240</u>	<u>\$30,000,000</u>	<u>\$991,080</u>

**(12) Accounts collected in advance**

Name	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$10,480	\$355	\$10,859	\$374
Cathay United Bank	29,554	1,000	26,517	913
Cathay Securities Co., Ltd.	4,673	158	3,993	137

  

Name	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$10,811	\$369	\$9,645	\$319
Cathay United Bank	26,828	916	32,817	1,084
Cathay Securities Co., Ltd.	3,940	135	3,627	120

**(13) Premiums income**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$71,024	\$2,403	\$163,673	\$5,588
Cathay General Hospital	9,801	332	9,797	334
Cathay Century Insurance Co., Ltd.	2,573	87	2,513	86
Cathay Securities Co., Ltd.	1,750	59	958	33
Other	28,618	968	22,679	774
Total	<u>\$113,766</u>	<u>\$3,849</u>	<u>\$199,620</u>	<u>\$6,815</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay United Bank	\$416,511	\$14,090	\$483,897	\$16,521
Cathay General Hospital	29,631	1,002	29,780	1,017
Cathay Century Insurance Co., Ltd.	8,766	297	8,629	295
Cathay Securities Co., Ltd.	3,827	130	3,383	115
Other	87,911	2,974	82,175	2,805
Total	<u>\$546,646</u>	<u>\$18,493</u>	<u>\$607,864</u>	<u>\$20,753</u>

**(14) Insurance expenses**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	<u>\$6,992</u>	<u>\$237</u>	<u>\$5,294</u>	<u>\$181</u>

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	<u>\$106,588</u>	<u>\$3,606</u>	<u>\$103,157</u>	<u>\$3,522</u>

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT\$4,457 (US\$151) thousands and NT\$2,856 (US\$98) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the three-month periods ended 30 September 2013 and 2012, respectively.

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT\$10,407 (US\$352) thousands and NT\$9,578 (US\$327) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the nine-month periods ended 30 September 2013 and 2012, respectively.



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**For the nine-month periods ended 30 September 2013 and 2012**

**(15) Reinsurance income**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$30,087</u>	<u>\$1,018</u>	<u>\$27,883</u>	<u>\$952</u>

  

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$100,169</u>	<u>\$3,389</u>	<u>\$91,343</u>	<u>\$3,119</u>

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 nine-month periods ended 30 September 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 period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$1,619</u>	<u>\$55</u>	<u>\$1,530</u>	<u>\$52</u>

  

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$7,264</u>	<u>\$246</u>	<u>\$7,262</u>	<u>\$248</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

**(17) Reinsurance claim payments**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$17,925	\$606	\$31,385	\$1,072

  

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$121,188	\$4,100	\$90,109	\$3,076

**(18) Other operating income**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$7,455	\$252	\$7,380	\$252
Cathay United Bank	91,794	3,105	100,835	3,442
Cathay General Hospital	2,734	93	2,662	91
Cathay Securities Co., Ltd.	5,913	200	1,493	51
Total	\$107,896	\$3,650	\$112,370	\$3,836

  

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$23,063	\$780	\$19,865	\$678
Cathay United Bank	298,762	10,107	314,717	10,745
Cathay General Hospital	60,394	2,043	34,806	1,188
Cathay Securities Co., Ltd.	9,844	333	4,306	147
Total	\$392,063	\$13,263	\$373,694	\$12,758

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**For the nine-month periods ended 30 September 2013 and 2012**

**(19) Miscellaneous income**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$323,498	\$10,944	\$207,208	\$7,075
Cathay United Bank	19,662	665	22,173	757
Cathay Securities Investment Trust Co., Ltd.	28,610	968	24,553	838
Cathay General Hospital	910	31	910	31
Total	<u>\$372,680</u>	<u>\$12,608</u>	<u>\$254,844</u>	<u>\$8,701</u>

  

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Century Insurance Co., Ltd.	\$956,037	\$32,342	\$778,697	\$26,586
Cathay United Bank	66,169	2,238	74,519	2,544
Cathay Securities Investment Trust Co., Ltd.	85,443	2,891	74,190	2,533
Cathay General Hospital	3,640	123	3,647	124
Total	<u>\$1,111,289</u>	<u>\$37,594</u>	<u>\$931,053</u>	<u>\$31,787</u>

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

**(20) Operating expenses**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary	\$-	\$-	\$3,294	\$112
Cathay Securities Investment Consulting Co., Ltd.				
Other related parties				
Seaward Card Co., Ltd.	17,370	587	28,584	976
Cathay United Bank	835,454	28,263	604,669	20,644
Cathay Venture Inc.	5,000	169	5,000	171
Cathay Securities Investment Trust Co., Ltd.	33,455	1,132	-	-
Lin Yuan Property Management Co., Ltd.	49,891	1,688	163,753	5,591
Cathay Real Estate Development Co., Ltd.	4,424	150	4,633	158
Cathay Healthcare Inc.	2,030	69	2,719	93
Subtotal	<u>947,624</u>	<u>32,058</u>	<u>809,358</u>	<u>27,633</u>
Total	<u>\$947,624</u>	<u>\$32,058</u>	<u>\$812,652</u>	<u>\$27,745</u>

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**For the nine-month periods ended 30 September 2013 and 2012**

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Subsidiary	\$6,589	\$223	\$9,883	\$337
Cathay Securities Investment Consulting Co., Ltd.				
Other related parties				
Seaward Card Co., Ltd.	73,744	2,495	81,286	2,775
Cathay United Bank	1,916,927	64,849	1,950,350	66,588
Cathay Venture Inc.	16,021	542	17,466	596
Cathay Securities Investment Trust Co., Ltd.	97,779	3,308	-	-
Lin Yuan Property Management Co., Ltd.	480,856	16,267	467,279	15,954
Cathay Real Estate Development Co., Ltd.	13,578	459	14,390	491
Cathay Healthcare Inc.	5,414	183	2,719	93
Subtotal	2,604,319	88,103	2,533,490	86,497
Total	\$2,610,908	\$88,326	\$2,543,373	\$86,834

**(21) Non-operating income and expenses**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$228,866	\$7,742	\$228,241	\$7,792

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$679,134	\$22,975	\$679,760	\$23,208

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

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**For the nine-month periods ended 30 September 2013 and 2012**

**(22) Other**

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

Item	30 September 2013		31 December 2012		30 September 2012		1 January 2012	
CS contracts	USD	1,035,000	USD	985,000	USD	1,479,000	USD	1,900,000

**(23) Key management personnel compensation**

Name	For the three-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$16,399	\$555	\$19,282	\$658

  

Name	For the nine-month period ended 30 September			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$59,027	\$1,997	\$53,207	\$1,817

The management of the Company includes directors, vice general managers and the above.

