Cathay Century Insurance Co., Ltd.

Unaudited Financial Statements

Together with

Independent auditors' review report

As of March 31, 2012 and 2011

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Business Entity Accounting Act" and "Regulation in Business Entity Accounting Handling" with respect to financial accounting standards. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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<u>English Translation of Review Report Originally Issued in Chinese</u>

Independent Auditors' Review Report

Board of Directors
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of March 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our reviewed.

We conducted our reviews in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three months ended March 31, 2012 and 2011 in order for them to be in conformity with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and generally accepted accounting principles in the Republic of China.

Effective from January 1, 2011, the Company adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement", the new SFAS No.40 "Insurance Accounting" and Guidelines Governing the Preparation of Financial Reports by Industry of Insurance.

ERNST & YOUNG
Taipei, Taiwan
Republic of China
April 24, 2012

Notice to Readers:

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdiction. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets

As of March 31, 2012 and 2011

(Expressed in thousands of dollars)

		March 31,2012		March 31,2011	
Assets	Notes	NT$	US$	NT$	US$
Cash and cash equivalents	2,4	$6,033,173	$204,514	$6,018,461	$204,709
Receivables					
Notes receivable		270,050	9,154	225,787	7,680
Premiums receivable	2,5	2,302,961	78,067	2,213,290	75,282
Claims recoverable from reinsurers		256,675	8,701	279,995	9,524
Due from reinsurers and ceding companies		611,114	20,716	132,798	4,517
Other accounts receivable		104,968	3,558	70,985	2,414
Subtotal		3,545,768	120,196	2,922,855	99,417
Investment					
Financial assets at fair value through profit or loss	2,6	149,013	5,051	869,280	29,567
Available-for-sale financial assets	2,7	5,651,438	191,574	3,809,343	129,570
Derivative financial assets for hedging	2,8	26,011	882	31,554	1,073
Financial assets carried at cost	2,9	-	-	31,188	1,061
Long-term investments under equity method	2,10	989,375	33,538	1,120,514	38,113
Investments in debt securities with no active market	2,11	1,477,115	50,072	500,000	17,007
Held-to-maturity financial assets	2,12	2,450,987	83,084	2,471,162	84,053
Secured loans	2,13	524,186	17,769	710,448	24,165
Subtotal		11,268,125	381,970	9,543,489	324,609
Reinsurance Reserve Assets - Net					
Ceded unearned premiums reserve		2,062,280	69,908	2,183,252	74,260
Ceded reserve for claims		2,034,154	68,954	1,864,458	63,417
Ceded premiums deficiency reserve		108,517	3,679	38,538	1,311
Subtotal		4,204,951	142,541	4,086,248	138,988
Fixed assets	2,14				
Other equipments		365,197	12,380	299,081	10,173
Less: Accumulated depreciation		(244,610)	(8,292)	(214,255)	(7,288)
Prepayments for equipments		5,186	176	7,523	256
Subtotal		125,773	4,264	92,349	3,141
Intangible assets					
Computer software cost	2,15	24,152	819	19,258	655
Deferred pension cost		4,061	137	4,641	158
Subtotal		28,213	956	23,899	813
Other assets					
Prepayments		5,356	182	4,087	139
Guarantee deposits paid	2	533,432	18,082	523,351	17,801
Deferred income tax assets	21	29,206	990	50,026	1,701
Other assets - others		51,048	1,730	153,170	5,210
Subtotal		619,042	20,984	730,634	24,851
Total assets		$25,825,045	$875,425	$23,417,935	$796,528

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT$29.50 and NT$29.40 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets - (Continued)

As of March 31, 2012 and 2011

(Expressed in thousands of dollars)

		March 31,2012		March 31,2011	
Liabilities & stockholders' equity	Notes	NT$	US$	NT$	US$
Payables					
Claims outstanding		$38,502	$1,305	$37,944	$1,290
Commissions payable		89,326	3,028	78,259	2,662
Due to reinsurers and ceding companies		1,265,342	42,893	1,212,865	41,254
Other payables		434,928	14,744	335,931	11,426
Subtotal		1,828,098	61,970	1,664,999	56,632
Financial Liabilities					
Preferred stock liability	16	1,000,000	33,898	-	-
Subtotal		1,000,000	33,898	-	-
Reserve for operating and liability	2,17				
Unearned premiums reserve		8,669,357	293,877	8,111,048	275,886
Claims reserve		4,993,648	169,276	4,569,471	155,424
Special reserve		4,787,436	162,286	5,163,462	175,628
Premiums deficiency reserve		119,974	4,067	74,635	2,539
Subtotal		18,570,415	629,506	17,918,616	609,477
Other liabilities					
Guarantee deposits received		30	1	350	12
Accrued pension liabilities		119,896	4,064	58,023	1,974
Other liabilities - others		231,136	7,835	209,599	7,129
Subtotal		351,062	11,900	267,972	9,115
Total liabilities		21,749,575	737,274	19,851,587	675,224
Capital stock					
Common stock	18	2,317,006	78,543	2,317,006	78,810
Capital surplus					
Capital surplus - others		1,929	65	1,929	65
Retained earnings	19				
Legal reserve		834,443	28,286	774,213	26,334
Special reserve		462,480	15,677	-	-
Unappropriated retained earnings		652,770	22,128	521,993	17,755
Equity adjustment					
Unrealized gains or losses on financial instruments		(35,209)	(1,194)	75,005	2,551
Cumulative translation adjustments		(44,791)	(1,518)	(76,430)	(2,600)
Net loss not recognized as net pension cost		(113,158)	(3,836)	(47,368)	(1,611)
Total stockholders' equity		4,075,470	138,151	3,566,348	121,304
Total liabilities and stockholders' equity		$25,825,045	$875,425	$23,417,935	$796,528

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT$29.50 and NT$29.40 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of income

For the three months ended March 31, 2012 and 2011

(Expressed in thousands of dollars, expect earning per share)

Items	Notes	January 1-March 31,2012		January 1-March 30,2011	
		NT$	US$	NT$	US$
Operating revenues	2				
Direct premium income		$3,378,200	$114,515	$3,432,822	$116,763
Reinsurance premium income		90,435	3,066	98,474	3,349
Premiums income		3,468,635	117,581	3,531,296	120,112
Deduct: Premiums ceded to reinsurers		(824,782)	(27,959)	(1,039,943)	(35,372)
Change in unearned premiums reserve - Net		(134,606)	(4,563)	(252,627)	(8,593)
Retained earned premiums		2,509,247	85,059	2,238,726	76,147
Reinsurance commission earned		87,665	2,972	70,550	2,400
Handling fee earned		6,885	233	6,863	233
Net investment profit and loss		115,757	3,924	128,502	4,371
Interest income		77,525	2,628	68,515	2,331
Gains (Losses) on valuation of financial assets		47,872	1,623	(155,898)	(5,303)
Losses on long-term equity investments	2,10	(47,707)	(1,617)	(9,286)	(316)
(Loss) Gains on foreign Exchange		(81,862)	(2,775)	28,531	971
Gains on disposal of investments		119,929	4,065	196,640	6,688
Subtotal		2,719,554	92,188	2,444,641	83,151
Operating costs	2				
Insurance claims paid		(1,755,395)	(59,505)	(1,681,773)	(57,203)
Deduct: Claims recovered from reinsurers		326,086	11,054	333,687	11,350
Retained claim paid		(1,429,309)	(48,451)	(1,348,086)	(45,853)
Changes in liability reserves		(3,506)	(119)	40,463	1,376
Change in claims reserve - Net		18,892	640	66,792	2,272
Change in special reserve - Net		(26,335)	(893)	(214)	(8)
Change in premiums deficiency reserve - Net		3,937	134	(26,115)	(888)
Commissions expenses		(120,883)	(4,097)	(106,525)	(3,623)
Other operating costs		(8,901)	(302)	(15,392)	(524)
Subtotal		(1,562,599)	(52,969)	(1,429,540)	(48,624)
Operating expenses	2				
Marketing expenses		(725,048)	(24,578)	(652,286)	(22,186)
General and administrative expenses		(113,661)	(3,853)	(111,346)	(3,787)
Employee training expenses		(445)	(15)	(789)	(27)
Subtotal		(839,154)	(28,446)	(764,421)	(26,000)
Operating income		317,801	10,773	250,680	8,527
Non-operating revenues					
Gains on disposal of fixed assets		-	-	303	10
Other non-operating revenues and gains		4,550	154	1,295	44
Subtotal		4,550	154	1,598	54
Non-operating expenses and losses					
Losses on disposal of fixed assets		-	-	(411)	(14)
Dividends on preferred stock liabilities		(4,624)	(156)	-	-
Loss on retiremant of fixed assets		-	-	(1)	-
Other non-operating expenses and losses		(24)	(1)	(24)	(1)
Subtotal		(4,648)	(157)	(436)	(15)
Income from continuing operations before income taxes		317,703	10,770	251,842	8,566
Income taxes	2,21	(45,153)	(1,531)	(30,997)	(1,054)
Net income		$272,550	$9,239	$220,845	$7,512
Earning per share (In dollars)	22				
Income before income taxes		$1.37	$0.05	$1.09	$0.04
Net income		$1.18	$0.04	$0.95	$0.03

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT$29.50 and NT$29.40 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of changes in stockholders' equity

For the three months ended March 31, 2012 and 2011

(Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings						Equity adjustment							
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative translation adjustments		Net loss not recognized as net pension cost		Total	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2011	$2,317,006	$78,810	$1,929	$65	$774,213	$26,334	$-	$-	$301,148	$10,243	$187,787	$6,387	$(63,039)	$(2,144)	$(47,368)	$(1,611)	$3,471,676	$118,084
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(112,782)	(3,836)	-	-	-	-	(112,782)	(3,836)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(13,391)	(456)	-	-	(13,391)	(456)
Net Income for the three months ended March 31, 2011	-	-	-	-	-	-	-	-	220,845	7,512	-	-	-	-	-	-	220,845	7,512
Balance on March 31, 2011	$2,317,006	$78,810	$1,929	$65	$774,213	$26,334	$-	$-	$521,993	$17,755	$75,005	$2,551	$(76,430)	$(2,600)	$(47,368)	$(1,611)	$3,566,348	$121,304
Balance on January 1, 2012	$2,317,006	$78,543	$1,929	$65	$834,443	$28,286	$462,480	$15,677	$380,220	$12,889	$(53,919)	$(1,828)	$(22,377)	$(758)	$(113,158)	$(3,836)	$3,806,624	$129,038
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	18,710	634	-	-	-	-	18,710	634
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(22,414)	(760)	-	-	(22,414)	(760)
Net Income for the three month ended March 31, 2012	-	-	-	-	-	-	-	-	272,550	9,239	-	-	-	-	-	-	272,550	9,239
Balance on March 31, 2012	$2,317,006	$78,543	$1,929	$65	$834,443	$28,286	$462,480	$15,677	$652,770	$22,128	$(35,209)	$(1,194)	$(44,791)	$(1,518)	$(113,158)	$(3,836)	$4,075,470	$138,151

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT$29.50and NT$29.40 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows

For the three months ended March 31, 2012 and 2011

(Expressed in thousands of dollars)

Items	Notes	January 1-March 31,2012		January 1-March 31,2011	
		NT$	US$	NT$	US$
Cash flows from operating activities					
Net income		$272,550	$9,239	$220,845	$7,512
Adjustments to reconcile net income to net cash provided by (used in)					
Operating activities:					
Depreciation		11,946	405	8,974	305
Amortization		2,940	100	2,629	89
(Gains) Loss from valuation on financial assets		(47,872)	(1,623)	155,898	5,303
Unearned premiums reserve		134,606	4,563	252,627	8,593
Reserve for claims		(18,892)	(640)	(66,792)	(2,272)
Special reserve		26,335	893	214	8
Premiums deficiency reserve		(3,937)	(134)	26,115	888
Investment loss recognized under equity method		47,707	1,617	9,286	316
Gains on disposal of investments		(119,929)	(4,065)	(196,640)	(6,688)
Gains on disposal of property and equipment		-	-	(303)	(10)
Loss on disposal of property and equipment		-	-	411	14
Loss of property and equipment scrapped		-	-	1	-
Increase in notes receivable		(15,457)	(524)	(5,957)	(203)
Decrease (Increase) in premiums receivable		165,462	5,609	(158,678)	(5,397)
Decrease (Increase) in prepaid reinsurance premiums		11,575	392	(86,432)	(2,940)
Increase in other accounts receivable		(33,257)	(1,127)	(15,445)	(525)
Decrease (Increase) in financial assets at fair value through profit or loss		326,122	11,055	(725,036)	(24,661)
Increase in due from reinsurers and ceding companies		(154,733)	(5,245)	(15,980)	(544)
Decrease in prepayments		1,443	49	821	28
(Increase) Decrease in guarantee deposits paid		(1,291)	(44)	92,228	3,137
Decrease in deferred income tax assets		13,079	443	2,273	77
Increase in other assets - others		(16,263)	(551)	(21,550)	(733)
Increase in claims outstanding		20,165	683	14,276	486
(Decrease) Increase in commissions payable		(18,502)	(627)	8,554	291
Increase in due to reinsurers and ceding companies		75,407	2,556	290,299	9,874
Decrease in other payables		(211,036)	(7,154)	(337,287)	(11,473)
(Decrease) Increase in pension liabilities		(3,335)	(113)	475	16
Increase in other liabilities - others		32,712	1,109	40,934	1,392
Net cash provided by (used in) operating activities		497,545	16,866	(503,240)	(17,117)
Cash flows from investing activities					
(Acquisition) Disposition of financial assets		(648,805)	(21,994)	64,434	2,192
Decrease (Increase) in secured loans		27,779	942	(5,234)	(178)
Acquisition of fixed assets		(2,723)	(92)	(1,127)	(38)
Disposal of fixed assets		-	-	303	10
Acquisition of intangible assets		-	-	(492)	(17)
Net cash (used in) provided by investing activities		(623,749)	(21,144)	57,884	1,969
Decrease in cash and cash equivalents		(126,204)	(4,278)	(445,356)	(15,148)
Cash and cash equivalents at the beginning of periods		6,159,377	208,792	6,463,817	219,857
Cash and cash equivalents at the end of periods		$6,033,173	$204,514	$6,018,461	$204,709
Supplemental disclosure of cash flows information					
Income tax paid		$2,000	$68	$2,273	$77

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2012 and 2011 were NT$29.50 and NT$29.40 to US$1.00)

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

1. Organization and business scope

Cathay Century Insurance Co., Ltd. (the "Company") was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act (the "Company Act") of the Republic of China ("ROC"). The Company mainly engaged in the business of property and casualty insurance. On April 22, 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 August 2, 2002, the Company officially changed its name from "Tong-Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd.".

