

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the nine-month periods ended
30 September 2013 and 2012
With Independent Auditors' Review Report

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

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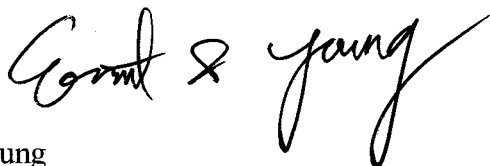
Review Report of Independent Auditors
English Translation of a Report Originally Issued in Chinese

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

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

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, IAS 34 “Interim Financial Reporting” and IFRS 1 “First-time Adoption of International Financial Reporting Standards” as recognized by Financial Supervisory Commission.

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

Ernst & Young
Taipei, Taiwan, R.O.C.
28 October 2013

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

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

(Expressed in thousands of dollars)

Assets	Notes	30 September 2013		31 December 2012		30 September 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6(1)	\$7,571,804	\$256,150	\$5,677,051	\$195,423	\$6,759,820	\$230,789	\$6,926,067	\$228,809
Receivables	4,6(2)	3,339,674	112,980	3,291,611	113,308	2,988,306	102,025	2,909,396	96,115
Financial assets at fair value through profit or loss	4,6(3)	1,154,184	39,046	437,273	15,053	293,547	10,023	619,455	20,464
Available-for-sale financial assets	4,6(4)	8,036,527	271,872	8,404,492	289,311	7,824,673	267,145	5,897,618	194,834
Derivative financial assets for hedging		10,589	358	17,134	590	18,199	621	28,521	942
Investments accounted for using the equity method		900	30	1,490	51	3,382	115	5,465	181
Bond investments with no active market	4,6(5)	1,746,004	59,066	1,323,270	45,552	1,299,137	44,355	1,192,997	39,412
Held-to-maturity financial assets	4,6(6)	2,117,267	71,626	2,512,011	86,472	2,404,010	82,076	2,408,714	79,574
Secured Loans	4,6(7)	446,688	15,112	522,080	17,972	557,790	19,044	551,965	18,235
Reinsurance contracts assets	4,6(8)	5,005,637	169,338	5,514,577	189,831	5,089,468	173,761	5,202,403	171,867
Property and equipment		173,671	5,875	184,390	6,347	183,073	6,250	225,801	7,460
Intangible assets		31,442	1,064	35,755	1,231	31,894	1,089	37,323	1,233
Deferred income tax assets	4,6(20)	78,337	2,650	80,750	2,779	78,902	2,694	105,494	3,485
Other assets		1,338,247	45,272	1,186,130	40,831	1,028,469	35,113	991,100	32,742
Total assets		<u>\$31,050,971</u>	<u>\$1,050,439</u>	<u>\$29,188,014</u>	<u>\$1,004,751</u>	<u>\$28,560,670</u>	<u>\$975,100</u>	<u>\$27,102,319</u>	<u>\$895,353</u>

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

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

(Expressed in thousands of dollars)

Liabilities & equity	Notes	30 September 2013		31 December 2012		30 September 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	4,6(9)	\$2,292,718	\$77,561	\$2,223,005	\$76,523	\$1,748,127	\$59,683	\$2,101,262	\$69,417
Financial liabilities at fair value through profit or loss		34,195	1,157	-	-	-	-	45,000	1,487
Preferred stock liability	4,6(10)	1,000,000	33,829	1,000,000	34,424	1,000,000	34,141	1,000,000	33,036
Insurance liabilities	4,6(11)	21,358,278	722,540	20,440,598	703,635	20,444,976	698,019	19,075,973	630,194
Provision	4,6(12)	248,378	8,403	247,950	8,536	256,153	8,746	259,488	8,573
Deferred income tax liabilities	4,6(20)	13,004	440	18,305	630	17,297	591	22,311	737
Other liabilities		647,457	21,903	440,823	15,174	400,690	13,680	259,817	8,583
Total liabilities		25,594,030	865,833	24,370,681	838,922	23,867,243	814,860	22,763,851	752,027
Equity attributable to owners of parent									
Capital stock	4,6(13)	2,721,879	92,080	2,522,950	86,849	2,522,950	86,137	2,317,006	76,545
Capital surplus									
Capital surplus - others		1,929	65	1,929	66	1,929	66	1,929	64
Retained earnings	4,6(14)								
Legal reserve		1,092,927	36,973	954,800	32,867	954,800	32,598	834,443	27,567
Special capital reserve		869,978	29,431	923,897	31,804	516,399	17,631	462,480	15,278
Undistributed earnings		421,861	14,272	77,338	2,663	296,747	10,131	169,836	5,611
Other equity		(153,583)	(5,196)	36,129	1,243	(20,668)	(706)	(76,296)	(2,521)
Non-controlling interests	4,6(15)	501,950	16,981	300,290	10,337	421,270	14,383	629,070	20,782
Total equity		5,456,941	184,606	4,817,333	165,829	4,693,427	160,240	4,338,468	143,326
Total equity and liabilities		\$31,050,971	\$1,050,439	\$29,188,014	\$1,004,751	\$28,560,670	\$975,100	\$27,102,319	\$895,353

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Uuaudited consolidated statements of comprehensive income

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

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

Items	Notes	2013.7.1~2013.9.30		2012.7.1~2012.9.30		2013.1.1~2013.9.30		2012.1.1~2012.9.30	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues									
Direct premium income		\$4,674,948	\$158,151	\$4,050,772	\$138,299	\$14,080,128	\$476,324	\$12,212,562	\$416,953
Reinsurance premium income		140,109	4,740	134,004	4,575	370,328	12,528	351,948	12,016
Premiums income		4,815,057	162,891	4,184,776	142,874	14,450,456	488,852	12,564,510	428,969
Deduct: Reinsurance premiums ceded		(945,356)	(31,981)	(937,055)	(31,992)	(3,309,233)	(111,950)	(3,242,486)	(110,703)
Change in unearned premiums reserve - Net	4,6(11)	(348,932)	(11,804)	(87,952)	(3,003)	(1,016,460)	(34,386)	(707,786)	(24,164)
Retained earned premium	4,6(16)	3,520,769	119,106	3,159,769	107,879	10,124,763	342,516	8,614,238	294,102
Reinsurance commission earned		103,613	3,505	111,035	3,791	362,869	12,276	338,551	11,558
Handling fee earned		10,074	341	9,194	314	27,038	915	25,134	858
Investment profit and loss		261,716	8,854	185,795	6,343	573,968	19,416	486,029	16,594
Interest income		115,472	3,906	95,997	3,278	309,094	10,456	290,078	9,904
Gains (losses) from financial asset or financial liability at fair value through profit or loss		64,965	2,198	67,175	2,293	(127,194)	(4,303)	80,866	2,761
Realized gains (losses) from available-for-sale financial assets		138,730	4,693	81,669	2,788	307,432	10,400	207,741	7,093
Realized gains (losses) from held-to-maturity financial assets		1,798	61	(374)	(13)	1,382	47	(820)	(28)
Share of profit (loss) of associates and joint ventures accounted for using the equity method		(7)	-	3	-	(590)	(20)	14	-
Gains (losses) on foreign Exchange		(59,242)	(2,004)	(58,675)	(2,003)	83,844	2,836	(91,850)	(3,136)
Subtotal		3,896,172	131,806	3,465,793	118,327	11,088,638	375,123	9,463,952	323,112
Operating costs									
Insurance claims paid		(2,527,916)	(85,518)	(1,859,862)	(63,498)	(7,067,968)	(239,106)	(5,749,543)	(196,297)
Deduct: Claims recovered from reinsurers		524,106	17,730	324,577	11,081	1,434,695	48,535	1,129,006	38,546
Retained claim paid	4,6(17)	(2,003,810)	(67,788)	(1,535,285)	(52,417)	(5,633,273)	(190,571)	(4,620,537)	(157,751)
Changes in insurance liabilities-Net	4,6(11)	(116,674)	(3,947)	(493,921)	(16,863)	(362,157)	(12,252)	(660,540)	(22,552)
Commissions expenses		(264,758)	(8,957)	(210,868)	(7,199)	(752,982)	(25,473)	(535,587)	(18,286)
Other operating costs		(12,490)	(422)	(9,987)	(341)	(28,597)	(967)	(35,625)	(1,216)
Subtotal		(2,397,732)	(81,114)	(2,250,061)	(76,820)	(6,777,009)	(229,263)	(5,852,289)	(199,805)

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Uuaudited consolidated statements of comprehensive income

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

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

Items	Notes	2013.7.1~2013.9.30		2012.7.1~2012.9.30		2013.1.1~2013.9.30		2012.1.1~2012.9.30	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating expenses									
Marketing expenses		(1,017,930)	(34,436)	(870,494)	(29,720)	(2,919,191)	(98,755)	(2,442,988)	(83,407)
General and administrative expenses		(308,848)	(10,448)	(265,106)	(9,051)	(900,653)	(30,468)	(730,996)	(24,957)
Employee training expenses		(2,746)	(93)	(2,831)	(97)	(7,895)	(267)	(4,821)	(165)
Subtotal		(1,329,524)	(44,977)	(1,138,431)	(38,868)	(3,827,739)	(129,490)	(3,178,805)	(108,529)
Operating income		168,916	5,715	77,301	2,639	483,890	16,370	432,858	14,778
Non-operating income and expenses		(4,441)	(151)	(4,057)	(138)	6,307	213	(8,928)	(304)
Profit before tax from continuing operations		164,475	5,564	73,244	2,501	490,197	16,583	423,930	14,474
Income tax expense	4,6(20)	(48,693)	(1,647)	(36,313)	(1,240)	(153,389)	(5,189)	(111,495)	(3,807)
Profit from continuing operations		115,782	3,917	36,931	1,261	336,808	11,394	312,435	10,667
Net income		115,782	3,917	36,931	1,261	336,808	11,394	312,435	10,667
Other comprehensive income	4,6(18)								
Exchange differences resulting from translating the financial statements of a foreign operation		(17,765)	(601)	(11,922)	(407)	9,976	337	(43,811)	(1,496)
Unrealized gains (losses) from available-for-sale financial assets		(56,444)	(1,909)	123,803	4,227	(189,024)	(6,395)	96,664	3,300
Gains (losses) on cash flow hedges		(958)	(32)	(3,973)	(136)	(6,546)	(221)	(10,322)	(352)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		-	-	(10)	-	-	-	(7)	-
Income tax relating to components of other comprehensive income		(6,143)	(208)	-	-	2,843	96	-	-
Other comprehensive income, net of tax		(81,310)	(2,750)	107,898	3,684	(182,751)	(6,183)	42,524	1,452
Total comprehensive income		\$34,472	\$1,167	\$144,829	\$4,945	\$154,057	\$5,211	\$354,959	\$12,119
Net income attributable to :									
Owners of parent (net income)		\$239,845	\$8,114	\$135,170	\$4,615	\$627,660	\$21,233	\$507,131	\$17,314
Non-controlling interests (net loss)		\$(124,063)	\$(4,197)	\$(98,239)	\$(3,354)	\$(290,852)	\$(9,839)	\$(194,696)	\$(6,647)
Comprehensive income attributable to :									
Owners of parent (comprehensive income)		\$155,183	\$5,250	\$252,079	\$8,607	\$437,948	\$14,815	\$562,759	\$19,214
Non-controlling interests (comprehensive loss)		\$(120,711)	\$(4,083)	\$(107,250)	\$(3,662)	\$(283,891)	\$(9,604)	\$(207,800)	\$(7,095)
Earning per share (In dollars)	4,6(21)								
Net income from continuing operations		\$0.88	\$0.03	\$0.50	\$0.02	\$2.31	\$0.08	\$1.86	\$0.06

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated statements of changes in equity

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

(Expressed in thousands of dollars)

Items	Retained earnings										Other equity						Total	Non-controlling interest	Total equity			
	Common stock		Capital surplus		Legal reserve		Special capital reserve		Undistributed earnings		Exchange differences resulting from translating the financial statements of a foreign operation		Unrealized gains (losses) from available-for-sale financial assets		Gains (losses) on cash flow hedges							
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$						
Balance on 1 January 2012	\$2,317,006	\$79,106	\$1,929	\$66	\$834,443	\$28,489	\$462,480	\$15,790	\$169,836	\$5,798	\$(22,377)	\$(764)	\$(82,440)	\$(2,815)	\$28,521	\$973	\$3,709,398	\$126,643	\$629,070	\$21,478	\$4,338,468	\$148,121
Appropriations and distributions for 2011 (Note 1)																						
Legal capital reserve	-	-	-	-	120,357	4,109	-	-	(120,357)	(4,109)	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	53,919	1,841	(53,919)	(1,841)	-	-	-	-	-	-	-	-	-	-	-	-
Stock dividends	205,944	7,031	-	-	-	-	-	-	(205,944)	(7,031)	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the nine months ended 30 September 2012	-	-	-	-	-	-	-	-	507,131	17,314	-	-	-	-	-	-	507,131	17,314	(194,696)	(6,647)	312,435	10,667
Other comprehensive income for the nine months ended 30 September 2012	-	-	-	-	-	-	-	-	-	-	(26,308)	(898)	92,258	3,150	(10,322)	(352)	55,628	1,900	(13,104)	(448)	42,524	1,452
Total comprehensive income	-	-	-	-	-	-	-	-	507,131	17,314	(26,308)	(898)	92,258	3,150	(10,322)	(352)	562,759	19,214	(207,800)	(7,095)	354,959	12,119
Balance on 30 September 2012	\$2,522,950	\$86,137	\$1,929	\$66	\$954,800	\$32,598	\$516,399	\$17,631	\$296,747	\$10,131	\$(48,685)	\$(1,662)	\$9,818	\$335	\$18,199	\$621	\$4,272,157	\$145,857	\$421,270	\$14,383	\$4,693,427	\$160,240
Balance on 1 January 2013	\$2,522,950	\$85,351	\$1,929	\$65	\$954,800	\$32,300	\$923,897	\$31,255	\$77,338	\$2,617	\$(52,535)	\$(1,777)	\$71,530	\$2,420	\$17,134	\$579	\$4,517,043	\$152,810	\$300,290	\$10,159	\$4,817,333	\$162,969
Appropriations and distributions for 2012 (Note 2)																						
Legal capital reserve	-	-	-	-	138,127	4,673	-	-	(138,127)	(4,673)	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(53,919)	(1,824)	53,919	1,824	-	-	-	-	-	-	-	-	-	-	-	-
Stock dividends	198,929	6,729	-	-	-	-	-	-	(198,929)	(6,729)	-	-	-	-	-	-	-	-	-	-	-	-
Share of changes in net assets of associates and joint ventures accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	485,551	16,426	485,551	16,426
Net income for the nine months ended 30 September 2013	-	-	-	-	-	-	-	-	627,660	21,233	-	-	-	-	-	-	627,660	21,233	(290,852)	(9,839)	336,808	11,394
Other comprehensive income for the nine months ended 30 September 2013	-	-	-	-	-	-	-	-	-	-	2,553	86	(185,719)	(6,283)	(6,546)	(221)	(189,712)	(6,418)	6,961	235	(182,751)	(6,183)
Total comprehensive income	-	-	-	-	-	-	-	-	627,660	21,233	2,553	86	(185,719)	(6,283)	(6,546)	(221)	437,948	14,815	(283,891)	(9,604)	154,057	5,211
Balance on 30 September 2013	\$2,721,879	\$92,080	\$1,929	\$65	\$1,092,927	\$36,973	\$869,978	\$29,431	\$421,861	\$14,272	\$(49,982)	\$(1,691)	\$(114,189)	\$(3,863)	\$10,588	\$358	\$4,954,991	\$167,625	\$501,950	\$16,981	\$5,456,941	\$184,606

Note 1: The employee bonus of NT\$1,839 (US\$61) thousands was recorded as operating cost and expense in 2011.

Note 2: The employee bonus of NT\$1,485 (US\$50) thousands was recorded as operating cost and expense in 2012.

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

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated statements of cash flows

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

(Expressed in thousands of dollars)

Items	1 January - 30 September 2013		1 January - 30 September 2012	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities :				
Profit before tax	\$490,197	\$16,583	\$423,930	\$14,474
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	59,463	2,012	65,094	2,222
Amortization	22,879	774	16,612	567
Provision for bad debt expense	12,201	413	10,999	376
Net loss (gain) on financial asset or financial liability at fair value through profit or loss	127,194	4,303	(80,866)	(2,761)
Net loss (gain) on available-for-sale financial assets	(307,432)	(10,400)	(207,741)	(7,093)
Net loss (gain) from held-to-maturity financial assets	(1,382)	(47)	820	28
Interest income	(309,094)	(10,456)	(290,078)	(9,904)
Net changes of insurance liabilities	863,519	29,212	1,392,688	47,548
Share of loss (profit) of associates and joint ventures accounted for using the equity method	590	20	(14)	-
Loss on disposal of property and equipment	34	1	438	15
Changes in assets and liabilities from operating activities :				
(Increase) Decrease in financial assets at fair value through profit or loss	(807,417)	(27,315)	357,730	12,213
Increase in notes receivable	(7,794)	(264)	(23,504)	(802)
Decrease (Increase) in premiums receivable	28,927	979	(40,272)	(1,375)
(Increase) Decrease in other accounts receivable	(48,919)	(1,655)	21,532	735
Decrease in reinsurance contracts assets	521,441	17,640	104,139	3,555
Increase in other current assets	(148,652)	(5,029)	(39,010)	(1,332)
Decrease in claims outstanding	(8,318)	(281)	(9,876)	(337)
Increase (Decrease) in due to reinsurers and ceding companies	104,750	3,544	(234,212)	(7,996)
Increase in commissions payable	53,296	1,803	2,820	96
Decrease in other payables	(200,831)	(6,794)	(190,044)	(6,488)
Increase (Decrease) in provision	428	14	(3,335)	(114)
Increase in other liabilities	206,633	6,990	140,873	4,810
Cash flows from operating activities	651,713	22,047	1,418,723	48,437
Interest paid	(18,600)	(629)	(2,599)	(89)
Income taxes paid	(10,123)	(343)	(9,093)	(310)
Net cash flows from operating activities	622,990	21,075	1,407,031	48,038
Cash flows from investing activities :				
Acquisition of available-for-sale financial assets	(3,903,753)	(132,062)	(3,708,898)	(126,627)
Disposal of available-for-sale financial assets	4,328,800	146,441	2,026,460	69,186
Acquisition of bond investments with no active market	(619,848)	(20,969)	(108,938)	(3,719)
Proceeds from repayments of bond investments without active market	200,000	6,766	-	-
Acquisition of held-to-maturity financial assets	(257,715)	(8,718)	(454,544)	(15,519)
Disposal of held-to-maturity financial assets	650,296	21,999	458,428	15,651
Acquisition of property and equipment	(52,988)	(1,793)	(28,232)	(964)
Disposal of property and equipment	1,587	54	7	-
Acquisition of intangible assets	(21,121)	(715)	(7,245)	(247)
Increase in secured loans	(23,800)	(805)	(87,806)	(2,998)
Decrease in secured loans	99,192	3,356	81,982	2,799
Interest received	266,501	9,016	231,449	7,902
Dividends received	97,205	3,288	52,657	1,798
Net cash flows from (used in) investing activities	764,356	25,858	(1,544,680)	(52,738)
Cash flows from financing activities:				
Issuance of common stock for cash	485,551	16,426	-	-
Cash provided by financing activities	485,551	16,426	-	-
Effects of exchange rate changes on cash and cash equivalents	21,856	739	(28,598)	(976)
Increase (Decrease) in cash and cash equivalents	1,894,753	64,098	(166,247)	(5,676)
Cash and cash equivalents at the beginning of periods	5,677,051	192,052	6,926,067	236,465
Cash and cash equivalents at the end of periods	\$7,571,804	\$256,150	\$6,759,820	\$230,789

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

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
30 September 2013 and 2012

1. History and organization

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

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the total numbers of employees were 2,645, 2,344, 2,255 and 1,937 respectively.

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

The consolidated financial statements of the Company and its subsidiaries the (“Consolidated Company”) for the nine-month periods ended 30 September 2013 and 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 28 October 2013.

3. Newly issued or revised standards and interpretations

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments which is divided in three distinct phases is designed by the International Accounting Standards Board (“IASB”) to eventually replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The first phase relates to the classification and measurement of financial assets and liabilities that must be applied for annual periods beginning on or after 1 January 2015. The IASB will work on the remaining phases relate to impairment methodology and hedge accounting. However companies adopting International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “TIFRS”) may not early adopt IFRS 9. Adopting the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets. The impact of adopting the remaining two phases of IFRS 9 on the Company could not be determined at this stage.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

Amended Standards and Interpretations	Effective Date
Amendments to IFRSs in 2010	
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	1 January 2011
IFRS 3 "Business Combinations"	1 July 2010
IFRS 7 "Financial Instruments: Disclosures"	1 January 2011
IAS 1 "Presentation of Financial Statements"	1 January 2011
IAS 34 "Interim Financial Reporting"	1 January 2011
IFRIC 13 "Customer Loyalty Programmes"	1 January 2011
Limited Exemption from Comparative IFRS 7 "Disclosures for First-time Adopters" (Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards")	1 July 2010
Serve Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards")	1 July 2011
Amendment to IFRS 7 "Financial Instruments : Disclosures"	1 July 2011
Deferred Tax : Recovery of Underlying Assets (Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards")	1 January 2012
IFRS 10 "Consolidated Financial Statements"	1 January 2013
IAS 27 "Separate Financial Statements"	1 January 2013
IFRS 11 "Joint Arrangements"	1 January 2013
IAS 28 "Investments in Associates and Joint Ventures"	1 January 2013
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2013
IFRS 13 "Fair Value Measurement"	1 January 2013
Presentation of Items of Other Comprehensive Income (Amendment to IAS 1 "Presentation of Financial Statements")	1 July 2012
Amendment to IAS 19 "Employee Benefits"	1 January 2013
Government Loans (Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards")	1 January 2013
Disclosures-Offsetting of Financial Assets and Financial Liabilities (Amendment to IAS 7 "Financial Instruments : Disclosure")	1 January 2013
Offsetting of Financial Assets and Financial Liabilities (Amendment to IAS 32 "Financial Instruments : Presentation")	1 January 2014
IFRIC 20 "Stripping Costs in Production Phase of A Surface Mine"	1 January 2013

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

<u>Amended Standards and Interpretations</u>	<u>Effective Date</u>
Amendments to IFRSs from 2009 to 2011 :	
IFRS 1 “First-time Adoption of International Financial Reporting Standards”	1 January 2013
IAS 1 “Presentation of Financial Statements”	1 January 2013
IAS 16 “Property, Plant and Equipment”	1 January 2013
IAS 32 “Financial Instruments: Presentation”	1 January 2013
IAS 34 “Interim Financial Reporting”	1 January 2013
Amendment to IFRS 10 “Consolidated Financial Statements”	1 January 2014
Amendment to IAS 36 “Impairment of Assets”	1 January 2014
IFRIC 21 “Levies”	1 January 2014
Novation of derivatives and continuation of hedge accounting	1 January 2014

The amended standards and interpretations may affect the Consolidated Company are listed as follows:

A. Amendments to IFRSs in 2010

IFRS 7 “Financial Instruments: Disclosures”

It requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms.

B. Amendments to IFRS 7 “Financial Instruments: Disclosures”

Specific disclosures are required in relation to transferred financial assets and a number of other matters.

C. IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

IFRS 12 applies to annual periods beginning on or after 1 January 2013.

D. IFRS 13 “Fair Value Measurement”

IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

E. Presentation of Items of Other Comprehensive Income (Amendment to IAS 1 “Presentation of Financial Statement”)

It require each component of other comprehensive income classified by nature to be excluded from profit or loss and instead to be included in other comprehensive income.

F. The amendment of IAS 19 “Employee Benefits”

The main amendments include: (1) For the actuarial gain or loss arising from defined benefits plan, eliminate the use of the 'corridor' approach and instead mandate all remeasurement impacts be recognized in the items of OCI. (2) Only current service cost, prior service cost, gains or losses from retirement and net interest expenses (benefits) arising from defined benefits liability(assets) are allowed to be recognized in the items of gains and losses. (3)The disclosure for defined benefits plan includes quantitative information for sensitivity analysis of actuarial assumption. (4)When offers of benefits are irrevocable and come within range of the recognition of provision, contingent assets or liabilities stated in IAS 37, the recognition of resignation benefits is determined by the earlier of the irrevocable offers or the replacement cost of resignation benefits.

G. Amendments to IFRSs from 2009 to 2011

IAS 1 “Presentation of Financial Statements”

The amendment clarified the requirements listed following: (1) Disclose the difference between additional comparative information and mandatory comparative information. (2)When the enterprises additionally provide comparative information beyond the minimum requirement of comparative period, such information should be included in notes of financial statements, but it is unnecessary to provide whole financial statements of additional comparative period. (3)When the enterprises conduct the retrospective application of an accounting policy, restatement of items in financial statements or reclassification of items having material impact on the information in prior statements of financial position, they should prepare the statements of financial position of the earliest comparative period, except for the notes.

H. Novation of derivatives and continuation of hedge accounting

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

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

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the nine-month periods ended 30 September 2013 and 2012 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 “Interim Financial Reporting” and IFRS 1 “First-time Adoption of International Financial Reporting Standards” as recognized by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

If the Company loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest				Notes
			2013.9.30	2012.12.31	2012.9.30	2012.1.1	
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00%	50.00%	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China). As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the total numbers of employees were 688, 557, 501 and 319, respectively.
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00%	100.00%	100.00%	100.00%	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on 2 November 2010. The Company owns 100% interest of Cathay Insurance (Vietnam). As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the total numbers of employees were 123, 97, 94 and 69, respectively.