**49. Pledged assets**

**(1) The Company**

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the Company provided cash, time deposits and government bonds to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the “Guaranteed Depository Insurance”.

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**For the nine-month periods ended 30 September 2013 and 2012**

Item	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid - Government bonds	\$9,511,440	\$321,767	\$9,523,306	\$327,825
Guarantee deposits paid - Time deposits	538,082	18,203	118,698	4,086
Guarantee deposits paid - Others	9,242	313	8,807	303
Total	<u>\$10,058,764</u>	<u>\$340,283</u>	<u>\$9,650,811</u>	<u>\$332,214</u>

Item	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid - Government bonds	\$9,557,808	\$326,316	\$10,615,126	\$350,682
Guarantee deposits paid - Time deposits	99,898	3,411	124,298	4,106
Guarantee deposits paid - Others	9,162	313	10,837	358
Total	<u>\$9,666,868</u>	<u>\$330,040</u>	<u>\$10,750,261</u>	<u>\$355,146</u>

Pledged assets are summarized based on the net carrying amounts.

**(2) Symphox information**

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the pledged property details are as follows:

Item	30 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Cash in bank (recognized as other financial assets)	\$9,505	\$321	\$10	\$-
Financial assets at fair value through profit and loss	47,345	1,602	45,103	1,553
Total	<u>\$56,850</u>	<u>\$1,923</u>	<u>\$45,113</u>	<u>\$1,553</u>

Item	30 September 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	45,632	1,558	39,313	1,299
Total	<u>\$45,632</u>	<u>\$1,558</u>	<u>\$39,313</u>	<u>\$1,299</u>

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Symphox Information maintains a trust account at Cathay United Bank for its electronic gift certificates. As of 30 September 2013 and 31 December 2012, the account balance was NT\$9,505 (US\$322) 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 September 2013		31 December 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	<u>\$1,197,955</u>	<u>\$40,526</u>	<u>\$1,157,835</u>	<u>\$39,857</u>

Item	30 September 2012		1 January 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	<u>\$1,188,228</u>	<u>\$40,568</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.

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52. Significant subsequent events

None.

53. Others matters

(1) Discretionary account management

Item	30 September 2013			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$123,047,925	\$4,162,650	\$123,047,925	\$4,162,650
Overseas stocks	44,699,635	1,512,166	44,699,635	1,512,166
Repurchase bonds	3,140,000	106,225	3,140,000	106,225
Cash in banks	27,341,927	924,964	27,341,927	924,964
Beneficiary certificates	18,450,626	624,175	18,450,626	624,175
Futures and options	862,047	29,163	862,047	29,163
Corporate bonds	842,003	28,484	842,003	28,484
Total	<u>\$218,384,163</u>	<u>\$7,387,827</u>	<u>\$218,384,163</u>	<u>\$7,387,827</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>



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**For the nine-month periods ended 30 September 2013 and 2012**

Item	30 September 2012			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$93,549,723	\$3,193,913	\$93,549,723	\$3,193,913
Overseas stocks	38,548,040	1,316,082	38,548,040	1,316,082
Repurchase bonds	5,301,750	181,009	5,301,750	181,009
Cash in banks	32,365,411	1,104,999	32,365,411	1,104,999
Beneficiary certificates	48,218,229	1,646,235	48,218,229	1,646,235
Futures and options	1,430,175	48,828	1,430,175	48,828
Corporate bonds	828,075	28,272	828,075	28,272
Total	<u>\$220,241,403</u>	<u>\$7,519,338</u>	<u>\$220,241,403</u>	<u>\$7,519,338</u>

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 September 2013, the Company entered into discretionary account management contracts in the amounts of NT\$143,000,000 (US\$4,837,618) thousands, US\$1,990,000 thousands, and HK\$2,000,000 (US\$257,895) 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 September 2012, the Company entered into discretionary account management contracts in the amounts of NT\$138,000,000 (US\$4,711,506) thousands, US\$2,140,000 thousands, and HK\$6,350,000 (US\$818,932) thousands. As of 1 January 2012, the amount was NT\$139,500,000 (US\$4,608,523) thousands.

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- (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 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.

**C. Procedures**

**a. Periodically**

The Company regularly reviews the capital adequacy ratio. The Company uses assets and liabilities model to estimate the capital adequacy ratio in the future year and analyzes solvency based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario. 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.

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**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 September 2013, the Company's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousands.

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 (US\$32,680) thousands to increase the share capital. As of 30 September 2013, the Company's remittances to this general insurance company totaled approximately US\$44,360 thousands.

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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. On 1 April 2013, MOEAIC authorized the Company to remit CNY\$700,000 (US\$111,000) thousands to increase the share capital. As of 30 September 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.