As of March 31, 2012 and 2011, the total numbers of employees were 1,566 and 1,337, respectively.

2. Summary of significant accounting policies

The company prepared the financial statement, in accordance with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies is as follows:

(1) Distinguish assets and liabilities, current and non-current

Current assets are assets which can be liquidated or disposed within one year. Assets that do not belong to current assets are classified as non-current assets. Current liabilities are debts which must be paid-off within one year. Debts do not belong to current liabilities are classified as non-current liabilities.

(2) Cash and cash equivalents

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

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

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

(3) Assessment of Impairment for loans and receivables

Since January 1, 2011, allowance for bad debts on notes receivables, premiums receivables, receivables on demand, secured loans and other receivables are determined based on the aging analysis of outstanding balances of such accounts and the past experience of the company, pursuant to Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises amended on December 29, 2010.

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. Similarly, for loans and receivables with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment 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 was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

(4) Financial assets and financial liabilities

According to the Statements of Financial Accounting Standards of the R.O.C. ("R.O.C. SFAS") No.34 "Accounting for Financial Instruments" and "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises", financial assets are categorized as "financial assets at fair value through profit or loss", "held-to-maturity financial assets", "investments in debt securities with no active market", "available-for-sale financial assets", "financial assets carried at cost", and "derivative financial assets for hedging". Upon their initial recognition, financial assets are measured at fair value. Financial liabilities are categorized as "financial liabilities at fair value through profit or loss" and "preferred stock liability".

All "regular way" purchases and sales of financial assets are recorded on the trade date (i.e. the date that the Company commits to purchase or sell the asset). "Regular way" purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as held for trading or designated as assets 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 loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

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

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

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

B. 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 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.

C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair value are recognized when investments in debt securities with no active market are derecognized, impaired, or amortized.

D. 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 in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

E. Financial assets carried at cost

Financial assets measured at initial cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss should be recognized, which is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss should not be reversed.

F. Derivative financial assets for hedging

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

The fair value of a listed stock or a depositary receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

The 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.

(5) Long - term investments under equity method

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was amortized. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in inconformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method." Goodwill is no longer amortized.

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method. If the adjustment stated above is to debit the additional paid-in capital account and the amount of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and its subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

The Company prepares semi-annual and annual consolidated financial statements which included parent company, parent controlled or significant subsidiaries.

(6) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized in which the control over the asset (or a portion) is surrendered. Transfer a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the assets.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

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 derecognization of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

(7) Accounting for impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). 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.

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 current market rate of return for a similar financial asset.

C. 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 not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

(8) Derivative financial instruments

The Company takes derivative financial instrument transactions such as forward currency contracts and futures to hedge its risks associated with foreign currency and stock fluctuations. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value 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. Hedge of a net investment in a foreign operation.

Hedges of the foreign currency risk and stock fluctuation of a firm commitment are belong to fair value hedges. The Company adopted SFAS No. 34, Accounting for Financial Instruments categorized as financial assets at fair value through profit or loss are recognized in earnings.

At the inception of a hedge relationship, the Company formally designates and documents hedge relationship to which the 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:

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.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in 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. 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. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Hedging instruments are subsequently measured at fair value or the gains (losses) resulting from the exchange rate changes are recognized in current period earnings by to the Statements of Financial Accounting Standards No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements".

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 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.

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.

(9) Property and equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed when occurred.

Upon the sale or disposal of property and equipment, the related cost and accumulated depreciation and accumulated depletion are eliminated. Gain or loss resulting from such sale or disposal is recorded as non-operating gain or loss.

Depreciation on depreciable assets is calculated on the straight-line method over the estimated service lives prescribed by the "Estimated Useful Life of property and equipment Table" published by the ROC Executive Yuan (the "Executive Yuan Depreciation Table"). Property and equipment that are still in use after their useful lives are depreciated based on their residual values and the newly estimated remaining useful lives.

(10) Intangible assets

The Company adopted the ROC SFAS No. 37 "Accounting for Intangible Assets" on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair values. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

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

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets. The Company revaluates the residual values, amortization periods and amortization methods of the intangible assets with finite useful lives at each balance sheet date and the changes are treated as changes in accounting estimates.

The "intangible assets" of the Company are computer software and are amortized over the estimated useful lives of 3 years using the straight-line method.

(11) Accounting for asset impairment

Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same time each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

(a) First, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and

(b) If the goodwill has been written off, reduce the carrying amounts of other assets of the CGU proportionately.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods. Impairment loss (reversal) is classified as non-operating losses/(income).

(12) Separation requirement for specific assets

The Company provides compulsory automobile liability insurance ("this insurance") and establishes independent accounting to record the operational and financial status of this insurance incompliance with Compulsory Automobile Liability Insurance Act.

According to article five 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 six 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 six 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.

(13) Operating and liabilities reserves

Operating and liabilities reserves 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" and "Regulations for the Management of the Various Reserves for Nuclear energy 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. Claim 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 Incidents" and "Special reserve for Fluctuation of Risks". For the special reserves set aside by the Company before January 1, 2012, they should be shown as a liability item on the balance sheet. Since January 1, 2012, the after-tax addressed amount of the special reserve should be placed in the special reserve under stock holder's equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under stock holder's equity.

a. Special Reserves for Major Incidents：

All types of insurance should follow the special catastrophe reserve rates set by the authorities. Upon occurrence of the catastrophic events, actual retained claims in excess of NT$30,000 thousands individually and the aggregate payment of loss of the whole property and casualty insurers in excess of NT$2,000 millions can be withdrawn from the special reserve.

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

b. Special reserves for Fluctuation of Risks：

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

When the actual amount paid for indemnity minus the offsetting amount from the special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceed amount can be used for writing down the special reserve for fluctuation of risks. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.

Once the accumulated special reserve for fluctuation of risks of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income.

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.

(14) 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 can not 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.

(15) 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 recovered from re-insurees 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.

(16) Liability adequacy test

In alignment with Article 24-1 of Regulations for the Various Reserves of Insurance Industry, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under SFAS 40. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, an reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(17) Reinsurance ceded

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

(18) Contribution to the stabilization funds

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

(19) Pension plan

The Company has established a pension plan for all employees since 1993. Pension plan benefits are primarily based on participants’ compensation and the length of service period. The company established a pension fund committee in 1997 to independently administer the pension fund. After the establishment of the pension fund committee, the company had provided for 6% of the employees’ salaries into the pension fund, and since 1999, 3.14% were provided for.

The Labor Pension Act of ROC ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

In compliance with ROC Securities and Futures Commissions ("SFC") regulations, the Company adopted the ROC SFAS No. 18, "Accounting for Pensions" to account' for its pension plan. An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligations and the fair value of the plan assets. When providing defined contribution plans, an enterprise should recognize. The amounts to be contributed as current expense as incurred.

According to the ROC SFAS No.23, "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18, "Accounting for Pensions".

(20) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency monetary assets or liabilities shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss in current income. Non-monetary assets or liabilities that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary is recognized, any exchange component of that gain or loss shall be recognized. Non-monetary assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

B. Conversion of foreign subsidiaries' financial statements

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

(21) Income Taxes

The Company adopted SFAS No. 22, " Accounting for Income Taxes", which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year's loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with Article 49 of Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns with 10% surcharge on its undistributed retained earnings under the Integrated Income Tax System. If there is any tax effects due to adopt forgoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

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

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits" for income tax credits. The income tax credits resulting from the expenditures on the purchases of equipments, R & D, education trainings, and investments in equity shall be recognized at the current period.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of the Board of Directors.

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

(22) Capital expenditure expenses

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

(23) Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are rewarded as expenses instead of distribution of earnings.

(24) Operating Segment Information

An operating segment is a component of an entity that has the following characteristics:

A. Engaging in business activities from which it may earn revenues and incur expenses,

B. Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

C. For which discrete financial information is available.

(25) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of March 31, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$29.50 and NT$29.40 provided by Federal Reserve Bank of New York of March 31, 2012 and 2011 are used for the conversion.

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

3. Changes in accounting and their effects

(1) Effective from January 1, 2011, the Company adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement". This change in accounting principles has no significant impact on net income and earnings per share for the first quarter of 2011.

(2) Started from January 1, 2011 the company applied SFAS No.40 "Insurance Contracts" and "Regular Governing the Preparation of Financial Reports by Insurance Enterprises" issued on December 30, 2009 according to FSC Insurance Interpretation No. 09802506492. Based on SFAS, preparing guidance and related interpretation. This change in accounting principles has no significant impact on net income and earnings per share for the first quarter of 2011.

In addition, the amount of special reserves for major incidents and special reserves for fluctuation of risks should be set aside under retained earnings at year end. As of March 31, 2011, the amount set aside was NT$ 91,886 (US$3,125) thousands (after tax).

(3) Effective January 1, 2011, the Company adopted SFAS No.41, "Operating Segments", to present operating segment information. The new SFAS No.41 replaces SFAS No.20, "Segment Reporting", the comparative operating segment information has been restated accordingly.

4. Cash and cash equivalents

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Petty cash and cash on hand	$11,030	$374	$9,499	$323
Cash in banks	1,431,657	48,531	1,298,468	44,166
Time deposits	4,430,300	150,179	3,931,880	133,737
Cash equivalents	160,186	5,430	778,614	26,483
Total	$6,033,173	$204,514	$6,018,461	$204,709

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

5. Premiums receivable

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Premiums receivable	$2,358,714	$79,957	$2,262,944	$76,971
Less: Allowance for bad debts	(55,753)	(1,890)	(49,654)	(1,689)
Net	$2,302,961	$78,067	$2,213,290	$75,282

6. Financial assets at fair value through profit or loss

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Common stock	$-	$-	$135,645	$4,614
Beneficiary certificates	143,887	4,877	709,000	24,115
Subtotal	143,887	4,877	844,645	28,729
Add: Valuation adjustment	5,126	174	24,635	838
Total	$149,013	$5,051	$869,280	$29,567

7. Available-for-sale financial assets

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Listed stocks	$1,769,148	$59,971	$1,229,008	$41,803
Overseas stocks	29,054	985	-	-
Beneficiary certificates	815,749	27,652	268,053	9,117
Corporate bonds	999,960	33,897	799,922	27,209
Financial debentures	1,200,125	40,682	800,184	27,217
Real Estate Investment Trust	156,996	5,322	673,341	22,903
Government bonds	731,305	24,790	-	-
Subtotal	5,702,337	193,299	3,770,508	128,249
Add: Valuation adjustment	(50,899)	(1,725)	38,835	1,321
Total	$5,651,438	$191,574	$3,809,343	$129,570

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

8. Derivative financial assets for hedging

	March 31,			
	2012		2011	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	26,011	882	31,554	1,073
Total	$26,011	$882	$31,554	$1,073

9. Financial assets carried at cost

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
KGEX. Com Co., Ltd.	$-	$-	$25,500	$867
Primax Electronics Ltd.	-	-	5,688	194
Total	$-	$-	$31,188	$1,061

10. Long-term investments under equity method

	March 31,			
	2012		2011	
Investee	NT$	US$	NT$	US$
Vista Technology Venture Capital Corp.	$5,464	$185	$5,717	$195
Cathay Insurance Company Limited. (China)	575,811	19,519	688,674	23,424
Cathay Insurance Company Limited (Vietnam)	408,100	13,834	426,123	14,494
Total	$989,375	$33,538	$1,120,514	$38,113

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

A. Changes in long-term investments under the equity method are summarized as follows:

	For the three months ended March 31,			
	2012		2011	
	NT$	US$	NT$	US$
Balance on January 1	$1,055,058	$35,765	$1,143,316	$38,889
Add (less):				
Investment loss recognized under the equity method	(47,707)	(1,617)	(9,286)	(316)
Cumulative conversion adjustments	(22,414)	(760)	(13,391)	(456)
Unrealized gains or losses on financial instruments recognized under the equity investment	4,438	150	(125)	(4)
Balance on March 31	$989,375	$33,538	$1,120,514	$38,113

B. The investment losses recognized under equity method for the three months ended March 31, 2012 and 2011 are listed below:

	For the three months ended March 31,			
	2012		2011	
Investee	NT$	US$	NT$	US$
Vista Technology Venture Capital Corp.	$(2)	$-	$(4)	$-
Cathay Insurance Company Limited. (China)	(41,314)	(1,400)	(21,705)	(738)
Cathay Insurance Company Limited (Vietnam)	(6,391)	(217)	12,423	422
Total	$(47,707)	$(1,617)	$(9,286)	$(316)

C. Equity method was applied for Vista Technology Venture Capital Corp. due to the ownership of more than 20% jointly holding by the Company and its related parties for the three months ended March 31, 2012 and 2011.

