Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Financial Statements

For the years ended
31 December 2014 and 2013
With Independent Auditors' Audit 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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Independent Auditors' Audit Report
English Translation of a Report Originally Issued in Chinese

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

We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2014 and 31 December 2013, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cathay Century Insurance Co., Ltd. and its subsidiaries as of 31 December 2014 and 31 December 2013, and the consolidated results of their operations and their cash flows for the years ended 31 December 2014 and 2013, in conformity with "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises", and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed by Financial Supervisory Commission.

In addition, we have also audited the financial statements of the Company as of and for the years ended 31 December 2014 and 2013, on which we have expressed an unqualified opinion.

Ernst & Young
Taipei, Taiwan
The Republic of China

18 March 2015

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated balance sheets

As of 31 December 2014 and 2013

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 December 2014	31 December 2013
Cash and cash equivalents	4,6(1)	$8,023,111	$8,194,772
Receivables	4,6(2)	3,649,736	3,725,513
Financial assets at fair value through profit or loss	4,6(3)	1,514,144	1,312,025
Available-for-sale financial assets	4,6(4)	8,256,604	7,234,902
Derivative financial assets for hedging		3,747	10,022
Investments accounted for using the equity method		-	829
Bond investments with no active market	4,6(5)	3,359,314	2,053,740
Held-to-maturity financial assets	4,6(6)	2,647,264	1,955,937
Secured Loans	4,6(7)	397,313	422,521
Reinsurance contracts assets	4,6(8)	6,089,372	5,057,226
Property and equipment		258,732	303,365
Intangible assets		26,155	29,031
Deferred income tax assets		85,089	77,223
Other assets		1,544,267	1,332,211
Total assets		$35,854,848	$31,709,317

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated balance sheets

As of 31 December 2014 and 2013

(Expressed in thousands of New Taiwan Dollars)

Liabilities & equity	Notes	31 December 2014	31 December 2013
Payables	4,6(9)	$2,892,354	$2,622,538
Financial liabilities at fair value through profit or loss		176,626	28,352
Preferred stock liability	4,6(10)	1,000,000	1,000,000
Insurance liabilities	4,6(11)	23,943,870	21,853,590
Provision	4,6(12)	235,740	236,272
Deferred income tax liabilities		58,480	24,404
Other liabilities		679,739	433,062
Total liabilities		28,986,809	26,198,218
Equity attributable to owners of parent			
Capital stock	4,6(13)	2,721,879	2,721,879
Capital surplus			
Capital surplus - others		-	1,929
Retained earnings	4,6(14)		
Legal reserve		1,167,902	1,092,927
Special capital reserve		1,949,825	1,364,645
Undistributed earnings		246,699	74,975
Other equity		76,788	(95,368)
Non-controlling interests	4,6(15)	704,946	350,112
Total equity		6,868,039	5,511,099
Total equity and liabilities		$35,854,848	$31,709,317

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated statements of comprehensive income

For the years ended 31 December 2014 and 2013

(Expressed in thousands of New Taiwan Dollars, except earning per share)

Items	Notes	2014.1.1~2014.12.31	2013.1.1~2013.12.31
Operating revenues			
Direct premium income	4,6(16)	$20,754,488	$19,228,139
Reinsurance premium income	4,6(16)	524,894	498,526
Premiums income		21,279,382	19,726,665
Deduct: Reinsurance premiums ceded	4,6(16)	(5,199,451)	(4,446,271)
Change in unearned premiums reserve - Net	4,6(16)	(454,273)	(1,124,215)
Retained earned premium		15,625,658	14,156,179
Reinsurance commission earned		683,179	469,601
Handling fee earned		45,375	35,714
Investment profit and loss		917,578	714,780
Interest income		569,418	444,234
Gains (losses) from financial asset or financial liability at fair value through profit or loss		(245,702)	(164,117)
Realized gains (losses) from available-for-sale financial assets		273,666	262,830
Realized gains (losses) from held-to-maturity financial assets		4,591	3,134
Share of gains (losses) of associates and joint ventures accounted for using the equity method		1,726	(662)
Gains (losses) on foreign exchange		313,879	169,361
Subtotal		17,271,790	15,376,274
Operating costs			
Insurance claims paid	4,6(17)	(11,204,362)	(9,743,408)
Deduct: Claims recovered from reinsurers	4,6(17)	2,457,528	1,908,395
Retained claim paid		(8,746,834)	(7,835,013)
Changes in insurance liabilities - Net	4,6(11)	(690,511)	(591,929)
Commissions expenses		(1,160,449)	(1,039,314)
Other operating costs		(49,762)	(43,521)
Subtotal		(10,647,556)	(9,509,777)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated statements of comprehensive income

For the years ended 31 December 2014 and 2013

(Expressed in thousands of New Taiwan Dollars, except earning per share)

Items	Notes	2014.1.1~2014.12.31	2013.1.1~2013.12.31
Operating expenses			
Business expenses		(4,531,326)	(4,062,244)
General and administrative expenses		(1,280,370)	(1,253,620)
Employee training expenses		(12,423)	(12,193)
Subtotal		(5,824,119)	(5,328,057)
Operating income		800,115	538,440
Non-operating income and expenses		28,993	8,567
Profit before tax from continuing operations		829,108	547,007
Income tax expense	4,6(20)	(173,509)	(217,953)
Profit from continuing operations		655,599	329,054
Net income		655,599	329,054
Other comprehensive income	4,6(18)		
Exchange differences resulting from translating the financial statements of a foreign operation		59,465	29,920
Unrealized gains (losses) from available-for-sale financial assets		161,174	(144,737)
Gains (losses) on cash flow hedges		(6,274)	(7,113)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(2)	1
Income tax relating to components of other comprehensive income		(6,212)	1,090
Other comprehensive income, net of tax		208,151	(120,839)
Total comprehensive income		$863,750	$208,215
Net income attributable to :			
Owners of parent (net income)		$831,879	$775,441
Non-controlling interests (net loss)		$(176,280)	$(446,387)
Comprehensive income attributable to :			
Owners of parent (comprehensive income)		$1,004,035	$643,944
Non-controlling interests (comprehensive loss)		$(140,285)	$(435,729)
Basic earnings per share (In dollars)			
Net income from continuing operations	4,6(21)	$3.06	$2.85

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated statements of changes in equity

For the years ended 31 December 2014 and 2013

(Expressed in thousands of New Taiwan Dollars)

			Retained earnings			Other equity					
Items	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	Total	Non-controlling interests	Total equity
Balance on 1 January 2013	$2,522,950	$1,929	$954,800	$923,897	$77,338	$(52,535)	$71,530	$17,134	$4,517,043	$300,290	$4,817,333
Appropriations and distributions for the year 2012: (Note 1)											
Legal reserve	-	-	138,127	-	(138,127)	-	-	-	-	-	-
Reversal of special capital reserve	-	-	-	(53,919)	53,919	-	-	-	-	-	-
Stock dividends	198,929	-	-	-	(198,929)	-	-	-	-	-	-
Provision for special reserve (Note 2)	-	-	-	494,667	(494,667)	-	-	-	-	-	-
Net income for the year ended 31 December 2013	-	-	-	-	775,441	-	-	-	775,441	(446,387)	329,054
Other comprehensive income for the year ended 31 December 2013	-	-	-	-	-	15,976	(140,360)	(7,113)	(131,497)	10,658	(120,839)
Total comprehensive income for the year ended 31 December 2013	-	-	-	-	775,441	15,976	(140,360)	(7,113)	643,944	(435,729)	208,215
Other	-	-	-	-	-	-	-	-	-	485,551	485,551
Balance on 31 December 2013	$2,721,879	$1,929	$1,092,927	$1,364,645	$74,975	$(36,559)	$(68,830)	$10,021	$5,160,987	$350,112	$5,511,099
Balance on 1 January 2014	$2,721,879	$1,929	$1,092,927	$1,364,645	$74,975	$(36,559)	$(68,830)	$10,021	$5,160,987	$350,112	$5,511,099
Appropriations and distributions for the year 2013:											
Legal reserve	-	-	113,928	-	(113,928)	-	-	-	-	-	-
Provision for special reserve (Note 2)	-	-	-	585,180	(585,180)	-	-	-	-	-	-
Legal reserve used to cover accumulated deficits	-	-	(38,953)	-	38,953	-	-	-	-	-	-
Changes in other capital surplus:											
Share of changes in net assets of associates and joint ventures for using the equity method	-	(1,929)	-	-	-	-	-	-	(1,929)	-	(1,929)
Net income for the year ended 31 December 2014	-	-	-	-	831,879	-	-	-	831,879	(176,280)	655,599
Other comprehensive income for the year ended 31 December 2014	-	-	-	-	-	37,621	140,809	(6,274)	172,156	35,995	208,151
Total comprehensive income for the year ended 31 December 2014	-	-	-	-	831,879	37,621	140,809	(6,274)	1,004,035	(140,285)	863,750
Other	-	-	-	-	-	-	-	-	-	495,119	495,119
Balance on 31 December 2014	$2,721,879	$-	$1,167,902	$1,949,825	$246,699	$1,062	$71,979	$3,747	$6,163,093	$704,946	$6,868,039

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

Note 1: The employee bonus of NT$1,485 thousands was recorded as operating cost and expense in 2012.
Note 2: The special reserve was set aside in accordance with article 18 of " Regulation of the Management of Various Reserves by Insurance Enterprises".