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**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. These properties are continuously being rented out and therefore generate steady, medium to long-term cash flows. Valuation was performed by a valuer who holds a recognized and relevant professional qualification. Also, the fair value was limited to the properties' discounted cash flow of contractual rental income. The weighted average cost of capital was used as the discount rate, estimated at 3.39%. The rental growth rates were estimated mostly at between 1 % and 1.5%.
- (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 September 2012 and consolidated statements of comprehensive income for the three-month and nine-month periods ended 30 September 2012:

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**(1)Reconciliation of consolidated balance sheet items as at 30 September 2012**

R.O.C. GAAP		NT\$ Impact of transitioning to TIFRS		TIFRS		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	414,259,419		(19,447,968)	394,811,451	Cash and cash equivalents	1
Notes receivables - Net	2,668,389			2,668,389	Notes receivables - Net	
Premiums receivables - Net	60,071			60,071	Premiums receivables - Net	
Claims recoverable from reinsurers - Net	1,014		(1,014)	-		11
Due from reinsurers and ceding companies - Net	67,418		(67,418)	-		11
Other receivables - Net	48,250,797	494,270		48,745,067	Other receivables - Net	2,8
Subtotal	51,047,689			51,473,527	Receivables	
Financial assets at fair value through profit or loss	69,169,564			69,169,564	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	1,218,260,344	10,757,842		1,229,018,186	Available-for-sale financial assets	3
Derivative financial assets for hedging	1,365,092			1,365,092	Derivative financial assets for hedging	
Financial assets carried at cost	10,191,289	(10,191,289)		-		3
Investments under the equity method - Net	1,092,491			1,092,491	Investments accounted for using the equity method - Net	
Investments in debt securities with no active market	742,564,717		19,447,968	762,012,685	Bond investments for which no active market exists	1
Other financial assets	24,000,000			24,000,000	Other financial assets - Net	
Investments in real estate - Net	155,270,118	61,206,146		216,476,264	Investment property -Net	4
Loans	499,860,514			499,860,514	Loans	
Subtotal	2,721,774,129					
Reinsurance reserve assets - Net	9,108,547		68,432	9,176,979	Reinsurance assets	11
Land	10,894,899	6,864,558		17,759,457	Land	4
Buildings and construction	12,711,619	9,909,816		22,621,435	Buildings and construction	4
Computer equipment	2,504,211			2,504,211	Computer equipment	
Communication and transportation equipment	18,375			18,375	Communication and transportation equipment	
Other equipment	3,909,261			3,909,261	Other equipment	
Leasehold improvements	118,118			118,118	Leasehold improvements	
Leased assets	275,652			275,652	Leased assets	
Revaluation increments	620	(620)		-		4
Subtotal of cost and revaluation	30,432,755			47,206,509		
Less: Accumulated depreciation	(10,709,473)	(6,529,992)		(17,239,465)	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	97,618			97,618	Construction in progress and prepayment for real estate equipment	
Subtotal	19,680,488			29,806,154	Property and equipment	
Intangible assets	346,289			346,289	Intangible assets	
-	-		14,898,544	14,898,544	Deferred tax assets	11
Prepayment	84,162			84,162	Prepayment	
Guarantee deposits paid	13,723,242			13,723,242	Guarantee deposits paid	
Deferred income tax assets	15,396,140	(497,596)	(14,898,544)	-		10,11
Other assets - Other	10,109,902			10,109,902	Other assets - Other	
Subtotal	39,313,446			23,917,306	Other assets	
Separate account product assets	317,518,669			317,518,669	Separate account product assets	
Total assets	3,573,048,676			3,644,943,715	Total assets	

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

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

		NT\$				
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
-	-		77,030	77,030	Short-term debts	11
Notes payable	1,111			1,111	Notes payable	
Life insurance proceeds payable	198,046			198,046	Life insurance proceeds payable	
Commissions payable	164,325			164,325	Commissions payable	
Due to reinsurers and ceding companies	7,561,559			7,561,559	Due to reinsurers and ceding companies	
Others payable	19,347,008			19,347,008	Others payable	
Subtotal	27,272,049			27,272,049	Payables	
Short-term debts	77,030		(77,030)	-		- 11
Financial liabilities at fair value through profit or loss	1,687,225			1,687,225	Financial liabilities at fair value through profit or loss	
Preferred stock liability	30,000,000			30,000,000	Preferred stock liability	
Subtotal	31,764,255					
Unearned premium reserve	11,576,452			11,576,452	Unearned premium reserve	
Reserve for claims	4,745,482			4,745,482	Reserve for claims	
Reserve for life insurance liabilities	2,933,665,767			2,933,665,767	Reserve for life insurance liabilities	
Special reserve	4,381,297	51,037,364		55,418,661	Special reserve	6,7
Premium deficiency reserve	15,891,703			15,891,703	Premium deficiency reserve	
Reserve for insurance contracts with feature of financial instruments	62,524,655		(62,524,655)	-		- 11
Foreign exchange volatility reserve	4,286,477		(4,286,477)	-		- 11
Subtotal	3,037,071,833			3,021,298,065	Insurance liabilities	
-	-		62,524,655	62,524,655	Reserve for insurance contracts with feature of financial instruments	11
-	-		4,286,477	4,286,477	Foreign exchange volatility reserve	11
-	-	346,155	3,428,374	3,774,529	Provisions	8,11
-	-		16,180,741	16,180,741	Deferred tax liabilities	11
Accounts collected in advance	317,503			317,503	Accounts collected in advance	
Guarantee deposits received	2,062,861			2,062,861	Guarantee deposits received	
Reserve for land revaluation increment tax	3,487	7,007,814	(7,011,301)	-		- 10,11
Accrued pension liability	2,048,733	1,379,641	(3,428,374)	-		- 9,11
Deferred income tax liabilities	-	9,169,440	(9,169,440)	-		- 10,11
Other liabilities - Other	18,041,478			18,041,478	Other liabilities - Other	
Subtotal	22,474,062			20,421,842	Other liabilities	
Separate account product liabilities	317,518,669			317,518,669	Separate account product liabilities	
Total liabilities	3,436,100,868			3,505,041,282	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	2,355,647	2,883,565		5,239,212	Unappropriated retained earnings	2~5,7~10
Equity adjustments			27,219,852	27,219,852	Other equity	11
Unrealized revaluation increments	1,462	(1,462)		-		5
Unrealized gains on financial instruments	31,783,532	(4,181,619)	(27,601,913)	-		- 3,10,11
Cumulative conversion adjustments	(382,061)		382,061	-		11
Net loss not recognized as pension cost	(509,674)	509,674		-		9
Minority interests	1,135,024			1,135,024	Non-controlling interests	
Total stockholders' equity	136,947,808			139,902,433	Total equity	
Total liabilities and stockholders' equity	3,573,048,676			3,644,943,715	Total liabilities and equity	

