

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the three-month periods ended
31 March 2014 and 2013
With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises”. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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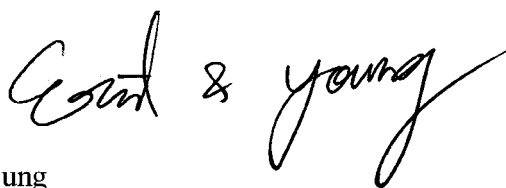
Review Report of Independent Auditors
English Translation of a Report Originally Issued in Chinese

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

We have reviewed the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) and its subsidiaries as of 31 March 2014 and 2013, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2014 and 2013. 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 and IAS 34 “Interim Financial Reporting” as recognized by Financial Supervisory Commission.

A handwritten signature in black ink, appearing to read "Ernst & Young", is positioned above the printed name of the firm.

Ernst & Young
Taipei, Taiwan
The Republic of China

28 April 2014

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

As of 31 March 2014, 31 December 2013 and 31 March 2013

(Expressed in thousands of dollars)

Assets	Notes	31 March 2014		31 December 2013		31 March 2013	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6(1)	\$8,965,027	\$294,418	\$8,194,772	\$274,716	\$5,835,681	\$195,763
Receivables	4,6(2)	3,087,664	101,401	3,725,513	124,891	2,968,447	99,579
Financial assets at fair value through profit or loss	4,6(3)	607,671	19,956	1,312,025	43,983	489,461	16,419
Available-for-sale financial assets	4,6(4)	8,101,196	266,049	7,234,902	242,538	8,594,970	288,325
Derivative financial assets for hedging		9,136	300	10,022	336	16,284	546
Investments accounted for using the equity method		825	27	829	28	1,486	50
Bond investments with no active market	4,6(5)	2,541,800	83,475	2,053,740	68,848	1,871,712	62,788
Held-to-maturity financial assets	4,6(6)	1,803,056	59,214	1,955,937	65,570	2,265,404	75,995
Secured Loans	4,6(7)	420,452	13,808	422,521	14,164	523,297	17,554
Reinsurance contracts assets	4,6(8)	5,581,022	183,285	5,057,226	169,535	5,264,819	176,612
Property and equipment		284,365	9,339	303,365	10,170	171,740	5,761
Intangible assets		21,627	710	29,031	973	26,082	875
Deferred income tax assets		67,464	2,215	77,223	2,589	87,957	2,951
Other assets		1,351,086	44,371	1,332,211	44,660	1,073,457	36,010
Total assets		<u>\$32,842,391</u>	<u>\$1,078,568</u>	<u>\$31,709,317</u>	<u>\$1,063,001</u>	<u>\$29,190,797</u>	<u>\$979,228</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014, 31 December 2013 and 31 March 2013 were NT\$30.45, NT\$29.83 and NT\$29.81 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

As of 31 March 2014, 31 December 2013 and 31 March 2013

(Expressed in thousands of dollars)

Liabilities & equity	Notes	31 March 2014		31 December 2013		31 March 2013	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	4,6(9)	\$2,251,378	\$73,937	\$2,622,538	\$87,917	\$2,133,430	\$71,567
Financial liabilities at fair value through profit or loss		62,424	2,050	28,352	950	94,825	3,181
Preferred stock liability	4,6(10)	1,000,000	32,841	1,000,000	33,523	1,000,000	33,546
Insurance liabilities	4,6(11)	22,645,147	743,683	21,853,590	732,604	20,435,699	685,532
Provision	4,6(12)	235,740	7,742	236,272	7,921	248,378	8,332
Deferred income tax liabilities		5,853	192	24,404	818	26,509	889
Other liabilities		421,866	13,854	433,062	14,518	249,268	8,362
Total liabilities		26,622,408	874,299	26,198,218	878,251	24,188,109	811,409
Equity attributable to owners of parent							
Capital stock	4,6(13)	2,721,879	89,388	2,721,879	91,246	2,522,950	84,634
Capital surplus							
Capital surplus - others		1,929	63	1,929	65	1,929	65
Retained earnings	4,6(14)						
Legal reserve		1,092,927	35,892	1,092,927	36,639	954,800	32,029
Special capital reserve		1,364,645	44,816	1,364,645	45,747	923,897	30,993
Undistributed earnings		271,695	8,923	74,975	2,513	279,852	9,388
Other equity		(86,423)	(2,837)	(95,368)	(3,197)	55,855	1,874
Non-controlling interests	4,6(15)	853,331	28,024	350,112	11,737	263,405	8,836
Total equity		6,219,983	204,269	5,511,099	184,750	5,002,688	167,819
Total equity and liabilities		\$32,842,391	\$1,078,568	\$31,709,317	\$1,063,001	\$29,190,797	\$979,228

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014, 31 December 2013 and 31 March 2013 were NT\$30.45, NT\$29.83 and NT\$29.81 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of comprehensive income
For the three-month periods ended 31 March 2014 and 2013
(Expressed in thousands of dollars, except earning per share)

Items	Notes	2014.1.1 ~ 2014.3.31		2013.1.1 ~ 2013.3.31	
		NT\$	US\$	NT\$	US\$
Operating revenues					
Direct premium income		\$4,618,199	\$151,665	\$4,311,615	\$144,636
Reinsurance premium income		108,846	3,575	116,011	3,892
Premiums income		4,727,045	155,240	4,427,626	148,528
Deduct: Reinsurance premiums ceded		(1,104,365)	(36,268)	(957,897)	(32,133)
Change in unearned premiums reserve - Net	4,6(11)	104,864	3,443	(358,189)	(12,016)
Retained earned premium	4,6(16)	3,727,544	122,415	3,111,540	104,379
Reinsurance commission earned		163,263	5,362	127,292	4,270
Handling fee earned		8,698	286	6,965	233
Investment profit and loss		148,909	4,890	118,510	3,976
Interest income		125,302	4,115	92,645	3,108
Gains (losses) from financial asset or financial liability at fair value through profit or loss		(71,700)	(2,355)	(158,883)	(5,330)
Realized gains (losses) from available-for-sale financial assets		48,679	1,599	95,152	3,192
Realized gains (losses) from held-to-maturity financial assets		1,282	42	472	16
Share of profit (loss) of associates and joint ventures accounted for using the equity method		(4)	-	(4)	-
Gains (losses) on foreign Exchange		45,350	1,489	89,128	2,990
Subtotal		4,048,414	132,953	3,364,307	112,858
Operating costs					
Insurance claims paid		(2,437,569)	(80,052)	(2,346,252)	(78,707)
Deduct: Claims recovered from reinsurers		523,612	17,196	539,118	18,085
Retained claim paid	4,6(17)	(1,913,957)	(62,856)	(1,807,134)	(60,622)
Changes in insurance liabilities - Net	4,6(11)	(343,914)	(11,294)	46,847	1,571
Commissions expenses		(256,976)	(8,439)	(217,471)	(7,295)
Other operating costs		(9,869)	(324)	(11,933)	(400)
Subtotal		(2,524,716)	(82,913)	(1,989,691)	(66,746)

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NT\$30.45 and NT\$29.81 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of comprehensive income
For the three-month periods ended 31 March 2014 and 2013
(Expressed in thousands of dollars, except earning per share)

Items	Notes	2014.1.1 ~ 2014.3.31		2013.1.1 ~ 2013.3.31	
		NT\$	US\$	NT\$	US\$
Operating expenses					
Marketing expenses		(1,015,171)	(33,339)	(909,512)	(30,510)
General and administrative expenses		(290,739)	(9,548)	(271,564)	(9,110)
Employee training expenses		(995)	(33)	(3,020)	(101)
Subtotal		(1,306,905)	(42,920)	(1,184,096)	(39,721)
Operating income		216,793	7,120	190,520	6,391
Non-operating income and expenses		21,479	705	8,767	294
Profit before tax from continuing operations		238,272	7,825	199,287	6,685
Income tax expense	4,6(20)	(29,951)	(983)	(43,535)	(1,460)
Profit from continuing operations		208,321	6,842	155,752	5,225
Net income		208,321	6,842	155,752	5,225
Other comprehensive income	4,6(18)				
Exchange differences resulting from translating the financial statements of a foreign operation		(6,950)	(228)	24,507	822
Unrealized gains (losses) from available-for-sale financial assets		14,257	468	14,062	472
Gains (losses) on cash flow hedges		(886)	(29)	(851)	(29)
Income tax relating to components of other comprehensive income		(977)	(32)	(8,115)	(272)
Other comprehensive income, net of tax		5,444	179	29,603	993
Total comprehensive income		\$213,765	\$7,021	\$185,355	\$6,218
Net income attributable to :					
Owners of parent (net income)		\$196,720	\$6,461	\$202,514	\$6,794
Non-controlling interests (net loss)		\$11,601	\$381	\$(46,762)	\$(1,569)
Comprehensive income attributable to :					
Owners of parent (comprehensive income)		\$205,665	\$6,755	\$222,240	\$7,455
Non-controlling interests (comprehensive loss)		\$8,100	\$266	\$(36,885)	\$(1,237)
Earning per share (In dollars)					
Net income from continuing operations	4,6(21)	\$0.72	\$0.02	\$0.74	\$0.03

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NT\$30.45 and NT\$29.81 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated statements of changes in equity

For the three-month periods ended 31 March 2014 and 2013

(Expressed in thousands of dollars)

Items	Retained earnings										Other equity						Total	Non-controlling interest	Total equity			
	Common stock		Capital surplus		Legal reserve		Special capital reserve		Undistributed earnings		Exchange differences resulting from translating the financial statements of a foreign operation		Unrealized gains (losses) from available-for-sale financial assets		Gains (losses) on cash flow hedges							
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$						
Balance on 1 January 2013	\$2,522,950	\$84,634	\$1,929	\$65	\$954,800	\$32,029	\$923,897	\$30,993	\$77,338	\$2,594	\$(52,535)	\$(1,762)	\$71,530	\$2,400	\$17,134	\$575	\$4,517,043	\$151,528	\$300,290	\$10,073	\$4,817,333	\$161,601
Net income for the three-month periods ended 31 March 2013	-	-	-	-	-	-	-	-	202,514	6,794	-	-	-	-	-	-	202,514	6,794	(46,762)	(1,569)	155,752	5,225
Other comprehensive income for the three-month periods ended 31 March 2013	-	-	-	-	-	-	-	-	-	-	16,437	551	4,140	139	(851)	(29)	\$19,726	\$661	9,877	332	29,603	993
Total comprehensive income	-	-	-	-	-	-	-	-	202,514	6,794	16,437	551	4,140	139	(851)	(29)	222,240	7,455	(36,885)	(1,237)	185,355	6,218
Balance on 31 March 2013	\$2,522,950	\$84,634	\$1,929	\$65	\$954,800	\$32,029	\$923,897	\$30,993	\$279,852	\$9,388	\$(36,098)	\$(1,211)	\$75,670	\$2,539	\$16,283	\$546	\$4,739,283	\$158,983	\$263,405	\$8,836	\$5,002,688	\$167,819
Balance on 1 January 2014	\$2,721,879	\$89,388	\$1,929	\$63	\$1,092,927	\$35,892	\$1,364,645	\$44,816	\$74,975	\$2,462	\$(36,559)	\$(1,200)	\$(68,830)	\$(2,260)	\$10,021	\$329	\$5,160,987	\$169,490	\$350,112	\$11,498	\$5,511,099	\$180,988
Net income for the three-month periods ended 31 March 2014	-	-	-	-	-	-	-	-	196,720	6,461	-	-	-	-	-	-	\$196,720	\$6,461	11,601	381	208,321	6,842
Other comprehensive income for the three-month periods ended 31 March 2014	-	-	-	-	-	-	-	-	-	-	525	17	9,306	306	(886)	(29)	\$8,945	\$294	(3,501)	(115)	5,444	179
Total comprehensive income	-	-	-	-	-	-	-	-	196,720	6,461	525	17	9,306	306	(886)	(29)	205,665	6,755	8,100	266	213,765	7,021
Share of changes in net assets of associates and joint ventures accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	495,119	16,260	495,119	16,260
Balance on 31 March 2014	\$2,721,879	\$89,388	\$1,929	\$63	\$1,092,927	\$35,892	\$1,364,645	\$44,816	\$271,695	\$8,923	\$(36,034)	\$(1,183)	\$(59,524)	\$(1,954)	\$9,135	\$300	\$5,366,652	\$176,245	\$358,212	\$28,024	\$6,219,983	\$204,269

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NT\$30.45 and NT\$29.81 to US\$1.00)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated statements of cash flows

For the three-month periods ended 31 March 2014 and 2013

(Expressed in thousands of dollars)

Items	2014.1.1~2014.3.31		2013.1.1~2013.3.31	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities :				
Profit before tax	\$238,272	\$7,825	\$199,287	\$6,685
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	25,286	830	19,448	652
Amortization	7,968	262	6,737	226
Reversal of provision for bad debt expense	2,576	85	(3,390)	(114)
Net gains (losses) on financial asset or financial liability at fair value through profit or loss	71,700	2,355	158,883	5,330
Net gains (losses) on available-for-sale financial assets	(48,679)	(1,599)	(95,152)	(3,192)
Net gains (losses) from held-to-maturity financial assets	(1,282)	(42)	(472)	(16)
Interest income	(125,302)	(4,115)	(92,645)	(3,108)
Net changes of insurance liabilities	807,994	26,535	(46,064)	(1,545)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	4	-	4	-
Loss on disposal of property and equipment	1	-	-	-
Changes in assets and liabilities from operating activities :				
Decrease (Increase) in financial assets at fair value through profit or loss	666,083	21,875	(116,246)	(3,899)
Decrease in notes receivable	41,414	1,360	34,205	1,147
Decrease in premiums receivable	305,788	10,042	323,904	10,866
Decrease (Increase) in other accounts receivable	272,099	8,936	(9,862)	(331)
(Increase) Decrease in reinsurance contracts assets	(524,386)	(17,221)	260,249	8,730
Decrease (Increase) in other current assets	(19,128)	(628)	116,890	3,921
Increase (Decrease) in claims outstanding	2,771	91	(16,344)	(548)
Decrease (Increase) in due to reinsurers and ceding companies	(112,317)	(3,689)	122,449	4,108
Increase in commissions payable	11,997	394	36,771	1,234
Decrease in other payables	(309,570)	(10,167)	(276,633)	(9,280)
(Decrease) Increase in provision	(533)	(17)	427	14
Decrease in other liabilities	(11,196)	(368)	(191,556)	(6,426)
Cash flows from operating activities	1,301,560	42,744	430,890	14,454
Interest paid	(470)	(15)	-	-
Income taxes paid	(3,291)	(108)	(2,636)	(88)
Net cash outflows from operating activities	1,297,799	42,621	428,254	14,366
Cash flows from investing activities :				
Acquisition of available-for-sale financial assets	(2,436,471)	(80,015)	(1,177,007)	(39,484)
Disposal of available-for-sale financial assets	1,619,280	53,178	1,095,902	36,763
Acquisition of bond investments with no active market	(517,525)	(16,996)	(548,442)	(18,398)
Disposal of bond investments with no active market	27,720	910	-	-
Acquisition of held-to-maturity financial assets	-	-	(153)	(5)
Disposal of held-to-maturity financial assets	159,402	5,235	247,232	8,294
Acquisition of property and equipment	(6,410)	(210)	(9,368)	(314)
Increase in secured loans	(15,400)	(506)	(18,600)	(624)
Decrease in secured loans	17,470	574	17,383	583
Acquisition of intangible assets	(201)	(6)	(327)	(11)
Interest received	148,210	4,867	70,952	2,380
Dividends received	346	11	-	-
Net cash used in investing activities	(1,003,579)	(32,958)	(322,428)	(10,816)
Cash flows from financing activities:				
Issuance of common stock for cash	495,119	16,260	-	-
Cash provided by financing activities	495,119	16,260	-	-
Effects of exchange rate changes on cash and cash equivalents	(19,084)	(627)	52,804	1,772
Increase in cash and cash equivalents	770,255	25,296	158,630	5,322
Cash and cash equivalents at the beginning of periods	8,194,772	269,122	5,677,051	190,441
Cash and cash equivalents at the end of periods	\$8,965,027	\$294,418	\$5,835,681	\$195,763

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NT\$30.45 and NT\$29.81 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of dollars unless otherwise stated)

31 March 2014 and 2013

1. History and organization

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 19 July 1993, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). On 22 April 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On 2 August 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”. The Company mainly engaged in the business of property and casualty insurance. The Company’s registered office and the main business location is at 1F, No.296, Sec. 4, Jen Ai Road, Taipei, Taiwan, ROC.

Cathay Financial Holding Co., Ltd. is the Company’s parent company and ultimate parent company.

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

The consolidated financial statements of the Company and its subsidiaries (the “Consolidated Company”) for the three months periods ended 31 March 2014 and 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 28 April 2014.

3. Newly issued or revised standards and interpretations

- (1) International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee or Standing Interpretations Committee issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”) and applicable to annual periods beginning on or after 1 January 2015, but not yet adopted by the Company and Subsidiaries at the date of issuance of the Company and Subsidiaries’ financial statements are listed below:

A. Improvements to International Financial Reporting Standards (issued in 2010):

IFRS 1 First-time Adoption of International Financial Reporting Standards

The annual improvements to International Financial Reporting Standards (“IFRS”) issued in 2010 made the following amendments to IFRS 1: If a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS in accordance with paragraph 23 of IFRS 1.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Furthermore, the amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. The amendment also expands the scope of ‘deemed cost’ for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These amendments became effective for annual periods beginning on or after 1 January 2011.

IFRS 3 Business Combinations

Under the amendment, IFRS 3 (as revised in 2008) do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Furthermore, the amendment limits the scope of the measurement choices for non-controlling interest. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation could be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value. The amendment also requires an entity in a business combination to account for the replacement of the acquiree’s share-based payment transactions (when the acquirer is not obliged to do so) as new share-based payment awards in the post-combination financial statements. Outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions: if vested — they are part of non-controlling interest; if unvested — they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. These amendments became effective for annual periods beginning on or after 1 July 2010.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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. The amendment became effective for annual periods beginning on or after 1 January 2011.

IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment became effective for annual periods beginning on or after 1 January 2011.

IAS 34 Interim Financial Reporting

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore the amendment adds disclosure requirements around disclosures of financial instruments and contingent liabilities/assets. The amendment is effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 Customer Loyalty Programmes

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is effective for annual periods beginning on or after 1 January 2011.

B. IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

IFRS 1 has been amended to allow first-time adopters to utilize the transitional provisions of IFRS 7 *Financial Instruments: Disclosures*. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS 1 in the first year of application. The amendment is effective for annual periods beginning on or after 1 July 2010.

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C. IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. The amended standard has these dates coinciding with the date of transition to IFRS. The amendment is effective for annual periods beginning on or after 1 July 2011.

D. IFRS 7 *Financial Instruments: Disclosures (Amendment)*

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. The amendment is effective for annual periods beginning on or after 1 July 2011.

E. IAS 12 *Income Taxes — Deferred Taxes: Recovery of Underlying Assets*

The amendment to IAS 12 introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* has been withdrawn. The amendment is effective for annual periods beginning on or after 1 January 2012.

F. IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated. The standard is effective for annual periods beginning on or after 1 January 2013.

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G. IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31. The changes introduced by IFRS 11 primarily relate to increase comparability within IFRS by removing the choice for jointly controlled entities to use proportionate consolidation, so that the structure of the arrangement is no longer the most important factor when determining the classification as a joint operation or a joint venture, which then determines the accounting. The standard is effective for annual periods beginning on or after 1 January 2013.

H. IFRS 12 *Disclosures 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 present those requirements in a single IFRS. The standard is effective for annual periods beginning on or after 1 January 2013.

I. 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. The standard is effective for annual periods beginning on or after 1 January 2013.

J. IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*

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. The amendment is effective for annual periods beginning on or after 1 July 2012.

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K. IAS 19 *Employee Benefits (Revised)*

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 recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc.. The revised standard is effective for annual periods beginning on or after 1 January 2013.

L. IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*

The IASB has added an exception to the retrospective application of IFRS 9 (or IAS 39) and IAS 20. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. The amendment is effective for annual periods beginning on or after 1 January 2013.

M. IFRS 7 *Financial Instruments: Disclosures — Disclosures — Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement'. The amendment is effective for annual periods beginning on or after 1 January 2013.

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N. IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*

The amendment clarifies the meaning of “currently has a legally enforceable right to set-off” in IAS 32. The amendment is effective for annual periods beginning on or after 1 January 2014.

O. IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset (“stripping activity asset”), only if certain criteria are met. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. The interpretation is effective for annual periods beginning on or after 1 January 2013.

P. *Improvements to International Financial Reporting Standards (2009-2011 cycle)*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

The amendment clarifies that an entity that has stopped applying IFRS may choose to either: Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period; or Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS. The amendment is effective for annual periods beginning on or after 1 January 2013.

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. The amendment is effective for annual periods beginning on or after 1 January 2013.

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IAS 16 Property, Plant and Equipment (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial Instruments: Presentation (Amendment)

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 34 Interim Financial Reporting (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Besides, total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment is effective for annual periods beginning on or after 1 January 2013.