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Consolidated Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

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

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5) Translation of financial statements in foreign currency

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

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

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

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed-term deposits that have maturities of 1 year from the date of acquisition).

(7) Financial assets and financial liabilities

Recognition and Measurement

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

Measurements of financial instruments are classified as follows:

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

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

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

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

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, secured loans and receivables and held-to maturity financial assets. Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

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

C. Derivative financial assets or liabilities for hedging

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

D. Held-to-maturity financial assets

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

E. Secured loans and receivables

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

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

F. Financial liabilities

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

Fair values of financial instruments

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

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

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

Derecognizing of financial assets and liabilities

A. Financial assets

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

B. Financial liabilities

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

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

Reclassification of financial assets

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

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- B. shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss.
- C. If a financial asset is no longer held for the purpose of selling or repurchasing it in the near term, reclassify that financial asset out of the fair value through profit or loss category only in rare circumstances.
- D. An entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- E. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
- F. Whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments during the current financial year or during the two preceding financial years, any remaining held-to-maturity investments shall be reclassified as available for sale.

Offsetting a financial asset and a financial liability

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

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

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Impairment of financial assets

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

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

Other loss events include:

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

The impaired ways of different financial assets are as follows:

A. Available-for-sale financial assets

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

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(Expressed in thousands of dollars unless otherwise stated)

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

B. Financial assets carried at amortized cost(Bond Investment with no active market)

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

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

Derivative financial instruments

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

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

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

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

At the inception of a hedge relationship, the Consolidated Company formally designates and documents hedge relationship to which the Consolidated Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

A. Fair value hedges

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

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

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

B. Cash flow hedges

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

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

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

C. Hedges of a net investment in a foreign operation

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

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(8) Assessment of impairment for loans and receivables

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

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

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

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

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(9) Investments in the associates

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

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

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

When an associate issues new stock and the Company's interest in the associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in Additional paid-in capital and Investments in associates. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

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

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

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

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

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

(10) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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When significant parts of property and equipment are required to be replaced in intervals, the Consolidated Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

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

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

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

(11) Leases

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

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

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

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

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

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

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

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(13) Impairment of non-financial assets

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

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

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

(14) Separation requirement for specific assets

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

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

A. Government bonds, not including exchangeable government bonds.

B. Financial bonds, negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

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

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

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

A. Treasury bills.

B. Negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution.

C. Government bonds in a repo transaction.

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

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

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

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

(15) Insurance contract categories

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

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

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

(16) Reinsurance contracts assets

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

The Company holds the right over re-insurers for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. For the Classification of reinsurance contracts, the Company assess whether the transfer of significant insurance risk to the re-insurers has occurred. If the transfer of significant insurance risk was not apparent, then the contract is recognized and evaluated with deposit accounting.

(17) Insurance liabilities

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

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A. Unearned premium reserve

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

B. Claims reserve

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

C. Special reserve

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

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

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(a) Special reserve for major incident

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

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

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

(b) Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

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(18) Insurance premium revenues and the acquisition costs

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

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

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

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

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

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

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

(19) Insurance claim costs

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

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

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

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

Claim reserve is not discounted to its present value.

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

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

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

(20) Liability adequacy test

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

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(21) Reinsurance ceded

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

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

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

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

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

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

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

(23) Contribution to the stabilization funds

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

(24) Post-employment benefits plan

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

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For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations. Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The Company specifies that if the accumulated unrecognized actuarial gains and losses exceed 10% of the greater of the defined benefit obligation or the fair value of plan assets, a portion of that net gain or loss is required to be recognized immediately as income or expense. The portion recognized is the excess divided by the expected average remaining working lives of the participating employees.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(25) Income taxes

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

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

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

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Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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(Expressed in thousands of dollars unless otherwise stated)

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), other receivables and other payable among the Company and its parent company.

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

5. Significant accounting judgments, estimates and assumptions

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

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(1) Judgments

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

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

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

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

(a) The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);

(b) The insurance period is less than 5 years, and more than half of the policy year meet insurance risk ratio is greater than 10% (or 5%).

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

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

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

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

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(2) Estimates and assumptions

A. Post-employment benefit

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

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

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

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

C. Income taxes

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

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Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6, for more detail on the unrecognized deferred tax assets.

6. Contents of significant accounts

(1) Cash and cash equivalents

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$13,517	\$457	\$7,792	\$268
Cash in banks	1,697,995	57,442	1,555,534	53,547
Time deposits	5,170,484	174,915	3,968,185	136,598
Cash equivalents	689,808	23,336	145,540	5,010
Total	<u>\$7,571,804</u>	<u>\$256,150</u>	<u>\$5,677,051</u>	<u>\$195,423</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$13,012	\$444	\$7,040	\$233
Cash in banks	1,507,980	51,484	1,444,523	47,721
Time deposits	4,908,792	167,593	4,933,846	162,994
Cash equivalents	330,036	11,268	540,658	17,861
Total	<u>\$6,759,820</u>	<u>\$230,789</u>	<u>\$6,926,067</u>	<u>\$228,809</u>

(2) Receivables

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$285,522	\$9,659	\$277,728	\$9,560
Premiums receivable	2,827,004	95,636	2,869,353	98,773
Other receivable	227,148	7,685	144,530	4,975
Total	<u>\$3,339,674</u>	<u>\$112,980</u>	<u>\$3,291,611</u>	<u>\$113,308</u>

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Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$278,097	\$9,495	\$254,593	\$8,411
Premiums receivable	2,571,172	87,783	2,541,899	83,974
Other receivable	139,037	4,747	112,904	3,730
Total	<u>\$2,988,306</u>	<u>\$102,025</u>	<u>\$2,909,396</u>	<u>\$96,115</u>

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

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Beneficiary certificates	\$1,154,184	\$39,046	\$376,694	\$12,967
Derivative financial instruments	-	-	60,579	2,086
Total	<u>\$1,154,184</u>	<u>\$39,046</u>	<u>\$437,273</u>	<u>\$15,053</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Beneficiary certificates	\$249,420	\$8,516	\$619,455	\$20,464
Derivative financial instruments	44,127	1,507	-	-
Total	<u>\$293,547</u>	<u>\$10,023</u>	<u>\$619,455</u>	<u>\$20,464</u>

(4) Available-for-sale financial assets

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,595,449	\$53,973	\$1,423,602	\$49,005
Overseas stocks	-	-	83,307	2,868
Beneficiary certificates	3,031,250	102,546	2,895,043	99,657
Corporate bonds	1,036,075	35,050	1,178,127	40,555
Real Estate Investment Trust	-	-	393,138	13,533
Financial debentures	1,204,827	40,759	1,203,348	41,423
Government bonds	763,995	25,845	813,488	28,003
Overseas bonds	404,931	13,699	414,439	14,267
Total	<u>\$8,036,527</u>	<u>\$271,872</u>	<u>\$8,404,492</u>	<u>\$289,311</u>

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(Expressed in thousands of dollars unless otherwise stated)

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,675,792	\$57,214	\$1,594,312	\$52,670
Overseas stocks	24,694	843	25,163	831
Beneficiary certificates	1,919,636	65,539	880,895	29,101
Corporate bonds	1,486,389	50,747	1,249,973	41,294
Real Estate Investment Trust	393,606	13,438	483,916	15,987
Financial debentures	1,200,839	40,998	900,138	29,737
Government bonds	809,740	27,646	763,221	25,214
Overseas bonds	313,977	10,720	-	-
Total	<u>\$7,824,673</u>	<u>\$267,145</u>	<u>\$5,897,618</u>	<u>\$194,834</u>

(5) Bond investments with no active market

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Preferred stocks	\$400,000	\$13,532	\$400,000	\$13,769
Company bonds	300,000	10,149	500,000	17,212
Overseas bonds	892,306	30,186	272,459	9,379
Time deposits	153,698	5,199	150,811	5,192
Total	<u>\$1,746,004</u>	<u>\$59,066</u>	<u>\$1,323,270</u>	<u>\$45,552</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Preferred stocks	\$400,000	\$13,657	\$400,000	\$13,214
Company bonds	500,000	17,071	500,000	16,518
Overseas bonds	274,707	9,379	220,809	7,295
Time deposits	124,430	4,248	72,188	2,385
Total	<u>\$1,299,137</u>	<u>\$44,355</u>	<u>\$1,192,997</u>	<u>\$39,412</u>

(6) Held-to-maturity financial assets

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Overseas bonds	<u>\$2,117,267</u>	<u>\$71,626</u>	<u>\$2,512,011</u>	<u>\$86,472</u>

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Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$2,404,010	\$82,076	\$2,408,714	\$79,574

(7) Secured loans

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Secured loans	\$529,708	\$17,920	\$595,243	\$20,490
Less: Allowance for bad debts	(83,020)	(2,808)	(73,163)	(2,518)
Net	\$446,688	\$15,112	\$522,080	\$17,972

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Secured loans	\$618,221	\$21,107	\$569,737	\$18,822
Less: Allowance for bad debts	(60,431)	(2,063)	(17,772)	(587)
Net	\$557,790	\$19,044	\$551,965	\$18,235

(8) Reinsurance assets

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$296,787	\$10,040	\$513,592	\$17,680
Due from reinsurers and ceding companies	657,207	22,233	444,688	15,308
Reinsurance Reserve Assets				
Ceded unearned premiums reserve	2,273,179	76,900	2,547,036	87,678
Ceded claims reserve	1,782,578	60,304	2,014,316	69,339
Ceded premiums deficiency reserve	(4,114)	(139)	(5,055)	(174)
Subtotal	4,051,643	137,065	4,556,297	156,843
Total	\$5,005,637	\$169,338	\$5,514,577	\$189,831

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Item	2012.9.30		2012.1. 1	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$228,905	\$7,815	\$268,251	\$8,862
Due from reinsurers and ceding companies	407,780	13,922	497,874	16,448
Reinsurance Reserve Assets				
Ceded unearned premiums reserve	2,454,269	83,792	2,254,873	74,492
Ceded claims reserve	1,996,890	68,177	2,175,269	71,862
Ceded premiums deficiency reserve	1,624	55	6,136	203
Subtotal	4,452,783	152,024	4,436,278	146,557
Total	<u>\$5,089,468</u>	<u>\$173,761</u>	<u>\$5,202,403</u>	<u>\$171,867</u>

(9) Payables

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Claims outstanding	\$12,691	\$429	\$21,009	\$723
Commissions payable	165,667	5,604	112,371	3,868
Due to reinsurers and ceding companies	1,309,851	44,312	1,205,101	41,484
Other payables	804,509	27,216	884,524	30,448
Total	<u>\$2,292,718</u>	<u>\$77,561</u>	<u>\$2,223,005</u>	<u>\$76,523</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Claims outstanding	\$7,093	\$242	\$16,970	\$561
Commissions payable	138,743	4,737	135,923	4,490
Due to reinsurers and ceding companies	1,027,226	35,071	1,261,437	41,673
Other payables	575,065	19,633	686,932	22,693
Total	<u>\$1,748,127</u>	<u>\$59,683</u>	<u>\$2,101,262</u>	<u>\$69,417</u>

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(10) Preferred stock liability

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

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

- A. Issuance period covers from 11 November 2011, the issue date, to 11 November 2018, seven years in total.
- B. Dividend yield is 1.86 % per year based on the actual issue price of NT\$32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

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

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(11) Insurance liabilities

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$10,861,904	\$367,453	\$10,100,374	\$347,689
Claims reserve	5,926,202	200,480	5,807,437	199,912
Special reserve	4,423,706	149,652	4,455,638	153,378
Premiums deficiency reserve	146,466	4,955	77,149	2,656
Total	<u>\$21,358,278</u>	<u>\$722,540</u>	<u>\$20,440,598</u>	<u>\$703,635</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$9,824,647	\$335,427	\$8,925,059	\$294,848
Claims reserve	5,778,865	197,298	5,364,787	177,231
Special reserve	4,806,040	164,085	4,761,102	157,288
Premiums deficiency reserve	35,424	1,209	25,025	827
Total	<u>\$20,444,976</u>	<u>\$698,019</u>	<u>\$19,075,973</u>	<u>\$630,194</u>

A. Unearned premiums reserve

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

Item	2013.9.30							
	Unearned premium reserve				Ceded unearned premium reserve			
			Assumed reinsurance business		Ceded reinsurance business		Retained business	
	Direct business							
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,139,405	\$72,375	\$62,222	\$2,105	\$823,532	\$27,859	\$1,378,095	\$46,621
Marine insurance	160,604	5,433	11,984	406	118,871	4,021	53,717	1,818
Land and air insurance	3,294,044	111,436	13,153	445	116,206	3,931	3,190,991	107,950
Liability insurance	522,982	17,692	60	2	169,083	5,720	353,959	11,974
Bonding insurance	28,404	961	50	2	13,148	445	15,306	518
Other property insurance	1,373,786	46,475	30,806	1,042	475,198	16,076	929,394	31,441
Accident insurance	1,516,340	51,297	2,289	77	51,695	1,749	1,466,934	49,625
Health insurance	58,153	1,967	-	-	190	6	57,963	1,961
Compulsory automobile liability insurance	1,459,824	49,385	187,798	6,353	505,256	17,093	1,142,366	38,645
Total	<u>\$10,553,542</u>	<u>\$357,021</u>	<u>\$308,362</u>	<u>\$10,432</u>	<u>\$2,273,179</u>	<u>\$76,900</u>	<u>\$8,588,725</u>	<u>\$290,553</u>

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2012.12.31

Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,100,879	\$72,319	\$56,882	\$1,958	\$916,559	\$31,551	\$1,241,202	\$42,726
Marine insurance	241,010	8,296	17,432	600	209,087	7,197	49,355	1,699
Land and air insurance	2,955,101	101,725	13,196	454	161,337	5,554	2,806,960	96,625
Liability insurance	514,215	17,701	173	6	171,208	5,894	343,180	11,813
Bonding insurance	26,491	912	537	18	9,156	315	17,872	615
Other property insurance	1,152,073	39,658	15,942	549	514,617	17,715	653,398	22,492
Accident insurance	1,529,451	52,649	3,976	137	84,690	2,915	1,448,737	49,871
Health insurance	88,102	3,033	-	-	1,154	40	86,948	2,993
Compulsory automobile liability insurance	1,198,010	41,240	186,904	6,434	479,228	16,497	905,686	31,177
Total	<u>\$9,805,332</u>	<u>\$337,533</u>	<u>\$295,042</u>	<u>\$10,156</u>	<u>\$2,547,036</u>	<u>\$87,678</u>	<u>\$7,553,338</u>	<u>\$260,011</u>

2012.9.30

Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,135,220	\$72,899	\$47,775	\$1,631	\$903,894	\$30,860	\$1,279,101	\$43,670
Marine insurance	251,444	8,585	15,144	517	222,292	7,589	44,296	1,513
Land and air insurance	2,783,103	95,019	10,310	352	95,516	3,261	2,697,897	92,110
Liability insurance	492,505	16,815	191	7	172,035	5,874	320,661	10,948
Bonding insurance	27,323	933	487	17	11,811	403	15,999	547
Other property insurance	1,055,021	36,020	13,489	461	500,723	17,096	567,787	19,385
Accident insurance	1,496,079	51,078	24,879	849	70,360	2,402	1,450,598	49,525
Health insurance	96,250	3,286	-	-	1,083	37	95,167	3,249
Compulsory automobile liability insurance	1,191,387	40,675	184,040	6,283	476,555	16,270	898,872	30,688
Total	<u>\$9,528,332</u>	<u>\$325,310</u>	<u>\$296,315</u>	<u>\$10,117</u>	<u>\$2,454,269</u>	<u>\$83,792</u>	<u>\$7,370,378</u>	<u>\$251,635</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1

Item	Ceded unearned premium							
	Unearned premium reserve				reserve			
			Assumed reinsurance		Ceded reinsurance		Retained business	
	Direct business		business		business			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,800,538	\$59,483	\$40,517	\$1,338	\$729,560	\$24,102	\$1,111,495	\$36,719
Marine insurance	257,526	8,508	1,423	47	218,534	7,219	40,415	1,336
Land and air insurance	2,474,556	81,749	5,322	176	149,756	4,947	2,330,122	76,978
Liability insurance	397,266	13,124	119	4	118,700	3,921	278,685	9,207
Bonding insurance	24,722	817	397	13	6,733	223	18,386	607
Other property insurance	894,846	29,562	15,099	499	496,357	16,398	413,588	13,663
Accident insurance	1,510,001	49,884	25,875	855	73,958	2,443	1,461,918	48,296
Health insurance	147,642	4,877	-	-	2,417	80	145,225	4,797
Compulsory automobile liability insurance	1,147,140	37,897	182,070	6,015	458,858	15,159	870,352	28,753
Total	\$8,654,237	\$285,901	\$270,822	\$8,947	\$2,254,873	\$74,492	\$6,670,186	\$220,356

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

2013.1.1~2013.9.30

Item	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$10,100,374	\$341,691	\$2,547,036	\$86,164
Reserve	10,843,524	366,831	2,262,874	76,552
Recover	(10,104,026)	(341,814)	(2,539,836)	(85,921)
Effects of exchange rate changes	22,032	745	3,105	105
Ending balance	\$10,861,904	\$367,453	\$2,273,179	\$76,900

2012.1.1~2012.9.30

Item	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$8,925,059	\$304,714	\$2,254,873	\$76,984
Reserve	9,829,323	335,586	2,455,426	83,832
Recover	(8,918,931)	(304,504)	(2,252,820)	(76,914)
Effects of exchange rate changes	(10,804)	(369)	(3,210)	(110)
Ending balance	\$9,824,647	\$335,427	\$2,454,269	\$83,792

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Claims reserve

(a) Claims reserve and ceded claims reserve

	2013.9.30							
	Claims reserve				Ceded claims reserve			
			Assumed reinsurance		Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,793,036	\$128,316	\$309,903	\$10,484	\$1,404,635	\$47,518	\$2,698,304	\$91,282
Unreported claims	1,754,952	59,369	68,311	2,311	377,943	12,786	1,445,320	48,894
Total	\$5,547,988	\$187,685	\$378,214	\$12,795	\$1,782,578	\$60,304	\$4,143,624	\$140,176

	2012.12.31							
	Claims reserve				Ceded claims reserve			
			Assumed reinsurance		Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,111,890	\$141,545	\$293,676	\$10,109	\$1,723,922	\$59,343	\$2,681,644	\$92,311
Unreported claims	1,362,292	46,895	39,579	1,363	290,394	9,996	1,111,477	38,262
Total	\$5,474,182	\$188,440	\$333,255	\$11,472	\$2,014,316	\$69,339	\$3,793,121	\$130,573

	2012.9.30							
	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance		Ceded reinsurance		Retained business	
			business	business	business			
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,498,800	\$153,595	\$235,870	\$8,053	\$1,869,798	\$63,838	\$2,864,872	\$97,810
Unreported claims	1,033,114	35,272	11,081	378	127,092	4,339	917,103	31,311
Total	\$5,531,914	\$188,867	\$246,951	\$8,431	\$1,996,890	\$68,177	\$3,781,975	\$129,121

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1								
Item	Claims reserve				Ceded claims reserve			
	Assumed reinsurance				Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,061,939	\$134,190	\$196,679	\$6,498	\$1,896,762	\$62,661	\$2,361,856	\$78,027
Unreported claims	1,058,601	34,972	47,568	1,571	278,507	9,201	827,662	27,342
Total	<u>\$5,120,540</u>	<u>\$169,162</u>	<u>\$244,247</u>	<u>\$8,069</u>	<u>\$2,175,269</u>	<u>\$71,862</u>	<u>\$3,189,518</u>	<u>\$105,369</u>

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

2013.1.1~2013.9.30								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$3,788,450	\$4,125,018	\$309,903	\$293,676	\$(320,341)	\$1,404,561	\$1,728,408	\$(323,847)
Unreported claims	1,751,241	1,369,881	68,273	39,583	410,050	377,170	292,173	84,997
Total	<u>\$5,539,691</u>	<u>\$5,494,899</u>	<u>\$378,176</u>	<u>\$333,259</u>	<u>\$89,709</u>	<u>\$1,781,731</u>	<u>\$2,020,581</u>	<u>\$(238,850)</u>

2013.1.1~2013.9.30								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$128,161	\$139,547	\$10,484	\$9,935	\$(10,837)	\$47,516	\$58,471	\$(10,955)
Unreported claims	59,244	46,343	2,310	1,339	13,872	12,759	9,884	2,875
Total	<u>\$187,405</u>	<u>\$185,890</u>	<u>\$12,794</u>	<u>\$11,274</u>	<u>\$3,035</u>	<u>\$60,275</u>	<u>\$68,355</u>	<u>\$(8,080)</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1~2012.9.30								
NT\$								
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	\$4,502,685	\$4,058,390	\$235,870	\$196,679	\$483,486	\$1,871,257	\$1,895,603	\$(24,346)
Unreported claims	1,035,061	1,055,374	11,081	47,503	(56,735)	127,531	276,917	(149,386)
Total	<u>\$5,537,746</u>	<u>\$5,113,764</u>	<u>\$246,951</u>	<u>\$244,182</u>	<u>\$426,751</u>	<u>\$1,998,788</u>	<u>\$2,172,520</u>	<u>\$(173,732)</u>

2012.1.1~2012.9.30								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	\$153,728	\$138,559	\$8,053	\$6,715	\$16,507	\$63,887	\$64,719	\$(832)
Unreported claims	35,338	36,032	378	1,621	(1,937)	4,354	9,454	(5,100)
Total	<u>\$189,066</u>	<u>\$174,591</u>	<u>\$8,431</u>	<u>\$8,336</u>	<u>\$14,570</u>	<u>\$68,241</u>	<u>\$74,173</u>	<u>\$(5,932)</u>

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

2013.9.30						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$848,335	\$28,699	\$43,566	\$1,474	\$891,901	\$30,173
Marine insurance	692,563	23,429	269,284	9,110	961,847	32,539
Land and air insurance	802,050	27,133	609,528	20,620	1,411,578	47,753
Liability insurance	252,927	8,557	298,340	10,092	551,267	18,649
Bonding insurance	19,604	663	1,387	47	20,991	710
Other property insurance	589,824	19,953	189,576	6,413	779,400	26,366
Accident insurance	89,694	3,034	331,934	11,229	421,628	14,263
Health insurance	100	3	41,492	1,404	41,592	1,407
Compulsory automobile liability insurance	807,842	27,329	38,156	1,291	845,998	28,620
Total	<u>\$4,102,939</u>	<u>\$138,800</u>	<u>\$1,823,263</u>	<u>\$61,680</u>	<u>\$5,926,202</u>	<u>\$200,480</u>

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(Expressed in thousands of dollars unless otherwise stated)

2012.12.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,338,560	\$46,078	\$19,362	\$666	\$1,357,922	\$46,744
Marine insurance	794,556	27,351	159,313	5,484	953,869	32,835
Land and air insurance	690,396	23,766	491,381	16,915	1,181,777	40,681
Liability insurance	249,023	8,572	226,183	7,786	475,206	16,358
Bonding insurance	19,834	683	14,294	492	34,128	1,175
Other property insurance	487,486	16,781	145,645	5,014	633,131	21,795
Accident insurance	68,515	2,358	284,938	9,809	353,453	12,167
Health insurance	6,816	235	39,229	1,350	46,045	1,585
Compulsory automobile liability insurance	750,380	25,831	21,526	741	771,906	26,572
Total	<u>\$4,405,566</u>	<u>\$151,655</u>	<u>\$1,401,871</u>	<u>\$48,257</u>	<u>\$5,807,437</u>	<u>\$199,912</u>

2012.9.30						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,013,975	\$68,760	\$36,232	\$1,237	\$2,050,207	\$69,997
Marine insurance	764,294	26,094	20,057	685	784,351	26,779
Land and air insurance	770,633	26,310	355,624	12,142	1,126,257	38,452
Liability insurance	192,305	6,566	202,811	6,924	395,116	13,490
Bonding insurance	20,905	714	2,000	68	22,905	782
Other property insurance	390,279	13,325	107,367	3,666	497,646	16,991
Accident insurance	120,319	4,108	261,668	8,933	381,987	13,041
Health insurance	7,744	264	37,141	1,268	44,885	1,532
Compulsory automobile liability insurance	454,216	15,507	21,295	727	475,511	16,234
Total	<u>\$4,734,670</u>	<u>\$161,648</u>	<u>\$1,044,195</u>	<u>\$35,650</u>	<u>\$5,778,865</u>	<u>\$197,298</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,055,544	\$67,907	\$162,754	\$5,377	\$2,218,298	\$73,284
Marine insurance	614,939	20,315	189,501	6,260	804,440	26,575
Land and air insurance	506,703	16,739	456,465	15,080	963,168	31,819
Liability insurance	234,807	7,757	53,728	1,775	288,535	9,532
Bonding insurance	23,232	768	4,660	154	27,892	922
Other property insurance	297,847	9,840	55,435	1,831	353,282	11,671
Accident insurance	128,888	4,258	160,770	5,311	289,658	9,569
Health insurance	9,821	324	2,213	73	12,034	397
Compulsory automobile liability insurance	386,837	12,780	20,643	682	407,480	13,462
Total	<u>\$4,258,618</u>	<u>\$140,688</u>	<u>\$1,106,169</u>	<u>\$36,543</u>	<u>\$5,364,787</u>	<u>\$177,231</u>