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated statements of cash flows

For the years ended 31 December 2014 and 2013

(Expressed in thousands of New Taiwan dollars)

Items	2014.1.1~2014.12.31	2013.1.1~2013.12.31
Cash flows from operating activities :		
Profit before tax	$829,108	$547,007
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	102,134	84,949
Amortization	34,447	33,204
Provision for bad debt expense	26,676	10,866
Net losses (gains) on financial asset or financial liability at fair value through profit or loss	245,702	164,117
Net losses (gains) on available-for-sale financial assets	(273,666)	(262,830)
Net losses (gains) from held-to-maturity financial assets	(4,591)	(3,134)
Interest income	(569,418)	(444,234)
Net changes of insurance liabilities	1,985,170	1,304,723
Share of loss (profit) of associates and joint ventures accounted for using the equity method	(1,726)	662
Loss (profit) on disposal of property and equipment	29	(3)
Changes in assets and liabilities from operating activities :		
Increase in financial assets at fair value through profit or loss	(292,647)	(1,005,094)
(Increase) decrease in available-for-sale financial assets	(674,813)	1,236,390
Increase in bond investments for which no active market exists	(1,367,933)	(924,873)
(Increase) decrease in held-to-maturity financial assets	(675,209)	560,256
Decrease (increase) in notes receivable	53,815	(9,735)
Increase in premiums receivable	(162,900)	(3,168)
Decrease (increase) in other accounts receivable	273,294	(374,039)
(Increase) decrease in reinsurance contracts assets	(1,006,644)	472,648
Increase in other current assets	(213,358)	(142,725)
Increase (decrease) in claims outstanding	1,903	(7,333)
Increase in due to reinsurers and ceding companies	29,387	158,144
Increase in commissions payable	76,777	35,925
Increase in other payables	35,703	42,190
Decrease in provision	(532)	(11,677)
Increase (decrease) in other liabilities	246,677	(7,762)
Cash flows (used in) from operating activities	(1,302,615)	1,454,474
Interest received	477,970	392,383
Dividends received	104,619	97,923
Interest paid	(1,594)	(19,683)
Income taxes paid	(25,871)	(13,051)
Net cash flows (used in) from operating activities	(747,491)	1,912,046
Cash flows from investing activities :		
Proceeds from repayments of bond investments without active market	82,920	200,000
Disinvestment of investments accounted for using the equity method	535	-
Acquisition of property and equipment	(54,434)	(229,058)
Disposal of property and equipment	-	24,438
Increase in secured loans	(61,400)	(33,960)
Decrease in secured loans	86,608	133,519
Acquisition of intangible assets	(29,336)	(28,319)
Net cash flows from investing activities	24,893	66,620
Cash flows from financing activities:		
Issuance of common stock for cash	495,119	485,551
Net cash from financing activities	495,119	485,551
Effects of exchange rate changes on cash and cash equivalents	55,818	53,504
(Decrease) increase in cash and cash equivalents	(171,661)	2,517,721
Cash and cash equivalents at the beginning of periods	8,194,772	5,677,051
Cash and cash equivalents at the end of periods	$8,023,111	$8,194,772

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

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 years ended 31 December 2014 and 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 18 March 2015.

3. Newly issued or revised standards and interpretations

(1) International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC") and would be applicable for annual periods beginning on or after 1 January 2015, but not yet adopted by the Consolidated Company at the date of issuance of the Consolidated Company's 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.

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 acquirer'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 acquirer'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.

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.

(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.

(g) IFRS 11 “Joint Arrangements”

IFRS 11 replaces IAS 31 and SIC-13. 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 presents 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 disclosures 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.

(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 recognized 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.

(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.

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 above mentioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2015. When the Consolidated Company applies the amendments to IAS 19 in 2015, employee benefits will be recognized based on actuarial calculations in accordance with IAS 19. At 31 December 2014 and 1 January, deferred tax assets will be retrospectively restated to increase by $8,057 thousand and $15,146 thousand respectively; accrued pension liabilities will be retrospectively restated to increase by $47,392 thousand and $89,095 thousand; retained earnings will be retrospectively restated to increase by $895 thousand and decrease $37 thousand; equity will be retrospectively restated to decrease by $40,230 thousand and $73,912 thousand. Consolidated firm adopt IAS 19 will result in additional financial statement disclosures for the consolidated firm.

The Consolidated Company is still currently determining the potential impact of the standards and interpretations.

(2) Standards or interpretations issued by IASB but not yet recognized by FSC at the date of issuance of the Consolidated Company's financial statements are listed below.

(a) 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.

(b) 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.

(c) Novation of derivative instruments and continuation of hedge accounting

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

(d) 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.

(e) 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.

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.

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.

(f) 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.

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.

(g) 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.

(h) IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

(i) IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

(j) IFRS 15 "Revenue from Contracts with Customers"

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Standard is effective for annual periods beginning on or after 1 January 2017.

(k) IAS 16 "Property, Plant and Equipment and IAS 41 "Agriculture" - Agriculture: Bearer Plants

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

(l) IFRS 9 "Financial Instruments"

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018.

(m) IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity's separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendment is effective for annual periods beginning on or after 1 January 2016.

(n) IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

The amendment is effective for annual periods beginning on or after 1 January 2016.

(o) Improvements to International Financial Reporting Standards (2012-2014 cycle):

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.

IFRS 7 "Financial Instruments: Disclosures"

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 Financial Instruments: Disclosures is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 19 "Employee Benefits"

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 34 “Interim Financial Reporting”

The amendment clarifies what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment 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 Group’s financial statements, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed under (X) ~ (X), it is not practicable to estimate their impact on the Group at this point in time. All other standards and interpretations have no material impact on the Group.

(p) IAS 1 “Presentation of Financial Statements” (Amendment):

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2016.

(q) IFRS 10"Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28"Investments in Associates and Joint Ventures" — Investment Entities: Applying the Consolidation Exception

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

The above mentioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Consolidated Company's financial statements, the local effective dates are to be determined by FSC. As the Consolidated Company is still currently determining the potential impact of the standards and interpretations.

The above mentioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Consolidated Company's financial statements, the local effective dates are to be determined by FSC. As the Consolidated Company is still currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the years ended 31 December 2014 and 2013 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretation Committee as endorsed 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 ("$") 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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

If the Company 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
			2014.12.31	2013.12.31	
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	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%	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.

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.

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 (including fixed term deposits that contract period within one year).

(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, 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 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.

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. 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.

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.

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 statement of comprehensive income.

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.

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 realize 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.

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 reorganization;

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.

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.

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.

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.

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:

A. 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.

B. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.

C. Total unsecured portion of loans overdue and receivable on demand.

D. In the case of the minimum amounts of allowance of uncollectible accounts according to guidelines about-mentioned are less than the assessed amounts according to Generally Accepted Accounting Principles, the amounts should be assessed by Generally Accepted Accounting Principles.

Before 1 January 2014, the minimum amounts for allowance of uncollectible accounts should be the higher amount between the amounts assessed by Generally Accepted Accounting Principles and the total amounts of 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.

(9) Investments in the accounted for using the equity method

The Consolidated 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.

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.

(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.

(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.

Computer software

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

(13)Impairment of non-financial assets

The 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 account of this insurance.

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.

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.

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.

(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 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 equity.

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 $30,000 thousands individually and the aggregate payment of loss of the whole property and casualty insurers in excess of $2,000 million, 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.

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.

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.

(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 it’s 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 companied 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 companied.

(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

From 1 January 2014 to 30 June 2014, the Company had made monthly contributions based on 2‰ of the gross premiums to the stabilization funds. Since 1 July 2014, the company has changed its way of contribution to rate discrimination depositing 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 Company's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations. Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions.

The 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.

(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.

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.

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.

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 main sources of uncertainty

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:

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.

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 Company 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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

6. Contents of significant accounts

(1) Cash and cash equivalents

Item	2014.12.31	2013.12.31
Petty cash and cash on hand	$10,184	$8,951
Cash in banks	1,187,967	2,041,944
Time deposits	6,069,785	4,892,070
Cash equivalents	755,175	1,251,807
Total	$8,023,111	$8,194,772

(2) Receivable

Item	2014.12.31	2013.12.31
Notes receivable	$233,647	$287,463
Premiums receivable	3,027,639	2,871,655
Other receivable	388,450	566,395
Total	$3,649,736	$3,725,513

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

Item	2014.12.31	2013.12.31
Beneficiary certificates	$1,514,144	$1,312,025

Financial assets held for trading were not pledged.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(4) Available-for-sale financial assets

Item	2014.12.31	2013.12.31
Stocks	$3,775,366	$2,285,699
Overseas stocks	26,064	-
Beneficiary certificates	1,694,710	1,478,818
Corporate bonds	808,030	1,091,843
Real estate investment trust	34,725	-
Financial debentures	854,183	1,207,363
Government bonds	698,603	762,639
Overseas bonds	364,923	408,540
Total	$8,256,604	$7,234,902

Available-for-sale financial assets were not pledged.

(5) Bond investments with no active market

Item	2014.12.31	2013.12.31
Preferred stocks	$400,000	$400,000
Company bonds	650,000	450,000
Overseas bonds	1,711,546	1,047,332
Time deposits	597,768	156,408
Total	$3,359,314	$2,053,740

Bond investments for which no active market exists were not pledged.

(6) Held-to-maturity financial assets

Item	2014.12.31	2013.12.31
Overseas bonds	$2,647,264	$1,955,937

Held-to-maturity financial assets were not pledged.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(7) Secured loans

Item	2014.12.31	2013.12.31
Secured loans	$464,489	$505,145
Less: Allowance for bad debts	(67,176)	(82,624)
Total	$397,313	$422,521

(8) Reinsurance assets

	2014.12.31	2013.12.31
Claims recoverable from reinsurers	$321,809	$332,711
Due from reinsurers and ceding companies	727,993	561,540
Reinsurance Reserve Assets		
Ceded unearned premiums reserve	2,750,419	2,495,090
Ceded claims reserve	2,249,673	1,663,767
Ceded premiums deficiency reserve	39,478	4,118
Subtotal	5,039,570	4,162,975
Total	$6,089,372	$5,057,226

(9) Payables

Item	2014.12.31	2013.12.31
Claims outstanding	$15,580	$13,677
Commissions payable	225,073	148,296
Due to reinsurers and ceding companies	1,392,632	1,363,246
Other payables	1,259,069	1,097,319
Total	$2,892,354	$2,622,538

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(10) Preferred stock liability

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 thousand shares of Class A preferred stocks at par value of $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. 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 10 November 2018, seven years in total.