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

R.O.C. GAAP		US\$		TIFRS		Notes
Items	Amounts	Impact of transitioning to TIFRS Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	14,143,374		(663,980)	13,479,394	Cash and cash equivalents	1
Notes receivables - Net	91,103			91,103	Notes receivables - Net	
Premiums receivables - Net	2,051			2,051	Premiums receivables - Net	
Claims recoverable from reinsurers - Net	35		(35)	-	-	11
Due from reinsurers and ceding companies - Net	2,302		(2,302)	-	-	11
Other receivables - Net	1,647,347	16,875		1,664,222	Other receivables - Net	2,8
Subtotal	1,742,838			1,757,376	Receivables	
Financial assets at fair value through profit or loss	2,361,542			2,361,542	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	41,593,047	367,287		41,960,334	Available-for-sale financial assets	3
Derivative financial assets for hedging	46,606			46,606	Derivative financial assets for hedging	
Financial assets carried at cost	347,944	(347,944)		-	-	3
Investments under the equity method - Net	37,299			37,299	Investments accounted for using the equity method - Net	
Investments in debt securities with no active market	25,352,158		663,980	26,016,138	Bond investments for which no active market exists	1
Other financial assets	819,392			819,392	Other financial assets - Net	
Investments in real estate - Net	5,301,131	2,089,660		7,390,791	Investment property - Net	4
Loans	17,065,910			17,065,910	Loans	
Subtotal	92,925,029					
Reinsurance reserve assets - Net	310,977		2,337	313,314	Reinsurance assets	11
Land	371,967	234,365		606,332	Land	4
Buildings and construction	433,993	338,334		772,327	Buildings and construction	4
Computer equipment	85,497			85,497	Computer equipment	
Communication and transportation equipment	628			628	Communication and transportation equipment	
Other equipment	133,467			133,467	Other equipment	
Leasehold improvements	4,032			4,032	Leasehold improvements	
Leased assets	9,411			9,411	Leased assets	
Revaluation increments	21	(21)		-	-	4
Subtotal of cost and revaluation	1,039,016			1,611,694	-	
Less: Accumulated depreciation	(365,636)	(222,943)		(588,579)	Less: Accumulated depreciation	4,5
Less: Accumulated impairment	(4,794)	(4,032)		(8,826)	Less: Accumulated impairment	4
Construction in progress and prepayment for real estate equipment	3,333			3,333	Construction in progress and prepayment for real estate equipment	
Subtotal	671,919			1,017,622	Property and equipment	
Intangible assets	11,823			11,823	Intangible assets	
-	-		508,656	508,656	Deferred tax assets	11
Prepayment	2,873			2,873	Prepayment	
Guarantee deposits paid	468,530			468,530	Guarantee deposits paid	
Deferred income tax assets	525,645	(16,989)	(508,656)	-	-	10,11
Other assets - Other	345,166			345,166	Other assets - Other	
Subtotal	1,342,214			816,569	Other assets	
Separate account product assets	10,840,515			10,840,515	Separate account product assets	
Total assets	121,988,689			124,443,281	Total assets	



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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

US\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
-	-		2,630	2,630	Short-term debts	11
Notes payable	38			38	Notes payable	
Life insurance proceeds payable	6,762			6,762	Life insurance proceeds payable	
Commissions payable	5,610			5,610	Commissions payable	
Due to reinsurers and ceding companies	258,162			258,162	Due to reinsurers and ceding companies	
Others payable	660,533			660,533	Others payable	
Subtotal	931,105			931,105	Payables	
Short-term debts	2,630		(2,630)	-	-	11
Financial liabilities at fair value through profit or loss	57,604			57,604	Financial liabilities at fair value through profit or loss	
Preferred stock liability	1,024,240			1,024,240	Preferred stock liability	
Subtotal	1,084,474					
Unearned premium reserve	395,236			395,236	Unearned premium reserve	
Reserve for claims	162,017			162,017	Reserve for claims	
Reserve for life insurance liabilities	100,159,296			100,159,296	Reserve for life insurance liabilities	
Special reserve	149,583	1,742,484		1,892,067	Special reserve	6,7
Premium deficiency reserve	542,564			542,564	Premium deficiency reserve	
Reserve for insurance contracts with feature of financial instruments	2,134,676		(2,134,676)	-	-	11
Foreign exchange volatility reserve	146,346		(146,346)	-	-	11
Subtotal	103,689,718			103,151,180	Insurance liabilities	
-	-		2,134,676	2,134,676	Reserve for insurance contracts with feature of financial instruments	11
-	-		146,346	146,346	Foreign exchange volatility reserve	11
-	-	11,818	117,049	128,867	Provisions	8,11
-	-		552,432	552,432	Deferred tax liabilities	11