(d) Reinsurance asset- ceded claims reserve for policyholder

2013.9.30						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$355,159	\$12,015	\$10,491	\$355	\$365,650	\$12,370
Marine insurance	484,814	16,401	207,344	7,014	692,158	23,415
Land and air insurance	61,028	2,065	16,602	562	77,630	2,627
Liability insurance	67,851	2,295	88,398	2,991	156,249	5,286
Bonding insurance	18,162	614	542	18	18,704	632
Other property insurance	139,267	4,711	16,680	564	155,947	5,275
Accident insurance	7,322	248	29,186	987	36,508	1,235
Health insurance	-	-	816	28	816	28
Compulsory automobile liability insurance	271,032	9,169	7,884	267	278,916	9,436
Total	<u>\$1,404,635</u>	<u>\$47,518</u>	<u>\$377,943</u>	<u>\$12,786</u>	<u>\$1,782,578</u>	<u>\$60,304</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.12.31						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$556,200	\$19,146	\$3,430	\$118	\$559,630	\$19,264
Marine insurance	614,236	21,144	133,937	4,610	748,173	25,754
Land and air insurance	42,156	1,451	11,765	405	53,921	1,856
Liability insurance	68,341	2,353	76,629	2,638	144,970	4,991
Bonding insurance	18,225	627	5,719	197	23,944	824
Other property insurance	152,278	5,242	18,356	632	170,634	5,874
Accident insurance	6,829	235	31,650	1,089	38,479	1,324
Health insurance	75	3	1,398	48	1,473	51
Compulsory automobile liability insurance	265,582	9,142	7,510	259	273,092	9,401
Total	<u>\$1,723,922</u>	<u>\$59,343</u>	<u>\$290,394</u>	<u>\$9,996</u>	<u>\$2,014,316</u>	<u>\$69,339</u>

2012.9.30						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$983,070	\$33,563	\$(1,288)	\$(44)	\$981,782	\$33,519
Marine insurance	427,893	14,609	3,517	120	431,410	14,729
Land and air insurance	92,890	3,172	8,689	296	101,579	3,468
Liability insurance	44,783	1,529	65,229	2,227	110,012	3,756
Bonding insurance	19,329	660	259	9	19,588	669
Other property insurance	140,925	4,811	8,324	285	149,249	5,096
Accident insurance	12,432	425	33,073	1,129	45,505	1,554
Health insurance	-	-	1,853	63	1,853	63
Compulsory automobile liability insurance	148,476	5,069	7,436	254	155,912	5,323
Total	<u>\$1,869,798</u>	<u>\$63,838</u>	<u>\$127,092</u>	<u>\$4,339</u>	<u>\$1,996,890</u>	<u>\$68,177</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.1.1					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,075,347	\$35,525	\$73,921	\$2,442	\$1,149,268	\$37,967
Marine insurance	423,306	13,984	152,655	5,043	575,961	19,027
Land and air insurance	22,205	734	1,412	47	23,617	781
Liability insurance	90,756	2,998	13,225	437	103,981	3,435
Bonding insurance	19,442	642	709	23	20,151	665
Other property insurance	122,459	4,046	10,709	354	133,168	4,400
Accident insurance	14,532	480	18,570	614	33,102	1,094
Health insurance	-	-	132	4	132	4
Compulsory automobile liability insurance	128,715	4,252	7,174	237	135,889	4,489
Total	<u>\$1,896,762</u>	<u>\$62,661</u>	<u>\$278,507</u>	<u>\$9,201</u>	<u>\$2,175,269</u>	<u>\$71,862</u>

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

Item	2013.1.1~2013.9.30			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,807,437	\$196,463	\$2,014,316	\$68,143
Reserve	5,917,867	200,199	1,781,731	60,275
Recover	(5,828,158)	(197,164)	(2,020,581)	(68,355)
Effects of exchange rate changes	29,056	982	7,112	241
Ending balance	<u>\$5,926,202</u>	<u>\$200,480</u>	<u>\$1,782,578</u>	<u>\$60,304</u>

Item	2012.1.1~2012.9.30			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,364,787	\$183,161	\$2,175,269	\$74,267
Reserve	5,784,697	197,497	1,998,788	68,241
Recover	(5,357,946)	(182,927)	(2,172,520)	(74,173)
Effects of exchange rate changes	(12,673)	(433)	(4,647)	(158)
Ending balance	<u>\$5,778,865</u>	<u>\$197,298</u>	<u>\$1,996,890</u>	<u>\$68,177</u>

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Item	2013.1.1~2013.9.30	
	NT\$	US\$
Beginning balance	\$2,307,591	\$78,064
Reserve	215,711	7,298
Recover	(247,643)	(8,378)
Ending balance	<u>\$2,275,659</u>	<u>\$76,984</u>

Item	2012.1.1~2012.9.30	
	NT\$	US\$
Beginning balance	\$2,434,891	\$83,130
Reserve	207,313	7,078
Recover	(140,978)	(4,813)
Ending balance	<u>\$2,501,226</u>	<u>\$85,395</u>

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

Item	2013.1.1~2013.9.30					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,113,068	\$37,655	\$1,034,979	\$35,013	\$2,148,047	\$72,668
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	<u>\$1,113,068</u>	<u>\$37,655</u>	<u>\$1,034,979</u>	<u>\$35,013</u>	<u>\$2,148,047</u>	<u>\$72,668</u>

Item	2012.1.1~2012.9.30					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,172,396	\$40,028	\$1,153,815	\$39,393	\$2,326,211	\$79,421
Reserve	-	-	-	-	-	-
Recover	-	-	(21,397)	(731)	(21,397)	(731)
Ending balance	<u>\$1,172,396</u>	<u>\$40,028</u>	<u>\$1,132,418</u>	<u>\$38,662</u>	<u>\$2,304,814</u>	<u>\$78,690</u>

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Not applicable to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserve are not material impact on the Company's profit and earnings per share. The special reserve under liabilities and special capital reserve under equity are decrease (increase) NT\$1,526,824 (US\$51,652) thousands (net tax NT\$312,723 (US\$10,579) thousands).

D. Premiums deficiency reserve

(a) Premiums deficiency reserve and ceded premium deficiency reserve

	2013.9.30							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,840	\$130	\$80	\$3	\$-	\$-	\$3,920	\$133
Marine insurance	127	4	3	-	(10,632)	(360)	10,762	364
Land and air insurance	-	-	561	19	-	-	561	19
Liability insurance	15,489	524	7	-	-	-	15,496	524
Bonding insurance	7,223	244	-	-	6,516	221	707	23
Other property insurance	86,900	2,940	433	15	2	-	87,331	2,955
Accident insurance	-	-	120	4	-	-	120	4
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	31,683	1,072	-	-	-	-	31,683	1,072
Total	\$145,262	\$4,914	\$1,204	\$41	\$(4,114)	\$(139)	\$150,580	\$5,094

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	2012.12.31							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$6,198	\$213	\$23	\$1	\$-	\$-	\$6,221	\$214
Marine insurance	9,322	321	726	25	(7,185)	(247)	17,233	593
Land and air insurance	-	-	9,319	321	-	-	9,319	321
Liability insurance	13,059	450	10	-	-	-	13,069	450
Bonding insurance	2,204	76	-	-	2,096	72	108	4
Other property insurance	35,659	1,227	435	15	34	1	36,060	1,241
Accident insurance	-	-	194	7	-	-	194	7
Health insurance	-	-	-	-	-	-	-	-
Total	\$66,442	\$2,287	\$10,707	\$369	\$(5,055)	\$(174)	\$82,204	\$2,830

	2012.9.30							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	9,413	321	621	21	(1,836)	(63)	11,870	405
Land and air insurance	-	-	7,229	247	-	-	7,229	247
Liability insurance	245	8	-	-	-	-	245	8
Bonding insurance	3,516	120	-	-	3,460	118	56	2
Other property insurance	14,400	492	-	-	-	-	14,400	492
Accident insurance	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-
Total	\$27,574	\$941	\$7,850	\$268	\$1,624	\$55	\$33,800	\$1,154

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	2012.1.1							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$-	\$-	\$432	\$14	\$(5,485)	\$(181)	\$5,917	\$195
Marine insurance	9,806	324	54	2	1,867	62	7,993	264
Land and air insurance	-	-	2	-	(1,480)	(49)	1,482	49
Liability insurance	-	-	49	2	49	2	-	-
Bonding insurance	11,295	373	6	-	11,185	369	116	4
Other property insurance	3,316	110	54	2	-	-	3,370	112
Accident insurance	-	-	11	-	-	-	11	-
Health insurance	-	-	-	-	-	-	-	-
Total	\$24,417	\$807	\$608	\$20	\$6,136	\$203	\$18,889	\$624

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

2013.1.1~2013.9.30									
NT\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2) + (3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$3,802	\$6,341	\$80	\$24	\$(2,483)	\$-	\$-	\$-	\$(2,483)
Marine insurance	126	9,328	3	726	(9,925)	(10,633)	(7,183)	(3,450)	(6,475)
Land and air insurance	-	-	561	9,320	(8,759)	-	-	-	(8,759)
Liability insurance	15,338	13,409	7	10	1,926	-	-	-	1,926
Bonding insurance	7,222	2,207	-	-	5,015	6,516	2,096	4,420	595
Other property insurance	86,054	36,637	429	447	49,399	2	35	(33)	49,432
Accident insurance	-	-	119	199	(80)	-	-	-	(80)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	31,374	-	-	-	31,374	-	-	-	31,374
Total	<u>\$143,916</u>	<u>\$67,922</u>	<u>\$1,199</u>	<u>\$10,726</u>	<u>\$66,467</u>	<u>\$(4,115)</u>	<u>\$(5,052)</u>	<u>\$937</u>	<u>\$65,530</u>

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(Expressed in thousands of dollars unless otherwise stated)

2013.1.1~2013.9.30									
US\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2) + (3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$129	\$214	\$3	\$1	\$(83)	\$-	\$-	\$-	\$(83)
Marine insurance	4	316	-	24	(336)	(359)	(243)	(116)	(220)
Land and air insurance	-	-	19	315	(296)	-	-	-	(296)
Liability insurance	519	454	-	-	65	-	-	-	65
Bonding insurance	244	75	-	-	169	220	71	149	20
Other property insurance	2,911	1,239	15	15	1,672	-	1	(1)	1,673
Accident insurance	-	-	4	7	(3)	-	-	-	(3)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	1,061	-	-	-	1,061	-	-	-	1,061
Total	\$4,868	\$2,298	\$41	\$362	\$2,249	\$(139)	\$(171)	\$32	\$2,217

2012.1.1~2012.9.30									
NT\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2) + (3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$432	\$(432)	\$-	\$(5,485)	\$5,485	\$(5,917)
Marine insurance	9,413	9,805	621	55	174	(1,836)	1,867	(3,703)	3,877
Land and air insurance	-	-	7,229	2	7,227	-	(1,480)	1,480	5,747
Liability insurance	247	-	-	49	198	-	49	(49)	247
Bonding insurance	3,517	11,293	-	6	(7,782)	3,460	11,185	(7,725)	(57)
Other property insurance	14,532	3,246	-	53	11,233	-	-	-	11,233
Accident insurance	-	-	-	11	(11)	-	-	-	(11)
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$27,709	\$24,344	\$7,850	\$608	\$10,607	\$1,624	\$6,136	\$(4,512)	\$15,119

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(Expressed in thousands of dollars unless otherwise stated)

2012.1.1~2012.9.30									
US\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+ (3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$15	\$(15)	\$-	\$(187)	\$187	\$(202)
Marine insurance	322	335	21	2	6	(63)	64	(127)	133
Land and air insurance	-	-	247	-	247	-	(51)	51	196
Liability insurance	8	-	-	2	6	-	2	(2)	8
Bonding insurance	120	385	-	-	(265)	118	381	(263)	(2)
Other property insurance	496	111	-	2	383	-	-	-	383
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$946	\$831	\$268	\$21	\$362	\$55	\$209	\$(154)	\$516

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

2013.1.1~2013.9.30				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$77,149	\$2,610	\$(5,055)	\$(171)
Reserve	145,115	4,909	(4,115)	(139)
Recover	(78,648)	(2,660)	5,052	171
Effects of exchange rate changes	2,850	96	4	-
Ending balance	\$146,466	\$4,955	\$(4,114)	\$(139)

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Item	2012.1.1~2012.9.30			
	Premiums deficiency		Ceded premiums deficiency	
	reserve		reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$25,025	\$854	\$6,136	\$209
Reserve	35,559	1,214	1,624	55
Recover	(24,952)	(852)	(6,136)	(209)
Effects of exchange rate changes	(208)	(7)	-	-
Ending balance	<u>\$35,424</u>	<u>\$1,209</u>	<u>\$1,624</u>	<u>\$55</u>

(d) Effects for the change of estimation and assumption

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

(12) Post-employment benefits

Defined contribution plan

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

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

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The Consolidated Company recognized expenses for defined contribution plan for the three-month periods ended 30 September 2013 and 2012 are NT\$14,824 (US\$502) and NT\$10,167(US\$347), respectively. The Consolidated Company recognized expenses for defined contribution plan for the nine-month periods ended 30 September 2013 and 2012 are NT\$41,888 (US\$1,417) and NT\$33,369 (US\$1,139), respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	2013.7.1 ~2013.9.30	2012.7.1 ~2012.9.30	2013.1.1 ~2013.9.30	2012.1.1 ~2012.9.30
NT\$				
Marketing expenses	\$6,521	\$5,623	\$19,564	\$16,869
General and administrative expenses	2,794	2,410	8,384	7,230
Total	<u>\$9,315</u>	<u>\$8,033</u>	<u>\$27,948</u>	<u>\$24,099</u>
	2013.7.1 ~2013.9.30	2012.7.1 ~2012.9.30	2013.1.1 ~2013.9.30	2012.1.1 ~2012.9.30
US\$				
Marketing expenses	\$221	\$192	\$662	\$576
General and administrative expenses	94	82	284	247
Total	<u>\$315</u>	<u>\$274</u>	<u>\$946</u>	<u>\$823</u>

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Reconciliation of liability (asset) of the defined benefit plan is as follows:

	2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$
Defined benefit obligation	\$(625,367)	\$(21,527)	\$(572,462)	\$(18,912)
Plan assets at fair value	348,590	11,999	312,974	10,339
Funded status	(276,777)	(9,528)	(259,488)	(8,573)
Unrecognized past service cost	-	-	-	-
Unrecognized pension income	28,827	992	-	-
Accrued pension liabilities recognized on the consolidated balance sheets	<u>\$(247,950)</u>	<u>\$(8,536)</u>	<u>\$(259,488)</u>	<u>\$(8,573)</u>

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

	For the year ended 31 December 2012	
	NT\$	US\$
Beginning defined benefit obligation	\$572,462	\$19,706
Current service cost	19,852	683
Interest cost	9,448	325
Benefits paid	(3,864)	(133)
Actuarial losses (gains)	27,469	946
Ending defined benefit obligation	<u>\$625,367</u>	<u>\$21,527</u>

Changes in fair value of plan assets are as follows:

	For the year ended 31 December 2012	
	NT\$	US\$
Beginning fair value of plan assets	\$312,974	\$10,773
Expected return on plan assets	5,370	185
Contributions by employer	35,467	1,221
Benefits paid	(3,864)	(133)
Actuarial gains (losses)	(1,357)	(47)
Ending fair value of plan assets	<u>\$348,590</u>	<u>\$11,999</u>

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The Company expects to contribute NT\$35,386 (US\$1,197) to its defined benefit plan during the 12 months beginning after 30 September 2013.

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

	Pension plan (%) as at	
	31 December 2012	1 January 2012
Cash	23.87%	23.87%
Equity instruments	40.75%	40.75%
Debt instruments	11.58%	11.58%
Others	23.8%	23.8%

For the year ended 31 December 2012, the actual amount of plan assets is NT\$4,012 (US\$138).

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

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

	2012.12.31	2012.1.1
Discount rate	1.54%	1.68%
Expected rate of return on plan assets	1.54%	1.68%
Expected rate of salary increases	1.50%	1.50%

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A 0.5 percentage point change in discount rate on defined benefit obligation:

	2012.1.1~2012.12.31			
	Increase		Decrease	
	NT\$	US\$	NT\$	US\$
Effect on the aggregate current service cost and interest cost				
Effect on the defined benefit obligation	\$50,762	\$1,747	\$45,904	\$1,580

Other information on the defined benefit plan is as follows:

	2012.1.1~2012.12.31	
	NT\$	US\$
Defined benefit obligation at present value	\$(625,367)	\$(21,527)
Plan assets at fair value	348,590	11,999
Surplus (deficit) in plan	(276,777)	(9,528)
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	-	-

(13) Common stock

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the authorized and issued shares were 272,188, 252,295, 252,295 and 231,701 thousands shares with par value of NT\$10 each.

As recommended and approved by the board meeting of directors on 24 April 2012, the Company issued 20,594 thousands new shares from capitalization of retained earnings. It was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission, and the date of capitalization was 8 June 2012.

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

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(14) Retained earnings

A. Legal reserve

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

B. Special capital reserve

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

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

Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special capital reserve under equity at the end of the year. For the six-month periods ended 30 September 2013, the reserves amounted to NT\$869,978 (US\$29,431) thousands.

C. Retained earnings

According to the Company's articles 35 of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting. The dividends go first to preferred stockholders for current year dividends and any dividends that have been omitted in the past. From the remainder, there should be appropriations of 2% as bonus to employees.

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The Company accrued profit sharing to employees based on certain percentage of net income seated in the article of corporation after considering the legal reserve, which amount to \$0 (US\$0) For the nine-month periods ended 30 September 2013 and 2012, respectively. 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 2014 and 2013.

Details of the 2012 and 2011 earnings distribution and dividends per share as approved by the company's Board of directors on 30 April 2013 and 24 April 2012, respectively, are as follows:

	<u>Appropriation of earnings</u>		<u>Dividend per share (NT\$)</u>	
	2012	2011	2012	2011
Legal reserve	\$138,127	\$120,357	\$-	\$-
Special capital reserve	(53,919)	53,919	-	-
Common stock-stock dividend	198,929	205,944	0.79	0.89
Directors' remuneration	72	92	-	-
Employee bonus — cash	1,485	1,839	-	-
Total	<u>\$284,694</u>	<u>\$382,151</u>		

	<u>Appropriation of earnings</u>		<u>Dividend per share (US\$)</u>	
	2012	2011	2012	2011
Legal reserve	\$4,673	\$4,109	\$-	\$-
Special capital reserve	(1,824)	1,841	-	-
Common stock-stock dividend	6,729	7,031	0.03	0.03
Directors' remuneration	3	3	-	-
Employee bonus — cash	50	63	-	-
Total	<u>\$9,631</u>	<u>\$13,047</u>		

There is estimated difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the 2012's earnings and the estimated amount in the financial statements for the year ended 2012. Nevertheless, the difference is not significant and recognized in profit or loss in for the nine-month periods ended 30 September 2013.

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

(15) Non-controlling interests

	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$300,290	\$10,159	\$629,070	\$21,478
Loss attributable to non-controlling interests	(290,852)	(9,839)	(194,696)	(6,647)
Other comprehensive income, attributable to non-controlling interests, net of tax:				
Exchange differences resulting from translating the financial statements of a foreign operation	7,423	251	(17,503)	(598)
Unrealized gains from available-for-sale financial assets	(462)	(16)	4,399	150
Share of changes in net assets of associates and joint ventures accounted for using the equity method	485,551	16,426	-	-
Ending balance	<u>\$501,950</u>	<u>\$16,981</u>	<u>\$421,270</u>	<u>\$14,383</u>

(16) Retained earned premium

	2013.7.1 ~ 2013.9.30					
	NT\$					
	Direct premium income	Reinsurance premium income	Reinsurance premiums ceded	Retained premiums	Net change for unearned premiums reserve	Retained earned premium
Item	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)
Fire insurance	\$678,863	\$33,645	\$353,029	\$359,479	\$210,074	\$149,405
Marine insurance	117,481	10,768	92,104	36,145	(5,844)	41,989
Land and air insurance	1,430,945	9,118	52,156	1,387,907	(21,929)	1,409,836
Liability insurance	250,501	63	80,121	170,443	(17,888)	188,331
Bonding insurance	14,509	245	3,555	11,199	(320)	11,519
Other property insurance	619,289	13,043	121,485	510,847	145,473	365,374
Accident insurance	614,691	1,581	29,483	586,789	(3,724)	590,513
Health insurance	45,699	-	(8)	45,707	(36,315)	82,022
Compulsory automobile liability insurance	902,970	71,646	213,431	761,185	79,405	681,780
Total	<u>\$4,674,948</u>	<u>\$140,109</u>	<u>\$945,356</u>	<u>\$3,869,701</u>	<u>\$348,932</u>	<u>\$3,520,769</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.7.1 ~ 2013.9.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$22,966	\$1,138	\$11,943	\$12,161	\$7,107	\$5,054
Marine insurance	3,974	364	3,116	1,222	(199)	1,421
Land and air insurance	48,408	309	1,764	46,953	(741)	47,694
Liability insurance	8,474	2	2,710	5,766	(606)	6,372
Bonding insurance	491	8	120	379	(11)	390
Other property insurance	20,950	441	4,110	17,281	4,921	12,360
Accident insurance	20,795	54	998	19,851	(125)	19,976
Health insurance	1,546	-	-	1,546	(1,228)	2,774
Compulsory automobile liability insurance	30,547	2,424	7,220	25,751	2,686	23,065
Total	\$158,151	\$4,740	\$31,981	\$130,910	\$11,804	\$119,106

2012.7.1 ~ 2012.9.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$676,518	\$19,783	\$325,143	\$371,158	\$12,816	\$358,342
Marine insurance	207,893	15,804	167,932	55,765	4,973	50,792
Land and air insurance	1,214,117	8,469	38,086	1,184,500	70,706	1,113,794
Liability insurance	238,172	154	85,893	152,433	(6,696)	159,129
Bonding insurance	9,235	219	2,772	6,682	(2,870)	9,552
Other property insurance	341,837	16,204	82,705	275,336	45,964	229,372
Accident insurance	585,855	1,599	32,454	555,000	(24,919)	579,919
Health insurance	40,706	-	206	40,500	(24,358)	64,858
Compulsory automobile liability insurance	736,439	71,772	201,864	606,347	12,336	594,011
Total	\$4,050,772	\$134,004	\$937,055	\$3,247,721	\$87,952	\$3,159,769

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.7.1 ~ 2012.9.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$23,097	\$675	\$11,101	\$12,671	\$437	\$12,234
Marine insurance	7,098	540	5,733	1,905	169	1,736
Land and air insurance	41,451	289	1,300	40,440	2,414	38,026
Liability insurance	8,132	5	2,933	5,204	(228)	5,432
Bonding insurance	315	8	94	229	(98)	327
Other property insurance	11,671	553	2,824	9,400	1,569	7,831
Accident insurance	20,002	55	1,108	18,949	(851)	19,800
Health insurance	1,390	-	7	1,383	(831)	2,214
Compulsory automobile liability insurance	25,143	2,450	6,892	20,701	422	20,279
Total	\$138,299	\$4,575	\$31,992	\$110,882	\$3,003	\$107,879

2013.1.1 ~ 2013.9.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$2,267,389	\$75,855	\$1,392,488	\$950,756	\$133,439	\$817,317
Marine insurance	491,504	31,830	377,419	145,915	3,142	142,773
Land and air insurance	4,373,830	14,051	166,993	4,220,888	376,934	3,843,954
Liability insurance	772,082	469	248,063	524,488	9,378	515,110
Bonding insurance	50,589	870	25,294	26,165	(2,592)	28,757
Other property insurance	1,562,642	32,527	362,390	1,232,779	272,044	960,735
Accident insurance	1,880,776	4,488	113,949	1,771,315	18,337	1,752,978
Health insurance	123,192	-	427	122,765	(28,986)	151,751
Compulsory automobile liability insurance	2,558,124	210,238	622,210	2,146,152	234,764	1,911,388
Total	\$14,080,128	\$370,328	\$3,309,233	\$11,141,223	\$1,016,460	\$10,124,763

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.9.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$76,705	\$2,566	\$47,107	\$32,164	\$4,514	\$27,650
Marine insurance	16,627	1,077	12,768	4,936	107	4,829
Land and air insurance	147,965	476	5,649	142,792	12,752	130,040
Liability insurance	26,119	16	8,392	17,743	317	17,426
Bonding insurance	1,711	29	856	884	(88)	972
Other property insurance	52,863	1,100	12,260	41,703	9,203	32,500
Accident insurance	63,626	152	3,855	59,923	620	59,303
Health insurance	4,168	-	14	4,154	(980)	5,134
Compulsory automobile liability insurance	86,540	7,112	21,049	72,603	7,941	64,662
Total	\$476,324	\$12,528	\$111,950	\$376,902	\$34,386	\$342,516

2012.1.1 ~ 2012.9.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$2,363,060	\$61,428	\$1,356,139	\$1,068,349	\$169,533	\$898,816
Marine insurance	640,671	35,331	530,068	145,934	3,970	141,964
Land and air insurance	3,532,008	12,920	99,483	3,445,445	367,951	3,077,494
Liability insurance	726,893	504	254,384	473,013	43,293	429,720
Bonding insurance	47,968	914	23,187	25,695	(2,337)	28,032
Other property insurance	950,466	26,325	291,738	685,053	158,186	526,867
Accident insurance	1,754,186	6,498	109,498	1,651,186	(11,272)	1,662,458
Health insurance	92,170	-	1,569	90,601	(50,058)	140,659
Compulsory automobile liability insurance	2,105,140	208,028	576,420	1,736,748	28,520	1,708,228
Total	\$12,212,562	\$351,948	\$3,242,486	\$9,322,024	\$707,786	\$8,614,238