B. Dividend yield is 1.86% per year based on the actual issue price of $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	2014.12.31	2013.12.31
Unearned premiums reserve	$11,950,213	$11,213,469
Claims reserve	8,154,755	6,041,523
Special reserve	3,639,138	4,354,992
Premiums deficiency reserve	199,764	243,606
Total	$23,943,870	$21,853,590

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

A. Unearned premiums reserve

(a) Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

	2014.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$2,025,128	$71,770	$996,886	$1,100,012
Marine insurance	118,522	10,068	86,749	41,841
Land and air insurance	4,239,833	5,254	321,346	3,923,741
Liability insurance	517,552	993	154,925	363,620
Bonding insurance	44,930	897	24,523	21,304
Other property insurance	1,386,263	25,124	553,326	858,061
Accident insurance	1,615,214	2,378	74,098	1,543,494
Health insurance	44,108	-	-	44,108
Compulsory automobile liability insurance	1,641,103	201,076	538,566	1,303,613
Total	$11,632,653	$317,560	$2,750,419	$9,199,794

	2013.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$2,026,423	$54,083	$964,076	$1,116,430
Marine insurance	139,775	14,955	104,044	50,686
Land and air insurance	3,590,802	8,625	178,898	3,420,529
Liability insurance	538,568	597	166,651	372,514
Bonding insurance	35,730	722	18,958	17,494
Other property insurance	1,477,530	30,213	475,846	1,031,897
Accident insurance	1,510,910	2,591	71,337	1,442,164
Health insurance	48,879	-	156	48,723
Compulsory automobile liability insurance	1,544,803	188,263	515,124	1,217,942
Total	$10,913,420	$300,049	$2,495,090	$8,718,379

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(b) Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

	2014.1.1 ~ 2014.12.31		2013.1.1 ~ 2013.12.31	
Item	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	$11,213,469	$2,495,090	$10,100,374	$2,547,036
Reserve	11,910,320	2,739,108	11,172,233	2,483,170
Recover	(11,212,249)	(2,495,310)	(10,104,776)	(2,539,928)
Effects of exchange rate changes	38,673	11,531	45,638	4,812
Ending balance	$11,950,213	$2,750,419	$11,213,469	$2,495,090

B. Claims reserve

(a) Claims reserve and ceded claims reserve

	2014.12.31			
	Claims reserve		Ceded claims reserve	
Item	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Claims reported but not paid off	$4,073,887	$223,378	$1,329,214	$2,968,051
Unreported claims	3,646,437	211,053	920,459	2,937,031
Total	$7,720,324	$434,431	$2,249,673	$5,905,082

	2013.12.31			
	Claims reserve		Ceded claims reserve	
Item	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Claims reported but not paid off	$3,886,032	$307,234	$1,350,564	$2,842,702
Unreported claims	1,789,128	59,129	313,203	1,535,054
Total	$5,675,160	$366,363	$1,663,767	$4,377,756

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(b) Net changes for claims reserve and ceded claims reserve

2014.1.1 ~ 2014.12.31

	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
Item	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	$4,032,021	$3,886,167	$223,378	$307,234	$61,998	$1,310,527	$1,351,511	$(40,984)
Unreported claims	3,627,798	1,788,532	211,003	59,116	1,991,153	916,688	313,099	603,589
Total	$7,659,819	$5,674,699	$434,381	$366,350	$2,053,151	$2,227,215	$1,664,610	$562,605

2013.1.1 ~ 2013,12.31

	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
Item	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	$3,865,122	$4,125,832	$307,234	$293,677	$(247,153)	$1,346,448	$1,728,657	$(382,209)
Unreported claims	1,778,041	1,370,391	58,901	39,583	426,968	310,964	292,295	18,669
Total	$5,643,163	$5,496,223	$366,135	$333,260	$179,815	$1,657,412	$2,020,952	$(363,540)

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

	2014.12.31		
	Claims reserve		
Item	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$1,146,481	$89,187	$1,235,668
Marine insurance	394,186	114,198	508,384
Land and air insurance	932,619	796,653	1,729,272
Liability insurance	274,039	509,388	783,427
Bonding insurance	21,842	45,469	67,311
Other property insurance	762,712	278,066	1,040,778
Accident insurance	87,839	468,766	556,605
Health insurance	4,820	46,612	51,432
Compulsory automobile liability insurance	672,727	1,509,151	2,181,878
Total	$4,297,265	$3,857,490	$8,154,755

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

	2013.12.31		
	Claims reserve		
Item	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$859,480	$134,727	$994,207
Marine insurance	621,182	176,133	797,315
Land and air insurance	820,143	620,039	1,440,182
Liability insurance	259,018	281,177	540,195
Bonding insurance	19,789	1,837	21,626
Other property insurance	654,657	189,141	843,798
Accident insurance	67,805	350,047	417,852
Health insurance	6,149	44,518	50,667
Compulsory automobile liability insurance	885,043	50,638	935,681
Total	$4,193,266	$1,848,257	$6,041,523

(d) Reinsurance asset- ceded claims reserve for policyholder

	2014.12.31		
	Ceded claims reserve		
Item	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$481,509	$24,965	$506,474
Marine insurance	223,098	81,827	304,925
Land and air insurance	50,179	23,399	73,578
Liability insurance	71,772	146,934	218,706
Bonding insurance	18,239	32,972	51,211
Other property insurance	327,003	50,747	377,750
Accident insurance	8,024	51,615	59,639
Health insurance	-	(315)	(315)
Compulsory automobile liability insurance	149,390	508,315	657,705
Total	$1,329,214	$920,459	$2,249,673

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

	2013.12.31		
	Ceded claims reserve		
Item	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$286,597	$32,707	$319,304
Marine insurance	439,425	121,983	561,408
Land and air insurance	61,353	17,045	78,398
Liability insurance	71,041	89,780	160,821
Bonding insurance	18,180	695	18,875
Other property insurance	181,717	13,811	195,528
Accident insurance	5,034	28,494	33,528
Health insurance	-	692	692
Compulsory automobile liability insurance	287,217	7,996	295,213
Total	$1,350,564	$313,203	$1,663,767

(e) Reconciliation statement of claims reserve and ceded claims reserve

	2014.1.1 ~ 2014.12.31		2013.1.1 ~ 2013.12.31	
Item	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	$6,041,523	$1,663,767	$5,807,437	$2,014,316
Reserve	8,094,200	2,227,215	6,009,298	1,657,412
Recover	(6,041,049)	(1,664,610)	(5,829,483)	(2,020,952)
Effects of exchange rate changes	60,081	23,301	54,271	12,991
Ending balance	$8,154,755	$2,249,673	$6,041,523	$1,663,767

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

Item	2014.1.1 ~2014.12.31	2013.1.1 ~2013.12.31
Beginning balance	$2,225,672	$2,307,591
Reserve	47,505	260,936
Recover	(744,632)	(342,855)
Ending balance	$1,528,545	$2,225,672

(b) Special reserve - Non-compulsory automobile liability insurance

	Liability		
	2014.1.1 ~ 2014.12.31		
Item	Major incidents	Fluctuation of risks	Total
Beginning balance	$543,080	$1,586,240	$2,129,320
Reserve	-	-	-
Recover	(18,727)	-	(18,727)
Ending balance	$524,353	$1,586,240	$2,110,593

	Liability		
	2013.1.1 ~ 2013.12.31		
Item	Major incidents	Fluctuation of risks	Total
Beginning balance	$561,807	$1,586,240	$2,148,047
Reserve	-	-	-
Recover	(18,727)	-	(18,727)
Ending balance	$543,080	$1,586,240	$2,129,320

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 $1,277,740 thousands, special capital reserve under equity are decrease $459,135 thousands.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

D. Premiums deficiency reserve

(a) Premiums deficiency reserve and ceded premium deficiency reserve

	2014.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$-	$-
Marine insurance	-	7	(1,183)	1,190
Land and air insurance	-	1,095	-	1,095
Liability insurance	14,898	5	2,071	12,832
Bonding insurance	509	-	8	501
Other property insurance	136,975	1	38,582	98,394
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	46,274	-	-	46,274
Total	$198,656	$1,108	$39,478	$160,286

	2013.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$4,237	$92	$-	$4,329
Marine insurance	160	2	(8,736)	8,898
Land and air insurance	-	377	(329)	706
Liability insurance	27,518	12	3,485	24,045
Bonding insurance	10,288	-	9,698	590
Other property insurance	161,090	424	-	161,514
Accident insurance	-	97	-	97
Health insurance	-	-	-	-
Compulsory automobile liability insurance	39,309	-	-	39,309
Total	$242,602	$1,004	$4,118	$239,488

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

2014.1.1 ~ 2014.12.31

	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$4,229	$-	$92	$(4,321)	$-	$-	$-	$(4,321)
Marine insurance	-	160	7	2	(155)	(1,184)	(8,736)	7,552	(7,707)
Land and air insurance	-	-	1,095	376	719	-	(329)	329	390
Liability insurance	14,392	27,473	5	11	(13,087)	2,001	3,479	(1,478)	(11,609)
Bonding insurance	492	10,288	-	-	(9,796)	7	9,698	(9,691)	(105)
Other property insurance	132,327	160,823	1	425	(28,920)	37,272	-	37,272	(66,192)
Accident insurance	-	-	-	97	(97)	-	-	-	(97)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	44,704	39,244	-	-	5,460	-	-	-	5,460
Total	$191,915	$242,217	$1,108	$1,003	$(50,197)	$38,096	$4,112	$33,984	$(84,181)