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

11. Investments in debt securities with no active market

	March 31,			
	2012		2011	
	NT$	US$	NT$	US$
Preferred stocks	$400,000	$13,559	$-	$-
Company bonds	800,000	27,119	500,000	17,007
Overseas bonds	277,115	9,394	-	-
Total	$1,477,115	$50,072	$500,000	$17,007

12. Held-to-maturity financial assets

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Overseas bonds	$2,450,987	$83,084	$2,471,162	$84,053

13. Secured loans

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Secured loans	$557,374	$18,894	$717,686	$24,411
Less: Allowance for bad debts	(33,188)	(1,125)	(7,238)	(246)
Net	$524,186	$17,769	$710,448	$24,165

Secured loans are secured by real estate.

14. Fixed assets

	March 31, 2012					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Other equipments	$365,197	$12,380	$244,610	$8,292	$120,587	$4,088
Prepayments for equipments	5,186	176	-	-	5,186	176
Total	$370,383	$12,556	$244,610	$8,292	$125,773	$4,264

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

	March 31, 2011					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Other equipments	$299,081	$10,173	$214,255	$7,288	$84,826	$2,885
Prepayments for equipments	7,523	256	-	-	7,523	256
Total	$306,604	$10,429	$214,255	$7,288	$92,349	$3,141

No equipments of the Company were pledged as of March 31, 2012 and 2011.

15. Intangible assets - Computer software cost

	January 1,2012		Increase		Decrease		March 31, 2012	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$96,676	$3,277	$1,800	61	$-	$-	$98,476	3,338
Amortization and impairment								
Amortization	(71,384)	(2,420)	(2,940)	(99)	-	-	(74,324)	(2,519)
Book value	$25,292	$857					$24,152	$819

	January 1,2011		Increase		Decrease		March 31, 2011	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$81,402	$2,769	$1,727	$59	$-	$-	$83,129	$2,828
Amortization and impairment								
Amortization	(61,242)	(2,083)	(2,629)	(90)	-	-	(63,871)	(2,173)
Book value	$20,160	$686					$19,258	$655

The intangible assets of the Company are computer software and are calculated using the straight-line method over the estimated useful lives within 3 years.

16. Preferred stock liabilities

In accordance with the resolution of the Board of Directors' meeting on October 7, 2011, the Company issued 31,250 thousand shares of Class A preferred stocks at par value of NT$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on October 26, 2011.

Primary terms and conditions of the privately offered Class A preferred stocks are listed as follow:

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

A. Issuance period covers from November 11, 2011, the issue date, to November 10, 2018, seven years in total.

B. Dividend yield is 1.86% per year based on the actual issue price of NT$32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

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

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

17. Operating and liability reserve

	March 31			
	2012		2011	
	NT$	US$	NT$	US$
Unearned premiums reserve	$8,669,357	$293,877	$8,111,048	$275,886
Claims reserve	4,993,648	169,276	4,569,471	155,424
Special reserve	4,787,436	162,286	5,163,462	175,628
Premiums deficiency reserve	119,974	4,067	74,635	2,539
Total	$18,570,415	$629,506	$17,918,616	$609,477

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

(1) Unearned premiums reserve

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

March 31, 2012

	Unearned premium reserve				Ceded unearned premium reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,528,124	$51,801	$40,106	$1,360	$562,736	$19,076	$1,005,494	$34,085
Marine insurance	231,156	7,836	3,094	105	204,912	6,946	29,338	995
Land and air insurance	2,662,792	90,264	4,048	137	124,861	4,233	2,541,979	86,168
Liability insurance	391,952	13,287	244	8	122,424	4,150	269,772	9,145
Bonding insurance	27,444	930	549	19	11,956	405	16,037	544
Other property insurance	813,882	27,589	9,343	317	487,115	16,512	336,110	11,394
Accident insurance	1,484,649	50,327	11,163	378	82,787	2,806	1,413,025	47,899
Health insurance	125,029	4,238	-	-	2,348	80	122,681	4,158
Compulsory automobile liability insurance	1,155,736	39,178	180,046	6,103	463,141	15,700	872,641	29,581
Total	$8,420,764	$285,450	$248,593	$8,427	$2,062,280	$69,908	$6,607,077	$223,969

March 31, 2011

	Unearned premium reserve				Ceded unearned premium reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,661,504	$56,514	$45,748	$1,556	$584,969	$19,897	$1,122,283	$38,173
Marine insurance	234,014	7,960	2,077	71	187,831	6,389	48,260	1,642
Land and air insurance	2,198,898	74,792	4,767	162	286,485	9,744	1,917,180	65,210
Liability insurance	273,460	9,301	1,364	46	68,406	2,327	206,418	7,021
Bonding insurance	38,067	1,295	373	13	21,732	739	16,708	568
Other property insurance	857,042	29,151	19,737	671	483,464	16,444	393,315	13,378
Accident insurance	1,368,484	46,547	3,804	129	102,876	3,499	1,269,412	43,177
Health insurance	113,830	3,872	-	-	2,996	102	110,834	3,770
Compulsory automobile liability insurance	1,110,958	37,788	176,921	6,018	444,493	15,119	843,386	28,687
Total	$7,856,257	$267,220	$254,791	$8,666	$2,183,252	$74,260	$5,927,796	$201,626

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

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

	March 31, 2012			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	NT$	US$	NT$	US$
At 1 January	$8,624,366	$292,351	$2,151,895	$72,945
Increase during the period	8,669,357	293,877	2,062,280	69,908
Decrease during the period	(8,624,366)	(292,351)	(2,151,895)	(72,945)
At 31 March	$8,669,357	$293,877	$2,062,280	$69,908

	March 31, 2011			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	NT$	US$	NT$	US$
At 1 January	$7,293,088	$248,064	$1,617,919	$55,031
Increase during the period	8,111,048	275,886	2,183,252	74,260
Decrease during the period	(7,293,088)	(248,064)	(1,617,919)	(55,031)
At 31 March	$8,111,048	$275,886	$2,183,252	$74,260

(2) Claim reserve

A. Claim reserve and ceded claim reserve

	March 31, 2012							
	Claim reserve				Ceded claim reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Claim reported but not paid off	$3,711,760	$125,822	$182,962	$6,202	$1,759,518	$59,644	$2,135,204	$72,380
Unreported claim	1,014,123	34,377	84,803	2,875	274,636	9,310	824,290	27,942
Total	$4,725,883	$160,199	$267,765	$9,077	$2,034,154	$68,954	$2,959,494	$100,322

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

	March 31, 2011							
	Claim reserve				Ceded claim reserve			
	Direct business (1)		Assumed reinsurance business (2)		Ceded reinsurance business (3)		Retained business (4)=(1)+(2)-(3)	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Claim reported but not paid off	$3,582,473	$121,853	$54,196	$1,843	$1,615,237	$54,940	$2,021,432	$68,756
Unreported claim	881,922	29,997	50,880	1,731	249,221	8,477	683,581	23,251
Total	$4,464,395	$151,850	$105,076	$3,574	$1,864,458	$63,417	$2,705,013	$92,007

B. Net changes for claim reserve and ceded claim reserve

NT$	March 31, 2012							
	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve
Item	Increase (1)	Decrease (2)	Increase (3)	Decrease (4)	(5)=(1)-(2) +(3)-(4)	Increase (6)	Decrease (7)	(8)=(6)-(7)
Claim reported but not paid off	$3,711,760	$3,892,767	$182,962	$180,872	$(178,917)	$1,759,518	$1,841,574	$(82,056)
Unreported claim	1,014,123	904,613	84,803	44,432	149,881	274,636	202,724	71,912
Total	$4,725,883	$4,797,380	$267,765	$225,304	$(29,036)	$2,034,154	$2,044,298	$(10,144)

US$	March 31, 2012							
	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve
Item	Increase (1)	Decrease (2)	Increase (3)	Decrease (4)	(5)=(1)-(2) +(3)-(4)	Increase (6)	Decrease (7)	(8)=(6)-(7)
Claim reported but not paid off	$125,822	$131,958	$6,202	$6,131	$(6,065)	$59,645	$62,426	$(2,781)
Unreported claim	34,377	30,665	2,875	1,506	5,081	9,309	6,872	2,437
Total	$160,199	$162,623	$9,077	$7,637	$(984)	$68,954	$69,298	$(344)

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

NT$	March 31, 2011							
	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve
	Increase	Decrease	Increase	Decrease	(5)=(1)-(2)	Increase	Decrease	reserve
Item	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claim reported but not paid off	$3,582,473	$3,571,273	$54,196	$54,196	$11,200	$1,615,237	$1,533,321	$81,916
Unreported claim	881,922	819,936	50,880	-	112,866	249,221	140,279	108,942
Total	$4,464,395	$4,391,209	$105,076	$54,196	$124,066	$1,864,458	$1,673,600	$190,858

US$	March 31, 2011							
	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve
	Increase	Decrease	Increase	Decrease	(5)=(1)-(2)	Increase	Decrease	reserve
Item	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claim reported but not paid off	$121,853	$121,472	$1,843	$1,843	$381	$54,940	$52,154	$2,786
Unreported claim	29,997	27,889	1,731	-	3,839	8,477	4,771	3,706
Total	$151,850	$149,361	$3,574	$1,843	$4,220	$63,417	$56,925	$6,492

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

C. Liability claim for policyholder who reported claim but not yet paid off or unreported claim

	March 31, 2012					
	Claim reserve					
	Claim reported but not paid off		Unreported claim		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,838,578	$62,324	$107,990	$3,661	$1,946,568	$65,985
Marine insurance	624,553	21,171	215,989	7,322	840,542	28,493
Land and air insurance	438,415	14,862	451,153	15,293	889,568	30,155
Liability insurance	197,053	6,680	45,325	1,536	242,378	8,216
Bonding insurance	20,866	707	490	17	21,356	724
Other property insurance	252,124	8,547	17,539	594	269,663	9,141
Accident insurance	152,779	5,179	209,616	7,106	362,395	12,285
Health insurance	9,536	323	30,075	1,020	39,611	1,343
Compulsory automobile liability insurance	360,818	12,231	20,749	703	381,567	12,934
Total	$3,894,722	$132,024	$1,098,926	$37,252	$4,993,648	$169,276

	March 31, 2011					
	Claim reserve					
	Claim reported but not paid off		Unreported claim		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,652,187	$56,197	$54,178	$1,843	$1,706,365	$58,040
Marine insurance	602,249	20,485	237,951	8,093	840,200	28,578
Land and air insurance	451,408	15,354	418,121	14,222	869,529	29,576
Liability insurance	195,115	6,637	28,658	974	223,773	7,611
Bonding insurance	25,385	863	11,751	400	37,136	1,263
Other property insurance	275,134	9,358	35,825	1,219	310,959	10,577
Accident insurance	91,443	3,110	125,243	4,260	216,686	7,370
Health insurance	5,858	199	581	20	6,439	219
Compulsory automobile liability insurance	337,890	11,493	20,494	697	358,384	12,190
Total	$3,636,669	$123,696	$932,802	$31,728	$4,569,471	$155,424

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

D. Reinsurance asset- ceded claim reserve for policyholder who reported claim buy not yet paid off or unreported claim

	March 31, 2012					
	Ceded claim reserve					
	Claim reported but not paid off		Unreported claim		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$924,452	$31,337	$78,386	$2,657	$1,002,838	$33,994
Marine insurance	455,997	15,458	131,743	4,465	587,740	19,923
Land and air insurance	21,561	731	10,257	348	31,818	1,079
Liability insurance	75,960	2,575	13,750	466	89,710	3,041
Bonding insurance	18,928	642	(1)	-	18,927	642
Other property insurance	114,330	3,875	4,412	150	118,742	4,025
Accident insurance	23,639	801	27,542	934	51,181	1,735
Health insurance	-	-	1,306	44	1,306	44
Compulsory automobile liability insurance	124,651	4,225	7,241	246	131,892	4,471
Total	$1,759,518	$59,644	$274,636	$9,310	$2,034,154	$68,954

	March 31, 2011					
	Ceded claim reserve					
Item	Claim reported but not paid off		Unreported claim		Total	
	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$824,122	$28,031	$5,566	$189	$829,688	$28,220
Marine insurance	408,560	13,897	171,693	5,839	580,253	19,736
Land and air insurance	19,458	662	15,981	543	35,439	1,205
Liability insurance	83,504	2,840	8,865	302	92,369	3,142
Bonding insurance	20,188	687	10,760	366	30,948	1,053
Other property insurance	131,571	4,475	11,188	381	142,759	4,856
Accident insurance	11,796	401	18,069	615	29,865	1,016
Health insurance	-	-	(6)	-	(6)	-
Compulsory automobile liability insurance	116,038	3,947	7,105	242	123,143	4,189
Total	$1,615,237	$54,940	$249,221	$8,477	$1,864,458	$63,417

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

E. Reconciliation statement of claim reserve and ceded claim reserve

	March 31, 2012			
	Claim reserve		Ceded claim reserve	
Item	NT$	US$	NT$	US$
At 1 January	$5,022,684	$170,260	$2,044,298	$69,298
Increase during the period	4,993,648	169,276	2,034,154	68,954
Decrease during the period	(5,022,684)	(170,260)	(2,044,298)	(69,298)
At 31 March	$4,993,648	$169,276	$2,034,154	$68,954

	March 31, 2011			
	Claim reserve		Ceded claim reserve	
Item	NT$	US$	NT$	US$
At 1 January	$4,452,515	$151,446	$1,680,710	$57,167
Increase during the period	4,569,471	155,424	1,864,458	63,417
Decrease during the period	(4,452,515)	(151,446)	(1,680,710)	(57,167)
At 31 March	$4,569,471	$155,424	$1,864,458	$63,417

(3) Special reserve

A. Special reserve- Compulsory car insurance

	March 31, 2012	
Item	NT$	US$
At 1 January	$2,434,891	$82,539
Increase during the period	51,643	1,751
Decrease during the period	(20,082)	(681)
At 31 March	$2,466,452	$83,609

	March 31, 2011	
Item	NT$	US$
At 1 January	$2,335,811	$79,449
Increase during the period	68,863	2,343
Decrease during the period	(21,113)	(718)
At 31 March	$2,383,561	$81,074

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

B. Special reserve- Non-compulsory car insurance

	March 31, 2012					
	Liability					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
At 1 January	$1,172,396	$39,742	$1,153,814	$39,112	$2,326,210	$78,854
Increase during the period	-	-	-	-	-	-
Decrease during the period	-	-	(5,226)	(177)	(5,226)	(177)
At 31 March	$1,172,396	$39,742	$1,148,588	$38,935	$2,320,984	$78,677

	March 31, 2011					
	Liability					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
At 1 January	$1,183,609	$40,259	$1,643,828	$55,912	$2,827,437	$96,171
Increase during the period	-	-	2,099	71	2,099	71
Decrease during the period	-	-	(49,635)	(1,688)	(49,635)	(1,688)
At 31 March	$1,183,609	$40,259	$1,596,292	$54,295	$2,779,901	$94,554

C. The special reserves of major incidents and fluctuation of risks for non-compulsory car insurance should be recognized and recorded in special reserve under stock holder's equity at the year ended. As of March 31, 2012 and 2011, the special reserves should be set aside amounted to NT$129,286 (US$4,383) and NT$91,886 (US$3,125), respectively.