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

US\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Accounts collected in advance	10,840			10,840	Accounts collected in advance	
Guarantee deposits received	70,429			70,429	Guarantee deposits received	
Reserve for land revaluation						
increment tax	119	239,256	(239,375)	-		- 10,11
Accrued pension liability	69,947	47,102	(117,049)	-		- 9,11
Deferred income tax liabilities	-	313,057	(313,057)	-		- 10,11
Other liabilities - Other	615,960			615,960	Other liabilities - Other	
Subtotal	767,295			697,229	Other liabilities	
Separate account product liabilities	10,840,515			10,840,515	Separate account product liabilities	
Total liabilities	117,313,107			119,666,824	Total liabilities	
Capital stock					Capital stock	
Common stock	1,811,720			1,811,720	Common stock	
Capital surplus	444,166			444,166	Capital surplus	
Retained earnings					Retained earnings	
Legal capital reserve	315,508			315,508	Legal capital reserve	
Special capital reserve	930,274	127,841		1,058,115	Special capital reserve	6
Unappropriated retained earnings	80,425	98,449		178,874	Unappropriated retained earnings	2~5,7~10
Equity adjustments			929,323	929,323	Other equity	11
Unrealized revaluation increments	50	(50)		-		- 5
Unrealized gains on financial instruments	1,085,133	(142,766)	(942,367)	-		- 3,10,11
Cumulative conversion adjustments	(13,044)		13,044	-		- 11
Net loss not recognized as pension cost	(17,401)	17,401		-		- 9
Minority interests	38,751			38,751	Non-controlling interests	
Total stockholders' equity	4,675,582			4,776,457	Total equity	
Total liabilities and stockholders' equity	121,988,689			124,443,281	Total liabilities and equity	

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

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

**(2) Reconciliation of consolidated statement of comprehensive income items for the three-month period ended 30 September 2012**

NT\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenue					Operating revenue	
Direct premium income	106,869,967			106,869,967	Direct premium income	
Reinsurance premium income	47,517			47,517	Reinsurance premium income	
Premium income	106,917,484			106,917,484	Premium income	
Deduct : Premiums ceded to reinsurers	(7,513,147)			(7,513,147)	Deduct : Premiums ceded to reinsurers	
Changes in unearned premium reserve	264,235			264,235	Changes in unearned premium reserve	
Retained earned premium	99,668,572			99,668,572	Retained earned premium	
Reinsurance commission earned	3,481,574			3,481,574	Reinsurance commission earned	
Handling fees earned	708,249			708,249	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	23,731,643		(221,451)	23,510,192	Interest income	11
Gains from valuation on financial assets	9,987,375		(9,987,375)	-		- 11
Gains from valuation on financial liabilities	7,314,969		(7,314,969)	-		- 11
Losses on equity investments	(80,515)		80,515	-		- 11
					Gains from financial assets and liabilities at fair value through profit or loss	11
-	-		13,102,445	13,102,445	Realized gains from available-for-sale financial assets	11
-	-		10,483,944	10,483,944	Realized gains from bond investments for which no active market exists	11
-	-		1,095,802	1,095,802	Share of the losses of associates and joint ventures accounted for using the equity method	11
-	-		(80,515)	(80,515)	Foreign exchange losses	
Foreign exchange losses	(16,336,026)			(16,336,026)		
Gains on disposal of investments	7,304,456		(7,304,456)	-		- 11
Changes in foreign exchange volatility reserve	779,948			779,948	Changes in foreign exchange volatility reserve	
Gains on investments - Real estate	1,413,735	(17,192)		1,396,543	Gains from investment property	2
Other operating revenue	441,336			441,336	Other operating revenue	
Separate account product revenue	48,274,384			48,274,384	Separate account product revenue	
Subtotal	186,689,700			186,526,448	Subtotal	

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

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

R.O.C. GAAP		NT\$		TIFRS		Notes
Items	Amounts	Impact of transitioning to TIFRS Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claim payments	(62,381,239)			(62,381,239)	Insurance claim payments	
Deduct : Claims recovered from reinsures	3,136,017			3,136,017	Deduct : Claims recovered from reinsures	
Retained claim payments	(59,245,222)			(59,245,222)	Retained claim payments	
Changes in liability reserves			(61,313,291)	(61,313,291)	Changes in insurance liabilities	11
Changes in provision claim reserve	(201,333)		201,333	-		- 11
Changes in provision for life insurance	(60,219,459)		60,219,459	-		- 11
Changes in provision for special reserve	42,598	(43,134)	536	-		- 6,11
Changes in provision for premium deficiency reserve	(891,963)		891,963	-		- 11
Changes in reserve for insurance contracts with feature of financial instruments	(50,959)			(50,959)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(4,670,193)			(4,670,193)	Brokerage expenses	
Commission expenses	(4,709,529)			(4,709,529)	Commission expenses	
Other operating costs	(1,248,438)			(1,248,438)	Other operating costs	
-	-		146,060	146,060	Finance costs	11
Separate account product expenses	(48,274,384)			(48,274,384)	Separate account product expenses	
Subtotal	(179,468,882)			(179,365,956)	Subtotal	
Operating expenses	(4,377,760)	(66,847)		(4,444,607)	Operating expenses	4,5,9
Operating income	2,843,058			2,715,885	Operating income	
-	-		102,902	102,902	Non-operating income and expenses	11
Non-operating revenues and gains	331,847		(331,847)	-		- 11
Non-operating expenses and losses	(228,945)		228,945	-		- 11
Loss from continuing operations before income tax	2,945,960			2,818,787	Loss from continuing operations before income tax	
Income tax benefit	934,923	21,620		956,543	Income tax benefit	2,4~6, 8~10
Consolidated income	3,880,883			3,775,330	Net loss from continuing operations	
				3,775,330	Net loss	
				(33,114)	Other comprehensive income	
				17,722,734	Exchange differences resulting from translating the financial statements of foreign operations	
				(202,891)	Unrealized valuation gains from available-for-sale financial assets	
				(15,943)	Effective portion of losses on hedging instruments in cash flow hedges	
				(953,820)	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				16,516,966	Income taxes relating to components of other comprehensive income	
				20,292,296	Other comprehensive income, net of tax	
					Total comprehensive income	