2013.1.1 ~ 2013.12.31

	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$4,117	$6,352	$89	$24	$(2,170)	$-	$-	$-	$(2,170)
Marine insurance	155	9,329	2	726	(9,898)	(8,737)	(7,182)	(1,555)	(8,343)
Land and air insurance	-	-	377	9,319	(8,942)	(329)	-	(329)	(8,613)
Liability insurance	26,743	13,433	11	10	13,311	3,387	-	3,387	9,924
Bonding insurance	10,285	2,207	-	-	8,078	9,698	2,096	7,602	476
Other property insurance	156,551	36,701	413	448	119,815	-	35	(35)	119,850
Accident insurance	-	-	95	200	(105)	-	-	-	(105)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	38,201	-	-	-	38,201	-	-	-	38,201
Total	$236,052	$68,022	$987	$10,727	$158,290	$4,019	$(5,051)	$9,070	$149,220

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(c) Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

	2014.1.1 ~ 2014.12.31		2013.1.1 ~ 2013.12.31	
Item	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	$243,606	$4,118	$77,149	$(5,055)
Reserve	193,023	38,096	237,039	4,019
Recover	(243,220)	(4,112)	(78,749)	5,051
Effects of exchange rate changes	6,355	1,376	8,167	103
Ending balance	$199,764	$39,478	$243,606	$4,118

(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

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

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

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

Expenses under the defined contribution plan for the years ended 31 December 2014 and 2013 are $64,537 thousands and $57,103 thousands, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The payment of pension benefits are based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The accumulated units shall not exceed 45 units. Under the Labor Standards Act, The Company contributes pension contribution proportionate to 2% of gross salary to the pension funds monthly, deposited in a special account by Supervisory Committee of Workers' Retirement Preparation Fund in Bank of Taiwan, Co., Ltd.

Pension costs recognized in profit or loss for the years ended 31 December 2014 and 2013:

	2014.1.1~ 2014.12.31	2013.1.1~ 2013.12.31
Current period service costs	$23,851	$21,193
Interest cost	13,255	9,427
Expected return on plan assets	(7,390)	(5,460)
Actuarial gains and losses	1,152	-
Total	$30,868	$25,160

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

	2014.1.1~ 2014.12.31	2013.1.1~ 2013.12.31
Business expense	$21,608	$17,612
General and administrative expenses	9,260	7,548
Total	$30,868	$25,160

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

The reconciliation for the present value of defined benefit obligation and the plan assets at fair value are as follows:

	2014.12.31	2013.12.31
Defined benefit obligation	$(687,858)	$(706,615)
Plan assets at fair value	404,727	381,248
Funded status	(283,131)	(325,367)
Unrecognized pension cost	47,391	89,095
Accrued pension liabilities recognized on the balance sheets	$(235,740)	$(236,272)

Changes in present value of the defined benefit obligation are as follows:

	2014.1.1~ 2014.12.31	2013.1.1~ 2013.12.31
Beginning defined benefit obligation	$706,615	$625,367
Current service cost	23,851	21,193
Interest cost	13,255	9,427
Benefits paid	(13,843)	(7,816)
Actuarial (gains) losses	(42,020)	58,444
Ending defined benefit obligation	$687,858	$706,615

Changes in fair value of plan assets are as follows:

	2014.1.1~ 2014.12.31	2013.1.1~ 2013.12.31
Beginning fair value of plan assets	$381,248	$348,590
Expected return on plan assets	7,390	5,460
Contributions by employer	31,401	36,838
Benefits paid	(13,843)	(7,816)
Actuarial losses	(1,469)	(1,824)
Ending fair value of plan assets	$404,727	$381,248

As of 31 December 2014, the Company expects to contribute $31,291 thousands to its defined benefit plan within the next 12 months.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Pension plan (%)	
	2014.12.31	2013.12.31
Cash	80.30%	81.30%
Equity instruments	8.90%	8.80%
Debt instruments	10.80%	9.90%

For the years ended 31 December 2014 and 2013, the actual amount of plan assets is $5,921 thousands and $3,636 thousands, respectively.

Employee pension fund is deposited under a trust administered by the Bank of Taiwan. The overall expected rate of return on assets is determined based on historical trend and analyst's expectation on the asset's return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks are also taken into consideration in determining the expected rate of return on assets.

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	2014.12.31	2013.12.31
Discount rate	2.00%	1.92%
Expected rate of return on plan assets	2.00%	1.92%
Expected rate of salary increases	1.50%	1.50%

If the discount rate increase or decrease by 0.5%, the results are as follows：

	2014.1.1 ~ 2014.12.31		2013.1.1 ~ 2013.12.31	
	Increase	Decrease	Increase	Decrease
Effect on the defined benefit obligation	$57,092	$51,589	$50,660	$46,145

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

Other information on the defined benefit plan is as follows:

	2014.1.1~ 2014.12.31	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
Ending defined benefit obligation at present value	$(687,858)	$(706,615)	$(625,367)
Ending plan assets at fair value	404,727	381,248	348,590
The surplus or shortage of ending plan assets	(283,131)	(325,367)	(276,777)
The experience adjustments on plan liabilities	(33,325)	69,374	13,936
The experience adjustments on plan assets	1,469	1,824	1,357

(13) Common stock

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

As recommended and approved by the board meeting of directors on 30 April 2013, the Company issued 19,893 thousands new shares from capitalization of retained earnings. It was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission and the date of capitalization was 21 June 2013.

(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 interpretations No. 10102508861 Financial-Supervisory-Property-Insurance-Corporate issued by Financial Supervisory Commission on 5 June 2012, 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 year ended 31 December 2014, the reserves amounted to $1,949,825 thousands.

C. Retained earnings

According to the article 35 of 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 $1,500 thousands and $0 thousands for the years ended 31 December 2014 and 2013, respectively. The employee bonus was recorded as operating cost and expense at current year. The difference between the accrual distribution and the estimated amount will be adjusted in the following fiscal year.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

Details of the year ended 2014 and 2013 earnings distribution and dividends per share as approved by the company's Board of directors on 18 March 2015 and 21 April 2014, respectively, are as follows:

	Appropriation of Earnings		Dividend Per Share	
	2014	2013	2014	2013
Legal reserve	$166,376	$113,928	$-	$-
Legal reserve used to cover accumulated deficits	-	(38,953)	-	-
Special capital reserve-special reserve	585,180	494,667	-	-
Common stock-stock dividend	80,323	-	-	-
Directors' remuneration	68	-	-	-
Employee bonus-Cash	1,294	-	-	-

There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the 2013's earnings and the estimated amount in the financial statements for the year ended 2013. The difference between the actual employee bonuses and estimate amount for the year ended of 2014 is $138 thousands, will record income on 2015.

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

Item	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Beginning balance	$350,112	$300,290
Loss attributable to non-controlling interests	(176,280)	(446,387)
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	21,844	13,944
Unrealized gains from available-for-sale financial assets	14,151	(3,286)
Share of changes in the net assets of associates and joint ventures for using the equity method	495,119	485,551
Ending balance	$704,946	$350,112

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(16) Retained earned premium

	2014.1.1 ~ 2014.12.31					
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	$3,066,441	$130,790	$1,949,918	$1,247,313	$(17,415)	$1,264,728
Marine insurance	633,043	30,780	459,847	203,976	(7,622)	211,598
Land and air insurance	7,065,877	10,334	492,137	6,584,074	505,333	6,078,741
Liability insurance	997,612	1,832	286,693	712,751	(11,399)	724,150
Bonding insurance	103,191	1,455	62,981	41,665	3,724	37,941
Other property insurance	2,270,408	28,684	892,601	1,406,491	(191,054)	1,597,545
Accident insurance	2,686,858	6,016	183,057	2,509,817	101,217	2,408,600
Health insurance	183,625	-	(60)	183,685	(4,614)	188,299
Compulsory automobile liability insurance	3,747,433	315,003	872,277	3,190,159	76,103	3,114,056
Total	$20,754,488	$524,894	$5,199,451	$16,079,931	$454,273	$15,625,658

	2013.1.1 ~ 2013.12.31					
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	$2,904,496	$108,304	$1,879,554	$1,133,246	$(127,166)	$1,260,412
Marine insurance	656,565	42,917	476,225	223,257	52	223,205
Land and air insurance	6,166,184	14,659	297,904	5,882,939	607,130	5,275,809
Liability insurance	1,043,375	1,106	338,876	705,605	27,083	678,522
Bonding insurance	72,404	1,224	38,672	34,956	(415)	35,371
Other property insurance	2,218,619	41,367	432,999	1,826,987	357,293	1,469,694
Accident insurance	2,517,703	5,791	145,979	2,377,515	(6,552)	2,384,067
Health insurance	160,344	-	513	159,831	(38,226)	198,057
Compulsory automobile liability insurance	3,488,449	283,158	835,549	2,936,058	305,016	2,631,042
Total	$19,228,139	$498,526	$4,446,271	$15,280,394	$1,124,215	$14,156,179

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(17) Retained claim paid

Item	2014.1.1 ~ 2014.12.31 Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	$(761,046)	$(3,456)	$(283,942)	$(480,560)
Marine insurance	(397,445)	(146,885)	(417,371)	(126,959)
Land and air insurance	(4,114,551)	(88,107)	(394,604)	(3,808,054)
Liability insurance	(506,064)	(38)	(162,179)	(343,923)
Bonding insurance	(57,763)	(201)	(47,825)	(10,139)
Other property insurance	(1,211,248)	(11,815)	(188,320)	(1,034,743)
Accident insurance	(1,030,538)	(363)	(125,143)	(905,758)
Health insurance	(99,370)	-	-	(99,370)
Compulsory automobile liability insurance	(2,462,705)	(312,767)	(838,144)	(1,937,328)
Total	$(10,640,730)	$(563,632)	$(2,457,528)	$(8,746,834)