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

(4) Premiums deficiency reserve

A. Premium deficiency reserve and ceded premium deficiency reserve

	March 31, 2012							
	Premium deficiency reserve				Ceded premium deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$28,487	$966	$92	$3	$28,579	$969	$-	$-
Marine insurance	-	-	28	1	(10,772)	(365)	10,800	366
Land and air insurance	-	-	488	17	(170)	(6)	658	23
Liability insurance	-	-	40	1	41	2	(1)	(1)
Bonding insurance	-	-	2	-	2	-	-	-
Other property insurance	90,803	3,078	34	1	90,837	3,079	-	-
Accident insurance	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-
Total	$119,290	$4,044	$684	$23	$108,517	$3,679	$11,457	$388

	March 31, 2011							
	Premium deficiency reserve				Ceded premium deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$-	$-	$485	$17	$(5,381)	$(183)	$5,866	$200
Marine insurance	10,107	344	328	11	(5,750)	(195)	16,185	550
Land and air insurance	-	-	-	-	(4,059)	(138)	4,059	138
Liability insurance	-	-	-	-	-	-	-	-
Bonding insurance	53,726	1,827	2	-	53,728	1,827	-	-
Other property insurance	-	-	9,987	340	-	-	9,987	340
Accident insurance	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-
Total	$63,833	$2,171	$10,802	$368	$38,538	$1,311	$36,097	$1,228

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

B. Recognized net loss for premium deficiency reserve- Net change for premium deficiency reserve and ceded premium deficiency reserve

NT$	March 31, 2012								
	Direct underwriting business		Assumed reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Increase	Decrease	Increase	Decrease		Increase	Decrease		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$28,487	$-	$92	$432	$28,147	$28,579	$(5,485)	$34,064	$(5,917)
Marine insurance	-	9,805	28	54	(9,831)	(10,772)	1,867	(12,639)	2,808
Land and air insurance	-	-	488	2	486	(170)	(1,480)	1,310	(824)
Liability insurance	-	-	40	49	(9)	41	49	(8)	(1)
Bonding insurance	-	11,179	2	6	(11,183)	2	11,185	(11,183)	-
Other property insurance	90,803	-	34	3	90,834	90,837	-	90,837	(3)
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$119,290	$20,984	$684	$546	$98,444	$108,517	$6,136	$102,381	$(3,937)

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

US$	March 31, 2012								
	Direct underwriting business		Assumed reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Increase	Decrease	Increase	Decrease		Increase	Decrease		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$966	$-	$3	$15	$954	$969	$(186)	$1,155	$(201)
Marine insurance	-	332	1	2	(333)	(365)	63	(428)	95
Land and air insurance	-	-	17	-	17	(5)	(50)	45	(28)
Liability insurance	-	-	1	2	(1)	1	2	(1)	-
Bonding insurance	-	379	-	-	(379)	-	379	(379)	-
Other property insurance	3,078	-	1	-	3,079	3,079	-	3,079	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$4,044	$711	$23	$19	$3,337	$3,679	$208	$3,471	$(134)

NT$	March 31, 2011								
	Direct underwriting business		Assumed reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Increase	Decrease	Increase	Decrease		Increase	Decrease		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$485	$-	$485	$(5,381)	$-	$(5,381)	$5,866
Marine insurance	10,107	5,762	328	-	4,673	(5,750)	-	(5,750)	10,423
Land and air insurance	-	4,220	-	-	(4,220)	(4,059)	-	(4,059)	(161)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	53,726	-	2	-	53,728	53,728	-	53,728	-
Other property insurance	-	-	9,987	-	9,987	-	-	-	9,987
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$63,833	$9,982	$10,802	$-	$64,653	$38,538	$-	$38,538	$26,115

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

US$	March 31, 2011								
	Direct underwriting business		Assumed reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Increase	Decrease	Increase	Decrease		Increase	Decrease		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$17	$-	$17	$(183)	$-	$(183)	$200
Marine insurance	344	196	11	-	159	(195)	-	(195)	354
Land and air insurance	-	144	-	-	(144)	(138)	-	(138)	(6)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	1,827	-	-	-	1,827	1,827	-	1,827	-
Other property insurance	-	-	340	-	340	-	-	-	340
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$2,171	$340	$368	$-	$2,199	$1,311	$-	$1,311	$888

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

	March 31, 2012			
	Premium deficiency reserve		Ceded premium deficiency reserve	
Item	NT$	US$	NT$	US$
At 1 January	$21,530	$730	$6,136	$208
Increase during the period	119,974	4,067	108,517	3,679
Decrease during the period	(21,530)	(730)	(6,136)	(208)
At 31 March	$119,974	$4,067	$108,517	$3,679

	March 31, 2011			
	Premium deficiency reserve		Ceded premium deficiency reserve	
Item	NT$	US$	NT$	US$
At 1 January	$70,970	$2,414	$60,988	$2,074
Increase during the period	74,635	2,539	38,538	1,311
Decrease during the period	(70,970)	(2,414)	(60,988)	(2,074)
At 31 March	$74,635	$2,539	$38,538	$1,311

D. Effects for the change of estimation and assumption

Premium deficiency reserve is measured by the method of the present value for future cash outflow approach. The expected final loss ratio is referred to the historical data from the past three years, plus spectacular compensation cases and trend of losses. The expected operation expense ratio is referred to the Insurance Expense Exhibit of 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.

18. Common stock

As of March 31, 2012 and 2011, the authorized and issued thousand shares were 231,701 with par value of NT$10 each.

19. Retained earnings

(1) 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.

(2) According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal reserve and special 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.

(3) According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

(4) Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments since 2007.

(5) The employee bonus of the Company for the three months ended March 31,2012 and 2011, amounting to NT$0 (US$0) was accrued on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2013 and 2012.

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

(6) The Company's distribution of 2011 retained earnings has been approved by the stockholders' meeting exercised by the Board of Directors. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

(7) Based on the resolutions passed by the Company's shareholders; meeting exercised by the Board of Directors, the employee bonus for 2011 should be $1,839 (US$61) thousands. There was no difference between the actual and accrual amount of employee bonus and directors' compensation for 2011.

(8) There was no difference between the actual and accrual amount of employee bonus and directors' compensation for 2010.

20. Personnel, depreciation, depletion and amortization expenses

Item	For the three months ended March 31, 2012 (NT$)			For the three months ended March 31, 2011 (NT$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$369,152	$369,152	$-	$316,955	$316,955
Labor & health insurance expenses	-	23,817	23,817	-	19,703	19,703
Pension expenses	-	19,326	19,326	-	16,636	16,636
Other expenses	-	8,848	8,848	-	7,823	7,823
Depreciation	-	11,946	11,946	-	8,974	8,974
Depletion	-	-	-	-	-	-
Amortization	-	2,940	2,940	-	2,629	2,629

Item	For the three months ended March 31, 2012 (US$)			For the three months ended March 31, 2011 (US$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	12,514	12,514	$-	$10,781	$10,781
Labor & health insurance expenses	-	807	807	-	670	670
Pension expenses	-	655	655	-	566	566
Other expenses	-	300	300	-	266	266
Depreciation	-	405	405	-	305	305
Depletion	-	-	-	-	-	-
Amortization	-	100	100	-	89	89

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

21. Estimated income taxes

The Income Tax rate for the Company was originally at 25%. However, in accordance with the amendment to the Income Tax Law announced on May 27, 2009, the applicable income tax rate for the Company was changed to 20% starting from Jan 1, 2010. Furthermore, in accordance with the recent amendment to the Income Tax Law announced on June 15, 2010, the applicable income tax rate for the Company has been further reduced to 17% starting from Jan, 1, 2010.

(1) Income tax expenses include the following:

	For the three months ended March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Income before tax calculated in accounting	$317,703	10,770	$251,842	$8,566
Adjustments:				
(Gains) Losses from valuation on financial assets	(273,680)	(9,277)	298,247	10,144
Gains derived from securities/futures transactions	(101,766)	(3,450)	(79,480)	(2,703)
Investment losses recognized by the equity method	47,707	1,617	9,286	316
Unrealized losses (gains) on foreign exchanges	81,794	2,773	(28,531)	(971)
Realized gains (losses) on foreign exchanges	118,342	4,012	(273,159)	(9,291)
Others	(1,430)	(49)	(9,239)	(314)
Taxable Income	188,670	6,396	168,966	5,747
Multiply by : tax rate	17%	17%	17%	17%
Subtotal	32,074	1,087	28,724	977
Tax effects under integrated income tax systems	-	-	-	-
Subtotal	32,074	1,087	28,724	977
Deferred income tax (benefits) expenses	13,079	444	2,273	77
Total income tax expenses	$45,153	$1,531	$30,997	$1,054

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

(2) Deferred income tax liabilities and assets are as follows:

	March 31,			
	2012		2011	
	NT$	US$	NT$	US$
A. Total deferred income tax assets	$37,577	$1,274	$54,877	$1,866
Total deferred income tax liabilities	$8,371	284	$4,851	$165
B. Temporary differences:				
Bad debts exceeding legal limitation	$115,249	3,907	$119,824	$4,076
Unrealized gains on foreign exchanges	-	-	(28,531)	(970)
Unrealized losses on foreign exchanges	81,793	2,772	-	-
Unrealized losses from valuation on financial assets	-	-	156,255	5,315
Unrealized gainds from valuation on financial assets	(49,240)	(1,669)	-	-
Others	2,678	91	6,013	204
Total	$150,480	$5,101	$253,561	$8,625
C. Investment tax credit	$3,625	$123	$6,921	$235
D. Deferred income tax assets	$37,577	$1,274	$54,877	$1,866
Deferred income tax liabilities	(8,371)	(284)	(4,851)	(165)
Net balance deferred income tax assets	$29,206	$990	$50,026	$1,701

(3) The Company's income tax returns have been assessed by the Tax Authority up to fiscal year 2006; however, the Company has filed administrative remedies for the year 2003 through 2006.

(4) Please refer to the following columns regarding law of investment tax credits, the credits items and amount of investment tax credits, the remaining balance and the expiry year:

		The amount of investment tax credit		The remaining balance		
Law of Investment tax credit	The credits items	NT$	US$	NT$	US$	Expiry year
Statute for Upgrading Industries	Personnel training	$3,625	$123	$3,625	$123	2012

(5) Information related to imputation:

	March 31,			
	2012		2011	
	NT$	US$	NT$	US$
Balance of imputation credit account	$18,018	$611	$14,196	$483

	March 31, 2012 (estimate)	March 31, 2011(real)
Imputation creditable ratio	4.74%	4.85%

(6) Information relating of undistributed earnings:

	March 31,			
	2012		2011	
Year	NT$	US$	NT$	US$
Prior to 1997	$-	$-	$-	$-
After 1998	380,220	12,889	301,148	10,243
Total	$380,220	$12,889	$301,148	$10,243

Net income after tax for the three months ended March 31, 2012 and 2011 are not included in the undistributed earnings after 1998 expressed above.