Q. IFRS 10 Consolidated Financial Statements (Amendment)

The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendment is effective for annual periods beginning on or after 1 January 2014.

The abovementioned standards and interpretations are issued by IASB, recognized by FSC and applicable to annual periods beginning on or after 1 January 2015. The Consolidated Company are still determining the potential impact of the standards and interpretations.

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

A. 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. 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 endorsed 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.

B. IAS 36 Impairment of Assets (Amendment)

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. The amendment is effective for annual periods beginning on or after 1 January 2014.

C. 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). The interpretation is effective for annual periods beginning on or after 1 January 2014.

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D. IAS 39 *Financial Instruments: Recognition and Measurement* (Amendment)

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

E. IFRS 9 *Financial Instruments (Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39)*

The IASB announced amendments to the accounting requirements for financial instruments, which include: (1) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; (2) allow the changes to address the 'own credit' not to be recognized in profit or loss that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and (3) remove the 1 January 2015 mandatory effective date of IFRS 9.

F. IAS 19 *Employee Benefits (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. *Improvements to International Financial Reporting Standards (2010-2012 cycle)*

IFRS 2 *Share-based Payment*

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

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IFRS 3 Business Combinations

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 Operating Segments

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

IFRS 13 Fair Value Measurement

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 Property, Plant and Equipment

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

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IAS 24 Related Party Disclosures

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 38 Intangible Assets

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

H. Improvements to International Financial Reporting Standards (2011-2013 cycle)

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 Business Combinations

This amendment clarifies that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

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IFRS 13 Fair Value Measurement

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 40 Investment Property

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

I. IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

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 Consolidated Company are still determining the potential impact of the standards and interpretations.

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the three-month periods ended 31 March 2014 and 2013 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 “Interim Financial Reporting” 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 obtains 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-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company transactions are eliminated in full.

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.

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If the Company loses 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. derecognizes the cumulative translation adjustments recognized in equity;
- D. recognizes the fair value of the consideration received;
- E. recognizes the fair value of any investment retained;
- F. recognizes any surplus or deficit in profit or loss; and
- G. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest			Notes
			2014.3.31	2013.12.31	2013.3.31	
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00%	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China).
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00%	100.00%	100.00%	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on 2 November 2010. The Company owns 100% interest of Cathay Insurance (Vietnam).

(4) Foreign currency transactions

The consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Consolidated Company 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 Consolidated Company entities 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. 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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All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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. 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.

(5) Translation of financial statements in foreign currency

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. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Group: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

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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.

(7) Financial assets and financial liabilities

Recognition and Measurement

According to the IAS 39, financial assets are categorized as financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial assets for hedging, investments in debt securities with no active market, held-to-maturity financial assets, and secured 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 cost.

Financial assets and financial liabilities within scope of IAS 39 are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Consolidated Company classifies 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.

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The Consolidated Company accounts for regular way purchase and sales of financial assets on the trade date.

Measurements of financial instruments are classified as follows:

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

Financial assets or liabilities at fair value through profit or loss are categorized as held for trading or designated as assets or liabilities to be measured at fair value. Gains or losses from changes in fair values of such assets are reflected in the income statement.

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

- a. Financial asset that would have met the definition of secured 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 secured 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, Secured loans and receivables, and held-to maturity financial assets.

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Available-for-sale financial assets are measured at fair value in the balance sheet. Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

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

C. Derivative financial assets or liabilities for hedging

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

D. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Consolidated Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums / discounts have been taken into the consideration of the effective interest rate calculation.

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E. Secured loans and receivables

Secured loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Consolidated Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Secured loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. 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.

F. Financial liabilities

The Consolidated Company uses amortized cost for subsequent valuation of financial liabilities, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging” which are measured at fair value.

Fair values of financial instruments

The fair values of financial instruments traded on active liquid markets are determined with reference to quoted market prices. The quoted market prices of publicly traded stock and debt instrument traded on active liquid markets basis on TWSE, Bloomberg and Reuters.

The fair values of other financial instruments are determined in accordance with valuation technique including refer to fair value of similar financial instruments, income approach and others. (ex. the yield curves of OTC and average quoted price of commercial paper rate.)

The company evaluating low complexity of financial instruments, such as interest rate swaps, currency swaps contracts and options, the company uses evaluation techniques that the market participants widely used.

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For high complexity of financial instruments, the Consolidated Company measure the fair value is accrued based on the self-developed evaluation model that the same trade widely used evaluation method and techniques. Such evaluation models typically use derivative instruments, no public market prices of equity and debt instruments (including embedded derivatives of debt instruments) or other markets illiquid debt instruments.

Derecognizing of financial assets and liabilities

A. Financial assets

An entity shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset . An entity shall remove a financial liability when the obligation specified in the contract is discharged or cancelled or expires. The Consolidated Company doesn't derecognize financial assets when operate borrowing securities transaction or financial assets guarantee for repurchase agreement. The risk and rewards of the assets keep in the company.

B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under the liability agreement is discharged or cancelled or expires.

Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

Reclassification of financial assets

According to IAS 39, the Consolidated Company reclassifies financial assets as follows:

- A. shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. 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 entity as at fair value through profit or loss.

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- C. if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term, reclassify that financial asset out of the fair value through profit or loss category only in rare circumstances.
- D. an entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- E. 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.
- F. whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments during the current financial year or during the two preceding financial years, any remaining held-to-maturity investments shall be reclassified as available for sale.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity:

- A. currently has a legally enforceable right to set off the recognized amounts; and
- B. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Company assesses 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 if, and only if, 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 financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

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A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events 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 reorganisation;
- D. the disappearance of an active market for that financial asset because of financial difficulties.

The impaired ways of different financial assets are as follows:

A. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are recognized in other rather than profit or loss.

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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B. Financial assets carried at amortized cost(Investments in debt securities with no market)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is then recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derivative financial instruments

The Consolidated Company enters into a variety of derivative financial instrument to manage its market risk exposure to foreign exchange rate and interest rate, including forward exchange contracts, interest rate swaps, cross currency swap contracts, options and futures. Derivatives and initially recognized and measured at fair value, when its fair value become positive number are recognized as assets, otherwise recognized as liabilities.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the period.

For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- C. The Company's net investments in foreign subsidiaries hedges when hedging exposure to variability in foreign currency risk.

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At the inception of a hedge relationship, the Consolidated Company formally designates and documents hedge relationship to which the Consolidated Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value 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.

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

A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains or losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

For fair value hedge relating to item carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

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

B. Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in other equity, while the ineffective portion is recognized in profit or loss.

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Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, 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 directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

(8) Assessment of impairment for loans and receivables

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Company shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is recognized and measured as the difference between the loan or receivable's carrying amount and the present value of estimated future cash flows discounted at its original effective interest rates (excluding future credit losses that have not been incurred). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized through profit and loss. The reversal shall not result in a carrying amount of notes, accounts and other receivables that exceeds what the amortized cost would have been had impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

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

(9) Investments accounted for using the equity

The Company’s 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 has 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’s 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 has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company’s 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’s percentage of ownership interests in the associate, the Company recognizes 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's interest in the associate is reduced or increased as the Company fails 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 in associates. 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 disposes the associate.

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

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Company determines at each reporting date whether there is any objective evidence that an investment in an associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes 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 determines the value in use based on the followings estimates:

- A. Future cash flows the Company expects 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.

Upon loss of significant influence over the associate, the Company measures and recognizes 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.

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(10) 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 Consolidated Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant 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:

Transportation equipment	5years
Office equipment	5years
Leased assets	5~50years
Leasehold improvements	The shorter of lease terms or economic useful lives

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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(11) Leases

Finance leases which transfer to the Company 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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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.

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. 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.

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

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 is 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.

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.

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(13) Impairment of non-financial assets

The Consolidated Company assesses 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, Consolidated Company estimates 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.

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 Consolidated Company estimates 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.

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

(14) Separation requirement for specific assets

According to Article 4 of “Regulations for the Reports of Accounting and Financial Information for Compulsory Automobile Liability Insurance” that authority to set from Section 3, Article 47 of “Compulsory Automobile Liability Insurance Act”, the Company provides compulsory automobile liability insurance ("this insurance") and transact accounting amount of this insurance.

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According to article 5 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, for the special reserve set aside by the Company for this insurance, the Company shall purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the Company may purchase the following domestic securities:

- A. Government bonds, not including exchangeable government bonds.
- B. Financial bonds, negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

The amount of treasury bills purchased or time deposits placed in a financial institution under the preceding paragraph shall not be less than 30 percent of the total amount of the Company's retained earned pure premiums for this Insurance in the most recent period. The competent authority may raise that percentage to a level it deems appropriate based on the Company's operational status.

If the balance of the Company's special reserve is less than 30 percent of the total amount of the Company's retained earned pure premiums for this Insurance in the most recent period, then the full amount of its special reserve shall be used to purchase treasury bills or be deposited in a financial institution as a time deposit.

According to article 6 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, except for the special reserve set aside as prescribed in the preceding paragraphs, funds held by the Company for this Insurance (reserves, payables, temporary credits and amounts to be carried forward) shall be deposited in a financial institution in the form of demand deposits and time deposits, provided that with the approval of the competent authority, the Company may purchase any of the following domestic securities:

- A. Treasury bills.
- B. Negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution.
- C. Government bonds in a repo transaction.

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The amount of demand deposits deposited in financial institutions under the preceding paragraph shall not be less than 60 percent of the balance remaining after subtracting the amount of special reserves from the amount of funds held by the Company due to the operation of this Insurance, or less than 40 percent of the retained earned pure premium for the most recent period as audited or reviewed by a certified public accountant. The competent authority may raise the percentage of demand deposits required by the Company to a level it deems appropriate based on the Company's operational status.

If the total amount of unearned premium reserve and loss reserve of the Company with respect to this Insurance is less than 40 percent of the retained earned pure premiums of this Insurance for the most recent period as audited or reviewed by a certified public accountant, the funds held by the Company through its conduct of this Insurance shall be deposited in full with a financial institution in the form of demand deposits.

According to article 11 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, when the Company suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves set aside for handling of this Insurance by the other insurer that assumes the business. If no other insurer is to assume the business, and there is no outstanding liability under this Insurance, and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

When the Company has been duly ordered to suspend business and undergo rehabilitation, ordered to dissolve, or its permission to operate this Insurance business has been revoked, and no other insurer is to assume this Insurance business, and there is no outstanding liability under this Insurance and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

(15) Insurance contract categories

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

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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 index, and other variables that faces risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meet the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or disappeared, 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.

(16) Reinsurance contracts assets

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 can't refuse to fulfill its obligations to the insured because the re-insurers failed to fulfill their responsibility.

The Company holds the right over re-insurers 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.

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

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(17) Insurance liabilities

Insurance liabilities are set aside in accordance with “Regulations for the Management of the Various Reserves by Insurance Enterprises”, “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for Nuclear energy insurance”, “Regulations for the Management of the Various Reserves for Commercial Earthquake and Typhoons Flood Insurance by Property and Casualty Insurance Enterprises” and “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”. Also, the booked reserves shall be validated by the certified actuarial professionals approved by Financial Supervisory Commission.

A. Unearned premium reserve

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

B. Claims reserve

It is mainly for the unpaid claim reserve and incurred but not reported (IBNR) claim reserves, which is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle. The notified but unpaid claim reserve is assessed case by case as well as its relevant information obtained and deposited by each type of insurance.

C. Special reserve

The special reserve is classified into 2 categories, “Special reserve for major incident” and “Special reserve for fluctuation of risks”. For the special reserves set aside by the Company before 1 January 2011, they should be shown as a liability item on the balance sheet. Since 1 January 2011, the after-tax addressed amount of the special reserve should be placed in the special reserve under stock holder’s equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under stock holder’s equity.

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According to the “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, the industry that order for these insurance should provision the special reserve from liability to equity when the company priority complement commercial earthquake insurance and typhoons flood insurance into liability (after tax), excluding compulsory automobile liability insurance, nuclear energy insurance, political housing earthquake insurance, commercial earthquake insurance and typhoons flood insurance. The decrease or withdrawing of special reserve for major incident and special reserve for fluctuation of risks of commercial earthquake insurance and typhoons flood insurance should follow the precautions.

a. Special reserve for major incident

All types of insurance should follow the special reserve for major incident rates set by the authorities.

Upon occurrence of the catastrophic events, actual retained claims in excess of NT\$30,000,000 thousands individually and the aggregate payment of loss of the whole property and casualty insurers in excess of NT\$2,000 millions, the fund of the claims can be withdrawn from the special reserve.

If the reserve has been set aside for over 15 years, the Company could has its plan of recovering process of the reserve accessed by certified actuaries and submit the plan to the authority for reference.

b. Special reserve for fluctuation of risks

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is less than the anticipated loss, 15 percent of this difference should be reserved in special reserve for fluctuation of risks.

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is greater than the anticipated loss, the exceed amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of the special reserve is not enough to be written down, special reserve for fluctuation of risks of other insurance product categories can be used. Additionally, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose.

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When accumulative dollar amount of the special reserve for fluctuation of risks exceed 60% of its retained earned premium, the excess amount should be recall and recognize as income for the current year.

D. Premiums deficiency reserve

If the probable claims and expenses of the unexpired insurance contracts are greater than the aggregate amount of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve should be set aside based on the difference thereof.

(18) Insurance premium revenues and the acquisition costs

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end and are made based on past experience.

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

The amount of unearned premium reserve for compulsory automobile liability insurance is set aside pursuant to Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

The amount of unearned premium reserve for the residential earthquake insurance is set aside pursuant to Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The amount of unearned premium reserve for the nuclear insurance is set aside pursuant to Regulations for the Management of the Various Reserves for the nuclear Insurance.

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Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the Authority's approval unless otherwise regulated by Law. The amount of unearned premium reserve should be audited by a certified Actuary.

Taxes related to the insurance premium revenues are recognized pursuant to Value-added and Non-value-added Business Tax Act and Stamp Tax Act on an accrual basis.

(19) Insurance claim costs

The insurance claims payment of direct written policies is recognized as the amount of actual payment of incurred and reported case. For those incurred but unpaid claim cases and outstanding claim cases, the gross change of claims reserve is assessed case by case as well as its relevant information obtained and deposited by each type of business line.

The reinsurance claims payments are recognized upon notification. Adjustments are made at balance sheet date, and recognized under the account of gross change of reinsurance claims reserve.

The IBNR of direct written business and ceded in business is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle.

The claims recovered from reinsurance account for those paid claims would recover from re-insurers according to reinsurance contracts. For those reported but unpaid claims and IBNR claims, are recognized as the gross change of claims reserve.

Claim reserve is not discounted to its present value.

The amount of claim reserve for compulsory automobile liability insurance is set aside pursuant to Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

The amount of claim reserve for the residential earthquake insurance is set aside pursuant to Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The amount of claim reserve for the nuclear insurance is set aside pursuant to Regulations for the Management of the Various Reserves for the nuclear Insurance.

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(20) Liability adequacy test

In alignment with Article 24-1 of Regulations for the Various Reserves of Insurance Industry, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under IFRS 4. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(21) Reinsurance ceded

In order to limit the amount of losses resulting from certain incidents, the Consolidated Company conducts reinsurances based on business needs and pursuant to regulations of insurance laws. The Consolidated Company cannot use reinsurer's not fulfilling its obligations as a reasonable cause to not fulfill obligations to re-insurers of insurance contracts ceded.

Reinsurance expenses are recognized under reinsurance contracts and its financial reporting including cutoff of reporting periods shall match to insurance premium revenues. Unbilled reinsurance expenses shall be estimated using a reasonable and systematic method at financial closing. Relevant revenues such as reinsurance commission revenues, etc, are recognized in the same period, and relevant reinsurance gains and losses shall not be deferred.

Reinsurance assets include ceded unearned premiums reserve, ceded claims reserve, ceded premiums deficiency reserve, and ceded liability adequacy reserve, and represent rights to reinsurers pursuant to Regulations for the Various Reserves of Insurance Industry and reinsurance contracts.

The Consolidated Company regularly assesses whether reinsurance assets, claims recoverable from ceding companies, due from reinsurers and ceding companies prescribed in the previous paragraphs are impaired or unable to collect. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract, and that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer, the Consolidated Company recognizes the amount of accumulated impairment losses based on the difference between the recoverable amount and the carrying value of reinsurance assets, and sets aside a fair amount of bad debt allowances on unrecoverable amount of claims recoverable from ceding companies, due from reinsurers and ceding companies.

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(22) Co-insurance organization, co-insurance and guarantee fund agreement

The company and all the members approved by the competent authority set the “Co-insurance contract of compulsory automobile liability insurance”, agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to inspect by co-insurance team. The business is calculated on the basis of pure premiums and in accordance with the agreed portion. In addition to the liquidation or went out of business, the members shall not withdraw. If members stop operating the automobile liability insurance, simultaneously withdraw from the co-insurance group.

The company, the property insurance company with order for traveling industry performance guarantee insurance and the co-insurance company set the “Co-insurance contract of traveling industry performance guarantee insurance”, agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to inspect by co-insurance organization. The business is calculated on the basis of co-insurance premium and in accordance with the agreed proportion. Members shall notice in writing when going to withdraw from co-insurance before following year began three months ago.

(23) Contribution to the stabilization funds

The Company makes a monthly contribution based on 2‰ of the gross premiums to the stabilization funds and deposits it in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

(24) Post-employment benefits plan

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 Group’s consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

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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 Company specifies that if the accumulated unrecognized actuarial gains and losses exceed 10% of the greater of the defined benefit obligation or the fair value of plan assets, a portion of that net gain or loss is required to be recognized immediately as income or expense. The portion recognized is the excess divided by the expected average remaining working lives of the participating employees.

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.

(25) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are 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. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

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

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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 for financial reporting purposes.

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

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

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

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

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. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. 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.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

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 it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), other receivables and other payable among the Company and its parent company.

Effective from 1 January 2006, the Company has adopted “Income Basic Tax Act” and “Enforcement Rules of the Income Basic Tax Act” to estimate income basic tax.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Consolidated Company’s consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, 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) Judgments

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

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A. The significant degree of risk transform measured by the risk ratio of insurance policy

The risk ratio of insurance policy = (amount to insurance company's payment when insurance accident occur / amount to insurance company's payment when insurance accident do not occur - 1) × 100%

The insurance policies which meet one of the following conditions are defined as insurance contracts:

- a. The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);
- b. The insurance period is less than 5 years, and more than half of the policy year meet insurance risk ratio is greater than 10% (or 5%).

According to the calculation formula of insurance risk ratio, insurance policies often obviously satisfy the conditions of significant risk transform. Therefore insurers do not have to calculate the risk ratio and can define property insurance policy as insurance contracts.

B. The significant degree of risk transform measured by the risk ratio of re-insurance policy

The risk ratio of re-insurance policy = (Σ PV amount to assumed re-insurer occur net loss × the ratio of occurrence / PV of premium that assumed re-insurer expected) × 100%

When risk ratio of re-insurance policy that greater than 1%, the policies can be defined as re-insurance contracts.

(2) Estimates and assumptions

A. Post-employment benefit

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.

Please refer to Note 6, for more detail on the assumptions to measure pension costs and defined benefit obligation.

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B. Insurance contract liabilities (Including a discretionary participation feature investment contract liabilities)

Insurance contract liabilities are based on assumptions of current period or the assumptions established in contract to reflect the best estimate at that time. All contracts were through liability adequacy tests do holistic assessment and assumptions to reflect the current period best estimate of cash flows in the future. The main assumptions are expected ultimate loss ratio, the maintaining cost ratio, persistency rates, discount ratio and reimbursement ratio.

C. 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 arising 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 Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. 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 Consolidated Company's domicile.

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. Please refer to Note 6, for more detail on the unrecognized deferred tax assets.

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6. Contents of significant accounts

(1) Cash and cash equivalents

Item	2014.3.31	
	NT\$	US\$
Petty cash and cash on hand	\$15,500	\$509
Cash in banks	2,382,588	78,246
Time deposits	6,001,777	197,103
Cash equivalents	565,162	18,560
Total	<u>\$8,965,027</u>	<u>\$294,418</u>

Item	2013.12.31	
	NT\$	US\$
Petty cash and cash on hand	\$8,951	\$300
Cash in banks	2,041,944	68,453
Time deposits	4,892,070	163,998
Cash equivalents	1,251,807	41,965
Total	<u>\$8,194,772</u>	<u>\$274,716</u>

Item	2013.3.31	
	NT\$	US\$
Petty cash and cash on hand	\$11,257	\$378
Cash in banks	1,491,650	50,039
Time deposits	3,942,933	132,269
Cash equivalents	389,841	13,077
Total	<u>\$5,835,681</u>	<u>\$195,763</u>

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(2) Receivables

Item	2014.03.31	
	NT\$	US\$
Notes receivable	\$246,049	\$8,080
Premiums receivable	2,563,292	84,181
Other receivable	278,323	9,140
Total	<u>\$3,087,664</u>	<u>\$101,401</u>

Item	2013.12.31	
	NT\$	US\$
Notes receivable	\$287,463	\$9,637
Premiums receivable	2,871,655	96,267
Other receivable	566,395	18,987
Total	<u>\$3,725,513</u>	<u>\$124,891</u>

Item	2013.3.31	
	NT\$	US\$
Notes receivable	\$243,523	\$8,169
Premiums receivable	2,548,840	85,503
Other receivable	176,084	5,907
Total	<u>\$2,968,447</u>	<u>\$99,579</u>

(3) Financial assets at fair value through profit or loss

Item	2014.3.31	
	NT\$	US\$
Beneficiary certificates	<u>\$607,671</u>	<u>\$19,956</u>

Item	2013.12.31	
	NT\$	US\$
Beneficiary certificates	<u>\$1,312,025</u>	<u>\$43,983</u>

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Item	2013.3.31	
	NT\$	US\$
Listed stocks	\$10,050	\$337
Beneficiary certificates	479,411	16,082
Total	\$489,461	\$16,419

Financial assets held for trading were not pledged.