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 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	3,648,685			3,648,685	Direct premium income	
Reinsurance premium income	1,622			1,622	Reinsurance premium income	
Premium income	3,650,307			3,650,307	Premium income	
Deduct: Premiums ceded to reinsurers	(256,509)			(256,509)	Deduct: Premiums ceded to reinsurers	
Changes in unearned premium reserve	9,021			9,021	Changes in unearned premium reserve	
Retained earned premium	3,402,819			3,402,819	Retained earned premium	
Reinsurance commission earned	118,866			118,866	Reinsurance commission earned	
Handling fees earned	24,181			24,181	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	810,230		(7,560)	802,670	Interest income	11
Gains from valuation on financial assets	340,982		(340,982)	-		- 11
Gains from valuation on financial liabilities	249,743		(249,743)	-		- 11
Losses on equity investments	(2,749)		2,749	-		- 11
					Gains from financial assets and liabilities at fair value through profit or loss	11
-	-		447,335	447,335	Realized gains from available-for-sale financial assets	11
-	-		357,936	357,936	Realized gains from bond investments for which no active market exists	11
-	-		37,412	37,412	Share of the losses of associates and joint ventures accounted for using the equity method	11
-	-		(2,749)	(2,749)	Foreign exchange losses	11
Foreign exchange losses	(557,734)			(557,734)		
Gains on disposal of investments	249,384		(249,384)	-		- 11
Changes in foreign exchange volatility reserve	26,628			26,628	Changes in foreign exchange volatility reserve	
Gains on investments - Real estate	48,267	(587)		47,680	Gains from investment property	2
Other operating revenue	15,068			15,068	Other operating revenue	
Separate account product revenue	1,648,152			1,648,152	Separate account product revenue	
Subtotal	6,373,837			6,368,264	Subtotal	

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 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	(2,129,779)			(2,129,779)	Insurance claim payments	
Deduct : Claims recovered from reinsures	107,067			107,067	Deduct : Claims recovered from reinsures	
Retained claim payments	(2,022,712)			(2,022,712)	Retained claim payments	
Changes in liability reserves			(2,093,318)	(2,093,318)	Changes in insurance liabilities	11
Changes in provision claim reserve	(6,874)		6,874	-		11
Changes in provision for life insurance	(2,055,972)		2,055,972	-		11
Changes in provision for special reserve	1,454	(1,473)	19	-		6,11
Changes in provision for premium deficiency reserve	(30,453)		30,453	-		11
Changes in reserve for insurance contracts with feature of financial instruments	(1,740)			(1,740)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(159,447)			(159,447)	Brokerage expenses	
Commission expenses	(160,790)			(160,790)	Commission expenses	
Other operating costs	(42,623)			(42,623)	Other operating costs	
-			4,987	4,987	Finance costs	11
Separate account product expenses	(1,648,152)			(1,648,152)	Separate account product expenses	
Subtotal	(6,127,309)			(6,123,795)	Subtotal	
Operating expenses	(149,463)	(2,282)		(151,745)	Operating expenses	4,5,9
Operating income	97,065			92,724	Operating income	
-	-		3,513	3,513	Non-operating income and expenses	11
Non-operating revenues and gains	11,329		(11,329)	-		11
Non-operating expenses and losses	(7,816)		7,816	-		11
Loss from continuing operations before income tax	100,578			96,237	Loss from continuing operations before income tax	2,4~6, 8~10
Income tax benefit	31,920	738		32,658	Income tax benefit	
Consolidated income	132,498			128,895	Net loss from continuing operations	
				128,895	Net loss	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of foreign operations	
				(1,131)		
				605,078	Unrealized valuation gains from available-for-sale financial assets	
				(6,927)	Effective portion of losses on hedging instruments in cash flow hedges	
					Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				(544)		
				(32,565)	Income taxes relating to components of other comprehensive income	
				563,911	Other comprehensive income, net of tax	
				692,806	Total comprehensive income	

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

**(3) Reconciliation of consolidated statement of comprehensive income items for the nine-month period ended 30 September 2012**

NT\$						
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenue					Operating revenue	
Direct premium income	\$364,775,914			\$364,775,914	Direct premium income	
Reinsurance premium income	139,826			139,826	Reinsurance premium income	
Premium income	364,915,740			364,915,740	Premium income	
Deduct : Premiums ceded to reinsurers	(21,343,075)			(21,343,075)	Deduct : Premiums ceded to reinsurers	
Changes in unearned premium reserve	405,085			405,085	Changes in unearned premium reserve	
Retained earned premium	343,977,750			343,977,750	Retained earned premium	
Reinsurance commission earned	10,961,916			10,961,916	Reinsurance commission earned	
Handling fees earned	1,762,647			1,762,647	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	69,185,333		(821,657)	68,363,676	Interest income	11
Gains from valuation on financial assets	9,769,254		(9,769,254)	-		- 11
Gains from valuation on financial liabilities	16,014,538		(16,014,538)	-		- 11
Losses on equity investments	(173,749)		173,749	-		- 11
					Gains from financial assets and liabilities at fair value through profit or loss	11
-	-		21,594,917	21,594,917	Realized gains from available-for-sale financial assets	11
-	-		22,130,816	22,130,816	Realized gains from bond investments for which no active market exists	11
-	-		2,425,135	2,425,135	Share of the losses of associates and joint ventures accounted for using the equity method	11
-	-		(173,749)	(173,749)	Foreign exchange losses	
Foreign exchange losses	(29,412,682)			(29,412,682)		
Gains on disposal of investments	20,095,265		(20,095,265)	-		- 11
Changes in foreign exchange volatility reserve	224,929			224,929	Changes in foreign exchange volatility reserve	
Gains on investments - Real estate	4,887,458	(69,374)		4,818,084	Gains from investment property	2
Other operating revenue	1,253,673			1,253,673	Other operating revenue	
Separate account product revenue	75,965,729			75,965,729	Separate account product revenue	
Subtotal	524,512,061			523,892,841	Subtotal	