22. Earnings per share

	For the three months ended March 31, 2012		For the three months ended March 31, 2011	
	NT$	US$	NT$	US$
Net income (A)	$272,550	$9,239	$220,845	$7,512
Outstanding number of shares (in thousands shares)(B)	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares (in thousands shares) (C)	231,701	231,701	231,701	231,701
Earnings per shares (in dollars)(A)/(C)	$1.18	$0.04	$0.95	$0.03

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

23. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Insurance Company Limited. (China)	Subsidiary of the Company
Cathay Insurance Company Limited (Vietnam)	Subsidiary of the Company
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance Co., Ltd. (China)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Bank Life Insurance Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co, Ltd.
Indovina Bank Limited.	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Other related parties	The directors, supervisors, mangers, and their spouses, as well as their second immediate families

(2) Significant transactions with related parties

A. Premiums income

	For the three months ended March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$81,694	$2,769	$82,304	$2,799
Cathay United Bank	16,270	552	19,250	655
Total	$97,964	$3,321	$101,554	$3,454

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

B. Premiums receivable

	March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$5,769	$196	$8,719	$297
Cathay United Bank	10,484	355	14,878	506
Total	$16,253	$551	$23,597	$803

C. Cash in banks

		For the three months ended March 31, 2012		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$459,760	0.17%	$103
	Time deposits	$903,600	0.10%-1.345%	$2,883

		For the three months ended March 31, 2012		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$15,585	0.17%	$3
	Time deposits	$30,631	0.10%-1.345%	$98

		For the three months ended March 31, 2011		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$410,459	0.05%~0.13%	$134
	Time deposits	$959,200	0.10%~1.175%	$924

		For the three months ended March 31, 2011		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$13,961	0.05%~0.13%	$5
	Time deposits	$32,626	0.10%~1.175%	$31

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

D. Loans

	For the three months ended March 31, 2012			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Other related parties	$39,579	$38,493	2.03%	$203

	For the three months ended March 31, 2012			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Other related parties	$1,342	$1,305	2.03%	$7

	For the three months ended March 31, 2011			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Other related parties	$35,569	$34,556	1.81%	$161

	For the three months ended March 31, 2011			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Other related parties	$1,210	$1,175	1.81%	$5

E. Available-for-sale financial assets

	March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$56,340	1,910	$65,966	$2,244

F. Guarantee deposits paid

	March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$22,420	$760	$22,533	$766
Cathay Futures Corp.	6,088	206	5,927	202
Total	$28,508	$966	$28,460	$968

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

G. Other asset – other

	March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance Company Limited. (China)	$14,458	$490	$14,458	$492
Cathay Insurance Company Limited (Vietnam)	-	-	98,586	3,353
Total	$14,458	$490	$113,044	$3,845

H. Other payable

	March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$133,791	$4,535	$90,810	$3,089
Cathay Life Insurance Co., Ltd.	152,937	5,185	146,359	4,978
Total	$286,728	$9,720	$237,169	$8,067

I. Preferred stock liability

	March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co.,Ltd.	$1,000,000	$33,898	$-	$-

J. Operating costs

		For the three months ended March 31,			
		2012		2011	
Name	Summary	NT$	US$	NT$	US$
Cathay United Bank	Handing fee paid	$3,766	$128	$3,419	$116

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

K. Operating expenses

		For the three months ended March 31,			
		2012		2011	
Name	Summary	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Rental expenses	$23,543	$798	$22,961	$781
	Marketing expenses	286,266	9,704	313,123	10,651
	Party premium expenses	2,444	83	3,070	104
Cathay United Bank	Marketing expenses	14,377	487	13,523	460
Total		$326,630	$11,072	$352,677	$11,996

L. Other expenses

	For the three months ended March 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$6,291	$213	$5,820	$198

M. Other

(A) As of March 31, 2012 and 2011 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

	March 31,	
Item	2012	2011
CS contracts	US$44,050	US$41,050
IRS	NT$600,000	NT$600,000
	(US$20,339)	(US$20,408)

(B) The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT$100,000 (US$3,410) thousands during the three months ended March 31, 2011.

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

24. Pledged assets

	March 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Government deposits				
paid-government bonds	$402,916	$13,658	$358,198	$12,184
Guarantee deposits paid	20,000	678	20,000	680
Total	$422,916	$14,336	$378,198	$12,864

As of March 31, 2012 and 2011, the Company provided government bonds amounting to NT$402,916 (US$13,658) thousand and NT$358,198 (US$12,184) thousands, respectively, as the "Guaranteed Depository Insurance" in accordance with the Insurance Act. The pledged assets are stated at book value.

25. Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current)

NT$	March 31, 2012		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$6,033,173	$-	$6,033,173
Receivables	3,545,768	-	3,545,768
Investments	3,870,499	7,397,626	11,268,125
Reinsurance reserve assets - Net	-	4,204,951	4,204,951
Property and equipment - Net	-	125,773	125,773
Intangible assets	-	28,213	28,213
Other assets	-	619,402	619,042
Total assets			$25,825,045
Payables	$1,828,098	$-	$1,828,098
Financial Liabilities	-	1,000,000	1,000,000
Operating and liability reserves	-	18,570,415	18,570,415
Other liabilities	-	351,062	351,062
Total liabilities			$21,749,575

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

US$	March 31, 2012		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$204,514	$-	$204,514
Receivables	120,196	-	120,196
Investments	131,203	250,767	381,970
Reinsurance reserve assets - Net	-	142,541	142,541
Property and equipment - Net	-	4,264	4,264
Intangible assets	-	956	956
Other assets	-	20,984	20,984
Total assets			$875,425
Payables	$61,970	$-	$61,970
Financial Liabilities	-	33,898	33,898
Operating and liability reserves	-	629,506	629,506
Other liabilities	-	11,900	11,900
Total liabilities			$737,274

26. Commitment and contingent liabilities

As of March 31, 2012, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	(NT$)	(US$)
April 1, 2012 ~ March 31, 2013	$103,979	$3,525
April 1, 2013 ~ March 31, 2014	103,979	3,525
April 1, 2014 ~ March 31, 2015	103,979	3,525
April 1, 2015 ~ March 31, 2016	103,979	3,525
April 1, 2016 ~ March 31, 2017	103,979	3,525
Total	$519,895	$17,625

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

27. The change of capital structure: None.

28. Significant subsequent events: None.

29. Gain and disposal of major operating assets and real estate investment: None.

30. Significant disaster losses: None.

31. Significant lawsuit: None.

32. Significant contract: None.

33. Pension related information

According to the ROC SFAS No.23 "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in the ROC SFAS No.18 "Accounting for Pensions".

34. Discretionary account management

	March 31, 2012			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$-	$-	$-	$-
Short - term notes	-	-	-	-
Cash in banks	-	-	-	-
Net other assets less liabilities	-	-	-	-
Total	$-	$-	$-	$-

	March 31, 2011			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$135,098	$4,595	$135,098	$4,595
Short - term notes	55,030	1,872	55,030	1,872
Cash in banks	106,674	3,628	106,674	3,628
Net other assets less liabilities	(149)	(5)	(149)	(5)
Total	$296,653	$10,090	$296,653	$10,090

As of March 31, 2012 and 2011, the Company had discretionary account management contracts in the amount of NT$0 (US$0) and NT$300,000 (US$10,204), respectively.

35. Segment information:

The Company abides by the provisions of insurance law for insurance business operations. In accordance with SFAS No. 41, the Company provides insurance contract type products, the overall business decision-makers make decisions based on resource allocation, making the overall company as one functional operation's department.

36. Discontinued operation: None.

37. Merger and acquisition: None.

38. Cost, revenue and profit allocation of transaction with financial holding company and its subsidiaries

The allocation of revenue and expenses of the transactions, promotions and information sharing between the Company and its affiliates are based on the attribution of the transactions.

39. Information for investment in Mainland China

On December 31, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$28,960 as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life Insurance). The Company has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The Company and Cathay Life Insurance's subsidiary, Cathay Insurance Company Ltd. (China), acquired a business license of an enterprise as legal person on August 26, 2009. As of March 31, 2012, the Company's remittances to this company amounted to US$27,820.

40. Private placement of securities: None.

41. Investment in derivative financial instruments: None.

42. Significant change in organization structure and management principles: None.

43. Significant impact from government regulation change: None.

44. Others

(1) Risk management policies and hedge strategies

The Company's primary financial instruments other than derivatives consists cash and cash equivalents, investments. The main purpose of holding these financial instruments is to manage cash flow. The Company has other financial assets and liabilities such as notes receivable, due to and from reinsurers and ceding companies, reinsurance account, receivable and payable and secured loans, etc.

The Company also conducts derivative transactions, primarily including futures, option contracts and forward currency contracts. The purpose is to manage the stock price fluctuation and currency exchange risks arising from the Company's investment activities. The company does not conduct derivative transactions based on trading purpose.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk.

Foreign currency risk

The Company has foreign currency risk arising from foreign investments. Due to the total value of the foreign investments is significant, the Company entered into forward contracts to hedging for the foreign currency risk. In spite of the fact that the Company's reinsurance business also involved in foreign currency positions, the Company doesn't hedge for these transactions, because the credit period of reinsurance account receivables is shorter, which would not result in huge exchange rate fluctuations.

To maximum the hedging effect, the Company adopts an equivalent hedging strategy for foreign currency risks.

Credit risk

The company only conducts business with recognized and creditworthy third parties. Customers are subject to credit verification procedures, and the collection of premium receivable and notes receivable are subsequently assessed. In addition, once the credit of the third party is impaired, the Company will freeze the related contracts until the credit of the third party recovers. Thus the Company has minimal bad debts.

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

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Company has adopted and implemented the internal control regulations and sheets. The Company already established the information systems to accommodate the aforementioned policies.

Liquidity risk

The company's exposure to liquidity risk is minimal.

(2) Financial instruments related information:

	March 31, 2012			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$6,033,173	$6,033,173	$204,514	$204,514
Notes receivable	270,050	270,050	9,154	9,154
Premiums receivable	2,302,961	2,302,961	78,067	78,067
Claims recoverable from reinsurers	256,675	256,675	8,701	8,701
Due from reinsurers and ceding companies	611,114	611,114	20,716	20,716
Other accounts receivable	104,968	104,968	3,558	3,558
Financial assets at fair value through profit or loss	144,774	144,774	4,907	4,907
Available-for-sale financial assets	5,651,438	5,651,438	191,574	191,574
Long-term investments under equity method	989,375	989,375	33,538	33,538
Investments in debt securities with no active market	1,477,115	1,477,115	50,072	50,072
Held-to-maturity financial assets	2,450,987	2,450,987	83,084	83,084
Secured loans	524,816	524,816	17,769	17,769
Reinsurance reserve assets - Net	4,204,951	4,204,951	142,541	142,541
Guarantee deposits paid	533,432	533,432	18,082	18,082
Derivative financial instruments:				
Financial assets at fair value through profit or loss				
Forward and SWAP	4,239	4,239	144	144
Derivative financial assets for hedging				
IRS	26,011	26,011	882	882

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

	March 31, 2012			
	NT$		US$	
Liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Non - derivative financial instrument:				
Claims outstanding	$38,502	$38,502	$1,305	$1,305
Due to reinsurers and ceding companies	1,265,342	1,265,342	42,893	42,893
Preferred stock liability	1,000,000	1,000,000	33,898	33,898
Liabilities reserve	18,570,415	18,570,415	629,506	629,506

	March 31, 2011			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$6,018,461	$6,018,461	$204,709	$204,709
Notes receivable	225,787	225,787	7,680	7,680
Premiums receivable	2,213,290	2,213,290	75,282	75,282
Claims recoverable from reinsurers	279,995	279,995	9,524	9,524
Due from reinsurers and ceding companies	132,798	132,798	4,517	4,517
Other accounts receivable	70,985	70,985	2,414	2,414
Financial assets at fair value through profit or loss	844,728	844,728	28,732	28,732
Available-for-sale financial assets	3,809,343	3,809,343	129,570	129,570
Financial assets carried at cost	31,188	-	1,061	-
Long-term investments under equity method	1,120,514	1,120,514	38,113	38,113
Investments in debt securities with no active market	500,000	500,000	17,007	17,007
Held-to-maturity financial assets	2,471,162	2,471,162	84,053	84,053
Secured loans	710,448	710,448	24,165	24,165
Reinsurance reserve assets - Net	4,086,248	4,086,248	138,988	138,988
Guarantee deposits paid	523,351	523,351	17,801	17,801
Derivative financial instruments:				
Financial assets at fair value through profit or loss				
Forward and SWAP	24,552	24,552	835	835
Derivative financial assets for hedging				
IRS	31,554	31,554	1,073	1,073

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

	March 31, 2011			
	NT$		US$	
Liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Non - derivative financial instrument:				
Claims outstanding	$37,944	$37,944	$1,290	$1,290
Due to reinsurers and ceding companies	1,212,865	1,212,865	41,254	41,254
Liabilities reserve	17,918,616	17,918,616	609,477	609,477

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

① The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables, prepaid reinsurance premiums ceded, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.

② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.

③ Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

④ The fair value of the Company's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

⑤ If no quoted market prices exist for the Company's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts.

⑥ The following table summarizes the fair value information of the Company's financial assets and liabilities at March 31, 2012 and 2011:

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

	March 31,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2012	2011	2012	2011
Assets-non-derivative				
Cash and cash equivalents	$5,872,987	$5,239,847	$160,186	$778,614
Financial assets at fair value through profit or loss	144,774	844,728	-	-
Available-for-sale financial assets	5,651,438	3,809,343	-	-
Long-term investments under equity method	-	-	989,375	1,120,514
Investment in debt securities with no active market	-	-	1,477,115	500,000
Held-to-maturity financial assets	-	-	2,450,987	2,471,162
Assets- derivative				
Financial assets at fair value through profit and loss				
Forward and SWAP	-	-	4,239	24,552
Derivative financial assets for hedging-current				
IRS	-	-	26,011	31,554

	March 31,			
	US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2012	2011	2012	2011
Assets-non-derivative				
Cash and Cash equivalents	$199,084	$178,226	$5,430	$26,483
Financial assets at fair value through profit or loss	4,907	28,732	-	-
Available-for-sale financial assets	191,574	129,570	-	-
Long-term investments under the equity method	-	-	33,538	38,113
Investment in debt securities with no active market	-	-	50,072	17,007
Held-to-maturity financial assets	-	-	83,084	84,053
Assets-derivative				
Financial assets at fair value through profit or loss				
Forward and SWAP	-	-	144	835
Derivative financial liabilities for hedging				
IRS	-	-	882	1,073

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

(3) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at March 31, 2012 and 2011:

Fixed interest rate:

① March 31, 2012

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$608,544	$20,629	$-	$-	$213,003	$7,220
Held-to-maturity financial assets	505,748	17,144	674,650	22,869	269,068	9,121	92,883	3,149
Investments in debt securities with no active market	300,000	10,169	200,000	6,780	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$1,540,164	$52,209	$2,361,711	$80,058
Held-to-maturity financial assets	-	-	908,638	30,801	2,450,987	83,084
Investments in debt securities with no active market	300,000	10,169	677,115	22,953	1,477,115	50,071

② March 31, 2011

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$202,531	$6,889	$-	$-	$615,164	$20,924	$-	$-
Held-to-maturity financial assets	101,050	3,437	176,327	5,997	381,149	12,964	653,493	22,228
Investments in debt securities with no active market	-	-	300,000	10,204	200,000	6,803	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$216,362	$7,359	$-	$-	$1,034,057	$35,172
Held-to-maturity financial assets	123,891	4,214	1,035,252	35,213	2,471,162	84,053
Investments in debt securities with no active market	-	-	-	-	500,000	17,007

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

Floating interest rate:

① March 31, 2012

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,780	$-	$-	$200,000	$6,780	$200,000	$6,780

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$-	$-	$600,000	$20,340

② March 31, 2011

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$200,000	$6,803	$-	$-	$200,000	$6,803

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,802	$-	$-	$600,000	$20,408

(4) Credit risk

The Company’s exposure to credit risk in minimal.