(4) Available-for-sale financial assets

Item	2014.3.31	
	NT\$	US\$
Listed stocks	\$3,107,887	\$102,065
Beneficiary certificates	1,553,798	51,028
Corporate bonds	1,044,375	34,298
Financial debentures	1,206,509	39,623
Government bonds	773,339	25,397
Overseas bonds	415,288	13,638
Total	\$8,101,196	\$266,049

Item	2013.12.31	
	NT\$	US\$
Listed stocks	\$2,285,699	\$76,624
Beneficiary certificates	1,478,818	49,575
Corporate bonds	1,091,843	36,602
Financial debentures	1,207,363	40,475
Government bonds	762,639	25,566
Overseas bonds	408,540	13,696
Total	\$7,234,902	\$242,538

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Item	2013.3.31	
	NT\$	US\$
Listed stocks	\$1,406,979	\$47,198
Overseas stocks	60,312	2,023
Beneficiary certificates	3,485,280	116,917
Corporate bonds	1,203,854	40,384
Financial debentures	1,207,447	40,505
Government bonds	806,504	27,055
Overseas bonds	424,594	14,243
Total	<u>\$8,594,970</u>	<u>\$288,325</u>

Available-for-sale financial assets were not pledged.

(5) Bond investments with no active market

Item	2014.3.31	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,136
Company bonds	450,000	14,779
Overseas bonds	1,161,726	38,152
Time deposits	530,074	17,408
Total	<u>\$2,541,800</u>	<u>\$83,475</u>

Item	2013.12.31	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,409
Company bonds	450,000	15,086
Overseas bonds	1,047,332	35,110
Time deposits	156,408	5,243
Total	<u>\$2,053,740</u>	<u>\$68,848</u>

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Item	2013.3.31	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,418
Company bonds	500,000	16,773
Overseas bonds	899,559	30,177
Time deposits	72,153	2,420
Total	<u>\$1,871,712</u>	<u>\$62,788</u>

Bond investments for which no active market were not pledged.

(6) Held-to-maturity financial assets

Item	2014.3.31	
	NT\$	US\$
Overseas bonds	<u>\$1,803,056</u>	<u>\$59,214</u>

Item	2013.12.31	
	NT\$	US\$
Overseas bonds	<u>\$1,955,937</u>	<u>\$65,570</u>

Item	2013.3.31	
	NT\$	US\$
Overseas bonds	<u>\$2,265,404</u>	<u>\$75,995</u>

Held-to-maturity financial assets were not pledged.

(7) Secured loans

Item	2014.3.31	
	NT\$	US\$
Secured loans	\$503,096	\$16,522
Less: Allowance for bad debts	(82,644)	(2,714)
Net	<u>\$420,452</u>	<u>\$13,808</u>

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Item	2013.12.31	
	NT\$	US\$
Secured loans	\$505,145	\$16,934
Less: Allowance for bad debts	(82,624)	(2,770)
Net	<u>\$422,521</u>	<u>\$14,164</u>

Item	2014.3.31	
	NT\$	US\$
Secured loans	\$596,466	\$20,009
Less: Allowance for bad debts	(73,169)	(2,455)
Net	<u>\$523,297</u>	<u>\$17,554</u>

(8) Reinsurance contracts assets

Item	NT\$		
	2014.3.31	2013.12.31	2013.3.31
Claims recoverable from reinsurers	\$307,114	\$332,711	\$378,897
Due from reinsurers and ceding companies	542,382	561,540	677,229
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	2,447,220	2,495,090	2,391,264
Ceded claims reserve	2,269,564	1,663,767	1,822,739
Ceded premiums deficiency reserve	14,742	4,118	(5,310)
Subtotal	<u>4,731,526</u>	<u>4,162,975</u>	<u>4,208,693</u>
Total	<u>\$5,581,022</u>	<u>\$5,057,226</u>	<u>\$5,264,819</u>

Item	US\$		
	2014.3.31	2013.12.31	2013.3.31
Claims recoverable from reinsurers	\$10,086	\$11,153	\$12,710
Due from reinsurers and ceding companies	17,812	18,825	22,718
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	80,369	83,644	80,217
Ceded claims reserve	74,534	55,775	61,145
Ceded premiums deficiency reserve	484	138	(178)
Subtotal	<u>155,387</u>	<u>139,557</u>	<u>141,184</u>
Total	<u>\$183,285</u>	<u>\$169,535</u>	<u>\$176,612</u>

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(9) Payables

Item	2014.3.31	
	NT\$	US\$
Claims outstanding	\$16,448	\$540
Commissions payable	160,293	5,264
Due to reinsurers and ceding companies	1,250,928	41,082
Other payables	823,709	27,051
Total	<u>\$2,251,378</u>	<u>\$73,937</u>

Item	2013.12.31	
	NT\$	US\$
Claims outstanding	\$13,677	\$459
Commissions payable	148,296	4,971
Due to reinsurers and ceding companies	1,363,246	45,701
Other payables	1,097,319	36,786
Total	<u>\$2,622,538</u>	<u>\$87,917</u>

Item	2013.3.31	
	NT\$	US\$
Claims outstanding	\$4,665	\$156
Commissions payable	149,142	5,003
Due to reinsurers and ceding companies	1,327,550	44,533
Other payables	652,073	21,875
Total	<u>\$2,133,430</u>	<u>\$71,567</u>

(10) Preferred stock liability

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 thousands 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 26 October 2011.

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Primary terms and conditions of the privately offered Class A 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\$32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the IAS 32 "Financial Instruments: Presentation", the above mentioned preferred stocks issued shall be categorized as a financial liability. Thus, the preferred stocks were reported as "preferred stock liabilities" under financial liabilities.

(11) Insurance liabilities

Item	2014.3.31	
	NT\$	US\$
Unearned premiums reserve	\$11,053,962	\$363,020
Claims reserve	7,996,937	262,625
Special reserve	3,375,983	110,870
Premiums deficiency reserve	218,265	7,168
Total	<u>\$22,645,147</u>	<u>\$743,683</u>

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Item	2013.12.31	
	NT\$	US\$
Unearned premiums reserve	\$11,213,469	\$375,912
Claims reserve	6,041,523	202,532
Special reserve	4,354,992	145,994
Premiums deficiency reserve	243,606	8,166
Total	<u>\$21,853,590</u>	<u>\$732,604</u>

Item	2013.3.31	
	NT\$	US\$
Unearned premiums reserve	\$10,316,036	\$346,060
Claims reserve	5,610,453	188,207
Special reserve	4,415,834	148,133
Premiums deficiency reserve	93,376	3,132
Total	<u>\$20,435,699</u>	<u>\$685,532</u>

A. Unearned premiums reserve

- a. Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

Item	2014.3.31							
	Unearned premium reserve				Ceded unearned premium reserve			
	Assumed reinsurance							
	Direct business		business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,760,155	\$57,805	\$49,946	\$1,640	\$794,412	\$26,089	\$1,015,689	\$33,356
Marine insurance	126,907	4,168	13,099	430	105,840	3,476	34,166	1,122
Land and air insurance	3,694,220	121,321	5,221	171	173,426	5,695	3,526,015	115,797
Liability insurance	543,175	17,838	461	15	159,170	5,227	384,466	12,626
Bonding insurance	50,799	1,668	645	22	30,771	1,011	20,673	679
Other property insurance	1,454,811	47,777	27,408	900	580,034	19,049	902,185	29,628
Accident insurance	1,548,570	50,856	2,639	87	86,679	2,847	1,464,530	48,096
Health insurance	42,359	1,391	-	-	134	4	42,225	1,387
Compulsory automobile liability insurance	1,543,028	50,674	190,519	6,257	516,754	16,971	1,216,793	39,960
Total	<u>\$10,764,024</u>	<u>\$353,498</u>	<u>\$289,938</u>	<u>\$9,522</u>	<u>\$2,447,220</u>	<u>\$80,369</u>	<u>\$8,606,742</u>	<u>\$282,651</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.12.31

Item	2013.12.31							
	Unearned premium reserve				Ceded unearned premium reserve			
	Assumed reinsurance							
	Direct business		business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,026,423	\$67,932	\$54,083	\$1,813	\$964,076	\$32,319	\$1,116,430	\$37,426
Marine insurance	139,775	4,686	14,955	501	104,044	3,488	50,686	1,699
Land and air insurance	3,590,802	120,375	8,625	289	178,898	5,997	3,420,529	114,667
Liability insurance	538,568	18,055	597	20	166,651	5,587	372,514	12,488
Bonding insurance	35,730	1,197	722	24	18,958	635	17,494	586
Other property insurance	1,477,530	49,532	30,213	1,013	475,846	15,952	1,031,897	34,593
Accident insurance	1,510,910	50,651	2,591	87	71,337	2,392	1,442,164	48,346
Health insurance	48,879	1,639	-	-	156	5	48,723	1,634
Compulsory automobile liability insurance	1,544,803	51,787	188,263	6,311	515,124	17,269	1,217,942	40,829
Total	\$10,913,420	\$365,854	\$300,049	\$10,058	\$2,495,090	\$83,644	\$8,718,379	\$292,268

2013.3.31

Item	2013.3.31							
	Unearned premium reserve				Ceded unearned premium reserve			
	Assumed reinsurance							
	Direct business		business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,835,937	\$61,588	\$61,314	\$2,057	\$800,317	\$26,847	\$1,096,934	\$36,798
Marine insurance	217,194	7,286	20,565	690	184,883	6,202	52,876	1,774
Land and air insurance	3,325,795	111,567	9,862	331	150,416	5,046	3,185,241	106,852
Liability insurance	522,914	17,542	85	3	160,189	5,374	362,810	12,171
Bonding insurance	33,067	1,109	525	17	16,925	568	16,667	558
Other property insurance	1,154,119	38,716	12,852	431	507,778	17,034	659,193	22,113
Accident insurance	1,566,106	52,536	3,806	128	79,010	2,650	1,490,902	50,014
Health insurance	89,433	3,000	-	-	756	25	88,677	2,975
Compulsory automobile liability insurance	1,274,442	42,752	188,020	6,307	490,990	16,471	971,472	32,588
Total	\$10,019,007	\$336,096	\$297,029	\$9,964	\$2,391,264	\$80,217	\$7,924,772	\$265,843

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

b. Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

Item	For the three months periods ended 31 March 2014			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$11,213,469	\$368,258	\$2,495,090	\$81,941
Reserve	11,063,711	363,341	2,448,590	80,413
Recover	(11,215,616)	(368,329)	(2,495,631)	(81,958)
Effects of exchange rate changes	(7,602)	(250)	(829)	(27)
Ending balance	<u>\$11,053,962</u>	<u>\$363,020</u>	<u>\$2,447,220</u>	<u>\$80,369</u>

Item	For the three months periods ended 31 March 2013			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$10,100,374	\$338,825	\$2,547,036	\$85,442
Reserve	10,296,522	345,405	2,379,756	79,831
Recover	(10,097,186)	(338,718)	(2,538,609)	(85,160)
Effects of exchange rate changes	16,326	548	3,081	104
Ending balance	<u>\$10,316,036</u>	<u>\$346,060</u>	<u>\$2,391,264</u>	<u>\$80,217</u>

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2014.3.31							
	Claims reserve				Ceded claims reserve			
	Assumed reinsurance				Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,767,041	\$123,712	\$308,448	\$10,130	\$1,218,879	\$40,029	\$2,856,610	\$93,813
Unreported claims	3,702,259	121,585	219,189	7,198	1,050,685	34,505	2,870,763	94,278
Total	\$7,469,300	\$245,297	\$527,637	\$17,328	\$2,269,564	\$74,534	\$5,727,373	\$188,091

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.12.31								
Item	Claims reserve				Ceded claims reserve			
	Assumed reinsurance				Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,886,032	\$130,273	\$307,234	\$10,299	\$1,350,564	\$45,275	\$2,842,702	\$95,297
Unreported claims	1,789,128	59,977	59,129	1,983	313,203	10,500	1,535,054	51,460
Total	<u>\$5,675,160</u>	<u>\$190,250</u>	<u>\$366,363</u>	<u>\$12,282</u>	<u>\$1,663,767</u>	<u>\$55,775</u>	<u>\$4,377,756</u>	<u>\$146,757</u>

2013.3.31								
Item	Claims reserve				Ceded claims reserve			
	Assumed reinsurance				Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,741,313	\$125,505	\$252,802	\$8,481	\$1,432,636	\$48,059	\$2,561,479	\$85,927
Unreported claims	1,541,327	51,705	75,011	2,516	390,103	13,086	1,226,235	41,135
Total	<u>\$5,282,640</u>	<u>\$177,210</u>	<u>\$327,813</u>	<u>\$10,997</u>	<u>\$1,822,739</u>	<u>\$61,145</u>	<u>\$3,787,714</u>	<u>\$127,062</u>

b. Net changes for claims reserve and ceded claims reserve

For the three months periods ended 31 March 2014								
NT\$								
Item	Assumed reinsurance				Net change for		Net change for	
	Direct underwriting business		business		claim reserve	Ceded reinsurance business		ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$3,772,149	\$3,888,670	\$308,448	\$307,234	\$(115,307)	\$1,218,755	\$1,352,266	\$(133,511)
Unreported claims	3,707,376	1,789,669	219,214	59,139	2,077,782	1,052,032	313,333	738,699
Total	<u>\$7,479,525</u>	<u>\$5,678,339</u>	<u>\$527,662</u>	<u>\$366,373</u>	<u>\$1,962,475</u>	<u>\$2,270,787</u>	<u>\$1,665,599</u>	<u>\$605,188</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2014

US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for	Ceded reinsurance business		Net change for
	Reserve	Recover	Reserve	Recover	claims reserve	Reserve	Recover	ceded claims
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but								
not paid off	\$123,880	\$127,707	\$10,130	\$10,090	\$(3,787)	\$40,025	\$44,409	\$(4,384)
Unreported claims	121,753	58,774	7,199	1,942	68,236	34,549	10,290	24,259
Total	<u>\$245,633</u>	<u>\$186,481</u>	<u>\$17,329</u>	<u>\$12,032</u>	<u>\$64,449</u>	<u>\$74,574</u>	<u>\$54,699</u>	<u>\$19,875</u>

For the three months periods ended 31 March 2013

NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for	Ceded reinsurance business		Net change for
	Reserve	Recover	Reserve	Recover	claims reserve	Reserve	Recover	ceded claims
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but								
not paid off	\$3,732,738	\$4,118,236	\$252,802	\$293,676	\$(426,372)	\$1,430,082	\$1,726,155	\$(296,073)
Unreported claims	1,537,028	1,365,832	74,986	39,581	206,601	389,144	291,177	97,967
Total	<u>\$5,269,766</u>	<u>\$5,484,068</u>	<u>\$327,788</u>	<u>\$333,257</u>	<u>\$(219,771)</u>	<u>\$1,819,226</u>	<u>\$2,017,332</u>	<u>\$(198,106)</u>

For the three months periods ended 31 March 2013

US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for	Ceded reinsurance business		Net change for
	Reserve	Recover	Reserve	Recover	claims reserve	Reserve	Recover	ceded claims
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but								
not paid off	\$125,218	\$138,149	\$8,481	\$9,852	\$(14,302)	\$47,973	\$57,905	\$(9,932)
Unreported claims	51,561	45,818	2,515	1,328	6,930	13,054	9,768	3,286
Total	<u>\$176,779</u>	<u>\$183,967</u>	<u>\$10,996</u>	<u>\$11,180</u>	<u>\$(7,372)</u>	<u>\$61,027</u>	<u>\$67,673</u>	<u>\$(6,646)</u>

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)**

c. Reported claims but not yet paid off or unreported claims liabilities for policyholder

2014.3.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$816,750	\$26,823	\$165,934	\$5,449	\$982,684	\$32,272
Marine insurance	612,965	20,130	197,854	6,498	810,819	26,628
Land and air insurance	944,866	31,030	696,229	22,865	1,641,095	53,895
Liability insurance	283,646	9,315	348,547	11,446	632,193	20,761
Bonding insurance	20,615	677	3,481	114	24,096	791
Other property insurance	653,664	21,467	238,493	7,832	892,157	29,299
Accident insurance	99,791	3,277	380,430	12,494	480,221	15,771
Health insurance	4,841	159	39,969	1,313	44,810	1,472
Compulsory automobile liability insurance	638,351	20,964	1,850,511	60,772	2,488,862	81,736
Total	<u>\$4,075,489</u>	<u>\$133,842</u>	<u>\$3,921,448</u>	<u>\$128,783</u>	<u>\$7,996,937</u>	<u>\$262,625</u>

2013.12.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$859,480	\$28,813	\$134,727	\$4,516	\$994,207	\$33,329
Marine insurance	621,182	20,824	176,133	5,905	797,315	26,729
Land and air insurance	820,143	27,494	620,039	20,786	1,440,182	48,280
Liability insurance	259,018	8,683	281,177	9,426	540,195	18,109
Bonding insurance	19,789	663	1,837	62	21,626	725
Other property insurance	654,657	21,946	189,141	6,341	843,798	28,287
Accident insurance	67,805	2,273	350,047	11,735	417,852	14,008
Health insurance	6,149	206	44,518	1,492	50,667	1,698
Compulsory automobile liability insurance	885,043	29,670	50,638	1,697	935,681	31,367
Total	<u>\$4,193,266</u>	<u>\$140,572</u>	<u>\$1,848,257</u>	<u>\$61,960</u>	<u>\$6,041,523</u>	<u>\$202,532</u>

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)**

2013.3.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$912,599	\$30,614	\$41,081	\$1,378	\$953,680	\$31,992
Marine insurance	691,742	23,205	331,488	11,120	1,023,230	34,325
Land and air insurance	733,689	24,612	579,196	19,429	1,312,885	44,041
Liability insurance	250,715	8,410	321,740	10,793	572,455	19,203
Bonding insurance	18,490	620	1,747	59	20,237	679
Other property insurance	509,360	17,087	147,357	4,943	656,717	22,030
Accident insurance	57,773	1,938	148,788	4,991	206,561	6,929
Health insurance	7,467	251	22,555	757	30,022	1,008
Compulsory automobile liability insurance	812,280	27,249	22,386	751	834,666	28,000
Total	<u>\$3,994,115</u>	<u>\$133,986</u>	<u>\$1,616,338</u>	<u>\$54,221</u>	<u>\$5,610,453</u>	<u>\$188,207</u>

d. Reinsurance asset- ceded claims reserve for policyholder

2014.3.31						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$276,448	\$9,079	\$73,807	\$2,424	\$350,255	\$11,503
Marine insurance	420,599	13,813	145,043	4,763	565,642	18,576
Land and air insurance	55,495	1,823	17,005	558	72,500	2,381
Liability insurance	74,785	2,456	96,612	3,173	171,397	5,629
Bonding insurance	18,392	604	1,747	57	20,139	661
Other property insurance	194,253	6,379	23,951	787	218,204	7,166
Accident insurance	7,399	243	32,010	1,051	39,409	1,294
Health insurance	-	-	596	20	596	20
Compulsory automobile liability insurance	171,508	5,632	659,914	21,672	831,422	27,304
Total	<u>\$1,218,879</u>	<u>\$40,029</u>	<u>\$1,050,685</u>	<u>\$34,505</u>	<u>\$2,269,564</u>	<u>\$74,534</u>

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2013.12.31						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$286,597	\$9,608	\$32,707	\$1,097	\$319,304	\$10,705
Marine insurance	439,425	14,731	121,983	4,089	561,408	18,820
Land and air insurance	61,353	2,057	17,045	571	78,398	2,628
Liability insurance	71,041	2,381	89,780	3,010	160,821	5,391
Bonding insurance	18,180	609	695	24	18,875	633
Other property insurance	181,717	6,092	13,811	463	195,528	6,555
Accident insurance	5,034	169	28,494	955	33,528	1,124
Health insurance	-	-	692	23	692	23
Compulsory automobile liability insurance	287,217	9,628	7,996	268	295,213	9,896
Total	<u>\$1,350,564</u>	<u>\$45,275</u>	<u>\$313,203</u>	<u>\$10,500</u>	<u>\$1,663,767</u>	<u>\$55,775</u>