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

		NT\$				
R.O.C. GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating costs					Operating costs	
Insurance claim payments	(171,354,676)			(171,354,676)	Insurance claim payments	
Deduct : Claims recovered from reinsures	8,624,521			8,624,521	Deduct : Claims recovered from reinsures	
Retained claim payments	(162,730,155)			(162,730,155)	Retained claim payments	
Changes in liability reserves			(243,133,814)	(243,133,814)	Changes in insurance liabilities	11
Changes in provision claim reserve	(258,233)		258,233	-		- 11
Changes in provision for life insurance	(240,398,373)		240,398,373	-		- 11
Changes in provision for special reserve	130,857	(132,151)	1,294	-		- 6,11
Changes in provision for premium deficiency reserve	(2,475,914)		2,475,914	-		- 11
Changes in reserve for insurance contracts with feature of financial instruments	(596,562)			(596,562)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(12,582,417)			(12,582,417)	Brokerage expenses	
Commission expenses	(13,106,739)			(13,106,739)	Commission expenses	
Other operating costs	(3,570,956)			(3,570,956)	Other operating costs	
-	-		549,846	549,846	Finance costs	11
Separate account product expenses	(75,965,729)			(75,965,729)	Separate account product expenses	
Subtotal	(511,554,221)			(511,136,526)	Subtotal	
Operating expenses	(12,610,126)	(263,801)		(12,873,927)	Operating expenses	4,5,9
Operating income	347,714			(117,612)	Operating income	
-	-		582,494	582,494	Non-operating income and expenses	11
Non-operating revenues and gains	1,267,521		(1,267,521)	-		- 11
Non-operating expenses and losses	(685,027)		685,027	-		- 11
Loss from continuing operations before income tax	930,208			464,882	Loss from continuing operations before income tax	
Income tax benefit	1,450,981	354,326		1,805,307	Income tax benefit	2,4~6, 8~10
Consolidated income	2,381,189			2,270,189	Net loss from continuing operations	
				2,270,189	Net loss	
					Other comprehensive income	
				(85,362)	Exchange differences resulting from translating the financial statements of foreign operations	
				21,929,160	Unrealized valuation gains from available-for-sale financial assets	
				(612,731)	Effective portion of losses on hedging instruments in cash flow hedges	
				(55,512)	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				(822,076)	Income taxes relating to components of other comprehensive income	
				20,353,479	Other comprehensive income, net of tax	
				22,623,668	Total comprehensive income	



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

**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 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	\$12,453,940			\$12,453,940	Direct premium income	
Reinsurance premium income	4,774			4,774	Reinsurance premium income	
Premium income	12,458,714			12,458,714	Premium income	
Deduct: Premiums ceded to reinsurers	(728,681)			(728,681)	Deduct: Premiums ceded to reinsurers	
Changes in unearned premium reserve	13,830			13,830	Changes in unearned premium reserve	
Retained earned premium	11,743,863			11,743,863	Retained earned premium	
Reinsurance commission earned	374,255			374,255	Reinsurance commission earned	
Handling fees earned	60,179			60,179	Handling fees earned	
Net investment profits and losses					Net investment profits and losses	
Interest income	2,362,080		(28,052)	2,334,028	Interest income	11
Gains from valuation on financial assets	333,536		(333,536)	-		- 11
Gains from valuation on financial liabilities	546,758		(546,758)	-		- 11
Losses on equity investments	(5,932)		5,932	-		- 11
					Gains from financial assets and liabilities at fair value through profit or loss	11
-	-		737,280	737,280	Realized gains from available-for-sale financial assets	11
-	-		755,576	755,576	Realized gains from bond investments for which no active market exists	11
-	-		82,797	82,797	Share of the losses of associates and joint ventures accounted for using the equity method	11
-	-		(5,932)	(5,932)	Foreign exchange losses	
Foreign exchange losses	(1,004,189)			(1,004,189)		
Gains on disposal of investments	686,079		(686,079)	-		- 11
Changes in foreign exchange volatility reserve	7,679			7,679	Changes in foreign exchange volatility reserve	
Gains on investments - Real estate	166,865	(2,369)		164,496	Gains from investment property	2
Other operating revenue	42,802			42,802	Other operating revenue	
Separate account product revenue	2,593,572			2,593,572	Separate account product revenue	
Subtotal	17,907,547			17,886,406	Subtotal	

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**Notes to unaudited consolidated financial statements-continued**

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**For the nine-month periods ended 30 September 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	(5,850,279)			(5,850,279)	Insurance claim payments	
Deduct : Claims recovered from reinsures	294,453			294,453	Deduct : Claims recovered from reinsures	
Retained claim payments	(5,555,826)			(5,555,826)	Retained claim payments	
Changes in liability reserves			(8,300,916)	(8,300,916)	Changes in insurance liabilities	11
Changes in provision claim reserve	(8,817)		8,817	-		11
Changes in provision for life insurance	(8,207,524)		8,207,524	-		11
Changes in provision for special reserve	4,468	(4,512)	44	-		6,11
Changes in provision for premium deficiency reserve	(84,531)		84,531	-		11
Changes in reserve for insurance contracts with feature of financial instruments	(20,367)			(20,367)	Changes in reserve for insurance contracts with feature of financial instruments	
Brokerage expenses	(429,581)			(429,581)	Brokerage expenses	
Commission expenses	(447,482)			(447,482)	Commission expenses	
Other operating costs	(121,917)			(121,917)	Other operating costs	
-			18,772	18,772	Finance costs	11
Separate account product expenses	(2,593,572)			(2,593,572)	Separate account product expenses	
Subtotal	(17,465,149)			(17,450,889)	Subtotal	
Operating expenses	(430,527)	(9,006)		(439,533)	Operating expenses	4,5,9
Operating income	11,871			(4,016)	Operating income	
-	-		19,887	19,887	Non-operating income and expenses	11
Non-operating revenues and gains	43,275		(43,275)	-		11
Non-operating expenses and losses	(23,388)		23,388	-		11
Loss from continuing operations before income tax	31,758			15,871	Loss from continuing operations before income tax	2,4~6, 8~10
Income tax benefit	49,539	12,097		61,636	Income tax benefit	
Consolidated income	81,297			77,507	Net loss from continuing operations	
				77,507	Net loss	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of foreign operations	
				(2,914)		
				748,691	Unrealized valuation gains from available-for-sale financial assets	
				(20,920)	Effective portion of losses on hedging instruments in cash flow hedges	
					Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	
				(1,895)		
				(28,067)	Income taxes relating to components of other comprehensive income	
				694,895	Other comprehensive income, net of tax	
				772,402	Total comprehensive income	