(5) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company’s interest rate swap for bonds hedging at March 31, 2012:

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

Cash flow hedges-IRS

March 31, 2012

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$200,000	$6,780	2.65%	Each quarter	2014/9/30
$200,000	$6,780	2.40%	Each quarter	2012/9/28
$200,000	$6,780	2.785%	Each quarter	2015/4/30

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness test. Unrealized gains on financial instruments were recognized in equity by NT$26,011(US$882) and NT$31,554 (US$1,073) as of March 31, 2012 and 2011, respectively.

(6) Risk Management Framework, Organization, and Responsibility

① Responsibility：

A. Board of Directors

(A) Recognize various risks associating with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.

(B) Establish proper mechanism and culture for risk management, ratify proper risk management policies and optimize resources allocation.

(C) Consider aggregate effect of various risks from the perspective of the company as a whole, at the same time take into account regulatory capital requirements from the authority and other related capital allocation regulations regarding finance and business.

B. 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. It's responsibilities are as follows:

(B) Responsibilities of risk management team：

a. Formulate risk management policies, frameworks, and organizations. 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. Execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for company as a whole on a regular basis.

c. Assist and supervise various departments in risk management activities.

d. Adjust risk category, allotment, and attribution in reaction to changes in scenario

e. Coordinate interaction and communication of risk management function across departments

(C) Responsibility of risk management division：

a. Assist the draft of risk management policies and execute one ratified by the board of directors.

b. Assist the set-up of risk limits according to the risk appetite.

c. Compile risk information from various departments, coordinate and communicate with them to execute policies and limits.

d. Propose risk management related reports on a regular basis.

e. Supervise risk limit and its use of each business unit on a regular basis.

f. Assist in stress test and conduct back-testing when necessary.

g. Other risk management related tasks

C. Business unit (sales unit and administrative unit)

(A) Responsibilities in risk management of business are as follows：

a. Manage daily risk management and report of the corresponding unit and take necessary reactions.

b. Oversee the passage of risk management information to risk management on a regular basis

(B) Responsibilities in operation of risk management of business unit are as follows：

a. Identify risk and report risk exposure.

b. Evaluate (quantitive or qualitative) the degree of influence when risks occur and pass risk information in a timely and correct manner

c. Review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.

d. Oversee risk exposure and report when over-limit occur, including measures taken against it

e. Assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducting on a reasonable basis and is consistent with actual practice

f. Assure effective execution of internal control within business unit to comply with related regulation and risk management policies of the company .

g. Assist in collecting information regarding operation risk

D. Internal audit room

Audit the execution of risk management of each unit in the company according to current related regulation.

(7) Scope and nature of risk reporting and evaluation system of property insurance

① 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 corresponding measures when risk exposure is over limit.

B. Risk management unit compile risk information from each department, examine and track the use of major risk limit, submit monthly risk management report to general manager, and make quarter report to the board of director to oversee risk on a regular basis.

②Scope 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.

(8) 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 each risk indicator, risk limit, and managing mechanism. Each related department is 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.

(9) 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.

(10)Methods with which property insurance business limit insurance risk exposure and improper risk concentration：

Before a business is introduced, 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 retained risk per risk unit for each type of insurance business is disclosure as follow:

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

	2012.3.31		2011.3.31	
Item	NT$	US$	NT$	US$
Fire insurance	$613,000	$20,780	$630,000	$21,429
Marine insurance	613,000	20,780	US$12,000	12,000
Engineering insurance	613,000	20,780	630,000	21,429
Other property insurance	613,000	20,780	630,000	21,429
Automobile insurance	613,000	20,780	100,000	3,401
Health and injury insurance	613,000	20,780	630,000	21,429

(11)Methods of asset/liability management

Provisions are evaluated on a regular basis based on the company's business characteristics to insure current 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 loss or liquidity is severely lacked, 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.

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

The company has established 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 be summoned 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 dollars except for share and per share data and unless otherwise stated)

(13)Information of insurance contract

① Receivables and payables of insurance contract

A. Insurance receivables

	March 31,2012	
	Premiums receivable (note)	
Item	NT$	US$
Fire insurance	$272,205	$9,227
Marine insurance	488,086	16,545
Land and air insurance	525,073	17,799
Liability insurance	152,682	5,176
Bonding insurance	15,109	512
Other property insurance	418,666	14,192
Accident insurance	236,717	8,025
Health insurance	9,222	313
Compulsory automobile liability insurance	240,954	8,168
Total	2,358,714	79,957
Less:Allowance for bad debts	(55,753)	(1,890)
Net	$2,302,961	$78,067

	March 31,2011	
	Premiums receivable (note)	
Item	NT$	US$
Fire insurance	$382,096	$12,996
Marine insurance	374,816	12,749
Land and air insurance	484,347	16,474
Liability insurance	74,180	2,523
Bonding insurance	26,915	916
Other property insurance	420,703	14,310
Accident insurance	275,309	9,364
Health insurance	8,707	296
Compulsory automobile liability insurance	215,871	7,343
Total	2,262,944	76,971
Less:Allowance for bad debts	(49,654)	(1,689)
Net	$2,213,290	$75,282

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

Note： As of March 31, 2012 and 2011, the receivable included overdue receivables by NT$407,165 (US$13,802) and NT$307,753 (US$10,468), the allowance for bad debts amounted to NT$36,237 (US$1,228) and NT$307,753 (US$1,024).

B. Reinsurance asset - Claims recoverable from reinsurers for those reported and paid off claims.

	March 31,2012	
	Claim reported and paid off	
Item	NT$	US$
Fire insurance	$51,948	$1,761
Marine insurance	25,764	873
Land and air insurance	19,008	644
Liability insurance	4,613	156
Bonding insurance	(170)	(6)
Other property insurance	9,435	320
Accident insurance	18,568	630
Health insurance	-	-
Compulsory automobile liability insurance	127,509	4,323
Total	256,675	8,701
Less:Allowance for bad debts	-	-
Net	$256,675	$8,701

	March 31,2011	
	Claim reported and paid off	
Item	NT$	US$
Fire insurance	$22,010	$749
Marine insurance	63,465	2,159
Land and air insurance	14,629	497
Liability insurance	6,056	206
Bonding insurance	549	19
Other property insurance	25,029	851
Accident insurance	22,935	780
Health insurance	-	-
Compulsory automobile liability insurance	125,322	4,263
Total	279,995	9,524
Less:Allowance for bad debts	-	-
Net	$279,995	$9,524

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

C. Insurance payables

	March 31,2012					
	Commission payable		Other		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$887	$30	$7,287	$247	$8,174	$277
Marine insurance	1,520	52	4,587	155	6,107	207
Land and air insurance	1,572	53	73,298	2,485	74,870	2,538
Liability insurance	-	-	4,905	166	4,905	166
Bonding insurance	-	-	98	3	98	3
Other property insurance	6,464	219	9,012	306	15,476	525
Accident insurance	-	-	27,752	941	27,752	941
Health insurance	-	-	5,724	194	5,724	194
Compulsory automobile liability insurance	78,883	2,674	-	-	78,883	2,674
Total	$89,326	$3,028	$132,663	$4,497	$221,989	$7,525

	March 31,2011					
	Commission payable		Other		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,316	$45	$7,004	$238	$8,320	$283
Marine insurance	1,659	57	1,517	51	3,176	108
Land and air insurance	569	19	68,054	2,315	68,623	2,334
Liability insurance	1,794	61	3,981	135	5,775	196
Bonding insurance	-	-	103	4	103	4
Other property insurance	-	-	8,662	295	8,662	295
Accident insurance	-	-	30,324	1,031	30,324	1,031
Health insurance	7	-	2,869	98	2,876	98
Compulsory automobile liability insurance	72,914	2,480	-	-	72,914	2,480
Total	$78,259	$2,662	$122,514	$4,167	$200,773	$6,829

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

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

	March 31,2012			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
Item	NT$	US$	NT$	US$
Non-Life Insurance Association of the R.O.C	$52,860	$1,792	$203,754	$6,907
Taian	33,418	1,133	10,729	364
Fubon	53,263	1,805	1,510	51
Hua Nan	29,678	1,006	6,791	230
Tokio Marine Newa	19,913	675	9,627	326
Best Re	22,831	774	21,292	722
Central Re	80,056	2,714	142,571	4,833
Everest Re	46,058	1,561	33,835	1,147
FP Marine	36,146	1,225	74,887	2,539
Guy Carpenter	1,198	41	47,274	1,603
Korean Re	39,497	1,339	60,152	2,039
Marsh	24,775	840	40,424	1,370
Sompo Japan Re	21,482	728	69,603	2,359
Swiss Re	1,494	51	76,077	2,579
Willis	25	1	45,968	1,558
Zurich	19	1	64,219	2,177
Others	193,406	6,556	356,629	12,089
Total	656,119	22,242	1,265,342	42,893
Less:Allowance for bad debts	(45,005)	(1,526)	-	-
Net	$611,114	$20,716	$1,265,342	$42,893

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

	March 31,2011			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
Item	NT$	US$	NT$	US$
Non-Life Insurance Association of the R.O.C	$57,379	$1,952	$194,904	$6,629
Shin Kong	7,239	246	8,325	283
Central Re	51	2	45,911	1,562
Munich Re	12,033	409	2,035	69
AON	9,039	308	52,114	1,773
FP Marine	13,857	471	106,613	3,626
Willis	19,139	651	30,985	1,054
Wilson Re	12,713	433	34,176	1,162
Elite	18,856	641	14,013	477
Marsh	14,711	500	96,224	3,273
Others	60,998	2,075	627,565	21,346
Total	226,015	7,688	1,212,865	41,254
Less:Allowance for bad debts	(93,217)	(3,171)	-	-
Net	$132,798	$4,517	$1,212,865	$41,254

Note：As of March 31, 2012 and 2011, due from reinsurers and ceding companies included overdue receivables by NT$45,005 (US$1,526) and NT$93,217 (US$3,171), respectively, and the allowance for bad debts amounted to NT$45,005 (US$1,526) and NT$93,217 (US$3,171), respectively.

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

② Information of Management Achievements

A. Acquisition cost for insurance contracts

NT$	March 31,2012					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$480	$950	$340	$428	$20,650	$22,848
Marine insurance	2,100	224	36	252	12,680	15,292
Land and air insurance	6,553	392	-	339	169,179	176,463
Liability insurance	1,935	197	-	73	13,067	15,272
Bonding insurance	477	(8)	-	(2)	248	715
Other property insurance	9,141	1,175	-	511	18,326	29,153
Accident insurance	2,008	83	2	6	77,414	79,513
Health insurance	575	52	-	-	4,096	4,723
Compulsory automobile liability insurance	-	-	92,564	-	1,693	94,257
Total	$23,269	$3,065	$92,942	$1,607	$317,353	$438,236

US$	March 31,2012					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$16	$32	$11	$15	$700	$774
Marine insurance	71	7	1	9	430	518
Land and air insurance	222	13	-	12	5,735	5,982
Liability insurance	66	7	-	2	443	518
Bonding insurance	16	-	-	-	9	25
Other property insurance	310	40	-	17	621	988
Accident insurance	68	3	-	-	2,624	2,695
Health insurance	19	2	-	-	139	160
Compulsory automobile liability insurance	-	-	3,138	-	57	3,195
Total	$788	$104	$3,150	$55	$10,758	$14,855

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

NT$	March 31,2011					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$5,308	$890	$363	$340	$18,203	$25,104
Marine insurance	3,185	255	37	256	6,369	10,102
Land and air insurance	1,339	157	-	368	155,411	157,275
Liability insurance	1,616	287	-	27	9,449	11,379
Bonding insurance	57	2	-	-	259	318
Other property insurance	3,132	172	-	872	15,068	19,244
Accident insurance	815	72	2	6	74,039	74,934
Health insurance	145	(2)	-	-	3,046	3,189
Compulsory automobile liability insurance	-	-	86,824	-	7,168	93,992
Total	$15,597	$1,833	$87,226	$1,869	$289,012	$395,537

US$	March 31,2011					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$181	$30	$12	$12	$619	$854
Marine insurance	108	9	1	9	217	344
Land and air insurance	46	5	-	12	5,286	5,349
Liability insurance	55	10	-	1	321	387
Bonding insurance	2	-	-	-	9	11
Other property insurance	106	6	-	30	513	655
Accident insurance	28	2	-	-	2,518	2,548
Health insurance	5	-	-	-	104	109
Compulsory automobile liability insurance	-	-	2,953	-	244	3,197
Total	$531	$62	$2,966	$64	$9,831	$13,454