2013.3.31						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$333,561	\$11,190	\$9,411	\$316	\$342,972	\$11,506
Marine insurance	528,873	17,741	243,339	8,163	772,212	25,904
Land and air insurance	51,787	1,737	15,681	526	67,468	2,263
Liability insurance	65,127	2,185	82,085	2,753	147,212	4,938
Bonding insurance	18,069	606	1,027	34	19,096	640
Other property insurance	144,088	4,833	17,969	603	162,057	5,436
Accident insurance	3,148	106	12,640	424	15,788	530
Health insurance	-	-	301	10	301	10
Compulsory automobile liability insurance	287,983	9,661	7,650	257	295,633	9,918
Total	<u>\$1,432,636</u>	<u>\$48,059</u>	<u>\$390,103</u>	<u>\$13,086</u>	<u>\$1,822,739</u>	<u>\$61,145</u>

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)****e. Reconciliation statement of claims reserve and ceded claims reserve**

Item	For the three months periods ended 31 March 2014			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$6,041,523	\$198,408	\$1,663,767	\$54,639
Reserve	8,007,187	262,962	2,270,787	74,574
Recover	(6,044,712)	(198,513)	(1,665,599)	(54,699)
Effects of exchange rate changes	(7,061)	(232)	609	20
Ending balance	<u>\$7,996,937</u>	<u>\$262,625</u>	<u>\$2,269,564</u>	<u>\$74,534</u>

Item	For the three months periods ended 31 March 2013			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,807,437	\$194,815	\$2,014,316	\$67,572
Reserve	5,597,554	187,775	1,819,226	61,027
Recover	(5,817,325)	(195,147)	(2,017,332)	(67,673)
Effects of exchange rate changes	22,787	764	6,529	219
Ending balance	<u>\$5,610,453</u>	<u>\$188,207</u>	<u>\$1,822,739</u>	<u>\$61,145</u>

C. Special reserve**a. Special reserve - Compulsory automobile liability insurance**

Item	For the three months periods ended 31 March 2014	
	NT\$	US\$
Beginning balance	\$2,225,672	\$73,093
Reserve	-	-
Recover	(979,009)	(32,151)
Ending balance	<u>\$1,246,663</u>	<u>\$40,942</u>

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Item	For the three months periods ended 31 March 2013	
	NT\$	US\$
Beginning balance	\$2,307,591	\$77,410
Reserve	49,645	1,666
Recover	(89,449)	(3,001)
Ending balance	<u>\$2,267,787</u>	<u>\$76,075</u>

b. Special reserve - Non-compulsory automobile liability insurance

Item	For the three months ended 31 March 2014					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,094,341	\$35,939	\$1,034,979	\$33,989	\$2,129,320	\$69,928
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	<u>\$1,094,341</u>	<u>\$35,939</u>	<u>\$1,034,979</u>	<u>\$33,989</u>	<u>\$2,129,320</u>	<u>\$69,928</u>

Item	For the three months ended 31 March 2013					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,113,068	\$37,339	\$1,034,979	\$34,719	\$2,148,047	\$72,058
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	<u>\$1,113,068</u>	<u>\$37,339</u>	<u>\$1,034,979</u>	<u>\$34,719</u>	<u>\$2,148,047</u>	<u>\$72,058</u>

Not applicable to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserve are not material impact on the Company's profit and earnings per share. The special reserve under liabilities increase NT\$1,277,740 (US\$41,962) thousands, special earnings capital reserve under equity are decrease NT\$488,862 (US\$16,055) thousands.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

	2014.3.31							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,593	\$52	\$33	\$1	\$-	\$-	\$1,626	\$53
Marine insurance	57	2	-	-	(3,960)	(130)	4,017	132
Land and air insurance	-	-	1,288	43	-	-	1,288	43
Liability insurance	21,830	717	17	1	3,458	114	18,389	604
Bonding insurance	89	3	-	-	19	-	70	3
Other property insurance	149,448	4,908	251	8	15,225	500	134,474	4,416
Accident insurance	-	-	74	2	-	-	74	2
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	43,585	1,431	-	-	-	-	43,585	1,431
Total	<u>\$216,602</u>	<u>\$7,113</u>	<u>\$1,663</u>	<u>\$55</u>	<u>\$14,742</u>	<u>\$484</u>	<u>\$203,523</u>	<u>\$6,684</u>
	2013.12.31							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$4,237	\$142	\$92	\$3	\$-	\$-	\$4,329	\$145
Marine insurance	160	5	2	-	(8,736)	(293)	8,898	298
Land and air insurance	-	-	377	12	(329)	(11)	706	23
Liability insurance	27,518	923	12	-	3,485	117	24,045	806
Bonding insurance	10,288	345	-	-	9,698	325	590	20
Other property insurance	161,090	5,400	424	15	-	-	161,514	5,415
Accident insurance	-	-	97	3	-	-	97	3
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	39,309	1,318	-	-	-	-	39,309	1,318
Total	<u>\$242,602</u>	<u>\$8,133</u>	<u>\$1,004</u>	<u>\$33</u>	<u>\$4,118</u>	<u>\$138</u>	<u>\$239,488</u>	<u>\$8,028</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.3.31

Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,412	\$114	\$20	\$1	\$-	\$-	\$3,432	\$115
Marine insurance	8,333	280	922	31	(11,622)	(390)	20,877	701
Land and air insurance	-	-	5,775	194	-	-	5,775	194
Liability insurance	18,730	628	8	-	210	7	18,528	621
Bonding insurance	6,239	209	-	-	6,082	204	157	5
Other property insurance	42,058	1,411	313	10	20	1	42,351	1,420
Accident insurance	-	-	167	6	-	-	167	6
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	7,399	248	-	-	-	-	7,399	248
Total	\$86,171	\$2,890	\$7,205	\$242	\$(5,310)	\$(178)	\$98,686	\$3,310

b. Net loss recognized for premiums deficiency reserve- Net change for premium deficiency reserve and ceded premiums deficiency reserve

For the three months periods ended 31 March 2014

Item	NT\$								
	Direct underwriting business				Net change for	Ceded reinsurance business		Net change for	Recognized net loss
			Assumed reinsurance		premiums			ceded premiums	(gain) for premiums
			business		deficiency			deficiency reserve	deficiency reserve
	Reserve	Recover	Reserve	Recover	reserve	Reserve	Recover		
				(5)=(1)-(2)+					
(1)	(2)	(3)	(4)	(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)	
Fire insurance	\$1,608	\$4,242	\$34	\$92	\$(2,692)	\$-	\$-	\$-	\$(2,692)
Marine insurance	57	160	-	2	(105)	(3,960)	(8,736)	4,776	(4,881)
Land and air insurance	-	-	1,288	377	911	-	(329)	329	582
Liability insurance	22,036	27,551	17	12	(5,510)	3,491	3,489	2	(5,512)
Bonding insurance	90	10,288	-	-	(10,198)	19	9,698	(9,679)	(519)
Other property insurance	150,861	161,282	253	425	(10,593)	15,369	-	15,369	(25,962)
Accident insurance	-	-	75	97	(22)	-	-	-	(22)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile									
liability insurance	43,998	39,356	-	-	4,642	-	-	-	4,642
Total	\$218,650	\$242,879	\$1,667	\$1,005	\$(23,567)	\$14,919	\$4,122	\$10,797	\$(34,364)

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2014

US\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for	Ceded reinsurance business		Net change for	Recognized net loss
					premiums			ceded premiums	(gain) for premiums
					deficiency			deficiency reserve	deficiency reserve
	Reserve	Recover	Reserve	Recover	reserve	Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$53	\$139	\$1	\$3	\$(88)	\$-	\$-	\$-	\$(88)
Marine insurance	2	5	-	-	(3)	(130)	(287)	157	(160)
Land and air insurance	-	-	42	13	29	-	(10)	10	19
Liability insurance	723	905	1	-	(181)	114	114	-	(181)
Bonding insurance	3	338	-	-	(335)	1	318	(317)	(18)
Other property insurance	4,954	5,296	8	14	(348)	505	-	505	(853)
Accident insurance	-	-	3	3	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile									
liability insurance	1,445	1,293	-	-	152	-	-	-	152
Total	\$7,180	\$7,976	\$55	\$33	\$(774)	\$490	\$135	\$355	\$(1,129)

For the three months periods ended 31 March 2013

NT\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for	Ceded reinsurance business		Net change for	Recognized net loss
					premiums			ceded premiums	(gain) for premiums
					deficiency			deficiency reserve	deficiency reserve
	Reserve	Recover	Reserve	Recover	reserve	Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$3,357	\$6,254	\$19	\$24	\$(2,902)	\$-	\$-	\$-	\$(2,902)
Marine insurance	8,331	9,325	922	726	(798)	(11,623)	(7,183)	(4,440)	3,642
Land and air insurance	-	-	5,775	9,319	(3,544)	-	-	-	(3,544)
Liability insurance	18,431	13,225	8	10	5,204	207	-	207	4,997
Bonding insurance	6,236	2,205	-	-	4,031	6,082	2,096	3,986	45
Other property insurance	41,385	36,132	308	441	5,120	20	34	(14)	5,134
Accident insurance	-	-	165	196	(31)	-	-	-	(31)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile									
liability insurance	7,281	-	-	-	7,281	-	-	-	7,281
Total	\$85,021	\$67,141	\$7,197	\$10,716	\$14,361	\$(5,314)	\$(5,053)	\$(261)	\$14,622

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2013

	US\$								
	Direct underwriting business				Net change for		Net change for		Recognized net loss
			Assumed reinsurance		premiums			ceded premiums	(gain) for premiums
			business		deficiency	Ceded reinsurance business		deficiency reserve	deficiency reserve
	Reserve	Recover	Reserve	Recover	reserve	Reserve	Recover		
	(5)=(1)-(2)+								
Item	(1)	(2)	(3)	(4)	(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$113	\$210	\$1	\$1	\$(97)	\$-	\$-	\$-	\$(97)
Marine insurance	280	313	31	24	(26)	(390)	(241)	(149)	123
Land and air insurance	-	-	194	313	(119)	-	-	-	(119)
Liability insurance	618	444	-	-	174	7	-	7	167
Bonding insurance	209	74	-	-	135	204	70	134	1
Other property insurance	1,388	1,212	10	15	171	1	1	-	171
Accident insurance	-	-	6	6	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile									
liability insurance	244	-	-	-	244	-	-	-	244
Total	\$2,852	\$2,253	\$242	\$359	\$482	\$(178)	\$(170)	\$(8)	\$490

c. Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

For the three months periods ended 31 March 2014

Item	Ceded premiums deficiency			
	Premiums deficiency reserve		reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$243,606	\$8,000	\$4,118	\$135
Reserve	220,317	7,235	14,919	490
Recover	(243,884)	(8,009)	(4,122)	(135)
Effects of exchange rate changes	(1,774)	(58)	(173)	(6)
Ending balance	\$218,265	\$7,168	\$14,742	\$484

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	For the three months periods ended 31 March 2013			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$77,149	\$2,588	\$(5,055)	\$(170)
Reserve	92,218	3,094	(5,314)	(178)
Recover	(77,857)	(2,612)	5,053	170
Effects of exchange rate changes	1,866	62	6	-
Ending balance	<u>\$93,376</u>	<u>\$3,132</u>	<u>\$(5,310)</u>	<u>\$(178)</u>

d. Effects for the change of estimation and assumption

Premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio was referred to the insurance expense statements in the past three years exclude entertainment expense and membership fee. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

(12) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended 31 March 2014 and 2013 are NT\$15,488 (US\$509) thousands and NT\$13,195 (US\$443) thousands, respectively.

Defined benefits plan

The benefit expense under the defined benefit plan for the three months ended 31 March 2014 was classified under marketing expenses and general and administrative expenses, which amounted to NT\$5,402 (US\$177) thousands and NT\$2,315 (US\$76) thousands, respectively. The benefit expense under the defined benefit plan for the three months ended 31 March 2013 was classified under marketing expenses and administrative expenses, which amounted to NT\$6,521 (US\$219) thousands and NT\$2,795 (US\$94) thousands, respectively.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(13) Common stock

As of 31 March 2014, 31 December 2013 and 31 March 2013, the authorized and issued shares were 272,188 thousands, 272,188 thousands, and 252,295 thousands shares with par value of NT\$10 each. Each share has one voting right and a right to receive dividends.

(14) Retained earnings

A. Legal reserve

Pursuant to the ROC Insurance Act, 20% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued share capital.

B. Special capital reserve

Following the adoption of TIFRS, the FSC on 6 April 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. The Company doesn't have the above special capital reserve result in it has no unrealized revaluation and cumulative translation adjustment (gain).

Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special capital reserve under equity at the end of the year. For the three months ended 31 March 2014, the reserves amounted to NT\$1,364,645 (US\$44,816) thousands.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

C. Retained earnings

According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal 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. The dividends go first to preferred stockholders for current year dividends and any dividends that have been omitted in the past. From the remainder, there should be appropriations of 2% as bonus to employees.

The Company accrued profit sharing to employees based on certain percentage of net income seated in the article of corporation after considering the legal reserve, which amount to \$0 (US\$0) for the three months periods ended 31 March 2014 and 2013, respectively. The employee bonus was recorded as operating cost and expense at current year. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.

Details of the 2013 and 2012 earnings distribution and dividends per share as approved by the company's Board of directors on 21 April 2014 and 30 April 2013, respectively, are as follows:

	Appropriation of Earnings		Dividend Per Share	
	(NT\$)		(NT\$)	
	2013	2012	2013	2012
Legal reserve	\$113,928	\$138,127	\$-	\$-
Legal reserve make up losses	(38,953)	-	-	-
Special capital reserve	-	(53,919)	-	-
Common stock-stock dividend	-	198,929	-	0.79
Directors' remuneration	-	72	-	-
Employee bonus-Cash	-	1,485	-	-

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)**

	Appropriation of Earnings (US\$)		Dividend Per Share (US\$)	
	2013	2012	2013	2012
Legal reserve	\$3,819	\$4,611	\$-	\$-
Legal reserve make up losses	(1,306)	-	-	-
Special reserve	-	(1,800)	-	-
Common stock-stock dividend	-	6,639	-	0.03
Directors' remuneration	-	2	-	-
Employee bonus-Cash	-	50	-	-

There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the 2012's earnings and the estimated amount in the financial statements for the year ended 2012.

Information on the Board of Directors' recommendations and shareholders' approval regarding the employee bonuses and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

(15) Non-controlling interests

	2014.3.31		2013.3.31	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$350,112	\$11,498	\$300,290	\$10,073
Loss attributable to non-controlling interests	11,601	381	(46,762)	(1,569)
Other comprehensive income, attributable to non-controlling interests, net of tax:				
Exchange differences resulting from translating the financial statements of a foreign operation	(7,476)	(246)	8,070	271
Unrealized (losses) gains from available-for-sale financial assets	3,975	131	1,807	61
Share of changes in net assets of associates and joint ventures accounted for using the equity method	495,119	16,260	-	-
Ending balance	\$853,331	\$28,024	\$263,405	\$8,836

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(16) Retained earned premium

For the three months periods ended 31 March 2014						
NT\$						
	Direct premium	Reinsurance	Reinsurance	Retained	Net change for	
	income	premium income	premiums ceded	premiums	unearned	Retained earned
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)	premiums reserve	premium
					(5)	(6)=(4)-(5)
Fire insurance	\$481,924	\$22,912	\$330,678	\$174,158	\$(99,838)	\$273,996
Marine insurance	151,722	3,949	125,272	30,399	(16,579)	46,978
Land and air insurance	1,615,767	341	68,275	1,547,833	105,609	1,442,224
Liability insurance	255,691	88	57,130	198,649	11,319	187,330
Bonding insurance	35,213	525	24,714	11,024	3,183	7,841
Other property insurance	534,554	6,263	231,060	309,757	(125,345)	435,102
Accident insurance	637,143	1,597	61,083	577,657	22,363	555,294
Health insurance	35,546	-	295	35,251	(6,496)	41,747
Compulsory automobile						
liability insurance	870,639	73,171	205,858	737,952	920	737,032
Total	\$4,618,199	\$108,846	\$1,104,365	\$3,622,680	\$(104,864)	\$3,727,544

For the three months periods ended 31 March 2014						
US\$						
	Direct premium	Reinsurance	Reinsurance	Retained	Net change for	
	income	premium income	premiums ceded	premiums	unearned	Retained earned
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)	premiums reserve	premium
					(5)	(6)=(4)-(5)
Fire insurance	\$15,827	\$753	\$10,860	\$5,720	\$(3,279)	\$8,999
Marine insurance	4,983	130	4,114	999	(544)	1,543
Land and air insurance	53,063	11	2,242	50,832	3,468	47,364
Liability insurance	8,397	3	1,876	6,524	372	6,152
Bonding insurance	1,157	17	812	362	104	258
Other property insurance	17,555	206	7,588	10,173	(4,116)	14,289
Accident insurance	20,924	52	2,006	18,970	735	18,235
Health insurance	1,167	-	10	1,157	(213)	1,370
Compulsory automobile						
liability insurance	28,592	2,403	6,760	24,235	30	24,205
Total	\$151,665	\$3,575	\$36,268	\$118,972	\$(3,443)	\$122,415

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For three months periods ended 31 March 2013

NT\$						
Item	Direct premium	Reinsurance	Reinsurance	Retained	Net change for	Retained earned
	income	premium income	premiums ceded	premiums	unearned	premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	premiums reserve	(6)=(4)-(5)
Fire insurance	\$502,289	\$23,412	\$376,250	\$149,451	\$(146,905)	\$296,356
Marine insurance	166,710	12,879	121,211	58,378	2,291	56,087
Land and air insurance	1,557,838	928	58,106	1,500,660	375,227	1,125,433
Liability insurance	249,218	1	76,425	172,794	16,553	156,241
Bonding insurance	22,344	479	14,519	8,304	(1,231)	9,535
Other property insurance	353,720	8,674	70,342	292,052	3,369	288,683
Accident insurance	622,656	1,609	35,812	588,453	42,087	546,366
Health insurance	35,147	-	301	34,846	1,729	33,117
Compulsory automobile						
liability insurance	801,693	68,029	204,931	664,791	65,069	599,722
Total	\$4,311,615	\$116,011	\$957,897	\$3,469,729	\$358,189	\$3,111,540

For three months periods ended 31 March 2013

US\$						
Item	Direct premium	Reinsurance	Reinsurance	Retained	Net change for	Retained earned
	income	premium income	premiums ceded	premiums	unearned	premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	premiums reserve	(6)=(4)-(5)
Fire insurance	\$16,850	\$786	\$12,622	\$5,014	\$(4,928)	\$9,942
Marine insurance	5,592	432	4,066	1,958	77	1,881
Land and air insurance	52,259	31	1,949	50,341	12,588	37,753
Liability insurance	8,360	-	2,564	5,796	555	5,241
Bonding insurance	750	16	487	279	(41)	320
Other property insurance	11,866	291	2,360	9,797	113	9,684
Accident insurance	20,887	54	1,201	19,740	1,412	18,328
Health insurance	1,179	-	10	1,169	58	1,111
Compulsory automobile						
liability insurance	26,893	2,282	6,874	22,301	2,182	20,119
Total	\$144,636	\$3,892	\$32,133	\$116,395	\$12,016	\$104,379

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(17) Retained claim paid

For the three months periods ended 31 March 2014				
NT\$				
	Insurance claims	Reinsurance claims	Claims recovered	Retained
	paid	paid	from reinsurers	claim paid
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(82,697)	\$(260)	\$(31,403)	\$(51,554)
Marine insurance	(120,346)	(102,808)	(155,983)	(67,171)
Land and air insurance	(857,061)	(3,305)	(40,308)	(820,058)
Liability insurance	(95,720)	(5)	(44,544)	(51,181)
Bonding insurance	(1,448)	(107)	(145)	(1,410)
Other property insurance	(274,920)	(4,461)	(26,524)	(252,857)
Accident insurance	(208,353)	(42)	(15,109)	(193,286)
Health insurance	(24,387)	-	-	(24,387)
Compulsory automobile				
liability insurance	(581,662)	(79,987)	(209,596)	(452,053)
Total	\$(2,246,594)	\$(190,975)	\$(523,612)	\$(1,913,957)

For the three months periods ended 31 March 2014				
US\$				
	Insurance claims	Reinsurance claims	Claims recovered	Retained
	paid	paid	from reinsurers	claim paid
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(2,716)	\$(8)	\$(1,031)	\$(1,693)
Marine insurance	(3,952)	(3,376)	(5,123)	(2,205)
Land and air insurance	(28,147)	(109)	(1,324)	(26,932)
Liability insurance	(3,143)	-	(1,463)	(1,680)
Bonding insurance	(48)	(4)	(5)	(47)
Other property insurance	(9,029)	(147)	(871)	(8,305)
Accident insurance	(6,842)	(1)	(496)	(6,347)
Health insurance	(801)	-	-	(801)
Compulsory automobile				
liability insurance	(19,102)	(2,627)	(6,883)	(14,846)
Total	\$(73,780)	\$(6,272)	\$(17,196)	\$(62,856)