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.9.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$80,678	\$2,097	\$46,300	\$36,475	\$5,788	\$30,687
Marine insurance	21,873	1,206	18,097	4,982	136	4,846
Land and air insurance	120,587	441	3,396	117,632	12,562	105,070
Liability insurance	24,817	18	8,685	16,150	1,479	14,671
Bonding insurance	1,638	31	792	877	(80)	957
Other property insurance	32,450	899	9,961	23,388	5,400	17,988
Accident insurance	59,890	222	3,738	56,374	(385)	56,759
Health insurance	3,147	-	54	3,093	(1,710)	4,803
Compulsory automobile liability insurance	71,873	7,102	19,680	59,295	974	58,321
Total	\$416,953	\$12,016	\$110,703	\$318,266	\$24,164	\$294,102

(17) Retained claim paid

2013.7.1 ~ 2013.9.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(243,159)	\$(915)	\$(80,137)	\$(163,937)
Marine insurance	(135,204)	(5,010)	(113,917)	(26,297)
Land and air insurance	(871,767)	(4,089)	(33,773)	(842,083)
Liability insurance	(109,015)	(73)	(35,841)	(73,247)
Bonding insurance	(334)	(158)	1,223	(1,715)
Other property insurance	(223,941)	(2,024)	(18,325)	(207,640)
Accident insurance	(249,998)	(8)	(20,622)	(229,384)
Health insurance	(24,219)	-	-	(24,219)
Compulsory automobile liability insurance	(580,101)	(77,901)	(222,714)	(435,288)
Total	\$(2,437,738)	\$(90,178)	\$(524,106)	\$(2,003,810)

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

2013.7.1 ~ 2013.9.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(8,226)	\$(31)	\$(2,711)	\$(5,546)
Marine insurance	(4,574)	(170)	(3,854)	(890)
Land and air insurance	(29,491)	(138)	(1,142)	(28,487)
Liability insurance	(3,688)	(3)	(1,212)	(2,479)
Bonding insurance	(11)	(5)	41	(57)
Other property insurance	(7,576)	(69)	(620)	(7,025)
Accident insurance	(8,457)	-	(698)	(7,759)
Health insurance	(819)	-	-	(819)
Compulsory automobile liability insurance	(19,625)	(2,635)	(7,534)	(14,726)
Total	<u>\$(82,467)</u>	<u>\$(3,051)</u>	<u>\$(17,730)</u>	<u>\$(67,788)</u>

2012.7.1 ~ 2012.9.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(120,998)	\$(803)	\$(33,065)	\$(88,736)
Marine insurance	(77,462)	11,076	(29,622)	(36,764)
Land and air insurance	(681,346)	(3,343)	(19,812)	(664,877)
Liability insurance	(71,320)	(1)	(22,355)	(48,966)
Bonding insurance	(708)	(7)	(3,124)	2,409
Other property insurance	(132,006)	(1,745)	(33,419)	(100,332)
Accident insurance	(259,883)	(4,405)	(19,979)	(244,309)
Health insurance	(32,464)	-	-	(32,464)
Compulsory automobile liability insurance	(419,729)	(64,718)	(163,201)	(321,246)
Total	<u>\$(1,795,916)</u>	<u>\$(63,946)</u>	<u>\$(324,577)</u>	<u>\$(1,535,285)</u>

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

2012.7.1 ~ 2012.9.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(4,131)	\$(27)	\$(1,129)	\$(3,029)
Marine insurance	(2,645)	378	(1,011)	(1,256)
Land and air insurance	(23,262)	(114)	(676)	(22,700)
Liability insurance	(2,435)	-	(763)	(1,672)
Bonding insurance	(24)	-	(107)	83
Other property insurance	(4,507)	(60)	(1,141)	(3,426)
Accident insurance	(8,873)	(150)	(682)	(8,341)
Health insurance	(1,108)	-	-	(1,108)
Compulsory automobile liability insurance	(14,330)	(2,210)	(5,572)	(10,968)
Total	\$(61,315)	\$(2,183)	\$(11,081)	\$(52,417)

2013.1.1 ~ 2013.9.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(842,559)	\$(2,626)	\$(289,102)	\$(556,083)
Marine insurance	(290,351)	(54,958)	(285,312)	(59,997)
Land and air insurance	(2,459,591)	(8,669)	(78,895)	(2,389,365)
Liability insurance	(310,894)	(96)	(87,928)	(223,062)
Bonding insurance	(5,088)	(166)	1,027	(6,281)
Other property insurance	(543,280)	(11,097)	(49,409)	(504,968)
Accident insurance	(677,829)	(1,694)	(47,790)	(631,733)
Health insurance	(91,033)	-	(160)	(90,873)
Compulsory automobile liability insurance	(1,542,011)	(226,026)	(597,126)	(1,170,911)
Total	\$(6,762,636)	\$(305,332)	\$(1,434,695)	\$(5,633,273)

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

2013.1.1 ~ 2013.9.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(28,503)	\$(89)	\$(9,780)	\$(18,812)
Marine insurance	(9,822)	(1,859)	(9,652)	(2,029)
Land and air insurance	(83,207)	(293)	(2,669)	(80,831)
Liability insurance	(10,517)	(4)	(2,975)	(7,546)
Bonding insurance	(172)	(6)	35	(213)
Other property insurance	(18,379)	(375)	(1,672)	(17,082)
Accident insurance	(22,931)	(57)	(1,617)	(21,371)
Health insurance	(3,080)	-	(5)	(3,075)
Compulsory automobile liability insurance	(52,166)	(7,646)	(20,200)	(39,612)
Total	\$(228,777)	\$(10,329)	\$(48,535)	\$(190,571)

2012.1.1 ~ 2012.9.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(673,319)	\$(1,939)	\$(284,566)	\$(390,692)
Marine insurance	(240,289)	5,112	(108,763)	(126,414)
Land and air insurance	(2,022,209)	(7,662)	(56,427)	(1,973,444)
Liability insurance	(223,239)	(128)	(54,516)	(168,851)
Bonding insurance	(3,557)	(51)	(6,405)	2,797
Other property insurance	(275,467)	(7,144)	(54,455)	(228,156)
Accident insurance	(727,162)	(8,044)	(66,794)	(668,412)
Health insurance	(113,778)	-	(950)	(112,828)
Compulsory automobile liability insurance	(1,264,459)	(186,208)	(496,130)	(954,537)
Total	\$(5,543,479)	\$(206,064)	\$(1,129,006)	\$(4,620,537)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.1.1 ~ 2012.9.30			
	US\$			
	Insurance claims paid	Reinsurance claims paid	Claims recovered from reinsurers	Retained claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$ (22,988)	\$ (66)	\$ (9,715)	\$ (13,339)
Marine insurance	(8,204)	174	(3,713)	(4,317)
Land and air insurance	(69,041)	(262)	(1,926)	(67,377)
Liability insurance	(7,622)	(4)	(1,861)	(5,765)
Bonding insurance	(121)	(2)	(219)	96
Other property insurance	(9,405)	(244)	(1,859)	(7,790)
Accident insurance	(24,826)	(274)	(2,281)	(22,819)
Health insurance	(3,885)	-	(33)	(3,852)
Compulsory automobile liability insurance	(43,170)	(6,357)	(16,939)	(32,588)
Total	<u><u>\$ (189,262)</u></u>	<u><u>\$ (7,035)</u></u>	<u><u>\$ (38,546)</u></u>	<u><u>\$ (157,751)</u></u>

(18) Components of other comprehensive income

	2013.7.1 ~ 2013.9.30				
	NT\$				
	Arising during the period	Reclassificati on adjustments during the period	Other comprehensi ve income, before tax	Income tax relating to components of other comprehensive income	Other comprehensi ve income, net of tax
Exchange differences resulting from translation the financial statements of a foreign operation	\$ (17,765)	\$-	\$ (17,765)	\$-	\$ (17,765)
Unrealized gains (losses) from available-for-sale financial assets	(102,471)	46,027	(56,444)	(6,143)	(62,587)
Gains (losses) on cash flow hedges	(958)	-	(958)	-	(958)
Total of other comprehensive income	<u><u>\$ (121,194)</u></u>	<u><u>\$ 46,027</u></u>	<u><u>\$ (75,167)</u></u>	<u><u>\$ (6,143)</u></u>	<u><u>\$ (81,310)</u></u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.7.1 ~ 2013.9.30					
US\$					
Arising during the period	Reclassification on adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Exchange differences resulting from translation the financial statements of a foreign operation	\$(601)	\$-	\$(601)	\$-	\$(601)
Unrealized gains (losses) from available-for-sale financial assets	(3,466)	1,557	(1,909)	(208)	(2,117)
Gains (losses) on cash flow hedges	(32)	-	(32)	-	(32)
Total of other comprehensive income	<u>\$(4,099)</u>	<u>\$1,557</u>	<u>\$(2,542)</u>	<u>\$(208)</u>	<u>\$(2,750)</u>
2012.7.1 ~ 2012.9.30					
NT\$					
Arising during the period	Reclassification on adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Exchange differences resulting from translation the financial statements of a foreign operation	\$(11,922)	\$-	\$(11,922)	\$-	\$(11,922)
Unrealized gains (losses) from available-for-sale financial assets	100,058	23,745	123,803	-	123,803
Gains (losses) on cash flow hedges	(3,973)	-	(3,973)	-	(3,973)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(10)	-	(10)	-	(10)
Total of other comprehensive income	<u>\$84,153</u>	<u>\$23,745</u>	<u>\$107,898</u>	<u>\$-</u>	<u>\$107,898</u>

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

2012.7.1 ~ 2012.9.30					
US\$					
Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Exchange differences resulting from translation the financial statements of a foreign operation	\$(407)	\$-	\$(407)	\$-	\$(407)
Unrealized gains (losses) from available-for-sale financial assets	3,416	811	4,227	-	4,227
Gains (losses) on cash flow hedges	(136)	-	(136)	-	(136)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	\$2,873	\$811	\$3,684	\$-	\$3,684
2013.1.1 ~ 2013.9.30					
NT\$					
Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Exchange differences resulting from translation the financial statements of a foreign operation	\$9,976	\$-	\$9,976	\$-	\$9,976
Unrealized gains (losses) from available-for-sale financial assets	(381,535)	192,511	(189,024)	2,843	(186,181)
Gains (losses) on cash flow hedges	(6,546)	-	(6,546)	-	(6,546)
Total of other comprehensive income	\$(378,105)	\$192,511	\$(185,594)	\$2,843	\$(182,751)

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.9.30					
US\$					
	Arising during the period	Reclassificatio n adjustments during the period	Other comprehensi ve income, before tax	Income tax relating to components of other comprehensive income	Other comprehensi ve income, net of tax
Exchange differences resulting from translation the financial statements of a foreign operation	\$337	\$-	\$337	\$-	\$337
Unrealized gains (losses) from available-for-sale financial assets	(12,908)	6,513	(6,395)	96	(6,299)
Gains (losses) on cash flow hedges	(221)	-	(221)	-	(221)
Total of other comprehensive income	<u>\$(12,792)</u>	<u>\$6,513</u>	<u>\$(6,279)</u>	<u>\$96</u>	<u>\$(6,183)</u>
2012.1.1 ~ 2012.9.30					
NT\$					
	Arising during the period	Reclassificatio n adjustments during the period	Other comprehensi ve income, before tax	Income tax relating to components of other comprehensive income	Other comprehensi ve income, net of tax
Exchange differences resulting from translation the financial statements of a foreign operation	\$(43,811)	\$-	\$(43,811)	\$-	\$(43,811)
Unrealized gains (losses) from available-for-sale financial assets	(41,968)	138,632	96,664	-	96,664
Gains (losses) on cash flow hedges	(10,322)	-	(10,322)	-	(10,322)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(7)	-	(7)	-	(7)
Total of other comprehensive income	<u>\$(96,108)</u>	<u>\$138,632</u>	<u>\$42,524</u>	<u>\$-</u>	<u>\$42,524</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.9.30					
US\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translation the financial statements of a foreign operation	\$(1,496)	\$-	\$(1,496)	\$-	\$(1,496)
Unrealized gains (losses) from available-for-sale financial assets	(1,433)	4,733	3,300	-	3,300
Gains (losses) on cash flow hedges	(352)	-	(352)	-	(352)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	\$(3,281)	\$4,733	\$1,452	\$-	\$1,452

(19) Personnel, depreciation, depletion and amortization expenses

Item	2013.7.1 ~ 2013.9.30 (NT\$)			2012.7.1 ~ 2012.9.30 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$497,409	\$497,409	\$-	\$464,918	\$464,918
Labor & health insurance expenses	-	20,378	20,378	-	35,079	35,079
Pension expenses	-	24,139	24,139	-	18,200	18,200
Other expenses	-	21,333	21,333	-	17,064	17,064
Depreciation	-	19,878	19,878	-	22,428	22,428
Amortization	-	9,345	9,345	-	6,583	6,583

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Notes to unaudited consolidated financial statements (continued)

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Item	2013.7.1 ~ 2013.9.30 (US\$)			2012.7.1 ~ 2012.9.30 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$16,827	\$16,827	\$-	\$15,873	\$15,873
Labor & health insurance expenses	-	689	689	-	1,198	1,198
Pension expenses	-	817	817	-	621	621
Other expenses	-	722	722	-	583	583
Depreciation	-	672	672	-	766	766
Amortization	-	316	316	-	225	225

Item	2013.1.1 ~ 2013.9.30 (NT\$)			2012.1.1 ~ 2012.9.30 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$1,548,865	\$1,548,865	\$-	\$1,327,121	\$1,327,121
Labor & health insurance expenses	-	105,544	105,544	-	94,521	94,521
Pension expenses	-	69,836	69,836	-	57,468	57,468
Other expenses	-	51,712	51,712	-	41,316	41,316
Depreciation	-	59,463	59,463	-	65,094	65,094
Amortization	-	22,879	22,879	-	16,612	16,612

Item	2013.1.1 ~ 2013.9.30 (US\$)			2012.1.1 ~ 2012.9.30 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$52,397	\$52,397	\$-	\$45,310	\$45,310
Labor & health insurance expenses	-	3,571	3,571	-	3,227	3,227
Pension expenses	-	2,363	2,363	-	1,962	1,962
Other expenses	-	1,749	1,749	-	1,411	1,411
Depreciation	-	2,012	2,012	-	2,222	2,222
Amortization	-	774	774	-	567	567

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(20) Income tax

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

Income tax expense (income) recognized in profit or loss

	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Current income tax expense:				
Current income tax charge	\$46,307	\$1,567	\$32,643	\$1,114
Deferred tax expense (income):				
Deferred tax expense related to origination and reversal of temporary differences	2,386	80	3,670	126
Total income tax expense	<u>\$48,693</u>	<u>\$1,647</u>	<u>\$36,313</u>	<u>\$1,240</u>

	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Current income tax expense:				
Current income tax charge	\$153,434	\$5,191	\$94,182	\$3,216
Adjustment in respect of current income tax of prior periods	2	-	(4,313)	(147)
Deferred tax expense :				
Deferred tax expense related to origination and reversal of temporary differences	(47)	(2)	21,626	738
Total income tax expense	<u>\$153,389</u>	<u>\$5,189</u>	<u>\$111,495</u>	<u>\$3,807</u>

Income tax related to components of other comprehensive income

	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from available-for-sale financial assets	<u>\$6,143</u>	<u>\$208</u>	<u>\$-</u>	<u>\$-</u>

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	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from				
available-for-sale financial assets	\$(2,843)	\$(96)	\$-	\$-

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

	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Accounting profit before tax from continuing operations	\$164,475	\$5,564	\$73,244	\$2,501
At the Company's statutory income tax rate of 17%	\$49,051	\$1,659	\$29,152	\$995
Tax effect of expenses not deductible for tax purposes	(441)	(15)	7,067	241
Tax effect of revenues exempt from taxation	83	3	94	4
Total income tax expense recognized in profit or loss	\$48,693	\$1,647	\$36,313	\$1,240

	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Accounting profit before tax from continuing operations	\$490,197	\$16,583	\$423,930	\$14,474
At the Company's statutory income tax rate of 17%	\$132,778	\$4,492	\$105,166	\$3,591
Tax effect of expenses not deductible for tax purposes	19,876	673	6,709	229
Tax effect of revenues exempt from taxation	278	9	308	10
Tax effect of deferred tax assets/liabilities	455	15	3,625	124
Adjustments in respect of current income tax of prior periods	2	-	(4,313)	(147)
Total income tax expense recognized in profit or loss	\$153,389	\$5,189	\$111,495	\$3,807

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Deferred tax assets (liabilities) relate to the following:

	2013.1.1 ~ 2013.9.30 (NT\$)				
	Deferred tax income		Deferred tax income		
	Beginning	(expense) recognized	(expense) recognized	Exchange	Ending
	balance	in profit or loss	in other comprehensive	differences	balance
			income		
Temporary differences					
Revaluations of financial assets at					
fair value through profit or loss	\$(17,949)	\$17,949	\$-	\$-	\$-
Revaluations of available-for-sale					
investments to fair value	-	-	2,843	-	2,843
Revaluations of financial liabilities					
at fair value through profit or loss	-	16,111	-	-	16,111
Provision for employee benefits					
liability	42,607	(383)	-	-	42,224
Unrealized exchange (gain)loss	19,121	(32,123)	-	(2)	(13,004)
Bad debt losses	18,666	(1,507)	-	-	17,159
Deferred tax income expense		\$47	\$2,843	\$(2)	
Net deferred tax assets/(liabilities)	\$62,445				\$65,333
Reflected in balance sheet as follows:					
Deferred tax assets	\$80,750				\$78,337
Deferred tax liabilities	\$(18,305)				\$(13,004)

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Notes to unaudited consolidated financial statements (continued)

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2013.1.1 ~ 2013.9.30 (US\$)					
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	\$(607)	\$607	\$-	\$-	\$-
Revaluations of available-for-sale investments to fair value	-	-	96	-	96
Revaluations of financial liabilities at fair value through profit or loss	-	545	-	-	545
Provision for employee benefits liability	1,441	(13)	-	-	1,428
Unrealized exchange (gain)loss	647	(1,087)	-	-	(440)
Bad debt losses	631	(50)	-	-	581
Deferred tax income expense		\$2	\$96	-	
Net deferred tax assets/(liabilities)	<u>\$2,112</u>				<u>\$2,210</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$2,731</u>				<u>\$2,650</u>
Deferred tax liabilities	<u>\$(619)</u>				<u>\$(440)</u>

2012.1.1 ~ 2012.9.30 (NT\$)				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Exchange differences	Ending balance
Temporary differences				
Revaluations of financial assets at fair value through profit or loss	\$38,387	\$(53,539)	\$-	\$(15,152)
Revaluations of financial liabilities at fair value through profit or loss				
Provision for employee benefits liability	44,113	(567)	-	43,546
Unrealized exchange (gain)loss	(22,311)	35,622	48	13,359
Bad debt losses	19,369	483	-	19,852
Unused tax credits	3,625	(3,625)	-	-
Deferred tax income expense		\$(21,626)	\$48	
Net deferred tax assets/(liabilities)	<u>\$83,183</u>			<u>\$61,605</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$105,494</u>			<u>\$78,902</u>
Deferred tax liabilities	<u>\$(22,311)</u>			<u>\$(17,297)</u>

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2012.1.1 ~ 2012.9.30 (US\$)				
	Deferred tax income (expense) recognized in			
	Beginning balance	profit or loss	Exchange differences	Ending balance
Temporary differences				
Revaluations of financial assets at fair value through profit or loss	\$1,311	\$(1,828)	\$-	\$(517)
Revaluations of financial liabilities at fair value through profit or loss	1,506	(19)	-	1,487
Provision for employee benefits liability	(762)	1,217	1	456
Unrealized exchange (gain)loss				
Bad debt losses	661	16	-	677
Unused tax credits	124	(124)	-	-
Deferred tax income expense		\$(738)	\$1	
Net deferred tax assets/(liabilities)	\$2,840			\$2,103
Reflected in balance sheet as follows:				
Deferred tax assets	\$3,602			\$2,694
Deferred tax liabilities	\$(762)			\$(591)

Unrecognized deferred tax assets

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to NT\$176,771 (US\$5,980), NT\$122,863 (US\$4,229), NT\$100,491 (US\$3,431) and NT\$59,705(US\$1,972), respectively.

Imputation credit information

NT\$	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Balances of imputation credit amounts	\$14,179	\$5,924	\$12,734	\$8,203
US\$	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Balances of imputation credit amounts	\$480	\$204	\$435	\$271

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The actual creditable ratio for 2012 and 2011 were 0% and 2.16%, respectively.

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

The assessment of income tax returns

As of 30 September 2013, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 1996

(21) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

The company did not issue dilutive potential common stock ; therefore , the basic earnings per share need not be adjusted.

Item	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$239,845	\$8,114	\$135,170	\$4,615
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188	272,188	272,188
Basic earnings per share (NT\$)	\$0.88	\$0.03	\$0.50	\$0.02

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Item	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$627,660	\$21,233	\$507,131	\$17,314
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188	272,188	272,188
Basic earnings per share (NT\$)	\$2.31	\$0.08	\$1.86	\$0.06

7. Risk management information of insurance contract and Financial Instruments

(1) The objectives, policies, procedures and methods of risk management :

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

Responsibility :

(a) Board of directors

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

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(Expressed in thousands of dollars unless otherwise stated)

(b) Risk Management Committee

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

(c) Risk management department

- a. Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.
- b. Responsibility of risk management division :
 - ① To assist in drafting risk management policies and the execution when ratified by the board of directors.
 - ② To assist in setting up risk limits according to the risk appetite.
 - ③ To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
 - ④ To propose risk management related reports on a regular basis.
 - ⑤ To supervise risk limit and its use in each business unit on a regular basis.
 - ⑥ To assist in stress tests and conduct back-testing when necessary.
 - ⑦ To conduct other risk management related tasks.

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(d) Business unit

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

- ① To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
- ② To oversee the sharing of risk management information to risk management on a regular basis.

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

- ① To identify risk and report risk exposure.
- ② To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.
- ③ To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
- ④ To oversee risk exposure and report when over-limit occur, including measures taken against it.
- ⑤ To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
- ⑥ To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of the Company.
- ⑦ To assist in collecting information regarding operation risk.

(e) Internal audit room

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

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

(a) Risks reporting

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(Expressed in thousands of dollars unless otherwise stated)

- ① Each business unit within Cathay Century should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.
- ② Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the board of director to oversee risks on a regular basis.

(b)Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

Item	2013		2012	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$673,000	\$22,767	\$613,000	\$20,929
Marine insurance	673,000	22,767	613,000	20,929
Engineering insurance	673,000	22,767	613,000	20,929
Other property insurance	673,000	22,767	613,000	20,929
Automobile insurance	673,000	22,767	613,000	20,929
Health and injury insurance	673,000	22,767	613,000	20,929

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

F. 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 lost or liquidity is severely compromised, the operation crisis team will be set up immediately to evaluate the impact on fund liquidity of the company cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and the company.

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

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

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

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(Expressed in thousands of dollars unless otherwise stated)

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)			
	NT\$			
	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Fire insurance	\$749,334	\$665,154	\$591,235	\$342,994
Marine insurance	273,734	369,048	426,743	477,307
Land and air insurance	700,570	748,157	564,863	638,561
Liability insurance	143,607	217,416	177,531	135,547
Bonding insurance	24,022	13,983	14,340	11,456
Other property insurance	412,203	345,181	356,817	440,887
Accident insurance	278,923	288,526	256,482	235,275
Health insurance	24,763	22,994	19,002	87,566
Compulsory automobile liability insurance	292,442	268,872	262,186	251,058
Total	2,899,598	2,939,331	2,669,199	2,620,651
Less: Allowance for bad debts	(72,594)	(69,978)	(98,027)	(78,752)
Net	<u>\$2,827,004</u>	<u>\$2,869,353</u>	<u>\$2,571,172</u>	<u>\$2,541,899</u>

Item	Premiums receivable(Note)			
	US\$			
	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Fire insurance	\$25,349	\$22,897	\$20,185	\$11,331
Marine insurance	9,260	12,704	14,570	15,768
Land and air insurance	23,700	25,754	19,285	21,096
Liability insurance	4,858	7,484	6,061	4,478
Bonding insurance	813	481	490	378
Other property insurance	13,945	11,882	12,182	14,565
Accident insurance	9,436	9,932	8,757	7,773
Health insurance	838	792	649	2,893
Compulsory automobile liability insurance	9,893	9,255	8,951	8,294
Total	98,092	101,181	91,130	86,576
Less: Allowance for bad debts	(2,456)	(2,408)	(3,347)	(2,602)
Net	<u>\$95,636</u>	<u>\$98,773</u>	<u>\$87,783</u>	<u>\$83,974</u>

Note : As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the receivables included overdue receivables amounted to NT\$896,863 (US\$30,340) thousands, NT\$497,914(US\$17,140) thousands, NT\$645,231 (US\$22,029) thousands and NT\$281,695 (US\$9,306) thousands, the allowance for bad debts amounted to NT\$26,346 (US\$891) thousands, NT\$31,767 (US\$1,094) thousands, NT\$54,251 (US\$1,852) thousands and NT\$42,183 (US\$1,394) thousands.