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

B. Disclosure for insurance profit and loss analysis

(A) Profit and loss analysis for direct underwriting business

NT$	March 31,2012					
Item	Premium income	Net change for unearned premium reserve	Acquisition cost for insurance contract	Claims	Net change for claim reserve	Net profit(loss)
Fire insurance	$405,316	$151,228	$(22,420)	$(243,058)	$160,878	$451,944
Marine insurance	173,881	20,288	(15,040)	(63,609)	(78,862)	36,658
Land and air insurance	1,143,076	(193,064)	(176,124)	(631,679)	86,017	228,226
Liability insurance	206,427	(57,211)	(15,199)	(28,712)	(7,281)	98,024
Bonding insurance	19,059	(4,912)	(717)	(147)	1,229	14,512
Other property insurance	182,440	(19,525)	(28,642)	(39,987)	(6,219)	88,067
Accident insurance	555,698	23,796	(79,507)	(217,922)	(66,643)	215,422
Health insurance	26,922	22,614	(4,723)	(41,886)	(27,691)	(24,764)
Compulsory automobile liability insurance	665,381	(8,596)	(94,257)	(416,125)	10,069	156,472
Total	$3,378,200	$(65,382)	$(436,629)	$(1,683,125)	$71,497	$1,264,561

US$	March 31,2012					
Item	Premium income	Net change for unearned premium reserve	Acquisition cost for insurance contract	Claims	Net change for claim reserve	Net profit(loss)
Fire insurance	$13,740	$5,126	$(759)	$(8,239)	$5,454	$15,322
Marine insurance	5,894	688	(509)	(2,156)	(2,673)	1,244
Land and air insurance	38,748	(6,545)	(5,970)	(21,413)	2,916	7,736
Liability insurance	6,998	(1,939)	(516)	(973)	(247)	3,323
Bonding insurance	646	(167)	(25)	(5)	42	491
Other property insurance	6,184	(662)	(971)	(1,356)	(211)	2,984
Accident insurance	18,837	806	(2,695)	(7,387)	(2,259)	7,302
Health insurance	913	767	(160)	(1,420)	(939)	(839)
Compulsory automobile liability insurance	22,555	(291)	(3,195)	(14,106)	341	5,304
Total	$114,515	$(2,217)	$(14,800)	$(57,055)	$2,424	$42,867

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

NT$	March 31,2011					
Item	Premium income	Net change for unearned premium reserve	Acquisition cost for insurance contract	Claims	Net change for claim reserve	Net profit(loss)
Fire insurance	$529,548	$(53,276)	$(24,764)	$(225,272)	$215,754	$441,990
Marine insurance	162,868	7,999	(9,846)	(110,625)	(158,416)	(108,020)
Land and air insurance	975,830	(46,398)	(156,907)	(517,498)	(93,125)	161,902
Liability insurance	109,510	9,788	(11,352)	(28,365)	(23,497)	56,084
Bonding insurance	24,890	(14,417)	(318)	(14,094)	(8,801)	(12,740)
Other property insurance	434,866	(467,010)	(18,372)	(78,811)	23,707	(105,620)
Accident insurance	531,255	(67,994)	(74,928)	(198,419)	(7,072)	182,842
Health insurance	19,499	24,757	(3,189)	(20,542)	(1,214)	19,311
Compulsory automobile liability insurance	644,556	(8,830)	(93,992)	(368,288)	(20,522)	152,924
Total	$3,432,822	$(615,381)	$(393,668)	$(1,561,914)	$(73,186)	$788,673

US$	March 31,2011					
Item	Premium income	Net change for unearned premium reserve	Acquisition cost for insurance contract	Claims	Net change for claim reserve	Net profit(loss)
Fire insurance	$18,012	$(1,812)	$(842)	$(7,662)	$7,339	$15,035
Marine insurance	5,540	272	(335)	(3,763)	(5,388)	(3,674)
Land and air insurance	33,191	(1,578)	(5,337)	(17,602)	(3,168)	5,506
Liability insurance	3,725	333	(386)	(965)	(799)	1,908
Bonding insurance	847	(490)	(11)	(479)	(299)	(432)
Other property insurance	14,791	(15,885)	(625)	(2,680)	806	(3,593)
Accident insurance	18,070	(2,313)	(2,549)	(6,749)	(241)	6,218
Health insurance	663	842	(108)	(699)	(41)	657
Compulsory automobile liability insurance	21,924	(300)	(3,197)	(12,527)	(698)	5,202
Total	$116,763	$(20,931)	$(13,390)	$(53,126)	$(2,489)	$26,827

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

(B) Profit and loss analysis for assumed reinsurance business

NT$	March 31,2012					
Item	Reinsurance premium	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims	Net change for claim reserve	Net profit(loss) for assumed reinsurance business
Fire insurance	$16,102	$115	$(428)	$(68)	$(19,717)	$(3,996)
Marine insurance	2,654	(1,700)	(252)	(3,800)	(4,954)	(8,052)
Land and air insurance	1,565	1,274	(339)	(1,165)	(12,862)	(11,527)
Liability insurance	315	(125)	(73)	(113)	1,131	1,135
Bonding insurance	349	(151)	2	(8)	7	199
Other property insurance	2,286	4,272	(511)	(1,024)	304	5,327
Accident insurance	1,785	14,682	(6)	(2,586)	(6,521)	7,354
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	65,379	2,024	-	(63,506)	37	3,934
Total	$90,435	$20,391	$(1,607)	$(72,270)	$(42,461)	$(5,512)

US$	March 31,2012					
Item	Reinsurance premium	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims	Net change for claim reserve	Net profit(loss) for assumed reinsurance business
Fire insurance	$546	$4	$(15)	$(2)	$(668)	$(135)
Marine insurance	90	(58)	(9)	(129)	(168)	(274)
Land and air insurance	53	43	(11)	(39)	(436)	(390)
Liability insurance	11	(4)	(2)	(4)	38	39
Bonding insurance	12	(5)	-	-	-	7
Other property insurance	77	145	(17)	(35)	10	180
Accident insurance	61	497	-	(88)	(221)	249
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	2,216	69	-	(2,153)	1	133
Total	$3,066	$691	$(54)	$(2,450)	$(1,440)	$(187)

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

NT$	March 31,2011					
Item	Reinsurance premium	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims	Net change for claim reserve	Net profit(loss) for assumed reinsurance business
Fire insurance	$12,372	$(63,309)	$(340)	$(54,616)	$(1,381)	$(107,274)
Marine insurance	2,821	215	(256)	(2,271)	(42,139)	(41,630)
Land and air insurance	3,066	(119,670)	(368)	(485)	(1,903)	(119,360)
Liability insurance	1,278	(679)	(27)	(151)	(644)	(223)
Bonding insurance	143	38	-	(22)	(40)	119
Other property insurance	7,803	(5,992)	(872)	(3,786)	(1,147)	(3,994)
Accident insurance	1,955	(15,208)	(6)	(93)	(907)	(14,259)
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	69,036	2,027	-	(58,435)	(2,719)	9,909
Total	$98,474	$(202,578)	$(1,869)	$(119,859)	$(50,880)	$(276,712)

US$	March 31,2011					
Item	Reinsurance premium	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims	Net change for claim reserve	Net profit(loss) for assumed reinsurance business
Fire insurance	$421	$(2,153)	$(12)	$(1,858)	$(47)	$(3,649)
Marine insurance	96	7	(9)	(77)	(1,433)	(1,416)
Land and air insurance	104	(4,071)	(12)	(16)	(65)	(4,060)
Liability insurance	43	(23)	(1)	(5)	(22)	(8)
Bonding insurance	5	1	-	(1)	(1)	4
Other property insurance	265	(204)	(30)	(129)	(39)	(137)
Accident insurance	67	(517)	-	(3)	(31)	(484)
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,348	69	-	(1,988)	(93)	336
Total	$3,349	$(6,891)	$(64)	$(4,077)	$(1,731)	$(9,414)

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

(C) Profit and loss analysis for reinsurance contract purchased

NT$	March 31,2012					
Item	Reinsurance expense	Net change for unearned premium reserve ceded	Reinsurance commission revenue	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$232,575	$107,212	$(3,839)	$(104,700)	$64,602	$295,850
Marine insurance	152,231	11,317	(27,440)	(21,535)	(27,196)	87,377
Land and air insurance	20,006	24,895	(6,841)	(18,225)	(8,201)	11,634
Liability insurance	73,511	(29,040)	(18,659)	1,460	(6,831)	20,441
Bonding insurance	12,013	(5,538)	(2,433)	2,427	228	6,697
Other property insurance	103,220	(6,188)	(18,801)	(4,621)	2,797	76,407
Accident insurance	46,890	(8,829)	(9,317)	(17,596)	(18,079)	(6,931)
Health insurance	954	69	(335)	(400)	(1,174)	(886)
Compulsory automobile liability insurance	183,382	(4,283)	-	(162,896)	3,998	20,201
Total	$824,782	$89,615	$(87,665)	$(326,086)	$10,144	$510,790

US$	March 31,2012					
Item	Reinsurance expense	Net change for unearned premium reserve ceded	Reinsurance commission revenue	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$7,884	$3,634	$(130)	$(3,549)	$2,190	$10,029
Marine insurance	5,161	383	(930)	(730)	(922)	2,962
Land and air insurance	678	844	(232)	(618)	(278)	394
Liability insurance	2,492	(984)	(634)	49	(232)	691
Bonding insurance	407	(188)	(82)	82	8	227
Other property insurance	3,499	(210)	(637)	(157)	95	2,590
Accident insurance	1,590	(299)	(316)	(596)	(613)	(234)
Health insurance	32	2	(11)	(13)	(40)	(30)
Compulsory automobile liability insurance	6,216	(145)	-	(5,522)	136	685
Total	$27,959	$3,037	$(2,972)	$(11,054)	$344	$17,314

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

NT$	March 31,2011					
Item	Reinsurance expense	Net change for unearned premium reserve ceded	Reinsurance commission revenue	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$324,130	$(51,451)	$(16,503)	$(30,041)	$51,889	$278,024
Marine insurance	111,031	15,692	(16,674)	(50,444)	(238,873)	(179,268)
Land and air insurance	32,975	(135,398)	(9,897)	(14,538)	1,730	(125,128)
Liability insurance	29,335	1,984	(7,196)	(7,519)	(8,730)	7,874
Bonding insurance	18,213	(15,160)	(4,741)	(12,363)	(9,613)	(23,664)
Other property insurance	296,908	(375,267)	(7,963)	(46,851)	25,016	(108,157)
Accident insurance	50,661	(910)	(7,352)	(24,616)	1,321	19,104
Health insurance	626	(1,181)	(224)	-	10	(769)
Compulsory automobile liability insurance	176,064	(3,641)	-	(147,315)	(13,608)	11,500
Total	$1,039,943	$(565,332)	$(70,550)	$(333,687)	$(190,858)	$(120,484)

US$	March 31,2011					
Item	Reinsurance expense	Net change for unearned premium reserve ceded	Reinsurance commission revenue	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$11,025	$(1,750)	$(561)	$(1,022)	$1,765	$9,457
Marine insurance	3,776	534	(567)	(1,716)	(8,125)	(6,098)
Land and air insurance	1,122	(4,605)	(337)	(494)	59	(4,255)
Liability insurance	998	67	(245)	(256)	(297)	267
Bonding insurance	619	(516)	(161)	(420)	(327)	(805)
Other property insurance	10,099	(12,764)	(271)	(1,594)	851	(3,679)
Accident insurance	1,723	(31)	(250)	(837)	45	650
Health insurance	21	(40)	(8)	-	-	(27)
Compulsory automobile liability insurance	5,989	(124)	-	(5,011)	(463)	391
Total	$35,372	$(19,229)	$(2,400)	$(11,350)	$(6,492)	$(4,099)

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

(14)Sensitivity of insurance risk

NT$			The impact to profit and loss when the expected loss ratio increases 5%	
Insurance type	Premium income	Expected loss ratio	Before reinsurance	After reinsurance
Fire insurance	406,802	62.54	20,340	5,905
Marine insurance	173,881	65.40	8,694	795
Land and air insurance	1,143,076	64.89	57,154	36,492
Liability insurance	206,427	68.28	10,321	4,538
Bonding insurance	19,059	71.62	953	265
Other property insurance	182,440	61.75	9,122	2,515
Accident insurance	555,698	72.04	27,785	5,905
Health insurance	26,922	68.25	1,346	18,392
Compulsory automobile liability insurance	665,380	NA	NA	NA

US$			The impact to profit and loss when the expected loss ratio increases 5%	
Insurance type	Premium income	Expected loss ratio	Before reinsurance	After reinsurance
Fire insurance	13,790	62.54	689	200
Marine insurance	5,894	65.40	295	27
Land and air insurance	38,748	64.89	1,937	1,237
Liability insurance	6,998	68.28	350	154
Bonding insurance	646	71.62	32	9
Other property insurance	6,184	61.75	309	85
Accident insurance	18,837	72.04	942	623
Health insurance	913	68.25	46	-
Compulsory automobile liability insurance	22,555	NA	NA	NA

Note : Premium income doesn't include preferential premium; 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.

(15)Concentration Risk

① Situations that might cause concentration of insurance risk：

A. Single insurance contract or few related contracts

For the three months ended March 31, 2012, 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.

B. A single accident that induces risk exposure in several insurance contracts

For the three months ended March 31, 2012, the loss rate of Health insurance is high due to several large claim cases. Other than these, the loss rates of the rest insurance categories are still within reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the three months ended March 31, 2012, no material lawsuit or legal risks has taken place.

D. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, the company has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the three months ended March 31, 2012, there is no catastrophe has taken place.