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For the three months periods ended 31 March 2013				
NT\$				
	Insurance claims	Reinsurance claims	Claims recovered	Retained
	paid	paid	from reinsurers	claim paid
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(416,738)	\$(113)	\$(146,837)	\$(270,014)
Marine insurance	(105,667)	(45,218)	(125,911)	(24,974)
Land and air insurance	(746,455)	(3,175)	(22,760)	(726,870)
Liability insurance	(100,524)	(14)	(29,579)	(70,959)
Bonding insurance	(1,237)	(11)	(153)	(1,095)
Other property insurance	(138,155)	(2,986)	(17,335)	(123,806)
Accident insurance	(194,208)	(6)	(11,472)	(182,742)
Health insurance	(42,185)	-	(160)	(42,025)
Compulsory automobile				
liability insurance	(469,160)	(80,400)	(184,911)	(364,649)
Total	\$(2,214,329)	\$(131,923)	\$(539,118)	\$(1,807,134)

For the three months periods ended 31 March 2013				
US\$				
	Insurance claims	Reinsurance claims	Claims recovered	Retained
	paid	paid	from reinsurers	claim paid
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(13,980)	\$(4)	\$(4,926)	\$(9,058)
Marine insurance	(3,545)	(1,517)	(4,224)	(838)
Land and air insurance	(25,040)	(107)	(763)	(24,384)
Liability insurance	(3,372)	(1)	(992)	(2,381)
Bonding insurance	(41)	-	(5)	(36)
Other property insurance	(4,635)	(100)	(582)	(4,153)
Accident insurance	(6,515)	-	(385)	(6,130)
Health insurance	(1,415)	-	(5)	(1,410)
Compulsory automobile				
liability insurance	(15,738)	(2,697)	(6,203)	(12,232)
Total	\$(74,281)	\$(4,426)	\$(18,085)	\$(60,622)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(18) Components of other comprehensive income

For the three months periods ended 31 March 2014					
NT\$					
	Reclassification	Other	Income tax relating to	Other	
Arising during the	adjustments during	comprehensive	components of other	comprehensive	
period	the period	income, before tax	comprehensive income	income, net of tax	
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (6,950)	\$ -	\$ (6,950)	\$ -	\$ (6,950)
Unrealized gains (losses) from available-for-sale financial assets	(23,772)	38,029	14,257	(977)	13,280
Gains (losses) on cash flow hedges	(886)	-	(886)	-	(886)
Total of other comprehensive income	<u>\$ (31,608)</u>	<u>\$ 38,029</u>	<u>\$ 6,421</u>	<u>\$ (977)</u>	<u>\$ 5,444</u>

For the three months periods ended 31 March 2014					
US\$					
	Reclassification	Other	Income tax relating to	Other	
Arising during the	adjustments during	comprehensive	components of other	comprehensive	
period	the period	income, before tax	comprehensive income	income, net of tax	
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (228)	\$ -	\$ (228)	\$ -	\$ (228)
Unrealized gains (losses) from available-for-sale financial assets	(781)	1,249	468	(32)	436
Gains (losses) on cash flow hedges	(29)	-	(29)	-	(29)
Total of other comprehensive income	<u>\$ (1,038)</u>	<u>\$ 1,249</u>	<u>\$ 211</u>	<u>\$ (32)</u>	<u>\$ 179</u>

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For the three months periods ended 31 March 2013					
NT\$					
Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Exchange differences resulting from translating the financial statements of a foreign operation	\$24,507	\$-	\$24,507	\$-	\$24,507
Unrealized gains (losses) from available-for-sale financial assets	109,214	(95,152)	14,062	(8,115)	5,947
Gains (losses) on cash flow hedges	(851)	-	(851)	-	(851)
Total of other comprehensive income	\$132,870	\$(95,152)	\$37,718	\$(8,115)	\$29,603

For the three month periods ended 31 March 2013					
US\$					
Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Exchange differences resulting from translating the financial statements of a foreign operation	\$822	\$-	\$822	\$-	\$822
Unrealized gains (losses) from available-for-sale financial assets	3,664	(3,192)	472	(272)	200
Gains (losses) on cash flow hedges	(29)	-	(29)	-	(29)
Total of other comprehensive income	\$4,457	\$(3,192)	\$1,265	\$(272)	\$993

(19) Employee benefits, depreciation, depletion and amortization

Item	For the three months periods ended 31 March 2014 (NT\$)			For the three months periods ended 31 March 2013 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits Expenses						
Salary and wages	\$-	\$574,567	\$574,567	\$-	\$512,472	\$512,472
Labor & health insurance	-	43,782	43,782	-	36,479	36,479
Pension expenses	-	23,205	23,205	-	22,511	22,511
Other employee expenses	-	18,044	18,044	-	16,012	16,012
Depreciation	-	25,286	25,286	-	19,448	19,448
Amortization	-	7,968	7,968	-	6,737	6,737

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Item	For the three months periods ended 31 March 2014 (US\$)			For the three months periods ended 31 March 2013 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits Expenses						
Salary and wages	\$-	\$18,869	\$18,869	\$-	\$17,191	\$17,191
Labor & health insurance	-	1,438	1,438	-	1,224	1,224
Pension expenses	-	762	762	-	756	756
Other employee expenses	-	593	593	-	537	537
Depreciation	-	830	830	-	652	652
Amortization	-	262	262	-	226	226

(20) Income tax

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

Income tax expense (income) recognized in profit or loss

	For the three months periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Current income tax expense:				
Current income tax charge	\$39,721	\$1,305	\$50,660	\$1,699
Deferred tax expense (income):				
Deferred tax expense (income) related to origination and reversal of temporary differences	(9,770)	(322)	(7,125)	(239)
Total income tax expense	\$29,951	\$983	\$43,535	\$1,460

Income tax related to components of other comprehensive income

	For the three months periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from available-for-sale financial assets	\$(977)	\$(32)	\$8,115	\$272

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Imputation credit information

	NT\$		
	2014.3.31	2013.12.31	2013.3.31
Balances of imputation credit amounts	\$14,839	\$14,839	\$5,924

	US\$		
	2014.3.31	2013.12.31	2013.3.31
Balances of imputation credit amounts	\$487	\$497	\$199

The expected creditable ratio for 2013 and the actual creditable ratio for 2012 were 2.13% and 0%, respectively.

The Company's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated.

The assessment of income tax returns

As of 31 March 2014, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2008 (2007 not yet assessed and approved)

(21) 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 did not issue dilutive potential common stock ; therefore , the basic earnings per share need not be adjusted

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	For the three months periods ended 31 March	
	2014	2013
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$196,720	\$202,514
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188
Basic earnings per share (in dollars NT\$)	\$0.72	\$0.74

	For the three months periods ended 31 March	
	2014	2013
Profit attributable to ordinary equity holders of the Company (in thousand US\$)	\$6,461	\$6,794
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188
Basic earnings per share (in dollars US\$)	\$0.02	\$0.03

There have been no other transaction involving ordinary shares or potential shares between the reporting date and the date of completion of the financial statements.

7. Risk management information of insurance contract and Financial Instruments

(1) The structure, organization, the scope of rights and responsibilities of risk management:

A. The framework, organization, and responsibility of risk management

Responsibility:

(A) Board of directors

- a. To recognize various risks associated with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.

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(Expressed in thousands of dollars unless otherwise stated)

- b. To establish appropriate mechanism and culture for risk management, ratify appropriate risk management policies and optimize resource allocation.
- c. To consider the aggregate effect of various risks from the perspective of the Company as a whole, at the same time take into account the regulatory capital requirements from the competent authority and other related capital allocation regulations regarding finance and business.

(B) Risk Management Committee

- a. To formulate risk management policies, frameworks, and organizations; To build quantitative and qualitative management standards, regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
- b. To execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for the Company as a whole on a regular basis.
- c. To assist and supervise various departments in risk management activities.
- d. To adjust risk category, allotment, and attribution in response to changes in the environment.
- e. To coordinate the interaction and communication of risk management function across departments.

(C) Risk management department

- a. Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.

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b. Responsibility of risk management division:

- (a) To assist in drafting risk management policies and the execution when ratified by the board of directors.
- (b) To assist in setting up risk limits according to the risk appetite.
- (c) To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
- (d) To propose risk management related reports on a regular basis.
- (e) To supervise risk limit and its use in each business unit on a regular basis.
- (f) To assist in stress tests and conduct back-testing when necessary.
- (g) To conduct other risk management related tasks.

(D) Business unit

a. The responsibilities of business's risk management are as follows:

- (a) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
- (b) To oversee the sharing of risk management information to risk management on a regular basis.

b. The business unit's responsibilities for risk management are as follows:

- (a) To identify risk and report risk exposure.
- (b) To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.
- (c) To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
- (d) To oversee risk exposure and report when over-limit occur, including measures taken against it.
- (e) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
- (f) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of the Company.
- (g) To assist in collecting information regarding operation risk.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(E) Internal audit room

Audit the execution of risk management of each unit in the Company according to the existing relevant regulations.

B. Scope and nature of risk reporting and evaluation system of property insurance

(A) Risks reporting

- a. Each business unit within Cathay Century should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.
- b. Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the risk management committee and board of director to oversee risks on a regular basis.

(B) Scope and nature of risk evaluation system

The risk management unit of the company and that of its parent company's, Cathay Financial Holding Limited, collaborate in building market risk management system. The structure will consider functionality, source of information, completeness of uploaded information, and the safety of the environment in which the system operates. Function-wise, risk management system focuses on the need of middle office to quantify risk, and it would only be authorized to risk management personnel.

C. Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard.

In the company, risk management department takes responsibilities in monitoring risks, integrate insurance risk of the company as a whole, and set up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control. They report execution process to risk management department every month based on regulation, internal rules, and professional knowledge and experience of their respective field. Risk management department then propose insurance risk management report to the board of directors each quarter.

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(Expressed in thousands of dollars unless otherwise stated)

- D. Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

Scope of insurance risk management of the company includes product design and pricing, underwriting, reinsurance, risks related to catastrophe, claim, and provision. Proper management mechanisms are set up and execute thoroughly.

- E. Methods with which property insurance business limit insurance risk exposure and improper risk concentration

Before a business is introduced, the underwriting personnel will evaluate the quality of the business based on the underwriting guideline of each insurance to decide whether to undertake the business. Risk is properly avoided and controlled to reduce exposure.

In addition, as the company undertakes reinsurance business, risk management mechanism is set up in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” and the ability to undertake risk is taken into account for the establishment of re-insurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to the Company’s risk management mechanism for reinsurance business, the maximum for the retained risk per risk unit is calculated as 10% of the summary amount of stockholder’s equities and special reserves (excluding of Compulsory automobile insurance). The following table summarizes the underlying retention for each risk unit by types of insurance:

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(Expressed in thousands of dollars unless otherwise stated)

Item	2014		2013	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$729,000	\$23,941	\$673,000	\$22,576
Marine insurance	729,000	23,941	673,000	22,576
Engineering insurance	729,000	23,941	673,000	22,576
Other property insurance	729,000	23,941	673,000	22,576
Automobile insurance	729,000	23,941	673,000	22,576
Health and injury insurance	729,000	23,941	673,000	22,576

F. Methods of asset/liability management

Provisions are evaluated on a regular basis based on the company's business characteristics to insure fund allocation and the liquidity of asset investment is sufficient to meet possible future claims. Cash flow management with comprehensive consideration of the amount of fund required and its timeline of every department is conducted through fund procurement department, which is independent of trading unit.

Operation standards under crisis are set up in accordance with the "Directions for Handling Financial Institute Crisis" issued by Financial Supervision Commission. When tremendous sum of fund is lost or liquidity is severely compromised, the operation crisis team will be set up immediately to evaluate the impact on fund liquidity of the company cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and the company.

G. Management, supervision, control process when additional liability or commitment to equity contribution is required for the property insurance business

The company has established a management mechanism for capital adequacy, which includes capital adequacy indicators for regular review, and every six month a capital adequacy management report will be compiled to implement capital adequacy management.

If capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will meet together to study counter-measures and report to the parent company, Cathay Financial Holdings, to review the impact on the group's capital adequacy ratio.

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(Expressed in thousands of dollars unless otherwise stated)

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)		
	NT\$		
	2014.3.31	2013.12.31	2013.3.31
Fire insurance	\$385,440	\$605,859	\$369,777
Marine insurance	244,293	266,869	286,175
Land and air insurance	767,570	852,082	777,943
Liability insurance	156,059	173,230	175,841
Bonding insurance	44,861	27,737	22,296
Other property insurance	429,286	427,980	342,604
Accident insurance	298,454	270,300	316,196
Health insurance	18,529	25,735	21,391
Compulsory automobile liability insurance	287,113	286,025	302,973
Total	2,631,605	2,935,817	2,615,196
Less: Allowance for bad debts	(68,313)	(64,162)	(66,356)
Net	<u>\$2,563,292</u>	<u>\$2,871,655</u>	<u>\$2,548,840</u>

Item	Premiums receivable(Note)		
	US\$		
	2014.3.31	2013.12.31	2013.3.31
Fire insurance	\$12,658	\$20,310	\$12,404
Marine insurance	8,023	8,946	9,600
Land and air insurance	25,208	28,565	26,097
Liability insurance	5,125	5,807	5,899
Bonding insurance	1,473	930	748
Other property insurance	14,098	14,347	11,493
Accident insurance	9,801	9,061	10,607
Health insurance	609	863	718
Compulsory automobile liability insurance	9,429	9,589	10,163
Total	86,424	98,418	87,729
Less: Allowance for bad debts	(2,243)	(2,151)	(2,226)
Net	<u>84,181</u>	<u>\$96,267</u>	<u>\$85,503</u>

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Note: As of 31 March 2014, 31 December 2013, and 31 March 2013, the receivables included overdue receivables amounted to NT\$505,372 (US\$16,597) thousands, NT\$484,663 (US\$16,248) thousands, and NT\$419,858 (US\$14,084) thousands, the allowance for bad debts amounted to NT\$25,766 (US\$846) thousands, NT\$20,634 (US\$692) thousands, and NT\$33,963 (US\$1,139) thousands.

B. Claims recoverable from reinsurers for policyholder with reported and paid off claims

Item	Claims reported and paid off		
	NT\$		
	2014.3.31	2013.12.31	2013.3.31
Fire insurance	\$5,110	\$22,767	\$117,859
Marine insurance	88,337	37,647	71,666
Land and air insurance	29,467	25,154	18,794
Liability insurance	10,167	21,545	18,415
Bonding insurance	143	(2)	125
Other property insurance	8,893	31,352	9,069
Accident insurance	15,501	15,040	11,412
Health insurance	-	-	-
Compulsory automobile liability insurance	149,496	179,208	131,557
Total	307,114	332,711	378,897
Less: Allowance for bad debts	-	-	-
Net	<u>\$307,114</u>	<u>\$332,711</u>	<u>\$378,897</u>

Item	Claims reported and paid off		
	US\$		
	2014.3.31	2013.12.31	2013.3.31
Fire insurance	\$168	\$763	\$3,954
Marine insurance	2,901	1,262	2,404
Land and air insurance	968	843	630
Liability insurance	334	722	618
Bonding insurance	5	-	4
Other property insurance	292	1,051	304
Accident insurance	509	504	383
Health insurance	-	-	-
Compulsory automobile liability insurance	4,909	6,008	4,413
Total	10,086	11,153	12,710
Less: Allowance for bad debts	-	-	-
Net	<u>\$10,086</u>	<u>\$11,153</u>	<u>\$12,710</u>

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Item	2014.3.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$8,812	\$289	\$9,200	\$302	\$18,012	\$591
Marine insurance	2,586	85	3,850	127	6,436	212
Land and air insurance	5,237	172	96,482	3,169	101,719	3,341
Liability insurance	5,005	164	6,314	207	11,319	371
Bonding insurance	45	2	174	6	219	8
Other property insurance	39,919	1,311	5,766	189	45,685	1,500
Accident insurance	28	1	32,419	1,065	32,447	1,066
Health insurance	974	32	8,324	273	9,298	305
Compulsory automobile						
liability insurance	97,687	3,208	-	-	97,687	3,208
Total	\$160,293	\$5,264	\$162,529	\$5,338	\$322,822	\$10,602

Item	2013.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,411	\$114	\$7,178	\$241	\$10,589	\$355
Marine insurance	2,394	80	3,529	118	5,923	198
Land and air insurance	5,524	185	91,621	3,071	97,145	3,256
Liability insurance	2,554	86	7,166	240	9,720	326
Bonding insurance	74	2	210	7	284	9
Other property insurance	44,466	1,491	6,082	204	50,548	1,695
Accident insurance	206	7	26,940	903	27,146	910
Health insurance	210	7	5,959	200	6,169	207
Compulsory automobile						
liability insurance	89,457	2,999	-	-	89,457	2,999
Total	\$148,296	\$4,971	\$148,685	\$4,984	\$296,981	\$9,955

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Item	2013.3.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$4,294	\$144	\$8,386	\$281	\$12,680	\$425
Marine insurance	1,337	45	7,738	260	9,075	305
Land and air insurance	2,950	99	90,515	3,037	93,465	3,136
Liability insurance	8,407	282	5,873	197	14,280	479
Bonding insurance	100	3	111	4	211	7
Other property insurance	37,888	1,271	8,981	301	46,869	1,572
Accident insurance	-	-	31,443	1,055	31,443	1,055
Health insurance	469	16	4,902	164	5,371	180
Compulsory automobile liability insurance	93,697	3,143	93,697	3,143	187,394	6,286
Total	\$149,142	\$5,003	\$251,646	\$8,442	\$400,788	\$13,445

D. Due from (to) reinsurers and ceding companies- reinsurance

Item	2014.3.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$55,882	\$1,835	\$209,956	\$6,895
Central Re	51,954	1,706	113,878	3,740
Guy Carpenter	33,023	1,084	118,218	3,883
Korean Re	48,018	1,577	52,125	1,712
Swiss Re	30,786	1,011	118,063	3,877
Willis	15,271	502	62,607	2,056
Others	321,522	10,559	576,081	18,919
Total	556,456	18,274	1,250,928	41,082
Less: Allowance for bad debts	(14,074)	(462)	-	-
Net	\$542,382	\$17,812	\$1,250,928	\$41,082

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Item	2013.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$56,061	\$1,879	\$211,063	\$7,075
Kang An	35,266	1,182	-	-
Best Re	31,477	1,055	9,269	311
Central Re	20,166	676	80,543	2,700
JLT	698	23	75,250	2,523
Guy Carpenter	-	-	76,301	2,558
Marsh	25,101	842	174,020	5,834
Swiss Re	4,675	157	108,591	3,640
Others	402,720	13,501	628,209	21,060
Total	576,164	19,315	1,363,246	45,701
Less: Allowance for bad debts	(14,624)	(490)	-	-
Net	<u>\$561,540</u>	<u>\$18,825</u>	<u>\$1,363,246</u>	<u>\$45,701</u>

Item	2013.3.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$54,534	\$1,829	\$213,579	\$7,165
Central Re	51,920	1,742	97,090	3,257
FP Marine	110,702	3,714	101,488	3,404
Guy Carpenter	44,307	1,486	114,780	3,850
Korean Re	57,145	1,917	60,613	2,034
Swiss Re	1,803	60	79,147	2,655
Wilson Re	44,429	1,491	8,992	302
Zurich	364	12	74,163	2,488
Others	318,297	10,677	577,698	19,378
Total	683,501	22,928	1,327,550	44,533
Less: Allowance for bad debts	(6,272)	(210)	-	-
Net	<u>\$677,229</u>	<u>\$22,718</u>	<u>\$1,327,550</u>	<u>\$44,533</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Note: As of 31 March 2014, 31 December 2013, and 31 March 2013, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$40,748 (US\$1,338) thousands, NT\$46,239 (US\$1,550) thousands, and NT\$419,858(US\$14,084) thousands, the allowance for bad debts amounted to NT\$14,074 (US\$462) thousands, NT\$14,624 (US\$490) thousands, and NT\$33,963(US\$1,139) thousands.