Item	2013.1.1 ~ 2013.12.31 Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	$(1,014,465)	$(2,686)	$(354,524)	$(662,627)
Marine insurance	(461,897)	(56,882)	(337,863)	(180,916)
Land and air insurance	(3,399,267)	(10,653)	(108,120)	(3,301,800)
Liability insurance	(482,483)	(138)	(138,615)	(344,006)
Bonding insurance	5,855	(168)	11,856	(6,169)
Other property insurance	(808,192)	(15,522)	(89,909)	(733,805)
Accident insurance	(932,756)	(3,502)	(65,656)	(870,602)
Health insurance	(119,103)	-	(160)	(118,943)
Compulsory automobile liability insurance	(2,142,371)	(299,178)	(825,404)	(1,616,145)
Total	$(9,354,679)	$(388,729)	$(1,908,395)	$(7,835,013)

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(18) Components of other comprehensive income

	2014.1.1 ~ 2014.12.31				
	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 foreign operations	$59,465	$-	$59,465	$-	$59,465
Unrealized gains (losses) form available-for-sale financial assets	328,427	(167,253)	161,174	(6,212)	154,962
Gains (losses) on cash flow hedges	(6,274)	-	(6,274)	-	(6,274)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(2)	-	(2)	-	(2)
Total of other comprehensive income	$381,616	$(167,253)	$214,363	$(6,212)	$208,151

	2013.1.1 ~ 2013.12.31				
	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 foreign operations	$29,920	$-	$29,920	$-	$29,920
Unrealized gains (losses) form available-for-sale financial assets	17,039	(161,776)	(144,737)	1,090	(143,647)
Gains (losses) on cash flow hedges	(7,113)	-	(7,113)	-	(7,113)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	1	-	1	-	1
Total of other comprehensive income	$39,847	$(161,776)	$(121,929)	$1,090	$(120,839)

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(19) Personnel, depreciation, depletion and amortization expenses

Item	2014.1.1 ~ 2014.12.31			2013.1.1 ~ 2013.12.31		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$2,398,889	$2,398,889	$-	$2,156,326	$2,156,326
Labor & health insurance expenses	-	190,269	190,269	-	161,698	161,698
Pension expenses	-	95,405	95,405	-	82,263	82,263
Other employee benefits	-	83,791	83,791	-	80,124	80,124
Depreciation	-	102,134	102,134	-	84,949	84,949
Amortization	-	34,447	34,447	-	33,204	33,204

As of 31 December 2014 and 2013, the total numbers of employees were $2,872 and $2,728, respectively.

(20) Income tax

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

Income tax expense (income) recognized in profit or loss

	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Current income tax expense (income):		
Current income tax charge	$153,256	$207,241
Adjustments in respect of current income tax of prior periods	256	1
Deferred tax expense (income):		
Deferred tax expense (income) related to origination and reversal of temporary differences	19,997	10,711
Total income tax expense	$173,509	$217,953

Income tax related to components of other comprehensive income

	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Deferred tax expense (income):		
Unrealized gains from available-for-sale financial assets	$6,212	$(1,090)

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

	For the year ended 31 December	
	2014	2013
Accounting profit before tax from continuing operations	$829,108	$547,007
At the domestic income tax rates of related countries	$170,910	$168,938
Tax effect of expenses not deductible for tax purposes	47,599	85,078
Tax effect of revenues exempt from taxation	(45,294)	(36,159)
Tax effect of deferred tax assets/liabilities	38	95
Adjustments in respect of current income tax of prior periods	256	1
Total income tax expense recognized in profit or loss	$173,509	$217,953

Deferred tax assets (liabilities) relate to the following:

	2014.1.1 ~ 2014.12.31				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of available-for-sale investments to fair value	$1,090	$-	$(6,212)	$-	$(5,122)
Revaluations of financial liabilities at fair value through profit or loss	15,118	10,088	-	-	25,206
Provisions for employee benefits liability	42,224	(90)	-	-	42,134
Bad debt losses	18,791	(1,042)	-	-	17,749
Unrealized exchange gain	(24,404)	(28,953)	-	(1)	(53,358)
Deferred tax income expense		$(19,997)	$(6,212)	$(1)	
Net deferred tax assets/(liabilities)	$52,819				$26,609
Reflected in balance sheet as follows:					
Deferred tax assets	$77,223				$85,089
Deferred tax liabilities	$(24,404)				$(58,480)

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

	2013.1.1 ~ 2013.12.31				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	$(17,949)	$17,949	$-	$-	$-
Revaluations of available-for-sale investments to fair value	-	-	1,090	-	1,090
Revaluations of financial liabilities at fair value through profit or loss	-	15,118	-	-	15,118
Provisions for employee benefits liability	42,607	(383)	-	-	42,224
Bad debt losses	18,666	125	-	-	18,791
Unrealized exchange loss	19,477	(19,477)	-	-	-
Unrealized exchange gain	(356)	(24,043)	-	(5)	(24,404)
Deferred tax income (expense)		$(10,711)	$1,090	$(5)	
Net deferred tax assets/(liabilities)	$62,445				$52,819
Reflected in balance sheet as follows:					
Deferred tax assets	$80,750				$77,223
Deferred tax liabilities	$(18,305)				$(24,404)

Unrecognized deferred tax assets

As of 31 December 2014 and 2013, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to $237,782 thousands, and $202,236 thousands, respectively.

Imputation credit information

	2014.12.31	2013.12.31
Balances of imputation credit amounts	$10,273	$14,839

The expected creditable ratio for 2014 and actual creditable ratio for 2013 were 2.71% and 6.5%, 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 December 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 Consolidated Company did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted.

Item	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousands)	$831,879	$775,441
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188
Basic earnings per share	$3.06	$2.85

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.

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) Chief Risk Officer

The Chief Risk Officer appointment and removal by the Board of directors, which has the independence, it could not concurrently business unit and financial unit, and has acquired any rights that may affect the company's risk profile overview data.

a. Overall management of the company's overall risk management related business.
b. Discuss important company decisions and risk management point of view to give appropriate recommendations.

(D) 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.

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.

(E) 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.

(F) 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 the Company 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.

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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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:

Item	2014	2013
Fire insurance	$729,000	$673,000
Marine insurance	729,000	673,000
Engineering insurance	729,000	673,000
New type	729,000	673,000
Automobile insurance	729,000	673,000
Health and injury insurance	729,000	673,000

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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note) 2014.12.31	Premiums receivable (Note) 2013.12.31
Fire insurance	$694,299	$605,859
Marine insurance	253,767	266,869
Land and air insurance	986,485	852,082
Liability insurance	153,702	173,230
Bonding insurance	39,522	27,737
Other property insurance	352,528	427,980
Accident insurance	272,721	270,300
Health insurance	15,934	25,735
Compulsory automobile liability insurance	338,731	286,025
Total	3,107,689	2,935,817
Less: Allowance for bad debts	(80,050)	(64,162)
Net	$3,027,639	$2,871,655

Note: As of 31 December 2014 and 2013, the receivables included overdue receivables amounted to $227,092 thousands and $484,663 thousand, respectively. The allowance for bad debts amounted to $24,293 thousands and $20,634 thousands, respectively.

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

Item	Claims reported and paid off 2014.12.31	Claims reported and paid off 2013.12.31
Fire insurance	$34,417	$22,767
Marine insurance	23,522	37,647
Land and air insurance	38,387	25,154
Liability insurance	27,060	21,545
Bonding insurance	(6)	(2)
Other property insurance	10,043	31,352
Accident insurance	16,075	15,040
Health insurance	-	-
Compulsory automobile liability insurance	172,311	179,208
Total	321,809	332,711
Less: Allowance for bad debts	-	-
Net	$321,809	$332,711

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

C. Payables of insurance contract

Item	2014.12.31 Commission payables	Other payables	Total
Fire insurance	$23,836	$15,511	$39,347
Marine insurance	8,315	9,017	17,332
Land and air insurance	29,709	192,108	221,817
Liability insurance	11,806	11,930	23,736
Bonding insurance	6,233	711	6,944
Other property insurance	42,441	13,067	55,508
Accident insurance	7,460	63,959	71,419
Health insurance	3,927	1,418	5,345
Compulsory automobile liability insurance	91,346	-	91,346
Total	$225,073	$307,721	$532,794

Item	2013.12.31 Commission payables	Other payables	Total
Fire insurance	$3,411	$7,178	$10,589
Marine insurance	2,394	3,529	5,923
Land and air insurance	5,524	91,621	97,145
Liability insurance	2,554	7,166	9,720
Bonding insurance	74	210	284
Other property insurance	44,466	6,082	50,548
Accident insurance	206	26,940	27,146
Health insurance	210	5,959	6,169
Compulsory automobile liability insurance	89,457	-	89,457
Total	$148,296	$148,685	$296,981

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

	2014.12.31	
Item	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$34,273	$166,447
Sompo Japan Re	89,734	32,502
Kann An	43,086	7,143
Best Re	41,234	8,350
FP Marine	78,021	30,811
Guy Carpenter	59,866	31,599
Marsh	125,258	259,300
Swiss Re	1,380	79,963
Willis	1,116	99,913
Others	294,043	676,604
Total	768,011	1,392,632
Less: Allowance for bad debts	(40,018)	-
Net	$727,993	$1,392,632

	2013.12.31	
Item	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$56,061	$211,063
Kann An	35,266	-
Best Re	31,477	9,269
Central Re	20,166	80,543
JLT	698	75,250
Guy Carpenter	-	76,301
Marsh	25,101	174,020
Swiss Re	4,675	108,591
Others	402,720	628,209
Total	576,164	1,363,246
Less: Allowance for bad debts	(14,624)	-
Net	$561,540	$1,363,246

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

Note: As of 31 December 2014 and 31 December 2013, the due from reinsurers and ceding companies included overdue receivables amounted to $47,827 thounsands and $46,239 thounsands, respectively. The allowance for bad debts amounted to $19,566 thousands and $14,624 thousands, respectively.