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

E. When a certain key variable has approached significant 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.

F. Concentration risks in geographic regions and operating segments

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

② Risk concentration before and after reinsurance by types of insurance:

Insurance type	For the three months ended March 31,2012 (NT$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	$2,057,001	$66,965	$216,952	$1,907,014
Fire insurance	412,247	16,095	232,505	195,837
Marine insurance	160,446	2,640	138,585	24,501
Engineering insurance	165,901	2,266	100,206	67,961
Health and injury insurance	316,028	1,696	34,297	283,427
Other insurance	266,577	773	102,237	165,113
Total	$3,378,200	$90,435	$824,782	$2,643,853

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

Insurance type	For the three months ended March 31,2012 (US$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	$69,729	$2,270	$7,354	$64,644
Fire insurance	13,974	547	7,881	6,639
Marine insurance	5,439	89	4,698	830
Engineering insurance	5,624	77	3,397	2,304
Health and injury insurance	10,713	57	1,163	9,608
Other insurance	9,036	26	3,466	5,597
Total	$114,515	$3,066	$27,959	$89,622

③ Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business. The greatest loss rate for such catastrophes for the company in the past would be the 2000 Typhoon Fanapi and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at 342 million.

(16) Claim development table

NT$ Underwriting Year	2007.4.1-2008.3.31	2008.4.1-2009.3.31	2009.4.1-2010.3.31	2010.4.1-2011.3.31	2011.4.1-2012.3.31	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	$2,857,559	$3,309,373	$3,451,224	$5,047,820	$4,157,056	
One year later	3,594,047	4,395,761	4,362,499	6,226,914		
Two year later	3,503,804	4,390,348	4,509,300			
Three year later	3,492,947	4,463,529				
Four year later	3,511,120					
Estimate of cumulative claims incurred	3,511,120	4,463,529	4,509,300	6,226,914	4,157,056	
Cumulative payment to date	3,451,504	4,360,549	4,259,003	4,590,644	2,884,984	
Subtotal	59,616	102,980	250,297	1,636,270	1,272,072	3,321,235
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	$59,616	$102,980	$250,297	$1,636,270	$1,272,072	$3,321,235

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

US$ Underwriting Year	2006.4.1-2007.3.31	2007.4.1-2008.3.31	2008.4.1-2009.3.31	2009.4.1-2011.3.31	2011.4.1-2012.3.31	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	$96,866	$112,182	$116,991	$171,113	$140,917	
One year later	121,832	149,009	147,881	211,082		
Two year later	118,773	148,825	152,858			
Three year later	118,405	151,306				
Four year later	119,021					
Estimate of cumulative claims incurred	119,021	151,306	152,858	211,082	140,917	
Cumulative payment to date	117,000	147,815	144,373	155,615	97,796	
Subtotal	2,021	3,491	3,491	55,467	43,121	112,584
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	$2,021	$3,491	$3,491	$55,467	$43,121	$112,584

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 lower part adjusts cumulative claim amount to the balance sheet.

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

	2012.03.31			2011.03.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$112,066	29.53	$3,309,309	$100,507	29.418	$2,956,715
Non-Monetary Items						
USD	102,320 (Nominal amount)	29.53	- (Note)	95,320 (Nominal amount)	29.418	- (Note)
Long-Term Investments Accounted For Under The Equity Method						
CNY	122,806	4.6888	575,811	153,301	4.4923	688,674
VND	297,882,871	0.00137	408,100	313,325,548	0.00136	426,123

Note: The Company conducted forward currency contracts for hedging. As of March 31, 2012 and 2011, gains from valuation on financial assets were recognized in income statement by NT$4,240 (US$144). and NT$24,552 (US$835).

(18) Pre-disclosures on the adoption of IFRSs

The Financial Supervisory Commission ("FSC") requires companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as "IFRSs"), and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, starting 2013. Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company makes the pre-disclosures on the adoption of IFRSs as follows:

① The main contents of the plan to adopt IFRSs and the current status：

The Company has set up a special project to adopt IFRSs. Accounting manager is responsible for the coordination of this project. The key activities estimated completion schedule and status of execution as of March 31,2012, were as follows：

Contents of Plan	Responsible Department or Personnel	Status of Execution
1. Assess stage: 2010/1/1~2011/12/31		
◎Make a plan to adopt IFRSs and establish a project team	Accounting department	Completed
◎Proceed initial internal training	Accounting department and other authorized departments	Completed
◎Identify differences between the existing accounting policies and IFRSs	Accounting department	Completed
◎Identify the adjustment required for existing accounting policies	Accounting department	Completed
◎Select voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards" and assess the impact of these exemptions	Accounting department	Completed
◎Identify the adjustments required for IT system and internal controls	Risk management department , IT department and Audit department	Completed

Contents of Plan	Responsible Department or Personnel	Status of Execution
2. Prepare stage: 2011/1/1~2012/12/31		
◎Finalize the accounting policies under IFRSs	Accounting department	Completed
◎Finalize the selection of voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Accounting department and	Completed
◎Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Risk management department , IT department and Audit department	In process
◎Proceed advanced internal training	Accounting department and other authorized departments	In process
3. Practice stage: 2012/1/1~2013/12/31		
◎Test the operation of IT system	IT department	In process
◎Prepare opening IFRSs balance sheet and comparative financial statements	Accounting department	In process
◎Prepare IFRSs financial statements	Accounting department	In process

② The material difference assessed by the Company between the existing accounting policies under R.O.C SFAS and the accounting policies to be adopted under IFRSs are described in the table below：

A. The Company assesses the material differences in accounting polices based on the IFRSs as recognized by the FSC and the Guidelines Governing the Preparation of Financial Reports by Industry of Insurance expected to become effective in 2013. However these assessments may be changed as the FSC may issue new rules governing different versions of IFRSs or amend the Guidelines Governing the Preparation of Financial Reports by Industry Insurance in the future. Furthermore, the Company has decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

Accounting Issues	Description of differences
【IAS 19 Employee benefits】	The Company has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under ROC GAAP. However under the requirements of IAS 19, the rate used to discount post-employment benefits obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used.
	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.

Accounting Issues	Description of differences
【IAS12 Income taxes】	Under the requirements of ROC GAAP, deferred tax assets are recognized in full, however, if there is over 50% possibility that the economic benefits of a deferred tax asset become unrealizable, a valuation allowance account should be established to reduce the carrying amount of the deferred tax asset. However under the requirements of IAS 12 "Income Taxes", a deferred tax asset shall be recognized to the extent that it is probable that it would be utilized.
	Under the requirements of ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However under the requirements of IAS 12, an entity shall offset current tax assets and current tax liabilities if, and only if, the entity has a legally enforceable right to set off the recognized amounts; and an entity shall offset deferred tax assets and current tax liabilities if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.
【IFRS 4 Insurance Contract】	Under the requirement of R.O.C GAAP , the special reserve for major incidents and special reserves for fluctuation of risks were set aside as liabilities prior to adoption the SFAS No.40. However, according to the regulation of IFRS 4 "Insurance Contracts", potential claims should not be recognized as liabilities if it results from insurance contracts that do not exist at the balance sheet date. (ex. Catastrophic reserve and stability reserve)

③ The preliminary assessment on the monetary impacts of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Guidelines Governing the Preparation of Financial Reports by Industry of Insurance is as follows：

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

A. Reconciliation of the balance sheet as at January 1, 2012:

Item	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Cash and Cash equivalents	$6,159,377	$208,793	-	-	$6,159,377	$208,793
Receivable	3,519,359	119,300	-	-	3,519,359	119,300
Investments	10,901,527	369,543	-	-	10,901,527	369,543
Reinsurance reserve assets	4,202,331	142,452	-	-	4,202,331	142,452
Property and equipment	136,795	4,637	-	-	136,795	4,637
Intangible assets(a)	29,353	995	(4,061)	(138)	25,292	857
Other assets(a)	616,315	20,892	63,209	2,143	679,524	23,035
Total assets	25,565,057	866,612	59,148	2,005	25,624,205	868,617
Payables	1,962,065	66,511	-	-	1,962,065	66,511
Financial Liabilities	1,045,000	35,424	-	-	1,045,000	35,424
Operating and liability reserves(c)	18,429,683	624,735	(2,326,210)	(78,855)	16,103,473	545,880
Other liabilities(a)	321,685	10,904	551,830	18,706	873,515	29,610
Total liabilities	21,758,433	737,574	(1,774,380)	(60,149)	19,984,053	677,425
Common stock	2,317,006	78,543	-	-	2,317,006	78,543
Capital surplus	1,929	65	-	-	1,929	65
Legal reserve	834,443	28,286	-	-	834,443	28,286
Special reserve	462,480	15,677	1,930,754	65,450	2,393,234	81,127
Unappropriated retained earnings	380,220	12,889	(210,384)	(7,132)	169,836	5,757
Equity adjustment	(189,454)	(6,422)	113,158	3,836	(76,296)	(2,586)
Total stockholders' equity	3,806,624	129,038	1,833,528	62,154	5,640,152	191,192

(A) The Company adopted IAS 19 “Employee Benefit” to measure pension liability, and recognized all cumulative actuarial gains and losses according to the IFRS I. As of January, 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$136,256 (US$4,619) thousands, and deferred income tax assets by NT$43,091 (US$1,461) thousands; a decrease of deferred pension cost by NT$4,061 (US$138) thousands, net loss not recognized as pension cost by NT$113,158 (US$3,836) thousands and retained earnings by NT$210,384 (US$7,132)

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

(B) In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. As of January 1, 2012, the special reserve for major incidents and the special reserve for fluctuation of risks recorded under liabilities (exclude the compulsory automobile insurance), amounting to NT$2,326,210 (US$78,855) thousands, should be reclassified to special reserve under retained earnings. The transition resulted in recognizing special reserve under retained earnings by NT$1,930,754 (US$65,450) thousands and a corresponding tax effect of increase of deferred income tax liabilities by NT$395,456 (US$13,405) thousands.

(C) According to the IAS 12, deferred income tax assets and liabilities should not be offset against each other, which resulted in an increase of both deferred income tax assets and liabilities by NT$20,118 (US$682) thousands.

B. Reconciliation of the balance sheet as at March 31, 2012:

Item	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Cash and Cash equivalents	$6,033,173	$204,514	-	-	$6,033,173	$204,514
Receivable	3,545,768	120,196	-	-	3,545,768	120,196
Investments	11,268,125	381,970	-	-	11,268,125	381,970
Reinsurance reserve assets	4,204,951	142,541	-	-	4,204,951	142,541
Property and equipment	125,773	4,264	-	-	125,773	4,264
Intangible assets(a)	28,213	956	(4,061)	(138)	24,152	818
Other assets(a)	619,042	20,984	51,462	1,745	670,504	22,729
Total assets	25,825,045	875,425	47,401	1,607	25,872,446	877,032
Payables	1,828,098	61,970	-	-	1,828,098	61,970
Financial Liabilities	1,000,000	33,898	-	-	1,000,000	33,898
Operating and liability reserves(c)	18,570,415	629,506	(2,320,983)	(78,678)	16,249,432	550,828
Other liabilities(a)	351,062	11,900	539,194	18,278	890,256	30,178
Total liabilities	21,749,575	737,274	(1,781,789)	(60,400)	19,967,786	676,874
Common stock	2,317,006	78,543	-	-	2,317,006	78,543
Capital surplus	1,929	65	-	-	1,929	65
Legal reserve	834,443	28,286	-	-	834,443	28,286
Special reserve	462,480	15,677	1,926,416	65,303	2,388,896	80,980
Unappropriated retained earnings	652,770	22,128	(210,384)	(7,132)	442,386	14,996
Equity adjustment	(193,158)	(6,548)	113,158	3,836	(80,000)	(2,712)
Total stockholders' equity	4,075,470	138,151	1,829,190	62,007	5,904,660	200,158

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

(A) The Company adopted IAS 19 "Employee Benefit" to measure pension liability, and recognized all cumulative actuarial gains and losses according to the IFRS I. As of January, 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$136,256 (US$4,619) thousands, and deferred income tax assets by NT$43,091 (US$1,461) thousands; a decrease of deferred pension cost by NT$4,061 (US$138) thousands, net loss not recognized as pension cost by NT$113,158 (US$3,836) thousands and retained earnings by NT$210,384 (US$7,132)

(B) In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. As of March 31, 2012, the special reserve for major incidents and the special reserve for fluctuation of risks recorded under liabilities (exclude the compulsory automobile insurance), amounting to NT$2,320,983 (US$78,678) thousands, should be reclassified to special reserve under retained earnings. The transition resulted in recognizing special reserve under retained earnings by NT$1,926,416 (US$65,303) thousands and a corresponding tax effect of increase of deferred income tax liabilities by NT$394,567 (US$13,375) thousands.

(C) According to the IAS 12, deferred income tax assets and liabilities should not be offset against each other, which resulted in an increase of both deferred income tax assets and liabilities by NT$8,371 (US$284) thousands.

C. Reconciliation of the income statement for the three months ended March 31, 2012:

Item	ROC GAAP		Adjustments		IFRSs	
	NT$	US$	NT$	US$	NT$	US$
Operating revenues	$2,719,554	$92,188	$-	$-	$2,719,554	$92,188
Operating costs	1,562,599	52,969	-	-	(1,652,599)	52,969
Operating expenses	(839,154)	(28,446)	-	-	(839,154)	(28,446)
Operating income	317,801	10,773	-	-	317,801	10,773
Non-operating revenue/ gains or expenses/losses (b)	(98)	(3)	-	-	(98)	(3)
Net income before income tax	317,703	10,770	-	-	317,703	10,770
Income tax expense	(45,153)	(1,531)	-	-	(45,153)	(1,531)
Net income after income tax	272,550	9,239	-	-	272,550	9,239

④ According to the requirements under IFRS 1, "First-time Adoption of International Financial Reporting Standards", the Company prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Company is as follows：

A. The Company has recognized all cumulative actuarial gains and losses directly to retained earnings as at January 1, 2012.

B. The Company has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.

(19) Presentation of Financial Statements:

Certain accounts in financial statements for the three months ended March 31, 2011 have been reclassified in order to be comparable with those in the financial statements for the three months ended March 31, 2012.