(3) Information of management achievements

A. Acquisition cost for insurance contracts

For the three months periods ended 31March 2014						
NT\$						
Item	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$8,860	\$1,534	\$7,487	\$1,147	\$22,752	\$41,780
Marine insurance	3,013	527	988	366	9,865	14,759
Land and air insurance	18,978	1,236	-	118	220,244	240,576
Liability insurance	6,407	678	4,582	25	16,339	28,031
Bonding insurance	963	25	115	1	407	1,511
Other property insurance	3,611	872	64,334	990	16,555	86,362
Accident insurance	4,587	565	-	-	84,750	89,902
Health insurance	4,626	446	-	-	5,279	10,351
Compulsory automobile						
liability insurance	-	-	119,895	-	1,796	121,691
Total	\$51,045	\$5,883	\$197,401	\$2,647	\$377,987	\$634,963

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(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2014

US\$						
Item	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	commission expense	Other cost	
Fire insurance	\$291	\$50	\$246	\$38	\$747	\$1,372
Marine insurance	99	17	32	12	324	484
Land and air insurance	623	40	-	4	7,233	7,900
Liability insurance	210	22	151	1	537	921
Bonding insurance	32	1	4	-	13	50
Other property insurance	118	29	2,113	32	544	2,836
Accident insurance	151	19	-	-	2,783	2,953
Health insurance	152	15	-	-	173	340
Compulsory automobile						
liability insurance	-	-	3,937	-	59	3,996
Total	\$1,676	\$193	\$6,483	\$87	\$12,413	\$20,852

For the three months periods ended 31 March 2013

NT\$						
Item	Commission			Reinsurance		Total
	expense	Agency fee	Surcharge	commission expense	Other cost	
Fire insurance	\$12,466	\$1,050	\$9,305	\$151	\$18,891	\$41,863
Marine insurance	3,289	723	929	1,018	17,243	23,202
Land and air insurance	5,865	698	-	358	200,275	207,196
Liability insurance	7,221	516	17,024	28	14,059	38,848
Bonding insurance	326	8	107	-	393	834
Other property insurance	2,536	365	32,332	1,918	19,617	56,768
Accident insurance	3,493	505	-	6	81,012	85,016
Health insurance	2,316	201	-	-	2,951	5,468
Compulsory automobile						
liability insurance	-	-	112,717	-	1,660	114,377
Total	\$37,512	\$4,066	\$172,414	\$3,479	\$356,101	\$573,572

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2013						
US\$						
Item	Commission	Agency fee	Surcharge	Reinsurance	Other cost	Total
	expense			commission expense		
Fire insurance	\$418	\$35	\$312	\$5	\$634	\$1,404
Marine insurance	110	25	31	34	578	778
Land and air insurance	197	23	-	12	6,718	6,950
Liability insurance	242	17	571	1	472	1,303
Bonding insurance	11	-	4	-	13	28
Other property insurance	85	12	1,085	65	658	1,905
Accident insurance	117	17	-	-	2,718	2,852
Health insurance	78	7	-	-	99	184
Compulsory automobile liability insurance	-	-	3,781	-	56	3,837
Total	\$1,258	\$136	\$5,784	\$117	\$11,946	\$19,241

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

For the three months periods ended 31 March 2014						
NT\$						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium income	for unearned premiums reserve	cost for insurance contract	claims paid	for claims reserve	
Fire insurance	\$481,924	\$265,339	\$(40,633)	\$(82,697)	\$17,930	\$641,863
Marine insurance	151,722	12,857	(14,393)	(120,346)	(511)	29,329
Land and air insurance	1,615,767	(103,445)	(240,458)	(857,061)	(208,150)	206,653
Liability insurance	255,691	(5,242)	(28,006)	(95,720)	(94,289)	32,434
Bonding insurance	35,213	(15,077)	(1,510)	(1,448)	(2,477)	14,701
Other property insurance	534,554	18,822	(85,372)	(274,920)	(54,206)	138,878
Accident insurance	637,143	(37,655)	(89,902)	(208,353)	(63,307)	237,926
Health insurance	35,546	6,519	(10,351)	(24,387)	5,857	13,184
Compulsory automobile liability insurance	870,639	(293)	(121,691)	(581,662)	(1,402,033)	(1,235,040)
Total	\$4,618,199	\$141,825	\$(632,316)	\$(2,246,594)	\$(1,801,186)	\$79,928

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2014

US\$						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$15,827	\$8,714	\$(1,334)	\$(2,716)	\$589	\$21,080
Marine insurance	4,983	422	(472)	(3,952)	(17)	964
Land and air insurance	53,063	(3,397)	(7,896)	(28,147)	(6,836)	6,787
Liability insurance	8,397	(172)	(920)	(3,143)	(3,097)	1,065
Bonding insurance	1,157	(495)	(50)	(48)	(81)	483
Other property insurance	17,555	618	(2,804)	(9,029)	(1,780)	4,560
Accident insurance	20,924	(1,237)	(2,953)	(6,842)	(2,079)	7,813
Health insurance	1,167	214	(340)	(801)	193	433
Compulsory automobile liability insurance	28,592	(10)	(3,996)	(19,102)	(46,044)	(40,560)
Total	<u>\$151,665</u>	<u>\$4,657</u>	<u>\$(20,765)</u>	<u>\$(73,780)</u>	<u>\$(59,152)</u>	<u>\$2,625</u>

For the three months periods ended 31 March 2013

NT\$						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$502,289	\$264,409	\$(41,712)	\$(416,738)	\$409,718	\$717,966
Marine insurance	166,710	23,771	(22,184)	(105,667)	(78,837)	(16,207)
Land and air insurance	1,557,838	(370,375)	(206,838)	(746,455)	(127,795)	106,375
Liability insurance	249,218	(3,650)	(38,820)	(100,524)	(91,730)	14,494
Bonding insurance	22,344	(6,543)	(834)	(1,237)	13,926	27,656
Other property insurance	353,720	(1,167)	(54,850)	(138,155)	(13,660)	145,888
Accident insurance	622,656	(36,590)	(85,010)	(194,208)	145,340	452,188
Health insurance	35,147	(1,331)	(5,468)	(42,185)	16,023	2,186
Compulsory automobile liability insurance	801,693	(75,715)	(114,377)	(469,160)	(58,683)	83,758
Total	<u>\$4,311,615</u>	<u>\$(207,191)</u>	<u>\$(570,093)</u>	<u>\$(2,214,329)</u>	<u>\$214,302</u>	<u>\$1,534,304</u>

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(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2013

Item	US\$					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$16,850	\$8,870	\$(1,399)	\$(13,980)	\$13,744	\$24,085
Marine insurance	5,592	797	(744)	(3,545)	(2,645)	(545)
Land and air insurance	52,259	(12,425)	(6,938)	(25,040)	(4,287)	3,569
Liability insurance	8,360	(122)	(1,302)	(3,372)	(3,077)	487
Bonding insurance	750	(219)	(28)	(41)	467	929
Other property insurance	11,866	(39)	(1,840)	(4,635)	(458)	4,894
Accident insurance	20,887	(1,227)	(2,852)	(6,515)	4,876	15,169
Health insurance	1,179	(45)	(184)	(1,415)	537	72
Compulsory automobile liability insurance	26,893	(2,540)	(3,837)	(15,738)	(1,969)	2,809
Total	\$144,636	\$(6,950)	\$(19,124)	\$(74,281)	\$7,188	\$51,469

(B) Cost benefit analysis for assumed reinsurance business

For the three months periods ended 31 March 2014

Item	NT\$					
	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$22,912	\$4,117	\$(1,147)	\$(260)	\$(3,003)	\$22,619
Marine insurance	3,949	1,856	(366)	(102,808)	(12,935)	(110,304)
Land and air insurance	341	3,404	(118)	(3,305)	5,753	6,075
Liability insurance	88	137	(25)	(5)	(41)	154
Bonding insurance	525	78	(1)	(107)	-	495
Other property insurance	6,263	2,795	(990)	(4,461)	1,631	5,238
Accident insurance	1,597	(50)	-	(42)	(89)	1,416
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	73,171	(2,257)	-	(79,987)	(152,605)	(161,678)
Total	\$108,846	\$10,080	\$(2,647)	\$(190,975)	\$(161,289)	\$(235,985)

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(Expressed in thousands of dollars unless otherwise stated)

For the three months periods ended 31 March 2014

US\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$753	\$135	\$(38)	\$(8)	\$(99)	\$743
Marine insurance	130	61	(12)	(3,376)	(425)	(3,622)
Land and air insurance	11	112	(4)	(109)	189	199
Liability insurance	3	4	(1)	-	(1)	5
Bonding insurance	17	3	-	(4)	-	16
Other property insurance	206	92	(32)	(147)	54	173
Accident insurance	52	(2)	-	(1)	(3)	46
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,403	(74)	-	(2,627)	(5,012)	(5,310)
Total	<u>\$3,575</u>	<u>\$331</u>	<u>\$(87)</u>	<u>\$(6,272)</u>	<u>\$(5,297)</u>	<u>\$(7,750)</u>

For the three months periods ended 31 March 2013

NT\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$23,412	\$(4,416)	\$(151)	\$(113)	\$(152)	\$18,580
Marine insurance	12,879	(3,133)	(1,018)	(45,218)	11,359	(25,131)
Land and air insurance	928	3,335	(358)	(3,175)	(3,238)	(2,508)
Liability insurance	1	90	(28)	(14)	(29)	20
Bonding insurance	479	12	-	(11)	20	500
Other property insurance	8,674	3,166	(1,918)	(2,986)	(22)	6,914
Accident insurance	1,609	183	(6)	(6)	1,570	3,350
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	68,029	(1,116)	-	(80,400)	(4,039)	(17,526)
Total	<u>\$116,011</u>	<u>\$(1,879)</u>	<u>\$(3,479)</u>	<u>\$(131,923)</u>	<u>\$5,469</u>	<u>\$(15,801)</u>

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For the three months periods ended 31 March 2013

US\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$786	\$(148)	\$(5)	\$(4)	\$(5)	\$624
Marine insurance	432	(105)	(34)	(1,517)	381	(843)
Land and air insurance	31	112	(12)	(107)	(109)	(85)
Liability insurance	-	3	(1)	(1)	(1)	-
Bonding insurance	16	-	-	-	1	17
Other property insurance	291	106	(65)	(100)	(1)	231
Accident insurance	54	6	-	-	53	113
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,282	(37)	-	(2,697)	(135)	(587)
Total	<u>\$3,892</u>	<u>\$(63)</u>	<u>\$(117)</u>	<u>\$(4,426)</u>	<u>\$184</u>	<u>\$(530)</u>

(C) Recognized gain (loss) for reinsurance contract purchased

For the three months periods ended 31 March 2014

NT\$						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$330,678	\$169,618	\$(34,004)	\$(31,403)	\$(28,044)	\$406,845
Marine insurance	125,272	(1,866)	(15,150)	(155,983)	(4,042)	(51,769)
Land and air insurance	68,275	5,568	(22,253)	(40,308)	5,848	17,130
Liability insurance	57,130	6,214	(14,716)	(44,544)	(11,383)	(7,299)
Bonding insurance	24,714	(11,816)	(4,247)	(145)	(1,263)	7,243
Other property insurance	231,060	(103,728)	(61,445)	(26,524)	(24,313)	15,050
Accident insurance	61,083	(15,342)	(11,342)	(15,109)	(5,880)	13,410
Health insurance	295	23	(106)	-	97	309
Compulsory automobile liability insurance	205,858	(1,630)	-	(209,596)	(536,208)	(541,576)
Total	<u>\$1,104,365</u>	<u>\$47,041</u>	<u>\$(163,263)</u>	<u>\$(523,612)</u>	<u>\$(605,188)</u>	<u>\$(140,657)</u>

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For the three months periods ended 31 March 2014

US\$						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$10,860	\$5,570	\$(1,117)	\$(1,031)	\$(921)	\$13,361
Marine insurance	4,114	(61)	(498)	(5,123)	(133)	(1,701)
Land and air insurance	2,242	183	(731)	(1,324)	192	562
Liability insurance	1,876	204	(483)	(1,463)	(374)	(240)
Bonding insurance	812	(388)	(139)	(5)	(42)	238
Other property insurance	7,588	(3,406)	(2,018)	(871)	(798)	495
Accident insurance	2,006	(504)	(372)	(496)	(193)	441
Health insurance	10	1	(4)	-	3	10
Compulsory automobile liability insurance	6,760	(54)	-	(6,883)	(17,609)	(17,786)
Total	\$36,268	\$1,545	\$(5,362)	\$(17,196)	\$(19,875)	\$(4,620)

For the three months periods ended 31 March 2013

NT\$						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$376,250	\$113,088	\$(46,327)	\$(146,837)	\$219,863	\$516,037
Marine insurance	121,211	22,929	(18,700)	(125,911)	(23,490)	(23,961)
Land and air insurance	58,106	8,187	(17,224)	(22,760)	(13,547)	12,762
Liability insurance	76,425	12,993	(21,200)	(29,579)	(312)	38,327
Bonding insurance	14,519	(7,763)	(2,909)	(153)	4,858	8,552
Other property insurance	70,342	5,369	(10,525)	(17,335)	9,414	57,265
Accident insurance	35,812	5,680	(10,297)	(11,472)	22,691	42,414
Health insurance	301	398	(110)	(160)	1,172	1,601
Compulsory automobile liability insurance	204,931	(11,762)	-	(184,911)	(22,543)	(14,285)
Total	\$957,897	\$149,119	\$(127,292)	\$(539,118)	\$198,106	\$638,712

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For the three months periods ended 31 March 2013

Item	US\$					
	Reinsurance expense	Net change	Reinsurance commission earned	Claims	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		for unearned		recovered		
		premiums reserve ceded		from reinsurers		
Fire insurance	\$12,622	\$3,794	\$(1,554)	\$(4,926)	\$7,375	\$17,311
Marine insurance	4,066	769	(627)	(4,224)	(788)	(804)
Land and air insurance	1,949	275	(578)	(763)	(455)	428
Liability insurance	2,564	436	(711)	(992)	(10)	1,287
Bonding insurance	487	(260)	(98)	(5)	163	287
Other property insurance	2,360	180	(353)	(582)	316	1,921
Accident insurance	1,201	191	(345)	(385)	761	1,423
Health insurance	10	13	(4)	(5)	39	53
Compulsory automobile liability insurance	6,874	(395)	-	(6,203)	(756)	(480)
Total	<u>\$32,133</u>	<u>\$5,003</u>	<u>\$(4,270)</u>	<u>\$(18,085)</u>	<u>\$6,645</u>	<u>\$21,426</u>

(4) Sensitivity of insurance risk

A. The Company

Insurance type	The impact to profit and loss when the expected loss ratio increases 5%						
	Premium income		Expected loss ratio	Before reinsurance		After reinsurance	
	NT\$	US\$		NT\$	US\$	NT\$	US\$
Fire insurance	\$394,969	\$12,971	65.61	\$19,748	\$649	\$11,860	\$389
Marine insurance	142,593	4,683	64.52	7,130	234	1,962	64
Land and air insurance	1,607,654	52,797	65.02	80,383	2,640	51,251	1,683
Liability insurance	213,268	7,004	67.95	10,663	350	6,035	198
Bonding insurance	34,453	1,131	67.51	1,723	57	229	8
Other property insurance	163,616	5,373	62.10	8,181	269	3,992	131
Accident insurance	634,318	20,831	74.31	31,716	1,042	22,788	748
Health insurance	35,546	1,167	62.79	1,777	58	1,111	36
Compulsory automobile liability insurance	746,935	24,530	NA	NA	NA	NA	NA

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Note: Fire insurance does not include long-term fire insurance.

The chart above shows that with every 5% increase of the expected loss rate of every insurance contract of the company, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

B. Cathay Insurance (China)

Insurance type	Premium income		The impact to profit and loss when the expected loss ratio increases 5%			
			Before reinsurance		After reinsurance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$78,688	\$2,584	\$3,935	\$129	\$390	\$13
Marine insurance	7,368	242	368	12	235	8
Liability insurance	43,034	1,413	2,152	71	1,865	61
Bonding insurance	759	25	38	1	31	1
Other property insurance	370,923	12,181	18,546	609	11,450	376
Compulsory automobile liability insurance	123,704	4,063	6,185	203	6,185	203

The above chart shows that with every 5% increase in the ending loss rate of every insurance contract of Cathay Insurance (China), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

(5) Concentration Risk

A. The Company

(A) Situations that might cause concentration of insurance risk:

a. Single insurance contract or few related contracts

For the three months periods ended 31 March 2014, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

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b. Exposure to unanticipated change in trend

For the three months periods ended 31 March 2014, the loss rates of the rest insurance categories are still within reasonable range.

c. Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the three months periods ended 31 March 2014, no material lawsuit or legal risks has taken place.

d. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, the company has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the three months periods ended 31 March 2014, there is no catastrophe has taken place.

e. When a certain key variable has approached a significantly non-linear relationship with future cash flow which could dramatically influence its performance

Since the 3rd stage of liberalization of property insurance fee took into effect, the company has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with regulation. Fee will be raised when actual loss rate exceeds expected loss rate by a certain percentage to avoid worsening of further losses. In addition, from time to time related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

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In addition, the implementation of stress tests for overall business every year, the impact assessment of the assets and the insurance risk of extreme financial position of the company's situation, understand the major risk factors to adjust the response in advance.

f. Concentration risks in geographic regions and operating segments

The Company's catastrophe insurance for earthquakes and floods are centralize in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

(B) Following table summarizes the concentration risk of the Company before and after reinsurance by types of insurance:

Insurance type	For the three months periods ended 31 March 2014 (NT\$)				For the three months periods ended 31 March 2014 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,618,886	\$73,623	\$271,710	\$2,420,799	\$86,006	\$2,418	\$8,923	\$79,501
Fire insurance	399,934	20,816	248,827	171,923	13,134	684	8,172	5,646
Marine insurance	141,730	3,838	122,551	23,017	4,655	126	4,025	756
Engineering insurance	139,930	2,588	77,576	64,942	4,595	85	2,547	2,133
Health and injury insurance	346,295	1,515	14,059	333,751	11,373	49	462	10,960
Other insurance	325,561	3,078	132,622	196,017	10,691	101	4,355	6,437
Total	\$3,972,336	\$105,458	\$867,345	\$3,210,449	\$130,454	\$3,463	\$28,484	\$105,433

(C) Disclosure the prior management performance in the risk, which had huge effect but relative low occurrence frequency, to help financial statement user to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as earthquake, typhoon, and flood, will bringing of influence is more huge. The greatest loss rate for such catastrophes for the company in the past would be the 2010 Typhoon Fanatic and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at 342 million.

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The company in order to control the occurrence of low frequency, but will affect greatly the risk of an event, the event has special coverage for natural disasters, the subject of risk assessment and loss prevention seminars are held regularly to help customers reduce the incidence of disasters.

B. Cathay Insurance (China)

(A) Situations that might cause to the concentration of insurance risk:

a. The exposure of unanticipated change in trend

Cathay Insurance (China) reduces the impact of unexpected risk changes on daily operating activities by formulating intensive underwriting and claim policy, entering into proper reinsurance agreements and inspecting and analyzing claims data periodically.

b. Correlation and mutual influence between different risks

When significant incidents happened, Cathay Insurance (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Insurance (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Insurance (China) and protect the safety of policyholders’ property. No significant incident occurred for the three months ended 31 March 2014.

(B) Following tables summarized the concentration before and after reinsurance by types of insurance risk of Cathay Insurance (China):

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Insurance type	For the three months periods ended 31 March 2014 (NT\$)				For the three months periods ended 31 March 2014 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$479,476	\$1,070	\$140,290	\$340,256	\$15,746	\$35	\$4,607	\$11,174
Fire insurance	85,083	2,231	73,335	13,979	2,794	73	2,408	459
Marine insurance	7,368	-	2,680	4,688	242	-	88	154
Engineering insurance	5,450	-	2,495	2,955	179	-	82	97
Health and injury insurance	-	-	-	-	-	-	-	-
Other insurance	47,099	87	5,949	41,237	1,547	3	195	1,355
Total	\$624,476	\$3,388	\$224,749	\$403,115	\$20,508	\$111	\$7,380	\$13,239

(6) Claim development table

A. The company

		2008.4.1-	2009.4.1-	2010.4.1-	2011.4.1-	2012.4.1-	2013.4.1-	
Underwriting Year (NT\$)	-2008.3.31	2009.3.31	2010.3.31	2011.3.31	2012.3.31	2013.3.31	2014.3.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$2,857,559	\$3,309,373	\$3,451,224	\$5,047,820	\$4,157,056	\$5,956,442	\$6,035,485	
One year later	3,594,047	4,395,761	4,362,499	6,226,914	4,979,753	6,008,210		
Two year later	3,503,804	4,390,348	4,509,300	5,907,031	5,156,606			
Three year later	3,492,947	4,463,529	4,548,580	5,949,328				
Four year later	3,511,120	4,526,001	4,526,435					
Five year later	3,518,675	4,540,749						
Six year later	3,505,880							
Estimate of cumulative claims incurred	3,505,880	4,540,749	4,526,435	5,949,328	5,156,606	6,008,210	6,035,485	\$35,722,693
Cumulative payment to date	3,479,076	4,489,081	4,452,206	5,774,625	4,934,965	5,226,419	3,410,916	31,767,288
Subtotal	26,804	51,668	74,229	174,703	221,641	781,791	2,624,569	3,955,405
Reconciliation	-	-	-	-	-	-	86,659	86,659
Recorded in balance sheet	\$26,804	\$51,668	\$74,229	\$174,703	\$221,641	\$781,791	\$2,711,228	\$4,042,064

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Underwriting Year (US\$)	-2008.3.31	2008.4.1- 2009.3.31	2009.4.1- 2010.3.31	2010.4.1- 2011.3.31	2011.4.1- 2012.3.31	2012.4.1- 2013.3.31	2013.4.1- 2014.3.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$93,844	\$108,682	\$113,341	\$165,774	\$136,521	\$195,614	\$198,210	
One year later	118,031	144,360	143,268	204,496	163,539	197,314		
Two year later	115,067	144,182	148,089	193,991	169,347			
Three year later	114,711	146,586	149,379	195,380				
Four year later	115,308	148,637	148,651					
Five year later	115,556	149,122						
Six year later	115,135							
Estimate of cumulative claims incurred	115,135	149,122	148,651	195,380	169,347	197,314	198,210	\$1,173,159
Cumulative payment to date	114,255	147,425	146,214	189,643	162,068	171,639	112,017	1,043,261
Subtotal	880	1,697	2,437	5,737	7,279	25,675	86,193	129,898
Reconciliation	-	-	-	-	-	-	\$2,846	\$2,846
Recorded in balance sheet	\$880	\$1,697	\$2,437	\$5,737	\$7,279	\$25,675	\$89,039	\$132,744

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. The upper table excluding claim reserve of compulsory automobile liability insurance NT\$2,321,130 (US\$76,228) thousands and assumed reinsurance (except compulsory automobile liability insurance) NT\$282,421 (US\$9,275) thousands.