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Item	Claims reported and paid off			
	NT\$			
	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Fire insurance	\$16,566	\$241,267	\$13,261	\$76,577
Marine insurance	63,699	42,699	25,697	58,775
Land and air insurance	22,497	40,214	17,250	18,463
Liability insurance	11,463	13,506	10,362	14,907
Bonding insurance	-	8	81	2,406
Other property insurance	10,103	8,231	25,117	25,509
Accident insurance	15,785	23,435	17,834	17,873
Health insurance	-	-	-	-
Compulsory automobile liability insurance	156,674	144,232	119,303	53,741
Total	296,787	513,592	228,905	268,251
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$296,787</u>	<u>\$513,592</u>	<u>\$228,905</u>	<u>\$268,251</u>

Item	Claims reported and paid off			
	US\$			
	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Fire insurance	\$560	\$8,305	\$453	\$2,530
Marine insurance	2,155	1,470	877	1,942
Land and air insurance	761	1,385	589	610
Liability insurance	388	465	354	493
Bonding insurance	-	-	3	79
Other property insurance	342	283	857	843
Accident insurance	534	807	609	590
Health insurance	-	-	-	-
Compulsory automobile liability insurance	5,300	4,965	4,073	1,775
Total	10,040	17,680	7,815	8,862
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$10,040</u>	<u>\$17,680</u>	<u>\$7,815</u>	<u>\$8,862</u>

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

Item	2013.9.30					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$6,235	\$211	\$7,730	\$261	\$13,965	\$472
Marine insurance	2,633	89	4,620	156	7,253	245
Land and air insurance	7,096	240	97,360	3,294	104,456	3,534
Liability insurance	2,831	96	5,855	198	8,686	294
Bonding insurance	98	3	67	3	165	6
Other property insurance	37,340	1,263	8,230	279	45,570	1,542
Accident insurance	1,231	42	42,229	1,428	43,460	1,470
Health insurance	517	17	5,279	179	5,796	196
Compulsory automobile liability insurance	107,686	3,643	-	-	107,686	3,643
Total	<u>\$165,667</u>	<u>\$5,604</u>	<u>\$171,370</u>	<u>\$5,798</u>	<u>\$337,037</u>	<u>\$11,402</u>

Item	2012.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$13,092	\$451	\$6,224	\$214	\$19,316	\$665
Marine insurance	3,280	113	8,177	281	11,457	394
Land and air insurance	2,965	102	73,378	2,526	76,343	2,628
Liability insurance	8,472	292	5,488	189	13,960	481
Bonding insurance	485	17	188	7	673	24
Other property insurance	7,917	272	9,154	315	17,071	587
Accident insurance	182	6	23,540	810	23,722	816
Health insurance	39	1	4,118	142	4,157	143
Compulsory automobile liability insurance	75,939	2,614	-	-	75,939	2,614
Total	<u>\$112,371</u>	<u>\$3,868</u>	<u>\$130,267</u>	<u>\$4,484</u>	<u>\$242,638</u>	<u>\$8,352</u>

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

Item	2012.9.30					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,526	\$120	\$7,369	\$252	\$10,895	\$372
Marine insurance	1,745	60	13,972	477	15,717	537
Land and air insurance	2,177	74	83,586	2,854	85,763	2,928
Liability insurance	1,807	62	12,960	442	14,767	504
Bonding insurance	65	2	43	1	108	3
Other property insurance	27,419	936	4,065	139	31,484	1,075
Accident insurance	-	-	39,861	1,361	39,861	1,361
Health insurance	2,077	71	3,879	132	5,956	203
Compulsory automobile liability insurance	99,927	3,412	-	-	99,927	3,412
Total	<u>\$138,743</u>	<u>\$4,737</u>	<u>\$165,735</u>	<u>\$5,658</u>	<u>\$304,478</u>	<u>\$10,395</u>

Item	2012.1.1					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$15,917	\$526	\$8,061	\$266	\$23,978	\$792
Marine insurance	4,753	157	5,018	166	9,771	323
Land and air insurance	1,500	49	99,623	3,291	101,123	3,340
Liability insurance	7,053	233	5,347	177	12,400	410
Bonding insurance	321	11	41	1	362	12
Other property insurance	8,232	272	8,179	270	16,411	542
Accident insurance	215	7	44,181	1,460	44,396	1,467
Health insurance	8	-	4,175	138	4,183	138
Compulsory automobile liability insurance	97,924	3,235	-	-	97,924	3,235
Total	<u>\$135,923</u>	<u>\$4,490</u>	<u>\$174,625</u>	<u>\$5,769</u>	<u>\$310,548</u>	<u>\$10,259</u>

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to unaudited consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)****D. Due from (to) reinsurers and ceding companies- reinsurance**

Item	2013.9.30			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$57,116	\$1,932	\$207,174	\$7,009
AON	31,762	1,074	13,911	471
Best Re	51,572	1,745	6,479	219
Central Re	10,314	349	79,565	2,692
Elite	24,851	841	20,636	698
FP Marine	25,663	868	41,338	1,399
Guy Carpenter	-	-	44,435	1,503
Hannover Re	22,944	776	73,834	2,498
Korean Re	75,855	2,566	90,390	3,058
Marsh	26,633	901	79,291	2,682
Swiss Re	4,657	158	108,615	3,674
Willis	61,831	2,092	67,540	2,285
Zurich	1,960	66	68,978	2,333
Others	265,814	8,992	407,665	13,791
Total	660,972	22,360	1,309,851	44,312
Less: Allowance for bad debts	(3,765)	(127)	-	-
Net	\$657,207	\$22,233	\$1,309,851	\$44,312

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

Item	2012.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$54,422	\$1,873	\$197,276	\$6,791
Asia Capital Re	18,264	629	12,428	428
Best Re	14,002	482	11,283	388
Elite	19,346	666	29,007	999
FP Marine	76,332	2,628	68,251	2,349
Guy Carpenter	-	-	44,689	1,538
JLT	-	-	83,049	2,859
Korean Re	9,104	313	53,682	1,848
Marsh	37,557	1,293	90,672	3,121
Swiss Re	531	18	83,848	2,886
Wilson Re	26,994	929	20,931	721
Zurich	2,336	81	70,029	2,411
Others	191,294	6,585	439,956	15,145
Total	450,182	15,497	1,205,101	41,484
Less: Allowance for bad debts	(5,494)	(189)	-	-
Net	<u>\$444,688</u>	<u>\$15,308</u>	<u>\$1,205,101</u>	<u>\$41,484</u>

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

Item	2012.9.30			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$55,133	\$1,882	\$199,522	\$6,813
Taian	33,084	1,130	8,011	273
Fubon	43,775	1,495	2,741	94
Asia Capital Re	18,043	616	8,157	278
Best Re	19,126	653	11,372	388
Central Re	7,155	244	63,309	2,161
Cubic	13,185	450	5,988	205
Elite	18,201	621	40,577	1,385
FP Marine	48,934	1,671	58,044	1,982
Guy Carpenter	3,485	119	72,162	2,464
Korean Re	5,706	196	40,164	1,371
Marsh	43,115	1,472	49,646	1,695
Swiss Re	-	-	78,221	2,671
Zurich	49	1	67,078	2,290
Others	103,445	3,531	322,234	11,001
Total	412,436	14,081	1,027,226	35,071
Less: Allowance for bad debts	(4,656)	(159)	-	-
Net	<u>\$407,780</u>	<u>\$13,922</u>	<u>\$1,027,226</u>	<u>\$35,071</u>

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

Item	2012.1.1			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$55,981	\$1,849	\$147,763	\$4,881
Taian	33,319	1,101	5,721	189
Fubon	44,104	1,457	1,851	61
Huanan	31,318	1,035	13,855	458
BEST Re	3,473	115	-	-
Central Re	14,006	463	60,902	2,012
FP Marine	54,730	1,808	126,004	4,163
JLT	3,126	103	72,801	2,405
Marsh	67,883	2,242	97,473	3,220
Miller	39,307	1,298	37,488	1,239
Swiss Re	2,168	72	106,862	3,530
Wilson Re	10,318	341	72,590	2,398
Zurich	17	1	87,163	2,880
Others	190,215	6,284	430,964	14,237
Total	549,965	18,169	1,261,437	41,673
Less: Allowance for bad debts	(52,091)	(1,721)	-	-
Net	<u>\$497,874</u>	<u>\$16,448</u>	<u>\$1,261,437</u>	<u>\$41,673</u>

Notes : As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$37,653 (US\$1,274) thousands, NT\$54,939 (US\$1,891) thousands, NT\$46,561 (US\$1,590) thousands and NT\$52,091 (US\$1,721) thousands, the allowance for bad debts amounted to NT\$3,765 (US\$127) thousands, NT\$5,494 (US\$189) thousands, NT\$4,656 (US\$159) thousands and NT\$52,091 (US\$1,721) thousands.

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to unaudited consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)****(3) Information of management achievements****A. Acquisition cost for insurance contracts**

2013.7.1 ~ 2013.9.30 (NT\$)						
Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$(3,267)	\$3,581	\$6,920	\$1,104	\$25,886	\$34,224
Marine insurance	2,945	964	2,178	766	10,570	17,423
Land and air insurance	14,937	1,106	-	670	190,961	207,674
Liability insurance	5,161	569	11,837	24	15,883	33,474
Bonding insurance	737	8	73	-	350	1,168
Other property insurance	5,039	597	72,051	2,416	22,183	102,286
Accident insurance	7,521	782	-	3	96,199	104,505
Health insurance	4,066	405	-	-	93	4,564
Compulsory automobile liability insurance	-	-	121,565	-	3,029	124,594
Total	<u>\$37,139</u>	<u>\$8,012</u>	<u>\$214,624</u>	<u>\$4,983</u>	<u>\$365,154</u>	<u>\$629,912</u>

2013.7.1 ~ 2013.9.30 (US\$)						
Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$(111)	\$121	\$234	\$37	\$876	\$1,157
Marine insurance	100	33	74	26	358	591
Land and air insurance	505	37	-	23	6,460	7,025
Liability insurance	175	19	400	1	537	1,132
Bonding insurance	25	-	2	-	12	39
Other property insurance	171	20	2,437	82	750	3,460
Accident insurance	254	27	-	-	3,254	3,535
Health insurance	138	14	-	-	3	155
Compulsory automobile liability insurance	-	-	4,113	-	102	4,215
Total	<u>\$1,257</u>	<u>\$271</u>	<u>\$7,260</u>	<u>\$168</u>	<u>\$12,352</u>	<u>\$21,309</u>

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

2012.7.1 ~ 2012.9.30 (NT\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$11,383	\$3,590	\$8,458	\$813	\$23,503	\$47,747
Marine insurance	2,504	763	2,768	1,014	11,558	18,607
Land and air insurance	10,049	563	-	1,492	168,377	180,481
Liability insurance	4,885	555	11,930	73	13,910	31,353
Bonding insurance	15	4	(172)	1	330	178
Other property insurance	3,973	421	27,368	9,278	23,302	64,342
Accident insurance	2,941	294	1	31	91,950	95,217
Health insurance	1,461	131	-	-	229	1,821
Compulsory automobile liability insurance	-	-	104,281	-	2,570	106,851
Total	<u>\$37,211</u>	<u>\$6,321</u>	<u>\$154,634</u>	<u>\$12,702</u>	<u>\$335,729</u>	<u>\$546,597</u>

2012.7.1 ~ 2012.9.30 (US\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$388	\$123	\$289	\$28	\$802	\$1,630
Marine insurance	85	26	95	35	394	635
Land and air insurance	343	19	-	51	5,749	6,162
Liability insurance	167	19	407	2	475	1,070
Bonding insurance	1	-	(6)	-	11	6
Other property insurance	136	14	934	317	796	2,197
Accident insurance	100	10	-	1	3,140	3,251
Health insurance	50	5	-	-	7	62
Compulsory automobile liability insurance	-	-	3,560	-	88	3,648
Total	<u>\$1,270</u>	<u>\$216</u>	<u>\$5,279</u>	<u>\$433</u>	<u>\$11,462</u>	<u>\$18,661</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.9.30 (NT\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$32,935	\$6,865	\$22,439	\$2,688	\$68,598	\$133,525
Marine insurance	8,567	2,179	5,217	2,340	38,400	56,703
Land and air insurance	45,815	2,715	-	1,677	582,442	632,649
Liability insurance	19,321	1,780	39,617	183	45,615	106,516
Bonding insurance	1,722	36	221	-	1,014	2,993
Other property insurance	11,883	1,407	154,151	6,395	58,948	232,784
Accident insurance	15,141	1,655	-	21	262,425	279,242
Health insurance	11,010	886	-	-	10,599	22,495
Compulsory automobile liability insurance	-	-	354,116	-	7,973	362,089
Total	<u>\$146,394</u>	<u>\$17,523</u>	<u>\$575,761</u>	<u>\$13,304</u>	<u>\$1,076,014</u>	<u>\$1,828,996</u>

2013.1.1 ~ 2013.9.30 (US\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$1,114	\$232	\$759	\$91	\$2,321	\$4,517
Marine insurance	290	74	176	79	1,299	1,918
Land and air insurance	1,550	92	-	57	19,704	21,403
Liability insurance	654	60	1,340	6	1,543	3,603
Bonding insurance	58	1	7	-	34	100
Other property insurance	402	48	5,215	216	1,994	7,875
Accident insurance	512	56	-	1	8,878	9,447
Health insurance	373	30	-	-	359	762
Compulsory automobile liability insurance	-	-	11,980	-	270	12,250
Total	<u>\$4,953</u>	<u>\$593</u>	<u>\$19,477</u>	<u>\$450</u>	<u>\$36,402</u>	<u>\$61,875</u>

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

2012.1.1 ~ 2012.9.30 (NT\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$15,824	\$5,727	\$28,166	\$1,299	\$66,330	\$117,346
Marine insurance	7,260	1,932	6,760	2,555	52,382	70,889
Land and air insurance	24,774	1,412	-	2,371	495,652	524,209
Liability insurance	12,650	1,269	26,469	156	40,773	81,317
Bonding insurance	620	14	585	(1)	1,280	2,498
Other property insurance	17,011	2,411	62,787	5,307	60,541	148,057
Accident insurance	8,970	745	7	495	249,413	259,630
Health insurance	2,757	227	-	-	8,556	11,540
Compulsory automobile liability insurance	-	-	295,028	-	7,071	302,099
Total	<u>\$89,866</u>	<u>\$13,737</u>	<u>\$419,802</u>	<u>\$12,182</u>	<u>\$981,998</u>	<u>\$1,517,585</u>

2012.1.1 ~ 2012.9.30 (US\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$540	\$196	\$962	\$44	\$2,265	\$4,007
Marine insurance	248	66	231	87	1,788	2,420
Land and air insurance	846	48	-	81	16,922	17,897
Liability insurance	432	42	904	6	1,392	2,776
Bonding insurance	21	-	20	-	44	85
Other property insurance	581	83	2,143	181	2,067	5,055
Accident insurance	306	26	-	17	8,515	8,864
Health insurance	94	8	-	-	292	394
Compulsory automobile liability insurance	-	-	10,073	-	241	10,314
Total	<u>\$3,068</u>	<u>\$469</u>	<u>\$14,333</u>	<u>\$416</u>	<u>\$33,526</u>	<u>\$51,812</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

(a) Cost benefit analysis for direct underwriting

2013.7.1 ~ 2013.9.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$678,863	\$(93,466)	\$(33,120)	\$(243,159)	\$83,447	\$392,565
Marine insurance	117,481	66,900	(16,657)	(135,204)	(50,336)	(17,816)
Land and air insurance	1,430,945	56,285	(207,004)	(871,767)	(42,643)	365,816
Liability insurance	250,501	19,617	(33,450)	(109,015)	9,316	136,969
Bonding insurance	14,509	3,500	(1,168)	(334)	983	17,490
Other property insurance	619,289	(56,447)	(99,870)	(223,941)	(93,169)	145,862
Accident insurance	614,691	37,226	(104,502)	(249,998)	(8,582)	288,835
Health insurance	45,699	36,696	(4,564)	(24,219)	7,109	60,721
Compulsory automobile liability insurance	902,970	(86,419)	(124,594)	(580,101)	100,721	212,577
Total	\$4,674,948	\$(16,108)	\$(624,929)	\$(2,437,738)	\$6,846	\$1,603,019

2013.7.1 ~ 2013.9.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$22,966	\$(3,162)	\$(1,120)	\$(8,226)	\$2,823	\$13,281
Marine insurance	3,974	2,263	(563)	(4,574)	(1,703)	(603)
Land and air insurance	48,408	1,904	(7,003)	(29,491)	(1,443)	12,375
Liability insurance	8,474	664	(1,132)	(3,688)	315	4,633
Bonding insurance	491	118	(40)	(11)	33	591
Other property insurance	20,950	(1,909)	(3,379)	(7,576)	(3,152)	4,934
Accident insurance	20,795	1,259	(3,535)	(8,457)	(290)	9,772
Health insurance	1,546	1,242	(154)	(819)	241	2,056
Compulsory automobile liability insurance	30,547	(2,924)	(4,215)	(19,625)	3,407	7,190
Total	\$158,151	\$(545)	\$(21,141)	\$(82,467)	\$231	\$54,229

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.7.1 ~ 2012.9.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$676,518	\$76,687	\$(46,934)	\$(120,998)	\$(112,025)	\$473,248
Marine insurance	207,893	18,883	(17,593)	(77,462)	(78,555)	53,166
Land and air insurance	1,214,117	(41,816)	(178,989)	(681,346)	(84,170)	227,796
Liability insurance	238,172	(4,331)	(31,280)	(71,320)	(74,197)	57,044
Bonding insurance	9,235	6,104	(177)	(708)	5,414	19,868
Other property insurance	341,837	(31,209)	(55,064)	(132,006)	(107,951)	15,607
Accident insurance	585,855	43,736	(95,186)	(259,883)	(8,486)	266,036
Health insurance	40,706	24,760	(1,821)	(32,464)	(5,139)	26,042
Compulsory automobile liability insurance	736,439	(18,396)	(106,851)	(419,729)	(70,402)	121,061
Total	<u>\$4,050,772</u>	<u>\$74,418</u>	<u>\$(533,895)</u>	<u>\$(1,795,916)</u>	<u>\$(535,511)</u>	<u>\$1,259,868</u>

2012.7.1 ~ 2012.9.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$23,097	\$2,618	\$(1,602)	\$(4,131)	\$(3,825)	\$16,157
Marine insurance	7,098	645	(601)	(2,645)	(2,682)	1,815
Land and air insurance	41,451	(1,428)	(6,111)	(23,262)	(2,873)	7,777
Liability insurance	8,132	(148)	(1,068)	(2,435)	(2,533)	1,948
Bonding insurance	315	209	(6)	(24)	185	679
Other property insurance	11,671	(1,066)	(1,880)	(4,507)	(3,686)	532
Accident insurance	20,002	1,493	(3,250)	(8,873)	(290)	9,082
Health insurance	1,390	846	(62)	(1,108)	(175)	891
Compulsory automobile liability insurance	25,143	(628)	(3,648)	(14,330)	(2,404)	4,133
Total	<u>\$138,299</u>	<u>\$2,541</u>	<u>\$(18,228)</u>	<u>\$(61,315)</u>	<u>\$(18,283)</u>	<u>\$43,014</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.9.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$2,267,389	\$(37,547)	\$(130,837)	\$(842,559)	\$521,511	\$1,777,957
Marine insurance	491,504	80,473	(54,363)	(290,351)	(17,783)	209,480
Land and air insurance	4,373,830	(334,598)	(630,972)	(2,459,591)	(225,440)	723,229
Liability insurance	772,082	(5,587)	(106,333)	(310,894)	(68,167)	281,101
Bonding insurance	50,589	(1,881)	(2,993)	(5,088)	13,226	53,853
Other property insurance	1,562,642	(210,209)	(226,389)	(543,280)	(133,252)	449,512
Accident insurance	1,880,776	12,954	(279,221)	(677,829)	(69,366)	867,314
Health insurance	123,192	29,949	(22,495)	(91,033)	4,452	44,065
Compulsory automobile liability insurance	2,558,124	(259,898)	(362,089)	(1,542,011)	(69,973)	324,153
Total	<u>\$14,080,128</u>	<u>\$(726,344)</u>	<u>\$(1,815,692)</u>	<u>\$(6,762,636)</u>	<u>\$(44,792)</u>	<u>\$4,730,664</u>

2013.1.1 ~ 2013.9.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$76,705	\$(1,270)	\$(4,426)	\$(28,503)	\$17,642	\$60,148
Marine insurance	16,627	2,722	(1,839)	(9,822)	(601)	7,087
Land and air insurance	147,965	(11,319)	(21,346)	(83,207)	(7,627)	24,466
Liability insurance	26,119	(189)	(3,597)	(10,517)	(2,306)	9,510
Bonding insurance	1,711	(64)	(100)	(172)	447	1,822
Other property insurance	52,863	(7,111)	(7,659)	(18,379)	(4,508)	15,206
Accident insurance	63,626	438	(9,446)	(22,931)	(2,346)	29,341
Health insurance	4,168	1,013	(762)	(3,080)	151	1,490
Compulsory automobile liability insurance	86,540	(8,792)	(12,250)	(52,166)	(2,367)	10,965
Total	<u>\$476,324</u>	<u>\$(24,572)</u>	<u>\$(61,425)</u>	<u>\$(228,777)</u>	<u>\$(1,515)</u>	<u>\$160,035</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.9.30 (NT\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	gain(loss)
		reserve	contract			
Fire insurance	\$2,363,060	\$(338,473)	\$(116,047)	\$(673,319)	\$162,066	\$1,397,287
Marine insurance	640,671	5,930	(68,334)	(240,289)	(15,765)	322,213
Land and air insurance	3,532,008	(308,723)	(521,838)	(2,022,209)	(145,228)	534,010
Liability insurance	726,893	(97,447)	(81,161)	(223,239)	(110,258)	214,788
Bonding insurance	47,968	(2,660)	(2,499)	(3,557)	4,848	44,100
Other property insurance	950,466	(164,506)	(142,750)	(275,467)	(151,210)	216,533
Accident insurance	1,754,186	13,874	(259,135)	(727,162)	(85,475)	696,288
Health insurance	92,170	51,392	(11,540)	(113,778)	(32,965)	(14,721)
Compulsory automobile						
liability insurance	2,105,140	(44,247)	(302,099)	(1,264,459)	(49,995)	444,340
Total	<u>\$12,212,562</u>	<u>\$(884,860)</u>	<u>\$(1,505,403)</u>	<u>\$(5,543,479)</u>	<u>\$(423,982)</u>	<u>\$3,854,838</u>

2012.1.1 ~ 2012.9.30 (US\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	gain(loss)
		reserve	contract			
Fire insurance	\$80,678	\$(11,556)	\$(3,963)	\$(22,988)	\$5,533	\$47,704
Marine insurance	21,873	202	(2,333)	(8,204)	(538)	11,000
Land and air insurance	120,588	(10,540)	(17,816)	(69,041)	(4,958)	18,233
Liability insurance	24,817	(3,327)	(2,770)	(7,622)	(3,764)	7,334
Bonding insurance	1,638	(91)	(85)	(121)	166	1,507
Other property insurance	32,450	(5,616)	(4,874)	(9,405)	(5,163)	7,392
Accident insurance	59,890	474	(8,847)	(24,826)	(2,918)	23,773
Health insurance	3,147	1,755	(394)	(3,885)	(1,126)	(503)
Compulsory automobile						
liability insurance	71,872	(1,511)	(10,314)	(43,170)	(1,707)	15,170
Total	<u>\$416,953</u>	<u>\$(30,210)</u>	<u>\$(51,396)</u>	<u>\$(189,262)</u>	<u>\$(14,475)</u>	<u>\$131,610</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

2013.7.1 ~ 2013.9.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$33,645	\$(1,302)	\$(1,104)	\$(915)	\$(50,437)	\$(20,113)
Marine insurance	10,768	2,693	(766)	(5,010)	(11,372)	(3,687)
Land and air insurance	9,118	(4,984)	(670)	(4,089)	355	(270)
Liability insurance	63	78	(24)	(73)	(28)	16
Bonding insurance	245	532	-	(158)	(1)	618
Other property insurance	13,043	(20,316)	(2,416)	(2,024)	2,131	(9,582)
Accident insurance	1,581	867	(3)	(8)	(2,223)	214
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	71,646	37	-	(77,901)	62	(6,156)
Total	\$140,109	\$(22,395)	\$(4,983)	\$(90,178)	\$(61,513)	\$(38,960)

2013.7.1 ~ 2013.9.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$1,138	\$(44)	\$(37)	\$(31)	\$(1,706)	\$(680)
Marine insurance	364	91	(26)	(170)	(385)	(126)
Land and air insurance	309	(169)	(23)	(138)	12	(9)
Liability insurance	2	3	(1)	(3)	(1)	-
Bonding insurance	8	18	-	(5)	-	21
Other property insurance	441	(686)	(82)	(69)	72	(324)
Accident insurance	54	29	-	-	(75)	8
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,424	1	-	(2,635)	2	(208)
Total	\$4,740	\$(757)	\$(169)	\$(3,051)	\$(2,081)	\$(1,318)

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.7.1 ~ 2012.9.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$19,783	\$(976)	\$(813)	\$(803)	\$373	\$17,564
Marine insurance	15,804	(6,308)	(1,014)	11,076	13,857	33,415
Land and air insurance	8,469	(5,472)	(1,492)	(3,343)	(19,010)	(20,848)
Liability insurance	154	4	(73)	(1)	114	198
Bonding insurance	219	62	(1)	(7)	-	273
Other property insurance	16,204	(768)	(9,278)	(1,745)	3,026	7,439
Accident insurance	1,599	(20,056)	(31)	(4,405)	1,344	(21,549)
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	71,772	(1,189)	-	(64,718)	(219)	5,646
Total	\$134,004	\$(34,703)	\$(12,702)	\$(63,946)	\$(515)	\$22,138