(3) Information of management achievements

A. Acquisition cost for insurance contracts

	2014.1.1 ~ 2014.12.31					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$60,110	$873	$31,504	$6,854	$101,131	$200,472
Marine insurance	17,419	322	3,666	2,315	45,124	68,846
Land and air insurance	126,847	602	-	408	921,794	1,049,651
Liability insurance	31,813	389	18,792	223	75,400	126,617
Bonding insurance	11,072	24	643	2	2,162	13,903
Other property insurance	17,335	378	290,828	3,439	69,637	381,617
Accident insurance	35,179	544	-	2	409,296	445,021
Health insurance	26,025	362	-	-	14,037	40,424
Compulsory automobile liability insurance	-	-	472,479	-	2,862	475,341
Total	$325,800	$3,494	$817,912	$13,243	$1,641,443	$2,801,892

	2013.1.1 ~ 2013.12.31					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$45,119	$8,926	$28,880	$3,810	$93,153	$179,888
Marine insurance	9,782	2,536	7,376	3,093	48,744	71,531
Land and air insurance	67,894	3,789	-	1,727	804,316	877,726
Liability insurance	26,058	2,220	44,221	183	62,395	135,077
Bonding insurance	3,032	48	302	22	1,402	4,806
Other property insurance	15,170	1,801	241,717	7,750	77,737	344,175
Accident insurance	17,883	2,288	-	22	356,361	376,554
Health insurance	14,132	1,197	-	-	15,312	30,641
Compulsory automobile liability insurance	-	-	478,336	-	12,032	490,368
Total	$199,070	$22,805	$800,832	$16,607	$1,471,452	$2,510,766

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

	2014.1.1 ~ 2014.12.31					
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	$3,066,441	$6,083	$(193,618)	$(761,046)	$(180,283)	$1,937,577
Marine insurance	633,043	21,314	(66,531)	(397,445)	148,393	338,774
Land and air insurance	7,065,877	(648,343)	(1,049,243)	(4,114,551)	(283,853)	969,887
Liability insurance	997,612	23,368	(126,394)	(506,064)	(233,551)	154,971
Bonding insurance	103,191	(9,111)	(13,901)	(57,763)	(45,532)	(23,116)
Other property insurance	2,270,408	112,282	(378,178)	(1,211,248)	(165,077)	628,187
Accident insurance	2,686,858	(104,191)	(445,019)	(1,030,538)	(140,627)	966,483
Health insurance	183,625	4,770	(40,424)	(99,370)	(765)	47,836
Compulsory automobile liability insurance	3,747,433	(86,732)	(475,341)	(2,462,705)	(1,083,825)	(361,170)
Total	$20,754,488	$(680,560)	$(2,788,649)	$(10,640,730)	$(1,985,120)	$4,659,429

	2013.1.1 ~ 2013.12.31					
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	$2,904,496	$80,201	$(176,078)	$(1,014,465)	$427,411	$2,221,565
Marine insurance	656,565	101,443	(68,438)	(461,897)	134,581	362,254
Land and air insurance	6,166,184	(632,003)	(875,999)	(3,399,267)	(253,414)	1,005,501
Liability insurance	1,043,375	(18,849)	(134,894)	(482,483)	(51,425)	355,724
Bonding insurance	72,404	(9,191)	(4,784)	5,855	12,619	76,903
Other property insurance	2,218,619	(302,472)	(336,425)	(808,192)	(185,643)	585,887
Accident insurance	2,517,703	18,500	(376,532)	(932,756)	(66,496)	1,160,419
Health insurance	160,344	39,223	(30,641)	(119,103)	(4,621)	45,202
Compulsory automobile liability insurance	3,488,449	(339,553)	(490,368)	(2,142,371)	(159,952)	356,205
Total	$19,228,139	$(1,062,701)	$(2,494,159)	$(9,354,679)	$(146,940)	$6,169,660

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

b. Cost benefit analysis for assumed reinsurance business

	2014.1.1 ~ 2014.12.31					
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	$130,790	$(17,685)	$(6,854)	$(3,456)	$(41,155)	$61,640
Marine insurance	30,780	4,887	(2,315)	(146,885)	142,131	28,598
Land and air insurance	10,334	3,371	(408)	(88,107)	(6,598)	(81,408)
Liability insurance	1,832	(395)	(223)	(38)	(22)	1,154
Bonding insurance	1,455	(175)	(2)	(201)	(112)	965
Other property insurance	28,684	5,086	(3,439)	(11,815)	(10,615)	7,901
Accident insurance	6,016	213	(2)	(363)	875	6,739
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	315,003	(12,813)	-	(312,767)	(152,535)	(163,112)
Total	$524,894	$(17,511)	$(13,243)	$(563,632)	$(68,031)	$(137,523)

	2013.1.1 ~ 2013.12.31					
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	$108,304	$2,871	$(3,810)	$(2,686)	$(53,193)	$51,486
Marine insurance	42,917	2,477	(3,093)	(56,882)	25,727	11,146
Land and air insurance	14,659	4,571	(1,727)	(10,653)	(4,904)	1,946
Liability insurance	1,106	(421)	(183)	(138)	(36)	328
Bonding insurance	1,224	(185)	(22)	(168)	21	870
Other property insurance	41,367	(14,115)	(7,750)	(15,522)	(1,817)	2,163
Accident insurance	5,791	1,405	(22)	(3,502)	2,117	5,789
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	283,158	(1,359)	-	(299,178)	(790)	(18,169)
Total	$498,526	$(4,756)	$(16,607)	$(388,729)	$(32,875)	$55,559

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

c. Recognized gain (loss) for reinsurance contract purchased

	2014.1.1 ~ 2014.12.31					
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	$1,949,918	$(29,017)	$(127,933)	$(283,942)	$(171,781)	$1,337,245
Marine insurance	459,847	18,579	(57,431)	(417,371)	257,125	260,749
Land and air insurance	492,137	(139,639)	(94,168)	(394,604)	4,769	(131,505)
Liability insurance	286,693	11,574	(80,283)	(162,179)	(55,024)	781
Bonding insurance	62,981	(5,562)	(11,564)	(47,825)	(32,326)	(34,296)
Other property insurance	892,601	(73,686)	(265,468)	(188,320)	(177,773)	187,354
Accident insurance	183,057	(2,761)	(46,332)	(125,143)	(26,111)	(17,290)
Health insurance	(60)	156	-	-	1,008	1,104
Compulsory automobile liability insurance	872,277	(23,442)	-	(838,144)	(362,492)	(351,801)
Total	$5,199,451	$(243,798)	$(683,179)	$(2,457,528)	$(562,605)	$1,252,341

	2013.1.1 ~ 2013.12.31					
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	$1,879,554	$(44,094)	$(132,720)	$(354,524)	$245,823	$1,594,039
Marine insurance	476,225	103,972	(62,408)	(337,863)	187,704	367,630
Land and air insurance	297,904	(20,302)	(61,209)	(108,120)	(24,475)	83,798
Liability insurance	338,876	7,813	(93,267)	(138,615)	(10,713)	104,094
Bonding insurance	38,672	(9,791)	(7,866)	11,856	5,093	37,964
Other property insurance	432,999	40,706	(68,778)	(89,909)	(23,500)	291,518
Accident insurance	145,979	13,353	(43,171)	(65,656)	4,951	55,456
Health insurance	513	997	(182)	(160)	780	1,948
Compulsory automobile liability insurance	835,549	(35,896)	-	(825,404)	(22,123)	(47,874)
Total	$4,446,271	$56,758	$(469,601)	$(1,908,395)	$363,540	$2,488,573

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(4) Sensitivity of insurance risk

A. The Company

Insurance type	Premium income	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	$2,721,280	72.22	$136,064	$89,939
Marine insurance	591,051	63.21	29,553	7,968
Land and air insurance	7,034,469	65.27	351,723	225,132
Liability insurance	808,267	67.31	40,413	22,657
Bonding insurance	98,686	68.29	4,934	664
Other property insurance	664,052	61.85	33,203	16,136
Accident insurance	2,679,997	70.41	134,000	91,222
Health insurance	183,625	69.50	9,181	6,355
Compulsory automobile liability insurance	3,159,869	NA	NA	NA

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
Fire insurance	$283,338	$14,167	$4,464
Marine insurance	36,098	1,805	1,131
Liability insurance	188,393	9,420	6,356
Bonding insurance	4,505	225	206
Other property insurance	1,604,094	80,205	50,349
Compulsory automobile liability insurance	587,564	29,378	29,378

According to the above chart, 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:

I. Single insurance contract or few related contracts

For the year ended 31 December 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.

II. Exposure to unanticipated change in trend

For the year ended 31 December 2014, the loss rates of the rest insurance categories are still within reasonable range.

III. 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 year ended 31 December 2014, no material lawsuit or legal risks has taken place.

IV. 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 year ended 31 December 2014, there is no catastrophe has taken place.

V. 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.

In addition, investment in financial instruments in part, on a regular basis to monitor changes in the value of the site and the risk of cash flow analysis, and supplemented by stress testing, to control and management affecting fluctuations of major risk factors.