B. Cathay Insurance (China)

NT\$	For the first quarter of							Total
	-2008.3.31	2008.4.1- 2009.3.31	2009.4.1- 2010.3.31	2010.4.1- 2011.3.31	2011.4.1- 2012.3.31	2012.4.1- 2013.3.31	2013.4.1- 2014.3.31	
Estimated accumulation amount of claim								
As to 2008/12/31	\$2,686							
As to 2009/12/31	2,559	\$155,830						
As to 2010/12/31	2,555	149,752	\$333,249					
As to 2011/12/31	2,583	146,736	330,079	\$358,632				
As to 2012/12/31	1,342	127,377	296,430	321,189	\$997,581			
As to 2013/12/31	1,342	127,378	296,455	338,052	838,016	\$1,458,701		
As to 2014/12/31	1,342	127,378	299,756	336,028	824,206	1,368,517	\$498,752	
Estimated accumulation of claim	1,342	127,378	299,756	336,028	824,206	1,368,517	498,752	\$3,455,979
Accumulated claim paid	1,342	127,243	294,034	320,697	704,358	769,519	100,659	2,317,852
Subtotal	-	135	5,722	15,331	119,848	598,998	398,093	1,138,127
Indirect claim expense, discount and risk margin							54,266	54,266
Recognized amount on balance sheet								\$1,192,393

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US\$	For the first quarter of							Total
	2008.4.1- 2008.3.31	2009.4.1- 2009.3.31	2010.4.1- 2010.3.31	2011.4.1- 2011.3.31	2012.4.1- 2012.3.31	2013.4.1- 2013.3.31	2014.3.31	
Estimated accumulation amount of claim								
As to 2008/12/31	\$88							
As to 2009/12/31	84	\$5,118						
As to 2010/12/31	84	4,918	\$10,944					
As to 2011/12/31	85	4,819	10,840	\$11,778				
As to 2012/12/31	44	4,183	9,735	10,548	\$32,761			
As to 2013/12/31	44	4,183	9,736	11,102	27,521	\$47,905		
As to 2014/12/31	44	4,183	9,844	11,036	27,068	44,943	\$16,379	
Estimated accumulation of claim	44	4,183	9,844	11,036	27,068	44,943	16,379	\$113,497
Accumulated claim paid	44	4,179	9,656	10,532	23,132	25,271	3,306	76,120
Subtotal	-	4	188	504	3,936	19,672	13,073	37,377
Indirect claim expense, discount and risk margin								1,782
Recognized amount on balance sheet								\$39,159

C. Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) is still in initial stage, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

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(7) Financial instruments

Financial instruments (NT\$)	2014.3.31	2013.12.31	2013.3.31
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$607,671	\$1,312,025	\$489,461
Available-for-sale financial assets	8,101,196	7,234,902	8,594,970
Held-to-maturity investments	1,803,056	1,955,937	2,265,404
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	8,949,527	8,185,821	5,824,424
Bond investments with no active market	2,541,800	2,053,740	1,871,712
Receivables	3,087,664	3,725,513	2,968,447
Subtotal	14,578,991	13,965,074	10,664,583
Derivative financial assets for hedging	9,136	10,022	16,284
Total	<u>\$25,100,050</u>	<u>\$24,477,960</u>	<u>\$22,030,702</u>
<u>Financial liabilities</u>			
Financial liabilities measured at amortized cost:			
Payables	\$2,251,378	\$2,622,538	\$2,133,430
Financial liabilities at fair value through profit or loss:			
Held for trading	62,424	28,352	94,825
Preferred stock liability	1,000,000	1,000,000	1,000,000
Total	<u>\$3,313,802</u>	<u>\$3,650,890</u>	<u>\$3,228,255</u>

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Financial instruments (US\$)	2014.3.31	2013.12.31	2013.3.31
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$19,956	\$43,983	\$16,419
Available-for-sale financial assets	266,049	242,538	288,325
Held-to-maturity investments	59,214	65,570	75,995
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	293,909	274,416	195,385
Bond investments with no active market	83,475	68,848	62,788
Receivables	101,401	124,891	99,579
Subtotal	478,785	820,246	357,752
Derivative financial assets for hedging	300	336	546
Total	<u>\$824,304</u>	<u>\$820,582</u>	<u>\$739,037</u>
<u>Financial liabilities</u>			
Financial liabilities measured at amortized cost:			
Payables	\$73,937	\$87,917	\$71,567
Financial liabilities at fair value through profit or loss:			
Held for trading	2,050	950	3,181
Preferred stock liability	32,841	33,523	33,546
Total	<u>\$108,828</u>	<u>\$122,390</u>	<u>\$108,294</u>

7. Financial risk management objectives and policies

Non-derivative financial instruments the Consolidated Company held to adjust operating cash flow including cash and equivalents and investments. The Consolidated Company held other financial assets and liabilities, including note receivable, premiums receivable & claim payable, due to reinsurers and ceding companies, reinsurance premiums receivables & payable and secured loans.

In addition, the Consolidated Company holds derivative financial instruments, including futures options contracts, forward contracts and swaps to avoid share price risk, foreign exchange risk and interest rate risk. The consolidated Company does not engage in derivatives transactions for trading purposes.

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The Consolidated Company's financial instruments are mainly exposed to market risk, credit risk and liquidity risk. The risk management policies approved by board of directors are as follows:

(1) Market risk

A. Foreign currency risk

The Consolidated Company is exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, the Consolidated Company engage in forward foreign exchange contracts for hedging purposes.

The Consolidated Company is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. The Consolidated Company do not engage in hedging in relation to this type of transaction.

The Consolidated Company's self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

B. Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate, the Consolidated Company's interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

C. Equity price risk

The Consolidated Company hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by the Consolidated Company are classified under held for trading financial assets or available-for-sale financial assets. The Consolidated Company manage the equity price risk through diversification and placing limits on individual and total equity instruments.

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(2) Credit risk

A. Credit risk management policies

The Consolidated Company trade only with established and creditworthy third parties. The Consolidated Company's policy is that all customers who trade on credit terms are subject to credit verification procedures, and that premiums receivable and notes receivable collections are monitored on an ongoing basis. Therefore, the Consolidated Company's bad debt is insignificant. On the other hand, in the event a counterparty's creditworthiness deteriorates, the Consolidated Company will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

The Consolidated Company's secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorate, the Consolidated Company may exercise under their own discretion the relevant security rights upon presentation, to protect the Consolidated Company's interests.

The Consolidated Company's credit risk exposure of financial transactions including: issuer risk, counterparty risk and the credit risk of underlying assets.

- a. Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which the Consolidated Company maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and the Consolidated Company incur financial losses as a result.
- b. Counterparty risk is the risk that a counterparty of the Consolidated Company fails to deliver as obligated before the settlement date which then cause losses to the Consolidated Company.
- c. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)****B. Credit concentration risk analysis**

The amounts of credit risk exposure of Consolidated Company's financial assets are as follows:

Financial assets	The amount of credit risk exposure - by area					
	31 March 2014 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$3,625,638	\$11	\$4,456	\$786,747	\$4,532,675	\$8,949,527
Financial assets at fair value through profit or loss	521,931	-	-	-	85,740	607,671
Available-for-sale financial assets	6,782,845	-	-	99,195	1,219,156	8,101,196
Derivative financial assets for hedging	9,136	-	-	-	-	9,136
Bond investments with no active market	850,000	-	327,450	305,370	1,058,980	2,541,800
Held-to-maturity investments	-	-	-	1,510,678	292,378	1,803,056
Total	\$11,789,550	\$11	\$331,906	\$2,701,990	\$7,188,929	\$22,012,386
Each area percentage	53.56%	0.00%	1.51%	12.27%	32.66%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	31 March 2014 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$119,069	\$-	\$146	\$25,837	\$148,857	\$293,909
Financial assets at fair value through profit or loss	17,141	-	-	-	2,816	19,956
Available-for-sale financial assets	222,754	-	-	3,258	40,038	266,049
Derivative financial assets for hedging	300	-	-	-	-	300
Bond investments with no active market	27,915	-	10,754	10,029	34,778	83,475
Held-to-maturity investments	-	-	-	49,612	9,602	59,214
Total	\$387,177	\$-	\$10,900	\$88,735	\$236,091	\$722,903
Each area percentage	53.56%	0.00%	1.51%	12.27%	32.66%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	31 December 2013 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,415,469	\$10	\$7,946	\$990,830	\$2,771,566	\$8,185,821
Financial assets at fair value through profit or loss	1,172,111	-	-	-	139,914	1,312,025
Available-for-sale financial assets	5,927,566	-	-	25,117	1,282,219	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	-	10,022
Bond investments with no active market	850,000	-	321,383	300,039	582,318	2,053,740
Held-to-maturity investments	-	-	-	1,668,787	287,150	1,955,937
Total	\$12,375,168	\$10	\$329,329	\$2,984,773	\$5,063,167	\$20,752,447
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	31 December 2013 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$148,021	\$-	\$267	\$33,216	\$92,912	\$274,416
Financial assets at fair value through profit or loss	39,293	-	-	-	4,690	43,983
Available-for-sale financial assets	198,712	-	-	842	42,984	242,538
Derivative financial assets for hedging	336	-	-	-	-	336
Bond investments with no active market	28,495	-	10,774	10,058	19,521	68,848
Held-to-maturity investments	-	-	-	55,943	9,627	65,570
Total	\$414,857	\$-	\$11,041	\$100,059	\$169,734	\$695,691
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	31 March 2013 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,697,376	\$114	\$19,074	\$183,795	\$924,065	\$5,824,424
Financial assets at fair value through profit or loss	377,807	-	-	-	111,654	489,461
Available-for-sale financial assets	4,824,014	-	-	266,109	3,504,847	8,594,970
Derivative financial assets for hedging	16,284	-	-	-	-	16,284
Bond investments with no active market	900,000	-	320,406	300,111	351,195	1,871,712
Held-to-maturity investments	-	-	-	2,265,404	-	2,265,404
Total	\$10,815,481	\$114	\$339,480	\$3,015,419	\$4,891,761	\$19,062,255
Each area percentage	56.76%	0.00%	1.78%	15.81%	25.65%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	31 March 2013 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$157,577	\$4	\$640	\$6,166	\$30,998	\$195,385
Financial assets at fair value through profit or loss	12,674	-	-	-	3,745	16,419
Available-for-sale financial assets	161,825	-	-	8,927	117,573	288,325
Derivative financial assets for hedging	546	-	-	-	-	546
Bond investments with no active market	30,192	-	10,748	10,067	11,781	62,788
Held-to-maturity investments	-	-	-	75,995	-	75,995
Total	\$362,814	\$4	\$11,388	\$101,155	\$164,097	\$639,458
Each area percentage	56.76%	0.00%	1.78%	15.81%	25.65%	100.00%

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C. Credit risk quality analysis

a. Credit quality classifications of the Consolidated Company's financial assets are as follows:

Financial assets	Credit quality of financial assets				
	31 March 2014 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,949,527	\$-	\$-	\$-	\$8,949,527
Financial assets at fair value through profit or loss	607,671	-	-	-	607,671
Available-for-sale financial assets	8,101,196	-	-	-	8,101,196
Derivative financial assets for hedging	9,136	-	-	-	9,136
Bond investments with no active market	2,541,800	-	-	-	2,541,800
Held-to-maturity investments	1,803,056	-	-	-	1,803,056
Total	\$22,012,386	\$-	\$-	\$-	\$22,012,386

Financial assets	Credit quality of financial assets				
	31 March 2014 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$293,909	\$-	\$-	\$-	\$293,909
Financial assets at fair value through profit or loss	19,956	-	-	-	19,956
Available-for-sale financial assets	266,049	-	-	-	266,049
Derivative financial assets for hedging	300	-	-	-	300
Bond investments with no active market	83,475	-	-	-	83,475
Held-to-maturity investments	59,214	-	-	-	59,214
Total	\$722,903	\$-	\$-	\$-	\$722,903

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Financial assets	Credit quality of financial assets				
	31 December 2013 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,185,821	\$-	\$-	\$-	\$8,185,821
Financial assets at fair value through profit or loss	1,312,025	-	-	-	1,312,025
Available-for-sale financial assets	7,234,902	-	-	-	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	10,022
Bond investments with no active market	2,053,740	-	-	-	2,053,740
Held-to-maturity investments	1,955,937	-	-	-	1,955,937
Total	\$20,752,447	\$-	\$-	\$-	\$20,752,447

Financial assets	Credit quality of financial assets				
	31 December 2013 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$274,416	\$-	\$-	\$-	\$274,416
Financial assets at fair value through profit or loss	43,983	-	-	-	43,983
Available-for-sale financial assets	242,538	-	-	-	242,538
Derivative financial assets for hedging	336	-	-	-	336
Bond investments with no active market	68,848	-	-	-	68,848
Held-to-maturity investments	65,570	-	-	-	65,570
Total	\$695,691	\$-	\$-	\$-	\$695,691

Financial assets	Credit quality of financial assets				
	31 March 2013 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,824,424	\$-	\$-	\$-	\$5,824,424
Financial assets at fair value through profit or loss	489,461	-	-	-	489,461
Available-for-sale financial assets	8,536,072	-	-	58,898	8,594,970
Derivative financial assets for hedging	16,284	-	-	-	16,284
Bond investments with no active market	1,871,712	-	-	-	1,871,712
Held-to-maturity investments	2,265,404	-	-	-	2,265,404
Total	\$19,003,357	\$-	\$-	\$58,898	\$19,062,255

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Financial assets	Credit quality of financial assets				
	31 March 2013 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,385	\$-	\$-	\$-	\$195,385
Financial assets at fair value through profit or loss	16,419	-	-	-	16,419
Available-for-sale financial assets	286,349	-	-	1,976	288,325
Derivative financial assets for hedging	546	-	-	-	546
Bond investments with no active market	62,788	-	-	-	62,788
Held-to-maturity investments	75,995	-	-	-	75,995
Total	\$637,482	\$-	\$-	\$1,976	\$639,458

Note: Investment level means the credit rating above BBB- and non-investment level means the credit rating less than BBB-.

b. Secured loans

Secured loans	31 March 2014 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$131,166	\$-	\$-	\$-	\$125,477	\$256,643	\$1,583	\$255,060
Corporate Finance	60,000	-	-	-	186,453	246,453	81,061	165,392
Total	\$191,166	\$-	\$-	\$-	\$311,930	\$503,096	\$82,644	\$420,452

Secured loans	31 March 2014 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,308	\$-	\$-	\$-	\$4,121	\$8,429	\$52	\$8,377
Corporate Finance	1,970	-	-	-	6,123	8,093	2,662	5,431
Total	\$6,278	\$-	\$-	\$-	\$10,244	\$16,522	\$2,714	\$13,808

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Secured loans	31 December 2013 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$124,583	\$-	\$-	\$-	\$127,966	\$252,549	\$1,563	\$250,986
Corporate Finance	60,000	-	-	-	192,596	252,596	81,061	171,535
Total	\$184,583	\$-	\$-	\$-	\$320,562	\$505,145	\$82,624	\$422,521

Secured loans	31 December 2013 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,177	\$-	\$-	\$-	\$4,290	\$8,467	\$53	\$8,414
Corporate Finance	2,011	-	-	-	6,456	8,467	2,717	5,750
Total	\$6,188	\$-	\$-	\$-	\$10,746	\$16,934	\$2,770	\$14,164

Secured loans	31 March 2013 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$135,029	\$-	\$-	\$-	\$129,707	\$264,736	\$1,624	\$263,112
Corporate Finance	60,000	-	-	-	271,730	331,730	71,545	260,185
Total	\$195,029	\$-	\$-	\$-	\$401,437	\$596,466	\$73,169	\$523,297

Secured loans	31 March 2013 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,530	\$-	\$-	\$-	\$4,351	\$8,881	\$55	\$8,826
Corporate Finance	2,013	-	-	-	9,115	11,128	2,400	8,728
Total	\$6,543	\$-	\$-	\$-	\$13,466	\$20,009	\$2,455	\$17,554

(3) Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Consolidated Company adopt and implement the internal control regulations and establish the information systems to accommodate the aforementioned policies.

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(4) Liquidity risk

A. Definition and resource of liquidity risk

Liquidity risk includes capital liquidity risk and market liquidity risk. Capital liquidity happens when the Consolidated Company fail to raise sufficiently capital on reasonable terms and costs, leading to cash flow gap. Market liquidity risk happens when the Consolidated Company sell assets below market prices to raise sufficient capital but may suffer loss.

B. Liquidity risk management

The Consolidated Company established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, the Consolidated Company carefully manage the market liquidity risk. Moreover, the Consolidated Company have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, the Consolidated Company uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess the company's overall capital supply, demand and changes in cash flow gap.

In the event of cash flow gap, the will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

C. The table below summarizes the maturity profile of the Consolidated Company's financial liabilities based on contractual undiscounted payments.

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Liabilities	31 March 2014 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,251,378	\$1,250,928	\$1,219,527	\$22,583	\$7,558	\$1,260	\$-
Financial liabilities at fair value through profit or loss	62,424	62,424	-	62,424	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	31 March 2014 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$73,937	\$41,082	\$40,050	\$742	\$248	\$42	\$-
Financial liabilities at fair value through profit or loss	2,050	2,050	-	\$2,050	-	-	-
Preferred stock liability	\$32,841	\$32,841	-	-	-	-	\$32,841

Liabilities	31 December 2013 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,622,538	\$1,363,246	\$1,334,100	\$21,223	\$7,181	\$742	\$-
Financial liabilities at fair value through profit or loss	28,352	28,352	-	28,352	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	31 December 2013 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$87,917	\$45,701	\$44,723	\$712	\$241	\$25	\$-
Financial liabilities at fair value through profit or loss	950	950	-	950	-	-	-
Preferred stock liability	33,523	33,523	-	-	-	-	33,523

Liabilities	31 March 2013 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,133,430	\$1,327,550	\$1,283,549	\$38,059	\$923	\$5,019	\$-
Financial liabilities at fair value through profit or loss	94,825	94,825	-	94,825	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

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Liabilities	31 March 2013 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$71,567	\$44,533	\$43,058	\$1,276	\$31	\$168	\$-
Financial liabilities at fair value through profit or loss	3,181	3,181	-	3,181	-	-	-
Preferred stock liability	33,546	33,546	-	-	-	-	33,546

(5) Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

The Consolidated Company continues to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

A. Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level when the market risk factors changes. The Company estimates value at risk on the next day (week or two weeks) with a 99% level of confidence.

Value-at-risk model must reasonably, completely and accurately measure the maximum potential risk that can be the Consolidated Company's risk management model. The use of is risk management model must conduct back testing daily to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

B. Stress testing

In addition to the value-at-risk model, the Consolidated Company periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

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The Consolidated Company conducts stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

a. Simple Sensitivity

Simple sensitivity mainly evaluate changes in value of portfolio caused by specific risk factor.

b. Scenario Analysis

Scenario analysis measures the change in the total value of a portfolio under a stressful event. The measures include:

(a) Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, then calculates the amount of loss.

(b) Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for the company to perform risk analysis, risk alert and business management based on the stress test report.

31 March 2014	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$238,881	\$7,845
Interest rate risk (Yield curve)	20bp	(65,838)	(2,162)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(121,082)	(3,976)

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31 March 2014		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$18,691	\$614	\$2,328	\$76
	HKD appreciate 1 %	-	-	160	5
	NTD appreciate 1 %	(13,962)	(459)	(1,866)	(61)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,562)	(51)	(137)	(4)
	Yield curve (RMB) flat rises 1bp	(63)	(2)	(78)	(3)
	Yield curve (NTD) flat rises 1bp	(150)	(5)	(1,301)	(43)
Equity securities price sensitivity	Increase 1% in equity price	-	-	(23,888)	(784)

31 March 2013	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$124,375	\$4,172
Interest rate risk (Yield curve)	20bp	71,771	2,408
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(218,759)	(7,338)

31 March 2013		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$14,495	\$486	\$-	\$-
	HKD appreciate 1 %	408	14	-	-
	NTD appreciate 1 %	(6,025)	(202)	-	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,316)	(44)	(100)	(3)
	Yield curve (RMB) flat rises 1bp	-	-	(159)	(5)
	Yield curve (NTD) flat rises 1bp	(123)	(4)	(1,827)	(61)
Equity securities price sensitivity	Increase 1% in equity price	-	-	(12,438)	(417)

(6) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

- a. The carrying amount of cash and cash equivalents, receivables, and payable approximate their fair value.