2012.7.1 ~ 2012.9.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$675	\$(33)	\$(28)	\$(27)	\$13	\$600
Marine insurance	540	(215)	(35)	378	473	1,141
Land and air insurance	289	(187)	(51)	(114)	(649)	(712)
Liability insurance	5	-	(2)	-	4	7
Bonding insurance	8	2	-	-	-	10
Other property insurance	553	(26)	(317)	(60)	103	253
Accident insurance	55	(685)	(1)	(150)	46	(735)
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,450	(41)	-	(2,210)	(7)	192
Total	\$4,575	\$(1,185)	\$(434)	\$(2,183)	\$(17)	\$756

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.9.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$75,855	\$(5,308)	\$(2,688)	\$(2,626)	\$(50,586)	\$14,647
Marine insurance	31,830	5,448	(2,340)	(54,958)	12,386	(7,634)
Land and air insurance	14,051	43	(1,677)	(8,669)	(4,407)	(659)
Liability insurance	469	116	(183)	(96)	27	333
Bonding insurance	870	488	-	(166)	22	1,214
Other property insurance	32,527	(14,751)	(6,395)	(11,097)	22	306
Accident insurance	4,488	1,704	(21)	(1,694)	1,193	5,670
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	210,238	(894)	-	(226,026)	(3,574)	(20,256)
Total	\$370,328	\$(13,154)	\$(13,304)	\$(305,332)	\$(44,917)	\$(6,379)

2013.1.1 ~ 2013.9.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$2,567	\$(180)	\$(91)	\$(89)	\$(1,712)	\$495
Marine insurance	1,077	184	(79)	(1,859)	419	(258)
Land and air insurance	475	1	(57)	(293)	(149)	(23)
Liability insurance	16	4	(6)	(4)	1	11
Bonding insurance	29	17	-	(6)	1	41
Other property insurance	1,100	(499)	(216)	(375)	1	11
Accident insurance	152	58	(1)	(57)	40	192
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	7,112	(30)	-	(7,646)	(121)	(685)
Total	\$12,528	\$(445)	\$(450)	\$(10,329)	\$(1,520)	\$(216)

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.9.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$61,428	\$(7,266)	\$(1,299)	\$(1,939)	\$1,491	\$52,415
Marine insurance	35,331	(13,722)	(2,555)	5,112	34,287	58,453
Land and air insurance	12,920	(4,988)	(2,371)	(7,662)	(17,875)	(19,976)
Liability insurance	504	(71)	(156)	(128)	1,155	1,304
Bonding insurance	914	(90)	1	(51)	13	787
Other property insurance	26,325	1,578	(5,307)	(7,144)	2,954	18,406
Accident insurance	6,498	996	(495)	(8,044)	(6,871)	(7,916)
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	208,028	(1,969)	-	(186,208)	(18,037)	1,814
Total	\$351,948	\$(25,532)	\$(12,182)	\$(206,064)	\$(2,769)	\$105,401

2012.1.1 ~ 2012.9.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$2,097	\$(248)	\$(44)	\$(66)	\$51	\$1,790
Marine insurance	1,206	(469)	(87)	174	1,171	1,995
Land and air insurance	441	(170)	(81)	(262)	(610)	(682)
Liability insurance	18	(3)	(6)	(4)	39	44
Bonding insurance	31	(3)	-	(2)	-	26
Other property insurance	899	54	(181)	(244)	101	629
Accident insurance	222	34	(17)	(274)	(235)	(270)
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	7,102	(67)	-	(6,357)	(616)	62
Total	\$12,016	\$(872)	\$(416)	\$(7,035)	\$(95)	\$3,598

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

2013.7.1 ~ 2013.9.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$353,029	\$115,306	\$(35,163)	\$(80,137)	\$(43,068)	\$309,967
Marine insurance	92,104	63,749	(12,333)	(113,917)	(17,931)	11,672
Land and air insurance	52,156	29,372	(11,267)	(33,773)	3,314	39,802
Liability insurance	80,121	1,807	(21,220)	(35,841)	2,429	27,296
Bonding insurance	3,555	3,712	(967)	1,223	763	8,286
Other property insurance	121,485	68,710	(14,351)	(18,325)	(14,044)	143,475
Accident insurance	29,483	34,369	(8,334)	(20,622)	(12,744)	22,152
Health insurance	(8)	381	22	-	9,675	10,070
Compulsory automobile liability insurance	213,431	(6,977)	-	(222,714)	53,680	37,420
Total	<u>\$945,356</u>	<u>\$310,429</u>	<u>\$(103,613)</u>	<u>\$524,106</u>	<u>\$(17,926)</u>	<u>\$610,140</u>

2013.7.1 ~ 2013.9.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$11,943	\$3,901	\$(1,190)	\$(2,711)	\$(1,457)	\$10,486
Marine insurance	3,116	2,157	(417)	(3,854)	(607)	395
Land and air insurance	1,764	994	(381)	(1,142)	112	1,347
Liability insurance	2,711	61	(718)	(1,212)	82	924
Bonding insurance	120	126	(33)	41	26	280
Other property insurance	4,110	2,324	(485)	(620)	(475)	4,854
Accident insurance	997	1,162	(282)	(698)	(431)	748
Health insurance	-	13	1	-	327	341
Compulsory automobile liability insurance	7,220	(236)	-	(7,534)	1,816	1,266
Total	<u>\$31,981</u>	<u>\$10,502</u>	<u>\$(3,505)</u>	<u>\$17,730</u>	<u>\$(607)</u>	<u>\$20,641</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.7.1 ~ 2012.9.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$325,143	\$88,527	\$(34,981)	\$(33,065)	\$(10,133)	\$335,491
Marine insurance	167,932	17,548	(26,841)	(29,622)	88,351	217,368
Land and air insurance	38,086	23,418	(11,081)	(19,812)	(66,228)	(35,617)
Liability insurance	85,893	(11,023)	(21,481)	(22,355)	(13,308)	17,726
Bonding insurance	2,772	3,296	(845)	(3,124)	162	2,261
Other property insurance	82,705	13,987	(7,645)	(33,419)	(31,352)	24,276
Accident insurance	32,454	(1,239)	(8,093)	(19,979)	(1,352)	1,791
Health insurance	206	402	(68)	-	23	563
Compulsory automobile liability insurance	201,864	(7,249)	-	(163,201)	(28,161)	3,253
Total	<u>\$937,055</u>	<u>\$127,667</u>	<u>\$(111,035)</u>	<u>\$324,577</u>	<u>\$(61,998)</u>	<u>\$567,112</u>

2012.7.1 ~ 2012.9.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$11,101	\$3,022	\$(1,194)	\$(1,129)	\$(346)	\$11,454
Marine insurance	5,733	599	(916)	(1,011)	3,016	7,421
Land and air insurance	1,300	799	(378)	(676)	(2,261)	(1,216)
Liability insurance	2,933	(376)	(734)	(763)	(455)	605
Bonding insurance	94	113	(29)	(107)	6	77
Other property insurance	2,824	477	(261)	(1,141)	(1,070)	829
Accident insurance	1,108	(42)	(277)	(682)	(46)	61
Health insurance	7	14	(2)	-	1	20
Compulsory automobile liability insurance	6,892	(247)	-	(5,572)	(962)	111
Total	<u>\$31,992</u>	<u>\$4,359</u>	<u>\$(3,791)</u>	<u>\$11,081</u>	<u>\$(2,117)</u>	<u>\$19,362</u>

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(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.9.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,392,488	\$90,584	\$(108,964)	\$(289,102)	\$196,442	\$1,281,448
Marine insurance	377,419	89,063	(50,644)	(285,312)	56,778	187,304
Land and air insurance	166,993	42,379	(44,038)	(78,895)	(23,710)	62,729
Liability insurance	248,063	3,907	(68,475)	(87,928)	(8,321)	87,246
Bonding insurance	25,294	(3,985)	(5,288)	1,027	5,259	22,307
Other property insurance	362,390	47,084	(51,971)	(49,409)	15,600	323,694
Accident insurance	113,949	32,995	(33,337)	(47,790)	1,971	67,788
Health insurance	427	963	(152)	(160)	656	1,734
Compulsory automobile liability insurance	622,210	(26,028)	-	(597,126)	(5,825)	(6,769)
Total	\$3,309,233	\$276,962	\$(362,869)	\$(1,434,695)	\$238,850	\$2,027,481

2013.1.1 ~ 2013.9.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$47,107	\$3,064	\$(3,686)	\$(9,780)	\$6,645	\$43,350
Marine insurance	12,768	3,013	(1,713)	(9,652)	1,921	6,337
Land and air insurance	5,649	1,434	(1,490)	(2,669)	(802)	2,122
Liability insurance	8,392	132	(2,317)	(2,975)	(281)	2,951
Bonding insurance	856	(135)	(179)	35	178	755
Other property insurance	12,260	1,593	(1,758)	(1,672)	528	10,951
Accident insurance	3,855	1,116	(1,128)	(1,617)	66	2,292
Health insurance	14	33	(5)	(5)	22	59
Compulsory automobile liability insurance	21,049	(881)	-	(20,200)	(197)	(229)
Total	\$111,950	\$9,369	\$(12,276)	\$(48,535)	\$8,080	\$68,588

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(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.9.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,356,139	\$(176,206)	\$(90,611)	\$(284,566)	\$166,115	\$970,871
Marine insurance	530,068	(3,822)	(75,176)	(108,763)	142,645	484,952
Land and air insurance	99,483	54,240	(27,632)	(56,427)	(77,962)	(8,298)
Liability insurance	254,384	(54,225)	(65,052)	(54,516)	(7,009)	73,582
Bonding insurance	23,187	(5,087)	(4,939)	(6,405)	540	7,296
Other property insurance	291,738	(4,742)	(44,275)	(54,455)	(16,451)	171,815
Accident insurance	109,498	3,598	(30,317)	(66,794)	(12,403)	3,582
Health insurance	1,569	1,334	(549)	(950)	(1,721)	(317)
Compulsory automobile liability insurance	576,420	(17,696)	-	(496,130)	(20,022)	42,572
Total	<u>\$3,242,486</u>	<u>\$(202,606)</u>	<u>\$(338,551)</u>	<u>\$(1,129,006)</u>	<u>\$173,732</u>	<u>\$1,746,055</u>

2012.1.1 ~ 2012.9.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$46,300	\$(6,016)	\$(3,094)	\$(9,715)	\$5,671	\$33,146
Marine insurance	18,097	(131)	(2,566)	(3,713)	4,870	16,557
Land and air insurance	3,396	1,852	(943)	(1,926)	(2,662)	(283)
Liability insurance	8,685	(1,851)	(2,221)	(1,861)	(239)	2,513
Bonding insurance	792	(174)	(169)	(219)	19	249
Other property insurance	9,961	(162)	(1,512)	(1,859)	(562)	5,866
Accident insurance	3,738	123	(1,034)	(2,281)	(423)	123
Health insurance	54	45	(19)	(33)	(58)	(11)
Compulsory automobile liability insurance	19,680	(604)	-	(16,939)	(684)	1,453
Total	<u>\$110,703</u>	<u>\$(6,918)</u>	<u>\$(11,558)</u>	<u>\$(38,546)</u>	<u>\$5,932</u>	<u>\$59,613</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Sensitivity of insurance risk

A. The Company

Insurance type	Premium income		Expected	The impact to profit and loss when the expected loss ratio increases 5%			
				Before		After reinsurance	
	NT\$	US\$	loss ratio	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,021,319	\$68,380	63.79	\$101,066	\$3,419	\$50,803	\$1,719
Marine insurance	458,129	15,498	64.69	22,906	775	4,875	165
Land and air insurance	4,345,710	147,013	65.06	217,285	7,351	135,705	4,591
Liability insurance	544,482	18,420	67.97	27,224	921	14,766	500
Bonding insurance	48,300	1,634	68.43	2,415	82	527	18
Other property insurance	574,097	19,422	62.09	28,705	971	12,690	429
Accident insurance	1,876,185	63,470	72.27	93,809	3,173	62,374	2,110
Health insurance	123,192	4,168	69.80	6,160	208	4,269	144
Compulsory automobile liability insurance	2,252,506	76,201	NA	NA	NA	NA	NA

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

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

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B. Cathay Insurance (China)

Insurance type	Premium income		The impact to profit and loss when the expected loss ratio increases 5%			
			Before reinsurance		After reinsurance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$216,307	\$7,318	\$10,815	\$366	\$5,260	\$178
Marine insurance	30,389	1,028	1,519	51	1,165	39
Liability insurance	226,951	7,678	11,348	384	6,857	232
Bonding insurance	2,288	77	114	4	86	3
Other property insurance	978,852	33,114	48,943	1,656	48,737	1,649
Compulsory automobile liability insurance	305,618	10,339	15,281	517	15,281	517

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

(5) Concentration Risk

A. The Company

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

a. Single insurance contract or few related contracts

For the nine-month periods ended 30 September 2013, 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 nine-month periods ended 30 September 2013, 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.

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- 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 nine-month periods ended 30 September 2013, 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 nine-month periods ended 30 September 2013, there is no catastrophe has taken place.

- e. When a certain key variable has approached a significantly non-linear relationship with future cash flow with 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.

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

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

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

Insurance type	2013.7.1 ~ 2013.9.30 (NT\$)				2013.7.1 ~ 2013.9.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,464,711	\$71,440	\$262,138	\$2,274,013	\$83,380	\$2,417	\$8,868	\$76,929
Fire insurance	606,035	24,432	310,534	319,933	20,502	827	10,506	10,823
Marine insurance	102,994	19,938	90,949	31,983	3,484	674	3,076	1,082
Engineering insurance	146,892	5,197	115,788	36,301	4,969	176	3,917	1,228
Health and injury insurance	359,250	1,446	30,218	330,478	12,153	49	1,022	11,180
Other insurance	252,816	3,907	44,205	212,518	8,553	132	1,496	7,189
Total	\$3,932,698	\$126,360	\$853,832	\$3,205,226	\$133,041	\$4,275	\$28,885	\$108,431

Insurance type	2013.1.1 ~ 2013.9.30 (NT\$)				2013.1.1 ~ 2013.9.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$7,391,001	\$213,208	\$769,904	\$6,834,305	\$250,034	\$7,213	\$26,046	\$231,201
Fire insurance	2,036,217	66,678	1,246,314	856,581	68,884	2,256	42,162	28,978
Marine insurance	465,178	36,902	380,839	121,241	15,737	1,248	12,884	4,101
Engineering insurance	475,964	13,045	315,907	173,102	16,102	441	10,687	5,856
Health and injury insurance	1,089,618	4,187	94,872	998,933	36,861	142	3,209	33,794
Other insurance	781,784	9,341	224,145	566,980	26,447	316	7,583	19,180
Total	\$12,239,762	\$343,361	\$3,031,981	\$9,551,142	\$414,065	\$11,616	\$102,571	\$323,110

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(c) 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 2010 Typhoon Fanatic and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at 342 million.

B. Cathay Insurance (China)

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

a. The exposure of unanticipated change in trend

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

b. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the nine-month ended 30 September 2013.

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

Insurance type	2013.7.1 ~ 2013.9.30 (NT\$)				2013.7.1 ~ 2013.9.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$546,920	\$2,973	\$718	\$549,175	\$18,502	\$101	\$24	\$18,579
Fire insurance	70,893	3,131	33,553	40,471	2,398	106	1,135	1,369
Marine insurance	10,630	103	3,734	6,999	360	3	126	237
Engineering insurance	7,247	1,326	4,957	3,616	245	45	168	122
Health and injury insurance	-	(2)	-	(2)	-	-	-	-
Other insurance	78,579	63	31,778	46,864	2,658	2	1,075	1,585
Total	\$714,269	\$7,594	\$74,740	\$647,123	\$24,163	\$257	\$2,528	\$21,892

Insurance type	2013.1.1 ~ 2013.9.30 (NT\$)				2013.1.1 ~ 2013.9.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$1,249,367	\$9,829	\$1,923	\$1,257,273	\$42,265	\$333	\$65	\$42,533
Fire insurance	221,754	6,963	122,334	106,383	7,502	235	4,138	3,599
Marine insurance	30,389	5,959	13,042	23,306	1,028	201	441	788
Engineering insurance	16,807	1,451	9,210	9,048	569	49	312	306
Health and injury insurance	-	21	-	21	-	1	-	1
Other insurance	242,088	459	90,830	151,717	8,190	16	3,073	5,133
Total	\$1,760,405	\$24,682	\$237,339	\$1,547,748	\$59,554	\$835	\$8,029	\$52,360

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(6) Claim development table

A. The company

Underwriting Year (NT\$)	2007.10.1- 2008.9.30	2008.10.1- 2009.9.30	2009.10.1- 2010.9.30	2010.10.1- 2011.9.30	2011.10.1- 2012.9.30	2012.10.1- 2013.9.30	Total
Estimate of cumulative claims incurred:							
At end of underwriting year	\$3,062,273	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,735,222	
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,613,239		
Two year later	4,184,209	4,142,479	4,895,061	5,701,952			
Three year later	4,048,332	4,178,118	5,180,738				
Four year later	4,058,322	4,340,338					
Five year later	4,423,457						
Estimate of cumulative claims incurred	4,423,457	4,340,339	5,180,738	5,701,952	5,613,239	5,735,222	30,994,947
Cumulative payment to date	4,296,680	4,274,008	4,935,962	5,446,176	5,117,119	3,211,496	27,281,441
Subtotal	126,777	66,331	244,776	255,776	496,120	2,523,726	3,713,506
Reconciliation	-	-	-	-	-	57,313	57,313
Recorded in balance sheet	<u>\$126,777</u>	<u>\$66,331</u>	<u>\$244,776</u>	<u>\$255,776</u>	<u>\$496,120</u>	<u>\$2,581,039</u>	<u>\$3,770,819</u>

Underwriting Year (US\$)	2007.10.1- 2008.9.30	2008.10.1- 2009.9.30	2009.10.1- 2010.9.30	2010.10.1- 2011.9.30	2011.10.1- 2012.9.30	2012.10.1- 2013.9.30	Total
Estimate of cumulative claims incurred:							
At end of underwriting year	\$103,595	\$112,408	\$133,006	\$182,959	\$164,123	\$194,020	
One year later	138,053	136,643	164,830	191,737	189,893		
Two year later	141,550	140,138	165,597	192,894			
Three year later	136,953	141,344	175,262				
Four year later	137,291	146,832					
Five year later	149,643						
Estimate of cumulative claims incurred	149,643	146,832	175,262	192,894	189,893	194,020	1,048,544
Cumulative payment to date	145,355	144,588	166,981	184,241	173,110	108,643	922,918
Subtotal	4,288	2,244	8,281	8,653	16,783	85,377	125,626
Reconciliation	-	-	-	-	-	1,939	1,939
Recorded in balance sheet	<u>\$4,288</u>	<u>\$2,244</u>	<u>\$8,281</u>	<u>\$8,653</u>	<u>\$16,783</u>	<u>\$87,316</u>	<u>\$127,565</u>

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. It's excluded claim reserve of compulsory automobile liability insurance NT\$790,045 (US\$26,726) thousands and assumed reinsurance from the upper table (except compulsory automobile liability insurance) NT\$281,535 (US\$9,542) thousands.

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B. Cathay Insurance (China)

NT\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.9.30	
Estimated accumulation amount of claim							
As to 2008/12/31	\$2,653						
As to 2009/12/31	2,528	\$153,918					
As to 2010/12/31	2,524	147,915	\$329,160				
As to 2011/12/31	2,551	144,936	326,029	\$354,232			
As to 2012/12/31	1,325	125,815	292,794	317,248	\$985,342		
As to 2013/6/30	1,325	125,815	292,847	332,412	825,237	\$1,025,715	
Estimated accumulation of claim	1,325	125,815	292,847	332,412	825,237	1,025,715	\$2,603,351
Accumulated claim paid	1,325	125,682	290,358	294,842	631,618	317,831	1,661,656
Subtotal	-	133	2,489	37,570	193,619	707,884	941,695
Indirect claim expense, discount and risk margin							48,884
Recognized amount on balance sheet							<u>\$990,579</u>

US\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.9.30	
Estimated accumulation amount of claim							
As to 2008/12/31	\$90						
As to 2009/12/31	86	\$5,207					
As to 2010/12/31	85	5,004	\$11,135				
As to 2011/12/31	86	4,903	11,029	\$11,983			
As to 2012/12/31	45	4,256	9,905	10,732	\$33,334		
As to 2013/6/30	45	4,256	9,907	11,245	27,917	\$34,699	
Estimated accumulation of claim	45	4,256	9,907	11,245	27,917	34,699	\$88,069
Accumulated claim paid	45	4,252	9,823	9,974	21,367	10,752	56,213
Subtotal	-	4	84	1,271	6,550	23,947	31,856
Indirect claim expense, discount and risk margin							1,654
Recognized amount on balance sheet							<u>\$33,510</u>

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C. Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) has only been operated for less than one year, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QCBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

(7) Financial instruments

Financial instruments (NT\$)	2013.9.30	2012.12.31	2012.9.30	2012.1.1
<u>Financial assets</u>				
Financial assets at fair value through profit or loss:				
Held for trading	\$1,154,184	\$437,273	\$293,547	\$619,455
Available-for-sale financial assets	8,036,527	8,404,492	7,824,673	5,897,618
Held-to-maturity investments	2,117,267	2,512,011	2,404,010	2,408,714
Loans and receivables:				
Cash and cash equivalents (exclude cash on hand)	7,558,287	5,669,259	6,746,808	6,919,027
Bond investments with no active market	1,746,004	1,323,270	1,299,137	1,192,997
Trade receivables	3,339,674	3,291,611	2,899,306	2,909,396
Subtotal	12,643,965	10,284,140	10,945,251	11,021,420
Derivative financial assets for hedging	10,589	17,134	18,199	28,521
Total	<u>\$23,962,532</u>	<u>\$21,655,050</u>	<u>\$21,485,680</u>	<u>\$19,975,728</u>
<u>Financial liabilities</u>				
Financial liabilities measured at amortised cost:				
Payables	\$2,292,718	\$2,223,005	\$1,748,127	\$2,101,262
Financial liabilities at fair value through profit or loss:				
Held for trading	34,195	-	-	45,000
Preferred stock liability	1,000,000	1,000,000	1,000,000	1,000,000
Total	<u>\$3,326,913</u>	<u>\$3,223,005</u>	<u>\$2,748,127</u>	<u>\$3,146,262</u>

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Financial instruments (US\$)	2013.9.30	2012.12.31	2012.9.30	2012.1.1
<u>Financial assets</u>				
Financial assets at fair value through profit or loss:				
Held for trading	\$39,046	\$15,053	\$10,023	\$20,464
Available-for-sale financial assets	271,872	289,311	267,145	194,834
Held-to-maturity investments	71,626	86,472	82,076	79,574
Loans and receivables:				
Cash and cash equivalents (exclude cash on hand)	255,675	195,155	230,521	228,576
Bond investments with no active market	59,066	45,552	44,355	39,412
Trade receivables	112,980	113,308	102,025	96,115
Subtotal	427,721	354,015	376,901	364,103
Derivative financial assets for hedging	358	590	621	942
Total	<u>\$810,623</u>	<u>\$745,441</u>	<u>\$736,766</u>	<u>\$659,917</u>
<u>Financial liabilities</u>				
Financial liabilities measured at amortised cost:				
Payables	\$77,561	\$76,523	\$59,683	\$69,417
Financial liabilities at fair value through profit or loss:				
Held for trading	34,195	-	-	1,487
Preferred stock liability	33,829	34,424	34,141	33,036
Total	<u>\$145,585</u>	<u>\$110,947</u>	<u>\$93,824</u>	<u>\$103,940</u>

8. Financial risk management objectives and policies

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

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

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(Expressed in thousands of dollars unless otherwise stated)

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

(1) Market risk

A. Foreign currency risk

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

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

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

B. Interest rate risk

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

C. Equity price risk

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

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(2) Credit risk

A. Credit risk management policies

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

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

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

(a) Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which the Consolidated Company maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and the Consolidated Company incur financial losses as a result.