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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

VI. 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:

	2014.1.1 ~ 2014.12.31			
Insurance type	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	$11,161,645	$317,107	$1,170,490	$10,308,262
Fire insurance	2,746,458	124,294	1,699,466	1,171,286
Marine insurance	758,653	38,924	633,890	163,687
Engineering insurance	504,244	14,768	195,034	323,978
Health and injury insurance	1,559,638	5,579	124,862	1,440,355
Other insurance	1,206,947	15,941	434,936	787,952
Total	$17,937,585	$516,613	$4,258,678	$14,195,520

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 bring tremendous insurance risk to property insurance business.

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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

B. Cathay Insurance (China)

a. Situations that might cause to the concentration of insurance risk:

I. 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.

II. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (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 Century (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 Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the year ended 31 December 2014.

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

	2014.1.1 ~ 2014.12.31			
Insurance type	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	$2,150,027	$1,331	$586,232	$1,565,126
Fire insurance	289,872	3,468	197,437	95,903
Marine insurance	36,098	90	13,574	22,614
Engineering insurance	22,565	(11)	12,284	10,270
Health and injury insurance	-	5	-	5
Other insurance	205,430	375	62,042	143,763
Total	$2,703,992	$5,258	$871,569	$1,837,681

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(6) Claim development table

A. The company

	-2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.11.1- 2013.12.31	2014.1.1- 2014.12.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	$3,062,273	$3,322,792	$3,931,646	$5,408,275	$4,851,463	$5,773,901	$7,066,945	
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,687,982	6,109,827		
Two year later	4,184,209	4,142,479	4,895,061	5,171,294	5,742,806			
Three year later	4,048,332	4,178,118	6,227,365	5,223,218				
Four year later	4,058,322	4,142,281	6,161,426					
Five year later	4,788,529	4,128,774						
Six year later	4,609,263							
Estimate of cumulative claims incurred	4,609,263	4,128,774	6,161,426	5,223,218	5,742,806	6,109,827	7,066,945	$39,042,259
Cumulative payment to date	4,637,265	4,086,139	6,000,622	5,111,096	5,545,443	5,480,857	4,035,321	34,896,743
Subtotal	(28,002)	42,635	160,804	112,122	197,363	628,970	3,031,624	4,145,516
Reconciliation	-	-	-	-	-	-	90,031	90,031
Recorded in balance sheet	$(28,002)	$42,635	$160,804	$112,122	$197,363	$628,970	$3,121,655	$4,235,547

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 $1,886,768 thousands and assumed reinsurance (except compulsory automobile liability insurance) $190,431 thousands.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

B. Cathay Insurance (China)

	-2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.12.31	2014.1.1- 2014.12.31	Total
Estimated accumulation amount of claim:								
As to 2008/12/31	$2,799							
As to 2009/12/31	2,667	$162,366						
As to 2010/12/31	2,662	156,033	$347,226					
As to 2011/12/31	2,691	152,891	343,923	$373,674				
As to 2012/12/31	1,398	132,720	308,864	334,660	$1,039,422			
As to 2013/12/31	1,398	132,721	308,889	352,230	873,165	$1,519,883		
As to 2014/12/31	1,398	132,591	308,027	363,329	831,403	1,376,093	$2,062,889	
Estimated accumulation of claim	1,398	132,591	308,027	363,329	831,403	1,376,093	2,062,889	$5,075,730
Accumulated claim paid	1,398	132,580	307,791	340,541	793,699	1,163,917	1,069,919	3,809,845
Subtotal	-	11	236	22,788	37,704	212,176	992,970	1,265,885
Indirect claim expense, discount and risk margin								56,037
Recognized amount on balance sheet								$1,321,922

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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(7) Financial instruments

Financial instruments	2014.12.31	2013.12.31
Financial assets		
Financial assets at fair value through profit or loss:		
Held for trading	$1,514,144	$1,312,025
Available-for-sale financial assets	8,256,604	7,234,902
Held-to-maturity financial assets	2,647,264	1,955,937
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	8,012,927	8,185,821
Bond investments with no active market	3,359,314	2,053,740
Receivables	3,649,736	3,725,513
Subtotal	15,021,977	13,965,074
Derivative financial assets for hedging	3,747	10,022
Total	$27,443,736	$24,477,960
Financial liabilities		
Financial liabilities measured at amortised cost:		
Payables	$2,892,354	$2,622,538
Financial liabilities at fair value through profit or loss:		
Held for trading	176,626	28,352
Preferred stock liabilities	1,000,000	1,000,000
Total	$4,068,980	$3,650,890

8. 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. Cathay Century does not engage in derivatives transactions for trading purposes.

The primary risks of the Consolidated Company's financial instruments are 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 Consolidate 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 does 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.

(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’ 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’ interests.

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

I. 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.

II. Counterparty risk is the risk that a counterparty of the Consolidated Company to deliver as obligated before the settlement date which then cause losses to the Consolidated Company.

III. 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 underling assets linked to a financial instrument.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

B. Credit concentration risk analysis

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

	The amount of credit risk exposure - by area					
	2014.12.31					
Financial assets	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$4,104,523	$399	$20,945	$ 1,144,039	$2,743,021	$8,012,927
Financial assets at fair value through profit or loss	1,303,979	-	-	-	210,165	1,514,144
Available-for-sale financial assets	6,774,531	-	144,333	175,223	1,162,517	8,256,604
Derivative financial assets for hedging	3,747	-	-	-	-	3,747
Bond investments with no active market	1,050,000	-	340,597	805,258	1,163,459	3,359,314
Held-to-maturity financial assets	190,572	-	155,490	1,264,985	1,036,217	2,647,264
Total	$13,427,352	$399	$661,365	$3,389,505	$6,315,379	$23,794,000
Each area percentage	56.43%	0.00%	2.78%	14.25%	26.54%	100.00%

	The amount of credit risk exposure - by area					
	2013.12.31					
Financial assets	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 financial assets	-	-	-	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%

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

C. Credit risk quality analysis

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

	Credit quality of financial assets				
	2014.12.31				
	Normal assets				
Financial assets	Investment level	Non-investment level	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$8,012,927	$-	$-	$-	$8,012,927
Financial assets at fair value through profit or loss	1,514,144	-	-	-	1,514,144
Available-for-sale financial assets	8,256,604	-	-	-	8,256,604
Derivative financial assets for hedging	3,747	-	-	-	3,747
Bond investments with no active market	3,359,314	-	-	-	3,359,314
Held-to-maturity financial assets	2,647,264	-	-	-	2,647,264
Total	$23,794,000	$-	$-	$-	$23,794,000

	Credit quality of financial assets				
	2013.12.31				
	Normal assets				
Financial assets	Investment level	Non-investment level	Past due but not impaired	Impaired	Total
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 financial assets	1,955,937	-	-	-	1,955,937
Total	$20,752,447	$-	$-	$-	$20,752,447

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

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

II. Secured loans

	2014.12.31							
	Neither past due nor impaired			Past due but not impaired				
Secured loans	Excellent	Great	Normal		Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$154,569	$-	$-	$-	$120,917	$275,486	$1,677	$273,809
Corporate Finance	60,000	-	-	-	129,003	189,003	65,499	123,504
Total	$214,569	$-	$-	$-	$249,920	$464,489	$67,176	$397,313

	2013.12.31							
	Neither past due nor impaired			Past due but not impaired				
Secured loans	Excellent	Great	Normal		Impaired	Total (EIR principal)	Loss reserve	Net
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

(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 Company and Subsidiary adopt and implement the internal control regulations establish the information systems to accommodate the aforementioned policies.

(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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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 holing 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 Consolidated 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.

	2014.12.31						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	$2,892,354	$1,392,632	$1,359,251	$27,249	$4,745	$1,387	$-
Financial liabilities at fair value through profit or loss	176,626	176,626	112,818	58,687	5,121	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

	2013.12.31						
Liabilities	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	25,978	2,374	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

(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 effetely 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.

The value-at-risk model must reasonably, the Consolidated completely and accurately measure the maximum potential risk to be used as the Consolidated Company’s risk management model. The risk management model must conduct back testing on an ongoing basis 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.
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.

I. Simple Sensitivity

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

II. Scenario Analysis

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

i. 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.

ii. 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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

2014.12.31	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	-10%	$(439,327)
Interest rate risk (Yield curve)	20bp	(92,715)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(95,398)
Merchandise risk (merchandise price)	-10%	-

2014.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$1	$378
	RMB appreciate 1 %	10,941	488
	HKD appreciate 1 %	85	196
	NTD appreciate 1 %	(26,920)	(3,344)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(2,231)	(133)
	Yield curve (RMB) flat rises 1bp	(558)	(78)
	Yield curve (NTD) flat rises 1bp	(350)	(1,286)
Equity securities price sensitivity	Increase 1% in equity price	-	43,933

2013.12.31	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	-10%	$(248,108)
Interest rate risk (Yield curve)	20bp	(70,268)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(87,102)
Merchandise risk (merchandise price)	-10%	-

2013.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	RMB appreciate 1 %	$9,805	$1,389
	HKD appreciate 1 %	-	132
	NTD appreciate 1 %	(12,363)	(1,116)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,564)	(136)
	Yield curve (RMB) flat rises 1bp	(41)	(82)
	Yield curve (NTD) flat rises 1bp	(185)	(1,505)
Equity securities price sensitivity	Increase 1% in equity price	-	24,811

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(9) Fair values of financial instruments

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

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

II. 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.

III. 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.

IV. 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 Company's financial assets and liabilities measured at amortized cost approximate their fair value:

	Carrying amount as at		Fair value as at	
	2014.12.31	2013.12.31	2014.12.31	2013.12.31
Held-to-maturity financial assets Bonds	$2,647,264	$1,955,937	$2,767,723	$1,977,270
Bond investments with no active market	3,359,314	2,053,740	3,399,085	2,046,926

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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:

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.