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- b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
- c. The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- d. The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

Other than those listed in the table below, the carrying amount of the Consolidated Company's financial assets and liabilities measured at amortized cost approximate their fair value:

NT\$	Carrying amount as at			Fair value as at		
	2014.3.31	2013.12.31	2013.3.31	2014.3.31	2013.12.31	2013.3.31
Held-to-maturity investments bonds	\$1,803,056	\$1,955,937	\$2,265,404	\$1,837,004	\$1,977,270	\$2,423,257
Bond investments with no active market	2,541,800	2,053,740	1,871,712	2,552,807	2,046,926	1,909,422

US\$	Carrying amount as at			Fair value as at		
	2014.3.31	2013.12.31	2013.3.31	2014.3.31	2013.12.31	2013.3.31
Held-to-maturity investments bonds	\$59,214	\$65,570	\$75,995	\$60,329	\$66,285	\$81,290
Bond investments with no active market	83,475	68,848	62,788	83,836	68,620	64,053

C. Fair value of recognized in balance sheet

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

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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.

Financial instruments at fair value (NT\$)	31 March 2014			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$607,671	\$607,671	\$-	\$-
Available-for-sale financial assets				
Stock	3,107,887	3,107,887	-	-
Bonds	3,439,511	3,024,223	415,288	-
Others	1,553,798	1,553,798	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	9,136	-	9,136	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
loss				
Forward and SWAP	62,424	-	62,424	-

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Financial instruments at fair value (US\$)	31 March 2014			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$19,956	\$19,956	\$-	\$-
Available-for-sale financial assets				
Stock	102,065	102,065	-	-
Bonds	112,956	99,318	13,638	-
Others	51,028	51,028	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	300	-	300	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	2,050	-	2,050	-
Financial instruments at fair value (NT\$)	31 December 2013			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$1,312,025	\$1,312,025	\$-	\$-
Available-for-sale financial assets				
Stock	2,285,699	2,285,699	-	-
Bonds	3,470,385	3,061,845	408,540	-
Others	1,478,818	1,478,818	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	10,022	-	10,022	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	28,352	-	28,352	-

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31 December 2013				
Financial instruments at fair value (US\$)	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$43,983	\$43,983	\$-	\$-
Available-for-sale financial assets				
Stock	76,624	76,624	-	-
Bonds	116,339	102,643	13,696	-
Others	49,575	49,575	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	336	-	336	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	950	-	950	-
31 March 2013				
Financial instruments at fair value (NT\$)	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	\$10,050	\$10,050	\$-	\$-
Others	479,411	479,411	-	-
Available-for-sale financial assets				
Stock	1,467,291	1,467,291	-	-
Bonds	3,901,787	3,477,193	424,594	-
Others	3,225,892	3,225,892	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	16,284	-	16,284	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	94,825	-	94,825	-

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Financial instruments at fair value (US\$)	31 March 2013			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	\$337	\$337	\$-	\$-
Others	16,082	16,082	-	-
Available-for-sale financial assets				
Stock	49,221	49,221	-	-
Bonds	130,889	116,646	14,243	-
Others	108,215	108,215	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	546	-	546	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP				
	3,181	-	3,181	-

During the three months ended 31 March 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

D. During the three months ended 31 March 2014 and 2013, there were no Level 3 fair value measurements.

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9. Related party transactions

(1) Premiums income

Name	For the three months periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$5,929	\$194	\$75,594	\$2,536
Cathay United Bank Co., Ltd.	12,415	408	17,315	581
Total	<u>\$18,344</u>	<u>602</u>	<u>\$92,909</u>	<u>\$3,117</u>

The premium income is according to general rate calculation.

(2) Premiums receivable

Name	2014.3.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$6,514	\$214
Cathay United Bank Co., Ltd.	17,906	588
Total	<u>\$24,420</u>	<u>\$802</u>

Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$2,390	\$80
Cathay United Bank Co., Ltd.	39,745	1,333
Total	<u>\$42,135</u>	<u>\$1,413</u>

Name	2013.3.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$4,332	\$146
Cathay United Bank Co., Ltd.	11,393	382
Total	<u>\$15,725</u>	<u>\$528</u>

Premium receivables generated by the principal business activities of premium income, for the period of one month.

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(3) Cash in banks

Name	Type	2014.3.31	
		NT\$	US\$
Other related parties			
Cathay United Bank	Cash in banks	\$602,465	\$19,785
Co., Ltd.	Time deposits	\$693,385	\$22,771

Name	Type	2013.12.31	
		NT\$	US\$
Other related parties			
Cathay United Bank	Cash in banks	\$777,180	\$26,054
Co., Ltd.	Time deposits	\$693,131	\$23,236

Name	Type	2013.3.31	
		NT\$	US\$
Other related parties			
Cathay United Bank	Cash in banks	\$598,280	\$20,070
Co., Ltd.	Time deposits	\$670,500	\$22,492

Interest rate				
Name	Type	2014.3.31	2013.12.31	2013.3.31
Other related parties				
Cathay United Bank	Cash in banks	0.01%-0.45%	0.01%-0.75%	0.01%-0.75%
Co., Ltd.	Time deposits	0.17%-3.50%	0.17%-3.50%	0.17%-1.345%

Interest Revenue					
Name	Type	2014.3.31		2013.3.31	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$258	\$8	\$115	\$4
Co., Ltd.	Time deposits	2,497	82	2,218	74
Toal		\$2,755	\$90	\$2,333	\$78

As of 31 March 2014, 31 December 2013 and 31 March 2013, time deposit pledged were NT\$25,000 (US\$821) thousand, NT\$25,000 (US\$838) thousands and NT\$20,000 (US\$671) thousands.

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(4) Secured Loans

For the three months periods ended 31 March 2014				
NT\$				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$39,174	\$37,583	1.84%	\$176
For the three months periods ended 31 March 2014				
US\$				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,287	\$1,234	1.84%	\$6
For the three months periods ended 31 March 2013				
NT\$				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$38,291	\$36,752	1.84%	\$184
For the three months periods ended 31 March 2013				
US\$				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,285	\$1,233	1.84%	\$6

(5) Available-for-sale financial assets

Name	2014.3.31	
	NT\$	US\$
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	\$111,003	\$3,645
2013.12.31		
Name	NT\$	US\$
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	\$146,836	\$4,922

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Name	2013.3.31	
	NT\$	US\$
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	\$58,076	\$1,948

(6) Guarantee deposits paid

Name	2014.3.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$24,407	\$802
Cathay Futures Co., Ltd.	9,953	327
Cathay United Bank Co., Ltd.	2,221	73
Lin Yuan (Shanghai) Real Estate	5,219	171
Total	\$41,800	\$1,373

Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$24,464	\$820
Cathay Futures Co., Ltd.	9,950	334
Cathay United Bank Co., Ltd.	2,221	75
Lin Yuan (Shanghai) Real Estate	5,262	176
Total	\$41,897	\$1,405

Name	2013.3.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$23,725	\$796
Cathay Futures Co., Ltd.	4,966	167
Cathay United Bank Co., Ltd.	2,085	69
Total	\$30,776	\$1,032

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(7) Other payable

Name	2014.3.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$253,806	\$8,335
Other related parties		
Cathay Life Insurance Co., Ltd.	185,360	6,088
Total	<u>\$439,166</u>	<u>\$14,423</u>

Name	2013.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$212,790	\$7,133
Other related parties		
Cathay Life Insurance Co., Ltd.	164,984	5,531
Total	<u>\$377,774</u>	<u>\$12,664</u>

Name	2013.3.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$225,498	\$7,565
Other related parties		
Cathay Life Insurance Co., Ltd.	178,929	6,002
Total	<u>\$404,427</u>	<u>\$13,567</u>

(8) Preferred stock liability

Name	2014.3.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$32,841</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Name	2013.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$1,000,000	\$33,523

Name	2013.3.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$1,000,000	\$33,546

(9) Operating costs

Name		For the three months periods ended 31 March			
		2014		2013	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	\$5,175	\$170	\$4,443	\$149

(10) Operating expenses

Name		For the three months periods ended 31 March			
		2014		2013	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$25,672	\$843	\$25,894	\$869
	Marketing expenses	337,797	11,093	319,922	10,732
	Party premium expenses	2,927	96	2,197	74
	Administrative expenses	1,276	42	1,248	42
Cathay United Bank Co., Ltd.	Marketing expenses	15,431	507	13,299	446
	Rental expenses	2,163	71	2,098	70
Lin Yuan (Shanghai) Real Estate	Rental expenses	4,958	163	-	-
Total		\$390,224	\$12,815	\$364,658	\$12,233

(11) Other expenses

Name		For the three months periods ended 31 March			
		2014		2013	
		NT\$	US\$	NT\$	US\$
Other related parties					
Symphox Information Co., Ltd.		\$8,636	\$284	\$7,443	\$250

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(12) Non-operating expenses and losses

Name	For the three months periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Financial Holding Co., Ltd.	\$4,586	\$151	\$4,586	\$154

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

(13) Other

As of 31 March 2014 and 2013 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Name	Item	2014.3.31	2013.12.31
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$43,950	US\$57,450
	IRS	NT\$400,000 (US\$13,136)	NT\$400,000 (US\$13,409)

Name	Item	2013.3.31
Other related parties		
Cathay United Bank Co., Ltd	CS contracts	US\$88,250
	IRS	NT\$400,000 (US\$13,418)

(14) Key management personnel compensation in total

Item	For the three months periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$19,344	\$635	\$20,072	\$673
Post-employment benefits	618	21	880	30
Termination benefits	-	-	2,708	91
Total	\$19,962	656	\$23,660	\$794

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

10. Pledged assets

(1) The Company

Item	2014.3.31	
	NT\$	US\$
Government deposits paid-government bonds	\$516,195	\$16,952
Guarantee deposits paid-time deposits	25,000	821
Total	<u>\$541,195</u>	<u>\$17,773</u>

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-government bonds	\$519,321	\$17,409
Guarantee deposits paid-time deposits	25,000	838
Total	<u>\$544,321</u>	<u>\$18,247</u>

Item	2013.3.31	
	NT\$	US\$
Government deposits paid-government bonds	\$473,495	\$15,884
Guarantee deposits paid-time deposits	20,000	671
Total	<u>\$493,495</u>	<u>\$16,555</u>

As of 31 March 2014, 31 December 2013 and 31 March 2013, the Company provided government bonds amounting to NT\$516,195 (US\$16,952) thousands, NT\$519,321 (US\$17,409) thousands, and NT\$473,495 (US\$15,884) thousands, respectively, as the “Guaranteed Depository Insurance” in accordance with the Insurance Act. The pledged assets are stated at book value.

(2) Cathay Insurance (China)

Item	2014.3.31	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$603,842</u>	<u>\$19,831</u>

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$606,914</u>	<u>\$20,346</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2013.3.31	
	NT\$	US\$
Government deposits paid-time deposits	\$384,816	\$12,909

According to the Insurance Act of the People's Republic of China, Cathy Insurance (China) should deposit guarantee deposits at an amount equal to 20% of it paid-in capital. The guaranteed deposits of Cathay Insurance (China) are time deposits. The pledged assets are stated at book value.

(3) Cathay Insurance (Vietnam)

Item	2014.3.31	
	NT\$	US\$
Government deposits paid-time deposits	\$8,537	\$280

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$10,850	\$363

Item	2013.3.31	
	NT\$	US\$
Government deposits paid-time deposits	\$8,414	\$282

According to Insurance Act of Vietnam, Cathy Insurance (Vietnam) should deposit guarantee deposits at an amount equal to 2% of it paid-in capital. The guaranteed deposits of Cathay Insurance (Vietnam) are time deposits. The pledged assets are stated at book value.

11. Contingent liabilities and Unrecognized contractual commitments

The Consolidated Company entered into several operating lease contracts for office and equipment. The operating lease will expire in 3-5 years, and there's no limited condition in the contracts.

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According to the noncancelable operating lease contracts, the future minimum lease payments at 31 March 2014, 31 December 2013 and 31 March 2013 are as follows:

(1) Significant lease contracts of the Company

NT\$	2014.3.31	2013.12.31	2013.3.31
Not later than 1 year	\$126,346	\$122,885	\$120,303
Later than 1 year but not later than 5 years	505,384	491,541	481,213
Later than 5 years	-	-	-
	<u>\$631,730</u>	<u>\$614,426</u>	<u>\$601,516</u>
US\$	2014.3.31	2013.12.31	2013.3.31
Not later than 1 year	\$4,149	\$4,120	\$4,035
Later than 1 year but not later than 5 years	16,597	16,478	16,143
Later than 5 years	-	-	-
	<u>\$20,746</u>	<u>\$20,598</u>	<u>\$20,178</u>

(2) Operating lease contracts that can't be cancelled of Cathay Insurance (China)

NT\$	2014.3.31	2013.12.31	2013.3.31
Not later than 1 year	\$65,328	\$65,219	\$58,140
Later than 1 year but not later than 5 years	113,224	115,684	54,858
Later than 5 years	-	-	-
	<u>\$178,552</u>	<u>\$180,903</u>	<u>\$112,998</u>
US\$	2014.3.31	2013.12.31	2013.3.31
Not later than 1 year	\$2,146	\$2,186	\$1,951
Later than 1 year but not later than 5 years	3,718	3,878	1,840
Later than 5 years	-	-	-
	<u>\$5,864</u>	<u>\$6,064</u>	<u>\$3,791</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

12. Significant disaster losses: None.

13. Subsequent events: None.

14. Others

- (1) 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	31 March 2014 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,965,027	\$-	\$8,965,027
Receivables	3,087,664	-	3,087,664
Investments	6,231,716	7,252,420	13,484,136
Reinsurance contracts assets	-	5,581,022	5,581,022
Property and equipment	-	284,365	284,365
Intangible assets	-	21,627	21,627
Other assets	-	1,418,550	1,418,550
Total assets			<u>\$32,842,391</u>
Payables	\$2,242,560	\$8,818	\$2,251,378
Financial liabilities	62,424	1,000,000	1,062,424
Insurance liabilities	-	22,645,147	22,645,147
Provision	-	235,740	235,740
Other liabilities	-	427,719	427,719
Total liabilities			<u>\$26,622,408</u>

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)**

31 March 2014 (US\$)			
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$294,418	\$-	\$294,418
Receivables	101,401	-	101,401
Investments	204,654	238,175	442,829
Reinsurance contracts assets	-	183,285	183,285
Property and equipment	-	9,339	9,339
Intangible assets	-	710	710
Other assets	-	46,586	46,586
Total assets			<u>\$1,078,568</u>
Payables	\$73,647	\$290	\$73,937
Financial liabilities	2,050	32,841	34,891
Insurance liabilities	-	743,683	743,683
Provision	-	7,742	7,742
Other liabilities	-	14,046	14,046
Total liabilities			<u>\$874,299</u>

31 December 2013 (NT\$)			
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,194,772	\$-	\$8,194,772
Receivables	3,725,513	-	3,725,513
Investments	5,451,436	7,538,540	12,989,976
Reinsurance contracts assets	-	5,057,226	5,057,226
Property and equipment	-	303,365	303,365
Intangible assets	-	29,031	29,031
Other assets	-	1,409,434	1,409,434
Total assets			<u>\$31,709,317</u>
Payables	\$2,614,615	\$7,923	\$2,622,538
Financial liabilities	28,352	1,000,000	1,028,352
Insurance liabilities	-	21,853,590	21,853,590
Provision	-	236,272	236,272
Other liabilities	-	457,466	457,466
Total liabilities			<u>\$26,198,218</u>

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31 December 2013 (US\$)			
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$274,716	\$-	\$274,716
Receivables	124,891	-	124,891
Investments	182,750	252,717	435,467
Reinsurance contracts assets	-	169,535	169,535
Property and equipment	-	10,170	10,170
Intangible assets	-	973	973
Other assets	-	47,249	47,249
Total assets			<u>\$1,063,001</u>
Payables	\$87,651	\$266	\$87,917
Financial liabilities	950	33,523	34,473
Insurance liabilities	-	732,604	732,604
Provision	-	7,921	7,921
Other liabilities	-	15,336	15,336
Total liabilities			<u>\$878,251</u>

31 March 2013 (NT\$)			
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$5,835,681	\$-	\$5,835,681
Receivables	2,968,447	-	2,968,447
Investments	7,167,042	6,595,572	13,762,614
Reinsurance contracts assets	-	5,264,819	5,264,819
Property and equipment	-	171,740	171,740
Intangible assets	-	26,082	26,082
Other assets	-	1,161,414	1,161,414
Total assets			<u>\$29,190,797</u>
Payables	\$2,127,488	\$5,942	\$2,133,430
Financial liabilities	94,825	1,000,000	1,094,825
Insurance liabilities	-	20,435,699	20,435,699
Provision	-	248,378	248,378
Other liabilities	-	275,777	275,777
Total liabilities			<u>\$24,188,109</u>

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Item	31 March 2013 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$195,763	\$-	\$195,763
Receivables	99,579	-	99,579
Investments	240,424	221,253	461,677
Reinsurance contracts assets	-	176,612	176,612
Property and equipment	-	5,761	5,761
Intangible assets	-	875	875
Other assets	-	38,961	38,961
Total assets			<u>\$979,228</u>
Payables	\$71,368	\$199	\$71,567
Financial liabilities	3,181	33,546	36,727
Insurance liabilities	-	685,532	685,532
Provision	-	8,332	8,332
Other liabilities	-	9,251	9,251
Total liabilities			<u>\$811,409</u>

(2) Hedged of derivative financial instruments related information**Cash flow hedges-IRS**

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at 31 March 2014:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,568	2.65%	Each quarterly	30 Sep. 2014
200,000	6,568	2.785%	Each quarterly	30 Apr. 2015

The terms of interest rate swap agreements are established based on the terms of the bonds being hedged.

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The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$9,136 (US\$300) thousands and NT\$16,284 (US\$546) thousands as of 31 March 2014 and 2013, respectively.

(3) Eliminated inter-company transactions

31 March 2014 (NT\$)			
Company name and debit(credit) amounts			
Transactions	The Company	Cathay	Cathay
		Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$(10,552)	\$11,600	\$(1,048)
k Eliminate subsidiaries equity	(1,335,693)	1,706,662	482,362

31 March 2014 (US\$)			
Company name and debit(credit) amounts			
Transactions	The Company	Cathay	Cathay
		Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$(347)	\$381	\$(34)
k Eliminate subsidiaries equity	(43,865)	56,048	15,841

31 March 2013 (NT\$)			
Company name and debit(credit) amounts			
Transactions	The Company	Cathay	Cathay
		Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$54,116	\$(46,762)	\$(7,354)
k Eliminate subsidiaries equity	(642,200)	526,811	378,794

31 March 2013 (US\$)			
Company name and debit(credit) amounts			
Transactions	The Company	Cathay	Cathay
		Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$1,815	\$(1,568)	\$(247)
k Eliminate subsidiaries equity	(21,543)	17,672	12,707

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Note: The eliminated difference of inter-company result in non-controlling equity NT\$853,331 (US\$28,024) thousands and NT\$263,405(US\$8,836) thousands for the three months periods ended 31 March 2014 and 2013.

The business relationship and amounts to significant transactions between inter-companies refer to Table 5.

- (4) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	31 March 2014		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	\$96,169	30.5100	\$2,934,116
RMB	765,708	4.9091	3,758,937
EUR	106	41.9787	4,450
Non-Monetary Items			
USD	97,870	30.5100	-
	(Nominal Amount)		(Note)
Investment under equity method			
RMB	173,911	4.9067	850,331
VND	345,779,459	0.001395	482,362
	31 December 2013		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	\$106,807	29.9500	\$3,198,870
RMB	575,799	4.9118	2,828,210
EUR	193	41.1214	7,936
Non-Monetary Items			
USD	115,370	29.9500	-
	(Nominal Amount)		(Note)
Investment under equity method			
RMB	70,770	4.9472	350,112
VND	346,554,936	0.001370	474,780

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	31 March 2013		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$182,061	29.8750	\$5,439,069
RMB	167,335	4.8129	805,363
<u>Non-Monetary Items</u>			
USD	194,920	29.8750	-
	(Nominal Amount)		(Note)
<u>Investment under equity method</u>			
RMB	54,760	4.8102	263,407
VND	275,486,774	0.001375	378,794

Note: The Consolidated Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized by NT\$62,424 (US\$2,050) thousands, NT\$28,352 (US\$950) thousands and NT\$94,825 (US\$3,181) thousands at 31 March 2014, 31 December 2013 and 31 March 2013.

(5) Capital management

A. Objective

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. Policy

In order to assume all types of risks, the Company applies capital adequacy ratio as the index of capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically in order to understand the situation of capital adequacy in the short-run and mid-term. The Company set business objectives, plan assets allocation based on the ratio and dividend policy.

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C. Procedures

a. Periodically

Regularly review the capital adequacy ratios in order to implement the capital adequacy management. The Company provides capital adequacy report every six-month periods by the competent authority and analysis its own capital and the possible changes in risk capital when forecasting the investment development plan. The Company ensures a healthy capital structure and implements capital adequacy management.

b. Aperiodically

Practice scenario analysis for capital adequacy ratio focusing on the Company's usage of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

(6) Operation segments information

The Consolidated Company operates property insurance by Insurance Act. In accordance with IFRS 8, the Company only provides insurance contracts products and it has no different business way, client style and supervision environment. The supervisor of the Company also implement assets overall, and consider the Company as a single operating segment.

15. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28.96 million to the establish a insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. And ,the joint venture company named Cathay Insurance Company Ltd(China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. As of 31 March 2014 the Company has totally remitted US\$60.31 million.