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

(c) Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

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B. Credit concentration risk analysis

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

Financial assets	The amount of credit risk exposure - by area					
	2013.9.30 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,080,376	\$10	\$9,405	\$903,226	\$2,565,270	\$7,558,287
Financial assets at fair value through profit or loss	1,040,568	-	-	-	113,616	1,154,184
Available-for-sale financial assets	5,299,158	-	-	1,258,247	1,479,122	8,036,527
Derivative financial assets for hedging	10,589	-	-	-	-	10,589
Bond investments with no active market exists	700,000	-	318,321	297,507	430,176	1,746,004
Held-to-maturity investments	-	-	-	1,865,390	251,877	2,117,267
Total	\$11,130,691	\$10	\$327,726	\$4,324,370	\$4,840,061	\$20,622,858
Each area percentage	53.97%	0.00%	1.59%	20.97%	23.47%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2013.9.30 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$138,037	\$-	\$318	\$30,556	\$86,782	\$255,693
Financial assets at fair value through profit or loss	35,202	-	-	-	3,844	39,046
Available-for-sale financial assets	179,268	-	-	42,566	50,038	271,872
Derivative financial assets for hedging	358	-	-	-	-	358
Bond investments with no active market exists	23,681	-	10,769	10,064	14,552	59,066
Held-to-maturity investments	-	-	-	63,105	8,521	71,626
Total	\$376,546	\$-	\$11,087	\$146,291	\$163,737	\$697,661
Each area percentage	53.97%	0.00%	1.59%	20.97%	23.47%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2012.12.31 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,843,007	\$54	\$14,840	\$110,172	\$701,186	\$5,669,259
Financial assets at fair value through profit or loss	385,460	-	-	-	51,813	437,273
Available-for-sale financial assets	4,863,917	-	-	284,143	3,256,432	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	-	17,134
Bond investments with no active market exists	900,000	-	-	-	423,270	1,323,270
Held-to-maturity investments	-	-	-	2,512,011	-	2,512,011
Total	\$11,009,518	\$54	\$14,840	\$2,906,326	\$4,432,701	\$18,363,439
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2012.12.31 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$166,713	\$2	\$511	\$3,792	\$24,137	\$195,155
Financial assets at fair value through profit or loss	13,269	-	-	-	1,784	15,053
Available-for-sale financial assets	167,432	-	-	9,781	112,098	289,311
Derivative financial assets for hedging	590	-	-	-	-	590
Bond investments with no active market exists	30,981	-	-	-	14,571	45,552
Held-to-maturity investments	-	-	-	86,472	-	86,472
Total	\$378,985	\$2	\$511	\$100,045	\$152,590	\$632,133
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2012.9.30 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,890,801	\$-	\$9	\$249,469	\$606,529	\$6,746,808
Financial assets at fair value through profit or loss	185,067	-	-	44,127	64,353	293,547
Available-for-sale financial assets	5,388,680	-	-	723,563	1,712,430	7,824,673
Derivative financial assets for hedging	18,199	-	-	-	-	18,199
Bond investments with no active market exists	900,000	-	-	-	399,137	1,299,137
Held-to-maturity investments	-	-	-	2,404,010	-	2,404,010
Total	\$12,382,747	\$-	\$9	\$3,421,169	\$2,782,449	\$18,586,374
Each area percentage	66.62%	0.00%	0.00%	18.41%	14.97%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2012.9.30 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$208,402	\$-	\$-	\$5,933	\$16,010	\$230,345
Financial assets at fair value through profit or loss	6,319	-	-	1,507	2,197	10,023
Available-for-sale financial assets	183,977	-	-	24,703	58,465	267,145
Derivative financial assets for hedging	621	-	-	-	-	621
Bond investments with no active market exists	30,727	-	-	1,858	11,770	44,355
Held-to-maturity investments	-	-	-	82,076	-	82,076
Total	\$430,046	-	-	\$116,077	\$88,442	\$634,565
Each area percentage	66.62%	0.00%	0.00%	18.41%	14.97%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2012.1.1 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,943,885	\$-	\$9	\$310,066	\$665,067	\$6,919,027
Financial assets at fair value through profit or loss	454,959	-	-	-	164,496	619,455
Available-for-sale financial assets	4,999,742	-	-	25,163	872,713	5,897,618
Derivative financial assets for hedging	28,521	-	-	-	-	28,521
Bond investments with no active market exists	900,000	-	-	-	292,997	1,192,997
Held-to-maturity investments	-	-	-	2,408,714	-	2,408,714
Total	\$12,327,107	\$-	\$9	\$2,743,943	\$1,995,273	\$17,066,332
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2012.1.1 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$196,363	\$-	\$-	\$10,243	\$21,970	\$228,576
Financial assets at fair value through profit or loss	15,030	-	-	-	5,434	20,464
Available-for-sale financial assets	165,172	-	-	831	28,831	194,834
Derivative financial assets for hedging	942	-	-	-	-	942
Bond investments with no active market exists	29,732	-	-	-	9,680	39,412
Held-to-maturity investments	-	-	-	79,574	-	79,574
Total	\$407,239	\$-	\$-	\$90,648	\$65,915	\$563,802
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

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

Financial assets	Credit quality of financial assets				
	2013.9.30 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$7,558,287	\$-	\$-	\$-	\$7,558,287
Financial assets at fair value through profit or loss	1,154,184	-	-	-	1,154,184
Available-for-sale financial assets	8,036,527	-	-	-	8,036,527
Derivative financial assets for hedging	10,589	-	-	-	10,589
Bond investments with no active market exists	1,746,004	-	-	-	1,746,004
Held-to-maturity investments	2,117,267	-	-	-	2,117,267
Total	\$20,622,858	\$-	\$-	\$-	\$20,622,858

Financial assets	Credit quality of financial assets				
	2013.9.30 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$255,693	\$-	\$-	\$-	\$255,693
Financial assets at fair value through profit or loss	39,046	-	-	-	39,046
Available-for-sale financial assets	271,872	-	-	-	271,872
Derivative financial assets for hedging	358	-	-	-	358
Bond investments with no active market exists	59,066	-	-	-	59,066
Held-to-maturity investments	71,626	-	-	-	71,626
Total	\$697,661	\$-	\$-	\$-	\$697,661

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Financial assets	Credit quality of financial assets				
	2012.12.31 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,669,259	\$-	\$-	\$-	\$5,669,259
Financial assets at fair value through profit or loss	437,273	-	-	-	437,273
Available-for-sale financial assets	8,404,492	-	-	-	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	17,134
Bond investments with no active market exists	1,323,270	-	-	-	1,323,270
Held-to-maturity investments	2,512,011	-	-	-	2,512,011
Total	\$18,363,439	\$-	\$-	\$-	\$18,363,439

Financial assets	Credit quality of financial assets				
	2012.12.31 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,155	\$-	\$-	\$-	\$195,155
Financial assets at fair value through profit or loss	15,053	-	-	-	15,053
Available-for-sale financial assets	289,311	-	-	-	289,311
Derivative financial assets for hedging	590	-	-	-	590
Bond investments with no active market exists	45,551	-	-	-	45,551
Held-to-maturity investments	86,472	-	-	-	86,472
Total	\$632,132	\$-	\$-	\$-	\$632,132

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Financial assets	Credit quality of financial assets				
	2012.9.30 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investmen t level			
Cash and cash equivalents	\$6,746,808	\$-	\$-	\$-	\$6,746,808
Financial assets at fair value through profit or loss	293,547	-	-	-	293,547
Available-for-sale financial assets	7,824,673	-	-	-	7,824,673
Derivative financial assets for hedging	18,199	-	-	-	18,199
Bond investments with no active market exists	1,299,137	-	-	-	1,299,137
Held-to-maturity investments	2,404,010	-	-	-	2,404,010
Total	\$18,586,374	\$-	\$-	\$-	\$18,586,374

Financial assets	Credit quality of financial assets				
	2012.9.30 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investmen t level			
Cash and cash equivalents	\$230,345	\$-	\$-	\$-	\$230,345
Financial assets at fair value through profit or loss	10,023	-	-	-	10,023
Available-for-sale financial assets	267,145	-	-	-	267,145
Derivative financial assets for hedging	621	-	-	-	621
Bond investments with no active market exists	44,355	-	-	-	44,355
Held-to-maturity investments	82,076	-	-	-	82,076
Total	\$634,565	\$-	\$-	\$-	\$634,565

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Financial assets	Credit quality of financial assets				
	2012.1.1 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,919,027	\$-	\$-	\$-	\$6,919,027
Financial assets at fair value through profit or loss	619,455	-	-	-	619,455
Available-for-sale financial assets	5,897,618	-	-	-	5,897,618
Derivative financial assets for hedging	28,521	-	-	-	28,521
Bond investments with no active market exists	1,192,997	-	-	-	1,192,997
Held-to-maturity investments	2,408,714	-	-	-	2,408,714
Total	\$17,066,332	\$-	\$-	\$-	\$17,066,332

Financial assets	Credit quality of financial assets				
	2012.1.1 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	228,577	\$-	\$-	\$-	228,577
Financial assets at fair value through profit or loss	20,464	-	-	-	20,464
Available-for-sale financial assets	194,834	-	-	-	194,834
Derivative financial assets for hedging	942	-	-	-	942
Bond investments with no active market exists	39,412	-	-	-	39,412
Held-to-maturity investments	79,574	-	-	-	79,574
Total	563,803	\$-	\$-	\$-	563,803

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

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(b)Secured loans

Secured loans	2013.9.30 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$128,354	\$-	\$-	\$-	\$123,367	\$251,721	\$1,559	\$250,162
Corporate Finance	60,000	-	-	-	217,987	277,987	81,461	196,526
Total	\$188,354	\$-	\$-	\$-	\$341,354	\$529,708	\$83,020	\$446,688

Secured loans	2013.9.30 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,342	\$-	\$-	\$-	\$4,173	\$8,515	\$52	\$8,463
Corporate Finance	2,030	-	-	-	7,375	9,405	2,756	6,649
Total	\$6,372	\$-	\$-	\$-	\$11,548	\$17,920	\$2,808	\$15,112

Secured loans	2012.12.31(NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$142,885	\$-	\$-	\$-	\$120,628	\$263,513	\$1,618	\$261,895
Corporate Finance	60,000	-	-	-	271,730	331,730	71,545	260,185
Total	\$202,885	\$-	\$-	\$-	\$392,358	\$595,243	\$73,163	\$522,080

Secured loans	2012.12.31 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,919	\$-	\$-	\$-	\$4,152	\$9,071	\$56	\$9,015
Corporate Finance	2,066	-	-	-	9,354	11,420	2,463	8,957
Total	\$6,985	\$-	\$-	\$-	\$13,506	\$20,491	\$2,519	\$17,972

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Secured loans	2012.9.30 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$146,367	\$-	\$-	\$-	\$122,386	\$268,753	\$1,644	\$267,109
Corporate Finance	60,000	-	-	-	289,467	349,468	58,787	290,681
Total	\$206,367	\$-	\$-	\$-	\$411,853	\$618,221	\$60,431	\$557,790

Secured loans	2012.9.30 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,997	\$-	\$-	\$-	\$4,179	\$9,176	\$56	\$9,120
Corporate Finance	2,048	-	-	-	9,883	11,931	2,007	9,924
Total	\$7,045	\$-	\$-	\$-	\$14,062	\$21,107	\$2,063	\$19,044

Secured loans	2012.1.1 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$149,245	\$-	\$-	\$-	\$116,040	\$265,285	\$1,727	\$263,558
Corporate Finance	80,000	-	-	-	224,452	304,452	16,045	288,407
Total	\$229,245	\$-	\$-	\$-	\$340,492	\$569,737	\$17,772	\$551,965

Secured loans	2012.1.1 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,931	\$-	\$-	\$-	\$3,833	\$8,764	\$57	\$8,707
Corporate Finance	2,643	-	-	-	7,415	10,058	530	9,528
Total	\$7,574	\$-	\$-	\$-	\$11,248	\$18,822	\$587	\$18,235

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(3) Operational Risk

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

(4) Liquidity risk

A. Definition and resource of liquidity risk

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

B. Liquidity risk management

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

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

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

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

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

Liabilities	2013.9.30 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,292,718	\$1,309,851	\$1,271,335	\$30,751	\$6,148	\$1,617	\$-
Financial liabilities at fair value through profit or loss	34,195	34,195	-	34,195	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2013.9.30 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$77,561	\$44,312	\$43,009	\$1,040	\$208	\$55	\$-
Financial liabilities at fair value through profit or loss	1,157	1,157	-	1,157	-	-	-
Preferred stock liability	33,829	33,829	-	-	-	-	33,829

Liabilities	2012.12.31 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,223,005	\$1,205,101	\$1,182,771	\$16,771	\$3,852	\$1,707	\$-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

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Liabilities	2012.12.31 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$77,561	\$44,312	\$43,009	\$1,040	\$208	\$55	\$-
Preferred stock liability	1,157	1,157	-	1,157	-	-	-

Liabilities	2012.9.30 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$1,748,127	\$1,027,226	\$1,014,814	\$5,602	\$5,142	\$1,668	\$-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2012.9.30 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$59,683	\$35,071	\$34,647	\$191	\$176	\$57	\$-
Preferred stock liability	34,141	34,141	-	-	-	-	34,141

Liabilities	2012.1.1 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,101,262	\$1,261,437	\$1,237,624	\$13,092	\$9,649	\$1,072	\$-
Financial liabilities at fair value through profit or loss	45,000	45,000	-	45,000	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

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Liabilities	2012.1.1 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$69,417	\$41,673	\$40,886	\$433	\$319	\$35	\$-
Financial liabilities at fair value through profit or loss	1,487	1,487	-	1,487	-	-	-
Preferred stock liability	33,036	33,036	-	-	-	-	33,036

(5) Market risk analysis

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

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

A. Value-at-risk

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

The value-at-risk model must reasonably, the Consolidated completely and accurately measure the maximum potential risk to be used as the Consolidated Company's risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

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B. Stress testing

In addition to the value-at-risk model, the Consolidated Company periodically uses stress testing to assess the potential risk of extreme incidents.

Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

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

(a) Simple Sensitivity

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

(b) Scenario Analysis

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

a. Historical scenarios

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

b. Hypothetical scenarios

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

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

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30 September 2013	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$(167,197)	\$(5,656)
Interest rate risk (Yield curve)	20bp	(73,775)	(2,496)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(77,176)	(2,611)

30 September 2013		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$7,160	\$242	\$1,419	\$48
	HKD appreciate 1 %	-	-	103	3
	NTD appreciate 1 %	(9,303)	(315)	(4,914)	(166)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,690)	(57)	(141)	(5)
	Yield curve (RMB) flat rises 1bp	-	-	(84)	(3)
	Yield curve (NTD) flat rises 1bp	(101)	(3)	(1,673)	(57)
Equity securities price sensitivity	Increase 1% in equity price	-	-	16,720	566

30 September 2012	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	10%	\$(168,155)	\$(5,741)
Interest rate risk (Yield curve)	20bp	(63,918)	(2,182)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(15,794)	(539)

30 September 2012		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	JPY appreciate 1%	\$5	\$-	\$-	\$-
	RMB appreciate 1%	77	3	499	17
	NTD appreciate 1%	(2,885)	(98)	(946)	(32)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(947)	(32)	(164)	(6)
	Yield curve (RMB) flat	-	-	(14)	-
	Yield curve (NTD) flat rises 1bp	(141)	(5)	(1,930)	(66)
Equity securities price sensitivity	Increase 1% in equity price	-	-	(6,815)	(574)

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(6) Fair values of financial instruments

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

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

(b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.

(c) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.

(d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

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

NT\$	Carrying amount as at				Fair value as at			
	2013.9.30	2012.12.31	2012.9.30	2012.1.1	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Held-to-maturity investments								
Bonds	\$2,117,267	\$2,512,011	\$2,404,010	\$2,408,714	\$2,172,397	\$2,670,313	\$2,594,165	\$2,643,649
Bond investments with no active market								
Bonds	1,746,004	1,323,270	1,299,137	1,192,997	\$1,736,154	1,349,477	\$1,320,599	1,191,612

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US\$	Carrying amount as at				Fair value as at			
	2013.9.30	2012.12.31	2012.9.30	2012.1.1	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Held-to-maturity investments								
Bonds	\$71,626	\$86,472	\$82,076	\$79,574	\$73,491	\$73,491	\$88,568	\$87,336
Bond investments with no active market								
Bonds	59,066	45,552	44,355	39,412	58,733	46,453	45,087	39,366

C. Fair value of recognized in balance sheet

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments at fair value (NT\$)	2013.9.30			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$1,154,184	\$1,154,184	\$-	\$-
Available-for-sale financial assets				
Stock	1,595,449	1,595,449	-	-
Bonds	3,409,828	3,004,897	404,931	-
Others	3,031,250	3,031,250	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$10,589	\$10,589	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	34,195	34,195	-	-

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Financial instruments at fair value (US\$)	2013.9.30			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$39,046	\$39,046	\$-	\$-
Available-for-sale financial assets				
Stock	53,973	53,973	-	-
Bonds	115,353	101,654	13,699	-
Others	102,546	102,546	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$358	\$358	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	1,157	1,157	-	-
Financial instruments at fair value (NT\$)	2012.12.31			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$376,694	\$376,694	\$-	\$-
Available-for-sale financial assets				
Stock	1,506,909	1,506,909	-	-
Bonds	3,609,402	3,194,963	414,439	-
Others	3,288,181	3,288,181	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss	\$60,579	\$60,579	\$-	\$-
Forward and SWAP	17,134	17,134	-	-
Derivative financial assets for hedging				
IRS	-	-	-	-

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Financial instruments at fair value (US\$)	2012.12.31			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$12,967	\$12,967	\$-	\$-
Available-for-sale financial assets				
Stock	51,873	51,873	-	-
Bonds	124,248	109,981	14,267	-
Others	113,190	113,190	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	\$2,086	\$2,086	\$-	\$-
Derivative financial assets for hedging				
IRS	590	590	-	-
Financial instruments at fair value (NT\$)	2012.9.30			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$249,420	\$249,420	\$-	\$-
Available-for-sale financial assets				
Stock	1,700,486	1,700,486	-	-
Bonds	3,810,945	3,496,968	313,977	-
Others	2,313,242	2,313,242	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	\$44,127	\$44,127	\$-	\$-
Derivative financial assets for hedging				
IRS	18,199	18,199	-	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	-	-	-	-

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Financial instruments at fair value (US\$)	2012.9.30			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$8,516	\$8,516	\$-	\$-
Available-for-sale financial assets				
Stock	58,057	58,057	-	-
Bonds	130,111	119,391	10,720	-
Others	78,977	78,977	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	\$1,507	\$1,507	\$-	\$-
Derivative financial assets for hedging				
IRS	621	621	-	-
Financial instruments at fair value (NT\$)	2012.1.1			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$619,455	\$619,455	\$-	\$-
Available-for-sale financial assets				
Stock	1,619,475	1,619,475	-	-
Bonds	3,397,248	3,397,248	-	-
Others	880,895	880,895	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$28,521	\$28,521	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	45,000	45,000	-	-

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Financial instruments at fair value (US\$)	2012.1.1			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$20,464	\$20,464	\$-	\$-
Available-for-sale financial assets				
Stock	53,501	53,501	-	-
Bonds	112,232	112,232	-	-
Others	29,101	29,101	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$942	\$942	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	1,487	1,487	-	-

During the nine-month periods ended 30 September 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

D. During the nine-month periods ended 30 September 2013 and 2012, there were no Level 3 fair value measurements.

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9. Related party transactions

(1) Significant transactions with related parties

A. Premiums income

Name	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$6,992	\$237	\$5,294	\$181
Cathay United Bank Co., Ltd.	13,662	462	12,763	436
Cathay Real Estate	4,333	147	4,597	157
Cathay General Hospital	3,008	102	-	-
Total	<u>\$27,995</u>	<u>\$948</u>	<u>\$22,654</u>	<u>\$774</u>

Name	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$106,588	\$3,606	\$103,157	\$3,522
Cathay United Bank Co., Ltd.	44,808	1,516	43,745	1,493
Cathay Real Estate	6,504	220	6,841	234
Cathay General Hospital	4,242	144	-	-
Total	<u>\$162,142</u>	<u>\$5,486</u>	<u>\$153,743</u>	<u>\$5,249</u>

B. Premiums receivable

Name	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$16,459	\$557	\$5,732	\$197
Cathay United Bank Co., Ltd.	5,002	169	4,855	168
Total	<u>\$21,461</u>	<u>\$726</u>	<u>\$10,587</u>	<u>\$365</u>

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Name	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$12,290	\$420	\$-	\$-
Cathay United Bank Co., Ltd.	4,415	151	44,226	1,460
Total	<u>\$16,705</u>	<u>\$571</u>	<u>\$44,226</u>	<u>\$1,460</u>

C. Cash in banks

Name	Type	2013.9.30		2012.12.31	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Cash in banks	<u>\$732,774</u>	<u>\$24,789</u>	<u>\$589,915</u>	<u>\$20,307</u>
	Time deposits	<u>\$640,200</u>	<u>\$21,658</u>	<u>\$695,800</u>	<u>\$23,952</u>

Name	Type	2012.9.30		2012.1.1	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Cash in banks	<u>\$508,221</u>	<u>\$17,351</u>	<u>\$420,125</u>	<u>\$13,879</u>
	Time deposits	<u>\$751,700</u>	<u>\$25,664</u>	<u>\$915,000</u>	<u>\$30,228</u>

Interest rate					
Name	Type	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Other related parties					
Cathay United Bank Co., Ltd.	Cash in banks	<u>0.01%-0.75%</u>	<u>0.01%-0.75%</u>	<u>0.02%-0.2%</u>	<u>0.17%</u>
	Time deposits	<u>0.17%-1.345%</u>	<u>0.17-1.7%</u>	<u>0.17%-1.345%</u>	<u>0.17-1.345%</u>

Interest income					
Name	Type	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Cash in banks	<u>\$127</u>	<u>\$4</u>	<u>\$119</u>	<u>\$4</u>
	Time deposits	<u>\$2,045</u>	<u>\$69</u>	<u>\$2,556</u>	<u>\$87</u>

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		Interest income			
		2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
Name	Type	NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$376	\$12	\$335	\$11
Co., Ltd.	Time deposits	\$6,533	\$221	\$8,250	\$281

D. Secured Loans

Name	2013.1.1 ~ 2013.9.30 (NT\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$36,547	\$33,819	1.84%-1.88%	\$494

Name	2013.1.1 ~ 2013.9.30 (US\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,236	\$1,144	1.84%-1.88%	\$17

Name	2012.1.1 ~ 2012.9.30 (NT\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$41,474	\$37,927	1.88%-2.03%	\$577

Name	2012.1.1 ~ 2012.9.30 (US\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,416	\$1,295	1.88%-2.03%	\$20

E. Available-for-sale financial assets

Name	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	\$62,762	\$2,123	\$67,557	\$2,326

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Name	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust				
Co., Ltd.	\$88,262	\$3,013	\$50,845	\$1,680

F. Guarantee deposits paid

Name	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$24,038	\$813	\$22,678	\$781
Cathay Futures Co., Ltd.	4,948	167	5,145	177
Lin Yuan (Shanghai) Real Estate	5,155	174	-	-
Total	\$34,141	\$1,154	\$27,823	\$958

Name	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$22,435	\$766	\$23,234	\$767
Cathay Futures Co., Ltd.	5,144	176	7,528	249
Total	\$27,579	\$942	\$30,762	\$1,016

G. Other payable

Name	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$157,222	\$5,319	\$172,887	\$5,951
Other related parties				
Cathay Life Insurance Co., Ltd.	202,698	6,857	141,412	4,868
Symphox Information Co., Ltd.	7,251	245	655	23
Total	\$367,171	\$12,421	\$314,954	\$10,842

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Name	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$99,013	\$3,380	\$103,717	\$3,426
Other related parties				
Cathay Life Insurance Co., Ltd.	110,448	3,771	217,861	7,197
Symphox Information Co., Ltd.	3,755	128	46	2
Total	<u>\$213,216</u>	<u>\$7,279</u>	<u>\$321,624</u>	<u>\$10,625</u>

H. Preferred stock liability

Name	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,829</u>	<u>\$1,000,000</u>	<u>\$34,424</u>

Name	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$34,141</u>	<u>\$1,000,000</u>	<u>\$33,036</u>

I. Operating costs

Name	Summary	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2013.9.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	<u>\$4,573</u>	<u>\$155</u>	<u>\$4,007</u>	<u>\$137</u>

Name	Summary	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	<u>\$13,335</u>	<u>\$455</u>	<u>\$11,411</u>	<u>\$390</u>

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		2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
Name	Summary	NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$29,957	\$1,013	\$23,673	\$808
	Marketing expenses	322,298	10,903	205,938	7,031
	Party premium expenses	2,573	87	2,513	86
	Administrative expenses	1,182	40	1,270	43
Cathay United Bank Co., Ltd.	Marketing expenses	15,863	537	15,287	522
	Rental expenses	2,097	71	2,098	72
Total		\$373,970	\$12,651	\$250,779	\$8,562

		2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
Name	Summary	NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$81,400	\$2,754	\$69,818	\$2,384
	Marketing expenses	951,081	32,175	773,597	26,412
	Party premium expenses	8,766	297	8,629	295
	Administrative expenses	4,938	167	5,100	174
Cathay United Bank Co., Ltd.	Marketing expenses	46,756	1,582	45,233	1,544
	Rental expenses	6,293	213	5,583	191
Total		\$1,099,234	\$37,188	\$907,960	\$31,000

K. Other expenses

Name	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	<u>\$7,588</u>	<u>\$257</u>	<u>\$9,196</u>	<u>\$314</u>

Name	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	<u>\$24,465</u>	<u>\$835</u>	<u>\$21,681</u>	<u>\$740</u>

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As of 30 September 2013 and 2012 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Name	Item	2013.9.30	2012.12.31
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$67,250	US\$75,250
	IRS	NT\$400,000	NT\$400,000
		(US\$13,532)	(US\$13,769)

Name	Item	2012.9.30	2012.1.1
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$60,550	US\$41,050
	IRS	NT\$400,000	NT\$600,000
		(US\$13,657)	(US\$19,822)

M. Key management personnel compensation in total

Item	2013.7.1 ~ 2013.9.30		2012.7.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$6,165	\$209	\$6,745	\$230
Post-employment benefits	748	25	784	27
Termination benefits	-	-	-	-
	<u>\$6,913</u>	<u>\$234</u>	<u>\$7,529</u>	<u>\$257</u>

Item	2013.1.1 ~ 2013.9.30		2012.1.1 ~ 2012.9.30	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$31,702	\$1,072	\$30,435	\$1,039
Post-employment benefits	2,246	76	2,353	80
Termination benefits	2,708	92	-	-
	<u>\$36,656</u>	<u>\$1,240</u>	<u>\$32,788</u>	<u>\$1,119</u>

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10. Pledged assets

(1) The Company

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Government deposits paid-government bonds	\$521,977	\$17,658	\$626,639	\$21,571
Guarantee deposits paid	20,000	677	20,000	688
Total	<u>\$541,977</u>	<u>\$18,335</u>	<u>\$646,639</u>	<u>\$22,259</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Government deposits paid-government bonds	\$461,441	\$15,754	\$403,738	\$13,338
Guarantee deposits paid	20,000	682	20,000	661
Total	<u>\$481,441</u>	<u>\$16,436</u>	<u>\$423,738</u>	<u>\$13,999</u>

As of 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012, the Company provided government bonds amounting to NT\$521,977 (US\$17,658) thousands, NT\$626,639 (US\$21,571) thousands, and NT\$461,441 (US\$15,754) thousands, NT\$403,738 (US\$13,338) thousands, respectively, as the “Guaranteed Depository Insurance” in accordance with the Insurance Act. The pledged assets are stated at book value.