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

**Notes to unaudited consolidated financial statements-continued**

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

**For the nine-month periods ended 30 September 2013 and 2012**

**Material adjustments to the consolidated statement of cash flows for the nine-month period ended 30 September 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 nine-month period ended 30 September 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 September 2012, cash and cash equivalents reclassified to bond investments for which no active market exists was NT\$19,447,968 (US\$663,980) 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 September 2012, TIFRS adjustment resulted in increases of other receivables by NT\$293,561 (US\$10,023) thousands and retained earnings by NT\$301,236 (US\$10,285) thousands. For the three-month period ended 30 September 2012, TIFRS adjustment resulted in a decrease of rent revenue by NT\$17,192 (US\$587) thousands and an increase of income tax benefit by NT\$2,922 (US\$100) thousands. For the nine-month period ended 30 September 2012, TIFRS adjustment resulted in a decrease of rent revenue by NT\$69,374 (US\$2,369) thousands and an increase of income tax benefit by NT\$11,793 (US\$403) thousands.
- (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 September 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT\$10,757,842 (US\$367,287) thousands and unrealized gains on financial instruments by NT\$574,841 (US\$19,626) thousands. The adjustment also made decreases of financial assets carried at cost by NT\$10,191,289 (US\$347,944) thousands and retained earnings by NT\$37,960 (US\$1,296) thousands.

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**For the nine-month periods ended 30 September 2013 and 2012**

- (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\$2,588,598) thousands as of 30 September 2012. Also, a review of each significant components resulted in retrospectively recognizing accumulated depreciation by NT\$1,441,340 (US\$49,209) thousands, and an increase in retained earnings by NT\$66,157,740 (US\$2,258,714) thousands. For the three-month period ended 30 September 2012, the adjustment resulted in increases of depreciation expense by NT\$33,537 (US\$1,145) thousands and income tax benefit by NT\$5,702 (US\$195) thousands. For the nine-month period ended 30 September 2012, the adjustment resulted in decreases of depreciation expense by NT\$616,919 (US\$21,063) thousands and income tax benefit by NT\$104,876 (US\$3,581) thousands. In addition, the Company and Subsidiaries reclassified investment property to property and equipment by NT\$13,172,564 (US\$449,729) 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 September 2012, the Company and Subsidiaries assessed that significant components of property and equipment resulted in retrospectively recognizing accumulated depreciation by NT\$3,046,898 (US\$104,025) thousands, decreases of retained earnings and unrealized revaluation increments by NT\$1,767,459 (US\$60,343) thousands and NT\$1,462 (US\$50) thousands, respectively. For the three-month period ended 30 September 2012, the adjustment resulted in increases of depreciation expense and income tax benefit by NT\$44,960 (US\$1,535) thousands and NT\$7,643 (US\$261) thousands, respectively. For the nine-month period ended 30 September 2012, the adjustment resulted in increases of depreciation expense and income tax benefit by NT\$915,669 (US\$31,262) thousands and NT\$155,664 (US\$5,315) thousands, respectively.

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- (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 September 2012, the adjustment resulted in a decrease of “Special Reserve for Major Incidents” and “Special Reserve for Fluctuation of Risks” by NT\$4,379,255 (US\$149,514) thousands, and an increase of special capital reserve under retained earnings by NT\$3,744,467 (US\$127,841) thousands. For the three-month period ended 30 September 2012, adjustment resulted in a decrease of changes in provision for special reserves by NT\$43,134 (US\$1,473) thousands, and an increase of income tax benefit by NT\$7,333 (US\$250) thousands. For the nine-month period ended 30 September 2012, adjustment resulted in a decrease of changes in provision for special reserves by NT\$132,151 (US\$4,512) thousands, and an increase of income tax benefit by NT\$22,466 (US\$767) 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\$1,891,998) 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 September 2012, the Company and Subsidiaries should increase provisions by NT\$346,155 (US\$11,818) thousands and decrease retained earnings by NT\$406,637 (US\$13,883) thousands. In addition, the reversal recognition resulted in increases of tax receivables by NT\$200,709 (US\$6,852) thousands, and income tax benefit by NT\$0 (US\$0) thousands and NT\$261,192 (US\$8,917) thousands for the three-month and nine-month periods ended 30 September 2012, respectively.

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**For the nine-month periods ended 30 September 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 September 2012, TIFRS adjustment resulted in an increase of accrual pension liability by NT\$1,379,641 (US\$47,102) thousands, and decreases of retained earnings by NT\$1,597,139 (US\$54,528) thousands and net loss not recognized as pension cost by NT\$509,674 (US\$17,401) thousands. For the three-month period ended 30 September 2012, the adjustment resulted in decreases of pension expense and income tax benefit by NT\$11,650 (US\$398) thousands and NT\$1,980 (US\$68) thousands, respectively. For the nine-month period ended 30 September 2012, the adjustment resulted in decreases of pension expense and income tax benefit by NT\$34,949 (US\$1,193) thousands and NT\$5,941 (US\$203) thousands, respectively.
- (10) According to IAS 12, the Company and Subsidiaries reviewed income tax effects of the above adjustment items. As of 30 September 2012, the above adjustments collectively resulted in recognizing deferred tax assets and deferred tax liabilities by NT\$1,084,185 (US\$37,016) thousands and NT\$8,778,006 (US\$299,693) 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\$4,756,460 (US\$162,392) 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\$144,711) thousands and NT\$4,224,569 (US\$144,232) thousands, and increases of income tax benefit by NT\$0 (US\$0) thousands and NT\$14,028 (US\$479) thousands for the three-month and nine-month periods ended 30 September 2012, respectively. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT\$2,642,788 (US\$90,228) thousands.
- (11) Presentation of consolidated balance sheet and consolidated statement of comprehensive income

The Company and Subsidiaries prepared their consolidate 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.