	2014.12.31			
Financial instruments at fair value	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	$1,514,144	$1,514,144	$-	$-
Available-for-sale financial assets				
Stock	3,801,430	2,849,230	952,200	-
Bonds	2,725,739	1,032,630	1,693,109	-
Others	1,729,435	1,508,276	221,159	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	3,747	-	3,747	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	176,626	-	176,626	-

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

	2013.12.31			
Financial instruments at fair value	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	$1,312,025	$1,312,025	$-	$-
Available-for-sale financial assets				
Stock	2,285,699	2,285,699	-	-
Bonds	3,470,385	1,154,939	2,315,446	-
Others	1,478,818	1,478,818	-	-
Derivative financial instruments				
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	-

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

D. During the years ended 31 December 2014 and 2013, there were no Level 3 fair value measurements.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

9. Related party transactions

(1) Significant transactions with related parties

A. Premiums income

Name	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Other related parties		
Cathay Life Insurance Co., Ltd.	$160,401	$108,543
Cathay United Bank Co., Ltd.	129,239	101,014
Cathay General Hospital	3,333	5,254
Cathay Real Estate Co., Ltd.	7,553	7,923
San ching Engineering Co., Ltd.	17,092	511
Total	$317,618	$223,245

The premium income is according to general rate calculation.

B. Premiums receivable

Name	2014.12.31	%
Other related parties		
Cathay Life Insurance Co., Ltd.	$3,084	0.10

Name	2013.12.31	%
Other related parties		
Cathay Life Insurance Co., Ltd.	$2,390	0.08

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

C. Insurance claims payment

Name	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Other related parties		
Cathay Life Insurance Co., Ltd.	$7,836	$1,421
Cathay United Bank	3,424	607
Total	$11,260	$2,028

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

D.Cash in banks

Name	Type	2014.12.31	2013.12.31
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	$655,280	$619,878
	Checking Deposits	101,828	157,302
	Time deposits	623,200	693,131
Indovina Bank Ltd.	Cash in banks	14,460	4,062
	Time deposits	104,195	175,808
Total		$1,498,963	$1,650,181

		Interest Rate	
Name	Type	2014.12.31	2013.12.31
Other related parties			
Cathay United Bank Co., Ltd	Cash in banks	0.01%-0.45%	0.01%-0.75%
	Time deposits	0.17%-3.50%	0.17%-3.50%
Indovina Bank Ltd.	Cash in banks	0.10%-1.00%	0.10%-1.20%
	Time deposits	5.00%-7.70%	0.25%-11.00%

		Interest Revenue	
Name	Type	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Other related parties			
Cathay United Bank Co., Ltd	Cash in banks	$738	$535
	Time deposits	8,878	8,914
Indovina Bank Ltd.	Cash in banks	-	-
	Time deposits	6,210	116,380
Total		$15,826	$125,829

As of 31 December 2014 and 2013, time deposit pledged were $23,720 thousands and $33,384 thousands, respectively.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

E. Secured Loans

	2014.1.1 ~ 2014.12.31			
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	$40,894	$35,935	1.84%-1.88%	$695

	2013.1.1 ~ 2013.12.31			
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	$36,707	$32,503	1.84%-1.88%	$648

F. Available-for-sale financial assets

Name	Type	2014.12.31	2013.12.31
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	$292,579	$146,836

G. Guarantee deposits paid

Name	2014.12.31	%	2013.12.31	%
Other related parties				
Cathay Life Insurance Co., Ltd.	$22,465	1.55	$24,464	1.93
Cathay Futures Co., Ltd.	9,964	0.69	9,950	0.79
Cathay United Bank Co., Ltd.	17,383	1.20	27,221	2.15
Lin Yuan (Shanghai) Real Estate	5,466	0.38	5,262	0.42
Total	$55,278		$66,897	

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

H. Other payable

Name	2014.12.31	%	2013.12.31	%
Parent company				
Cathay Financial Holding Co., Ltd.	$171,856	13.65	$212,790	19.39
Other related parties				
Cathay Life Insurance Co., Ltd.	264,638	21.02	164,984	15.04
Symphox Information Co., Ltd.	3,945	0.31	543	0.05
Total	$440,439		$378,317	

I. Preferred stock liability

Name	2014.12.31	%	2013.12.31	%
Parent company				
Cathay Financial Holding Co., Ltd.	$1,000,000	100.00	$1,000,000	100.00

J. Operating costs

Name	Type	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Other related parties			
Cathay United Bank Co., Ltd.	Handing fee paid	$21,029	$18,229

K. Operating expenses

Name	Type	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	$102,006	$102,738
	Marketing expenses	1,371,042	1,298,186
	Party premium expenses	19,295	14,313
	Administrative expenses	7,613	7,462
Cathay United Bank Co., Ltd.	Marketing expenses	69,566	64,534
	Rental expenses	8,950	8,527
Lin Yuan (Shanghai) Real Estate	Rental expenses	19,840	9,848
Total		$1,598,312	$1,505,608

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

L. Other expenses

Name	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Other related parties		
Symphox Information Co., Ltd.	$37,640	$33,518
Seaward Card Co., Ltd.	3,149	3,102
Total	$40,789	$36,620

M. Non-operating expenses and losses

Name	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Parent company		
Cathay Financial Holding Co., Ltd.	$18,600	$18,600

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

N. Other

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

Name	Item	2014.12.31	2013.12.31
Cathay United Bank Co., Ltd.	CS contracts	US$58,200	US$57,450
		EUR$1,350	EUR$-
	IRS	NT$200,000	NT$400,000

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

O. Key management personnel compensation in total

Item	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Short-term employee benefits	$36,814	$37,470
Post-employment benefits-time deposits	2,472	2,995
Termination benefits	-	2,708
Total	$39,286	$43,173

10. Pledged assets

(1) The Company

Item	2014.12.31	2013.12.31
Government deposits paid-government bonds	$514,324	$519,321
Guarantee deposits paid-time deposits	15,000	25,000
Total	$529,324	$544,321

As of 31 December 2014 and 2013, the Company provided government bonds amounting to $514,324 thousand and $519,321 thousands as the “Guaranteed Depository Insurance” in accordance with the Insurance Act, respectively. The pledged assets are stated at book value.

(2) Cathay Insurance (China)

Item	2014.12.31	2013.12.31
Government deposits paid-times deposits	$818,000	$606,914

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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(3) Cathay Insurance (Vietnam)

Item	2014.12.31	2013.12.31
Government deposits paid-times deposits	$8,720	$10,850

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.

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

(1) Significant lease contracts of the Company

	2014.12.31	2013.12.31
Not later than 1 year	$126,387	$122,885
Later than 1 year but not later than 5 years	505,547	491,541
Later than 5 years	-	-
	$631,934	$614,426

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

	2014.12.31	2013.12.31
Not later than 1 year	$62,570	$65,219
Later than 1 year but not later than 5 years	107,750	115,684
Later than 5 years	-	-
	$170,320	$180,903

(Expressed in thousands of New Taiwan 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.

	2014.12.31		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$8,023,111	$-	$8,023,111
Receivables	3,649,736	-	3,649,736
Investments	7,814,542	8,363,844	16,178,386
Reinsurance contracts assets - Net	6,069,884	19,488	6,089,372
Property and equipment	-	258,732	258,732
Intangible assets	-	26,155	26,155
Other assets	-	1,629,356	1,629,356
Total assets			$35,854,848
Payables	$2,886,222	$6,132	$2,892,354
Financial Liabilities	171,505	1,005,121	1,176,626
Insurance liabilities	-	23,943,870	23,943,870
Provision	-	235,740	235,740
Other liabilities	-	738,219	738,219
Total liabilities			$28,986,809

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

	2013.12.31		
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 - Net	5,038,909	18,317	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			$31,709,317
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			$26,198,218

(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 December 2014:

Par value	Exchange rate	Frequency	Maturity date
$200,000	2.785%	Each quarterly	2015.4.30

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

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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 $3,747 thousands and $10,021 thousands as of 31 December 2014 and 2013, respectively.

(3) Eliminated inter-company transactions

	2014.12.31		
	Company name and debit (credit) amounts		
Transactions	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	$260,865	$(176,280)	$(84,585)
k Eliminate subsidiaries equity	(1,111,548)	1,409,892	406,602

	2013.12.31		
	Company name and debit (credit) amounts		
Transactions	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	$479,589	$(446,387)	$(33,202)
k Eliminate subsidiaries equity	(824,891)	700,223	474,780

Note: The eliminated difference of inter-company result in non-controlling equity $704,946 thousands and $350,112 thousands for the years ended 31 December 2014 and 2013, respectively.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

	2014.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$155,361	31.7180	$4,927,753
RMB	534,397	5.1161	2,734,037
EUR	440	38.5501	16,952
DKK	607	6.1469	3,732
Non-Monetary Items			
USD	137,600	31.7180	-
EUR	2,350	38.5501	-
	(Nominal Amount)		(Note)
Investment under equity method			
RMB	137,887	5.1125	704,946
VND	285,335,339	0.001425	406,603

	2013.12.31		
	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

Note: The Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized by $176,626 thousands and $28,352 thousands at 31 December 2014 and 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.

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 year period 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.

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

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

A. General 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.

B. Segment information

The Consolidated Company's revenue mainly from premium income and investment income of domestic and foreign area. The Consolidated Company's operating revenue is as follows:

	2014.1.1 ~ 2014.12.31	2013.1.1 ~ 2013.12.31
Taiwan	$14,369,528	$13,269,057
Other countries	2,902,262	2,107,217
Total	$17,271,790	$15,376,274

Revenue is classified by the residency of customers.

C. Mainly customer information

Revenues from each external customer are all less than 10% of total revenue of the Consolidated Company.

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 an 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. On 28 May 2013, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to CNY$200 million to the establish an insurance subsidiary. As of 31 December 2014, the Company has totally remitted US$60.56 million.