(2) Cathay Insurance (China)

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	<u>\$581,580</u>	<u>\$19,674</u>	<u>\$373,928</u>	<u>\$12,872</u>

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	<u>\$373,496</u>	<u>\$12,751</u>	<u>\$385,000</u>	<u>\$12,719</u>

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

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(3) Cathay Insurance (Vietnam)

Item	2013.9.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	\$10,691	\$362	\$8,231	\$283

Item	2012.9.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	\$8,323	\$284	\$8,506	\$281

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

11. Contingent liabilities and Unrecognized contractual commitments

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

According to the operating lease contracts, the future minimum lease payments at 30 September 2013, 31 December 2012, 30 September 2012 and 1 January 2012 are as follows:

(1) Significant lease contracts of the Company

NT\$	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Not later than 1 year	\$121,717	\$118,857	\$110,664	\$104,074
Later than 1 year but not later than 5 years	486,870	475,428	442,656	419,772
Later than 5 years	-	-	-	-
	<u>\$608,587</u>	<u>\$594,285</u>	<u>\$553,320</u>	<u>\$523,846</u>

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(Expressed in thousands of dollars unless otherwise stated)

US\$	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Not later than 1 year	\$4,118	\$4,091	\$3,778	\$3,438
Later than 1 year but not later than 5 years	16,470	16,366	15,113	13,868
Later than 5 years	-	-	-	-
	<u>\$20,588</u>	<u>\$20,457</u>	<u>\$18,891</u>	<u>\$17,306</u>

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

NT\$	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Not later than 1 year	\$62,899	\$62,124	\$66,795	\$77,453
Later than 1 year but not later than 5 years	107,446	47,032	52,590	68,137
Later than 5 years	-	-	-	-
	<u>\$170,345</u>	<u>\$109,156</u>	<u>\$119,385</u>	<u>\$145,590</u>

US\$	2013.9.30	2012.12.31	2012.9.30	2012.1.1
Not later than 1 year	\$2,128	\$2,139	\$2,280	\$2,559
Later than 1 year but not later than 5 years	3,635	1,619	1,796	2,251
Later than 5 years	-	-	-	-
	<u>\$5,763</u>	<u>\$3,758</u>	<u>\$4,076</u>	<u>\$4,810</u>

12. Significant disaster losses: None.

13. Subsequent events: None.

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(Expressed in thousands of dollars unless otherwise stated)

14. Others

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

Item	2013.9.30 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$7,571,804	\$-	\$7,571,804
Receivables	3,339,674	-	3,339,674
Investments	7,241,303	6,270,856	13,512,159
Reinsurance contracts assets	-	5,005,637	5,005,637
Property and equipment	-	173,671	173,671
Intangible assets	-	31,442	31,442
Other assets	-	1,416,584	1,416,584
Total assets			<u>\$31,050,971</u>
Payables	\$2,284,953	\$7,765	\$2,292,718
Financial Liabilities	34,195	1,000,000	1,034,195
Insurance liabilities	-	21,358,278	21,358,278
Provision	-	248,378	248,378
Other liabilities	-	660,461	660,461
Total liabilities			<u>\$25,594,030</u>

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Item	2013.9.30 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$256,150	\$-	\$256,150
Receivables	112,980	-	112,980
Investments	244,970	212,140	457,110
Reinsurance contracts assets	-	169,338	169,338
Property and equipment	-	5,875	5,875
Intangible assets	-	1,064	1,064
Other assets	-	47,922	47,922
Total assets			<u>\$1,050,439</u>
Payables	\$77,299	\$262	\$77,561
Financial Liabilities	1,157	33,829	34,986
Insurance liabilities	-	722,540	722,540
Provision	-	8,403	8,403
Other liabilities	-	22,343	22,343
Total liabilities			<u>\$865,833</u>

Item	2012.12.31 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$5,677,051	\$-	\$5,677,051
Receivables	3,291,611	-	3,291,611
Investments	6,642,567	6,575,183	13,217,750
Reinsurance contracts assets	-	5,514,577	5,514,577
Property and equipment	-	184,390	184,390
Intangible assets	-	35,755	35,755
Other assets	-	1,266,880	1,266,880
Total assets			<u>\$29,188,014</u>
Payables	\$2,217,446	\$5,559	\$2,223,005
Financial Liabilities	-	1,000,000	1,000,000
Insurance liabilities	-	20,440,598	20,440,598
Provision	-	247,950	247,950
Other liabilities	-	459,128	459,128
Total liabilities			<u>\$24,370,681</u>

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Item	2012.12.31 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$195,423	\$-	\$195,423
Receivables	113,308	-	113,308
Investments	228,660	226,341	455,001
Reinsurance contracts assets	-	189,831	189,831
Property and equipment	-	6,347	6,347
Intangible assets	-	1,231	1,231
Other assets	-	43,610	43,610
Total assets			<u>\$1,004,751</u>
Payables	\$76,331	\$192	\$76,523
Financial Liabilities	-	34,424	34,424
Insurance liabilities	-	703,635	703,635
Provision	-	8,536	8,536
Other liabilities	-	15,804	15,804
Total liabilities			<u>\$838,922</u>

Item	2012.9.30 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,759,820	\$-	\$6,759,820
Receivables	2,988,306	-	2,988,306
Investments	5,499,898	6,900,840	12,400,738
Reinsurance contracts assets	-	5,089,468	5,089,468
Property and equipment	-	183,073	183,073
Intangible assets	-	31,894	31,894
Other assets	-	1,107,371	1,107,371
Total assets			<u>\$28,560,670</u>
Payables	\$1,741,317	\$6,810	\$1,748,127
Financial Liabilities	-	1,000,000	1,000,000
Insurance liabilities	-	20,444,976	20,444,976
Provision	-	256,153	256,153
Other liabilities	-	417,987	417,987
Total liabilities			<u>\$23,867,243</u>

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Item	2012.9.30 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$230,789	\$-	\$230,789
Receivables	102,025	-	102,025
Investments	187,774	235,605	423,379
Reinsurance contracts assets	-	173,761	173,761
Property and equipment	-	6,250	6,250
Intangible assets	-	1,089	1,089
Other assets	-	37,807	37,807
Total assets			<u>\$975,100</u>
Payables	\$59,451	\$232	\$59,683
Financial Liabilities	-	34,141	34,141
Insurance liabilities	-	698,019	698,019
Provision	-	8,746	8,746
Other liabilities	-	14,271	14,271
Total liabilities			<u>\$814,860</u>

Item	2012.1.1 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,926,067	\$-	\$6,926,067
Receivables	2,909,396	-	2,909,396
Investments	4,531,176	6,173,559	10,704,735
Reinsurance contracts assets	-	5,202,403	5,202,403
Property and equipment	-	225,801	225,801
Intangible assets	-	37,323	37,323
Other assets	-	1,096,594	1,096,594
Total assets			<u>\$27,102,319</u>
Payables	\$2,090,541	\$10,721	\$2,101,262
Financial Liabilities	45,000	1,000,000	1,045,000
Insurance liabilities	-	19,075,973	19,075,973
Provision	-	259,488	259,488
Other liabilities	-	282,128	282,128
Total liabilities			<u>\$22,763,851</u>

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Item	2012.1.1 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$228,809	\$-	\$228,809
Receivables	96,115	-	96,115
Investments	149,692	203,950	353,642
Reinsurance contracts assets	-	171,867	171,867
Property and equipment	-	7,460	7,460
Intangible assets	-	1,233	1,233
Other assets	-	36,227	36,227
Total assets			<u>\$895,353</u>
Payables	\$69,093	\$354	\$69,417
Financial Liabilities	1,487	33,036	34,523
Insurance liabilities	-	630,194	630,194
Provision	-	8,573	8,573
Other liabilities	-	9,320	9,320
Total liabilities			<u>\$752,027</u>

(2) Hedged of derivative financial instruments related information

Cash flow hedges-IRS

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at 30 September 2013:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,766	2.65%	Each quarterly	Sep. 30 2014
200,000	6,766	2.785%	Each quarterly	Apr. 30 2015

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

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The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$10,589 (US\$358) and NT\$18,199 (US\$622) as of 30 September 2013 and 2012, respectively.

(3) Eliminated inter-company transactions

Transactions	2013.1.1 ~ 2013.9.30 (NT\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
A. Eliminate subsidiaries investment profit and loss	\$319,193	\$(290,852)	\$(28,341)
B. Eliminate subsidiaries equity	(974,688)	1,003,900	472,738
Transactions	2013.1.1 ~ 2013.9.30 (US\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
A. Eliminate subsidiaries investment profit and loss	\$10,798	\$(9,839)	\$(959)
B. Eliminate subsidiaries equity	(32,973)	33,961	15,992

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Transactions	2012.1.1 ~ 2012.9.30 (NT\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
A. Eliminate subsidiaries investment profit and loss	\$218,009	\$(194,695)	\$(23,314)
B. Eliminate subsidiaries equity	(809,674)	842,540	388,404

Transactions	2012.1.1 ~ 2012.9.30 (US\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
A. Eliminate subsidiaries investment profit and loss	\$7,443	\$(6,647)	\$(796)
B. Eliminate subsidiaries equity	(27,643)	28,765	13,261

Note: The eliminated difference of inter-company result in non-controlling equity NT\$501,950 (US\$16,980) thousands and NT\$421,270 (US\$14,383) thousands for the nine-month periods ended 30 September 2013 and 2012.

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

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

	2013.9.30			2012.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
EUR	\$235	39.9091	\$9,379	\$-	-	\$-
USD	146,913	29.6700	4,358,909	174,121	29.1360	5,073,189
RMB	535,581	4.8332	2,588,570	127,845	4.6588	595,604
Non-Monetary Items						
USD	157,520	29.6700	-	176,020	29.136	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)
Investment under equity method						
RMB	103,570	4.8465	501,950	64,246	4.6741	300,290
VND	350,176,194	0.00135	472,738	280,878,487	0.001345	377,782
	2012.9.30			2012.1.1		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$133,540	29.3420	\$3,918,331	\$103,478	30.2900	\$3,134,349
RMB	121,660	4.6566	566,522	-	-	-
Non-Monetary Items						
USD	136,820	29.3420	-	95,320	30.2900	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)
Investment under equity method						
RMB	90,233	4.6687	421,270	130,716	4.8125	629,071
VND	285,591,241	0.00136	388,404	302,534,342	0.00139	420,523

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Note: The Consolidated Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized by NT\$34,195 (US\$1,157) thousands and NT\$45,000 (US\$1,487) thousands at 30 September 2013 and 1 January 2012. Financial assets at fair value through profit and loss were recognized by NT\$60,579 (US\$2,085) thousands and NT\$44,127 (US\$1,507) thousands at 31 December 2012 and 30 September 2012, respectively.

(5) Capital management

A. Objective

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

B. Policy

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

C. Procedures

(a) Periodically

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

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(b) Aperiodically

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

D. Capital adequacy ratio

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

(6) Operation segments information

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

15. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28.96 million to the establish a insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. And ,the joint venture company named Cathay Insurance Company Ltd(China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the company to CNY \$200 million to the establish a insurance subsidiary. As of 30 September 2013 the Company has totally remitted US\$44.03 million.

16. First-time adoption of TIFRS

For all periods up to and including the year ended 31 December 2012, the Consolidated Company prepared its financial statements in accordance with generally accepted accounting principles in R.O.C. (R.O.C. GAAP). The consolidated financial statements for the three-month periods ended 31 March 2013 are the first the Consolidated Company has prepared in accordance with TIFRS.

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Accordingly, the Consolidated Company has prepared financial statements of consolidated entities which comply with TIFRS and the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises for periods beginning 1 January 2013 as described in the accounting policies under Note 4. Furthermore the first interim financial statements prepared under TIFRS also comply with the requirements under IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The Consolidated Company’s opening balance sheet was prepared as at 1 January 2012, the Consolidated Company’s date of transition to TIFRS.

For the impact of adopting IFRS on the consolidated balance sheets as of January 1, 2012 (the date of transition to TIFRS) and 31 December 2012 and consolidated comprehensive income statement for the year ended 31 December 2012, please refer to the consolidated financial statements for the three-month periods ended 31 March 2013 and 2012.

Exemptions applied in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards”

IFRS 1 “First-time Adoption of International Financial Reporting Standards” allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Consolidated Company has applied the following exemptions:

- (1)The Group recognized total accumulated actuarial profit or loss as retained earnings once at the date of transition.
- (2)The present value of defined benefits obligation, fair value of projected assets and projected profit and loss and adjusted information based on experience defined in IAS 19 Employee Benefits should be disclosed at the amount with deferred determination in each accounting period since the date of transition to IFRS.

Impacts of transitioning to TIFRS

The following tables contain reconciliation of balance sheets as at 30 September 2012, and statements of comprehensive income for the three-month periods ended 30 September 2012 and nine-month periods ended September 30, 2012:

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

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	\$6,884,250		(124,430)	\$6,759,820	Cash and cash equivalents	3
Notes receivable	278,097			278,097	Notes receivable	
Premium receivable	2,571,172			2,571,172	Premium receivable	
Claims recoverable from reinsurers	228,905		(228,905)	-		- 4
Due from reinsurers and ceding companies	407,780		(407,780)	-		- 4
Other accounts receivable	139,037			139,037	Other accounts receivable	
Receivables	3,624,991			2,988,306	Receivables	
Financial assets at fair value through profit or loss	293,547			293,547	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	7,824,673			7,824,673	Available-for-sale financial assets	
Derivative financial assets for hedging	18,199			18,199	Derivative financial assets for hedging	
Investments under equity method	3,382			3,382	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,174,707		124,430	1,299,137	Bond investments with no active market	3
Held-to-maturity financial assets	2,404,010			2,404,010	Held-to-maturity financial assets	
Secured Loans	557,790			557,790	Secured Loans	
Investments	12,276,308			12,400,738	Investments	
Reinsurance reserve assets - Net	4,452,783		636,685	5,089,468	Reinsurance contracts assets	4
Other equipment	514,309			514,309	Other equipment	
Leasehold improvements	45,851			45,851	Leasehold improvements	
Subtotal	560,160			560,160		-
Less: Accumulated depreciation	(378,662)			(378,662)	Less: Accumulated depreciation	
Prepayments for equipments	1,575			1,575	Prepayments for equipments	
Property and equipment - Net	183,073			183,073	Property and equipment	
Intangible assets	35,955	(4,061)		31,894	Intangible assets	1
-	-		78,902	78,902	Deferred income tax assets	2
Prepayments	7,315			7,315	Prepayments	
Guarantee deposits paid	979,136			979,136	Guarantee deposits paid	
Deferred income tax assets	18,514	60,388	(78,902)	-		- 1, 2
Other assets - others	42,018			42,018	Other assets - others	
Other assets	1,046,983			1,028,469	Other assets	
Total assets	\$28,504,343			\$28,560,670	Total assets	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$7,093			\$7,093	Claims outstanding	
Commissions payable	138,743			138,743	Commissions payable	
Due to reinsurers and ceding companies	1,027,226			1,027,226	Due to reinsurers and ceding companies	
Other payables	575,065			575,065	Other payables	
Payables	1,748,127			1,748,127	Payables	
Financial liabilities at fair value through profit or loss	-			-	Financial liabilities at fair value through profit or loss	
Preferred stock liability	1,000,000			1,000,000	Preferred stock liability	
Financial Liabilities	1,000,000			1,000,000	Financial Liabilities	
Unearned premiums reserve	9,824,647			9,824,647	Unearned premiums reserve	
Claim reserve	5,778,865			5,778,865	Claim reserve	
Special reserve	4,806,040			4,806,040	Special reserve	
Premiums deficiency reserve	35,424			35,424	Premiums deficiency reserve	
Reserve for operating and liability	20,444,976			20,444,976	Operating and liability reserves	
-	-		256,153	256,153	Provision	1
-	-		17,297	17,297	Deferred income tax liabilities	2
Guarantee deposits received	30			30	Guarantee deposits received	
Accrued pension liabilities	119,897	136,256	(256,153)	-	-	1
Deferred income tax liabilities	-	17,297	(17,297)	-	-	2
Other liabilities - others	400,660			400,660	Other liabilities - others	
Other liabilities	520,587			400,690	Other liabilities	
Total liabilities	\$23,713,690			\$23,867,243	Total liabilities	
Capital stock					Capital stock	
Common stock	\$2,522,950			\$2,522,950	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	1,929			1,929	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	954,800			954,800	Legal reserve	
Special capital reserve	516,399			516,399	Special capital reserve	
Unappropriated retained earnings	507,131	(210,384)		296,747	Undistributed earnings	1
Equity adjustment					Other equity	
Cumulative translation adjustments	(48,685)			(48,685)	Exchange differences resulting from translating the financial statements of a foreign operation	
Unrealized gains or losses on financial instruments	9,818			9,818	Unrealized gains (losses) from available-for-sale financial assets	
Unrealized gains or losses on financial instruments	18,199			18,199	Gains (losses) on cash flow hedges	
Net loss not recognized as net pension cost	(113,158)	113,158		-	-	1
Minority interest	421,270			421,270	Non-controlling interests	
Total stockholders' equity	4,790,653			4,693,427	Total equity	
Total liabilities and stockholders' equity	\$28,504,343			\$28,560,670	Total liabilities and stockholders' equity	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	\$235,038		\$(4,249)	\$230,789	Cash and cash equivalents	3
Notes receivable	9,495			9,495	Notes receivable	
Premium receivable	87,783			87,783	Premium receivable	
Claims recoverable from reinsurers	7,815		(7,815)	-	-	4
Due from reinsurers and ceding companies	13,922		(13,922)	-	-	4
Other accounts receivable	4,747			4,747	Other accounts receivable	
Receivables	123,762			102,025	Receivables	
Financial assets at fair value through profit or loss	10,023			10,023	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	267,145			267,145	Available-for-sale financial assets	
Derivative financial assets for hedging	621			621	Derivative financial assets for hedging	
Investments under equity method	115			115	Investments accounted for using the equity method	
Investments in debt securities with no active market	40,106		4,249	44,355	Bond investments with no active market	3
Held-to-maturity financial assets	82,076			82,076	Held-to-maturity financial assets	
Secured Loans	19,044			19,044	Secured Loans	
Investments	419,130			423,379	Investments	
Reinsurance reserve assets - Net	152,024		21,737	173,761	Reinsurance contracts assets	4
Other equipment	17,559			17,559	Other equipment	
Leasehold improvements	1,565			1,565	Leasehold improvements	
Subtotal	19,124			19,124	-	
Less: Accumulated depreciation	(12,928)			(12,928)	Less: Accumulated depreciation	
Prepayments for equipments	54			54	Prepayments for equipments	
Property and equipment - Net	6,250			6,250	Property and equipment	
Intangible assets	1,228	(139)		1,089	Intangible assets	1
-	-		2,694	2,694	Deferred income tax assets	2
Prepayments	250			250	Prepayments	
Guarantee deposits paid	33,429			33,429	Guarantee deposits paid	
Deferred income tax assets	632	2,062	(2,694)	-	-	1、2
Other assets - others	1,434			1,434	Other assets - others	
Other assets	35,745			35,113	Other assets	
Total assets	\$973,177			\$975,100	Total assets	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$242			\$242	Claims outstanding	
Commissions payable	4,737			4,737	Commissions payable	
Due to reinsurers and ceding companies	35,071			35,071	Due to reinsurers and ceding companies	
Other payables	19,633			19,633	Other payables	
Payables	59,683			59,683	Payables	
Financial liabilities at fair value through profit or loss	-			-	Financial liabilities at fair value through profit or loss	
Preferred stock liability	34,141			34,141	Preferred stock liability	
Financial Liabilities	34,141			34,141	Financial Liabilities	
Unearned premiums reserve	335,427			335,427	Unearned premiums reserve	
Claim reserve	197,298			197,298	Claim reserve	
Special reserve	164,085			164,085	Special reserve	
Premiums deficiency reserve	1,209			1,209	Premiums deficiency reserve	
Reserve for operating and liability	698,019			698,019	Operating and liability reserves	
-	-		8,746	8,746	Provision	1
-	-		591	591	Deferred income tax liabilities	2
Guarantee deposits received	1			1	Guarantee deposits received	
Accrued pension liabilities	4,094	4,652	(8,746)	-	-	1
Deferred income tax liabilities	-	591	(591)	-	-	2
Other liabilities - others	13,679			13,679	Other liabilities - others	
Other liabilities	17,774			13,680	Other liabilities	
Total liabilities	\$809,617			\$814,860	Total liabilities	
Capital stock					Capital stock	
Common stock	\$86,137			\$86,137	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	66			66	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	32,598			32,598	Legal reserve	
Special capital reserve	17,631			17,631	Special capital reserve	
Unappropriated retained earnings	17,314	(7,183)		10,131	Undistributed earnings	1
Equity adjustment					Other equity	
Cumulative translation adjustments	(1,662)			(1,662)	Exchange differences resulting from translating the financial statements of a foreign operation	
Unrealized gains or losses on financial instruments	335			335	Unrealized gains (losses) from available-for-sale financial assets	
Unrealized gains or losses on financial instruments	621			621	Gains (losses) on cash flow hedges	
Net loss not recognized as net pension cost	(3,863)	3,863		-	-	1
Minority interest	14,383			14,383	Non-controlling interests	
Total stockholders' equity	163,560			160,240	Total equity	
Total liabilities and stockholders' equity	\$973,177			\$975,100	Total liabilities and stockholders' equity	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(2) Reconciliation of comprehensive income statement items for the three-month periods ended 30 September 2012.

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$4,050,772			\$4,050,772	Direct premium income	
Reinsurance premium income	134,004			134,004	Reinsurance premium income	
Premiums income	4,184,776			4,184,776	Premiums income	
					Deduct: Reinsurance premiums	
Deduct: Reinsurance premiums ceded	(937,055)			(937,055)	ceded	
Change in unearned premiums					Change in unearned premiums	
reserve - Net	(87,952)			(87,952)	reserve - Net	
Retained earned premium	3,159,769			3,159,769	Retained earned premium	
Reinsurance commission earned	111,035			111,035	Reinsurance commission earned	
Handling fee earned	9,194			9,194	Handling fee earned	
Investment profit and loss	185,795			185,795	Investment profit and loss	
Interest income	95,997			95,997	Interest income	
Losses on valuation of financial						
assets	87,848		(87,848)	-		- 5
					Losses from Financial asset or	
					financial liability at fair value	
-			67,175	67,175	through profit or loss	5
					Realized gains from	
-			81,669	81,669	available-for-sale financial assets	5
					Realized gains from	
-			(374)	(374)	held-to-maturity financial assets	5
					Share of loss of associates and joint	
					ventures accounted for using the	
-			3	3	equity method	5
Losses on investments recognized						
under the equity method	3		(3)	-		- 5
Losses on foreign Exchange	(58,675)			(58,675)	Losses on foreign Exchange	
Gains on disposal of investments	60,622		(60,622)	-		- 5
Total	3,465,793			3,465,793	Total	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claims paid	(1,859,862)			(1,859,862)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	324,577			324,577	Deduct: Claims recovered from reinsurers	
Retained claim paid	(1,535,285)			(1,535,285)	Retained claim paid	
Changes in liability reserves	(493,921)			(493,921)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(474,028)		474,028	-		-
Change in special reserve - Net	(5,655)		5,655	-		-
Change in premiums deficiency reserve - Net	(14,238)		14,238	-		-
Commissions expenses	(210,868)			(210,868)	Commissions expenses	
Other operating costs	(9,987)			(9,987)	Other operating costs	
Total	(2,250,061)			(2,250,061)	Total	
Operating expenses	(1,138,431)			(1,138,431)	Operating expenses	
Operating income	77,301			77,301	Operating income	
-				(4,057)	Non-operating income and expenses	5
Non-operating revenues and gains	703		(703)	-		- 5
Non-operating expenses and losses	(4,760)		4,760	-		- 5
Consolidated income before income taxes	73,244			73,244	Profit before tax from continuing operations	
Income taxes expense	(36,313)			(36,313)	Income tax expense	
Consolidated net income	\$36,931			\$36,931	Profit from continuing operations	
				36,931	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(11,922)		
				123,803	Unrealized gains from available-for-sale financial assets	
				(3,973)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				(10)		
				107,898	Other comprehensive income, net of tax	
				\$144,829	Total comprehensive income	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$138,299			\$138,299	Direct premium income	
Reinsurance premium income	4,575			4,575	Reinsurance premium income	
Premiums income	142,874			142,874	Premiums income	
					Deduct: Reinsurance premiums	
Deduct: Reinsurance premiums ceded	(31,992)			(31,992)	ceded	
Change in unearned premiums					Change in unearned premiums	
reserve - Net	(3,003)			(3,003)	reserve - Net	
Retained earned premium	107,879			107,879	Retained earned premium	
Reinsurance commission earned	3,791			3,791	Reinsurance commission earned	
Handling fee earned	314			314	Handling fee earned	
Investment profit and loss	6,343			6,343	Investment profit and loss	
Interest income	3,278			3,278	Interest income	
Gains (losses) on valuation of						
financial assets	2,999		(2,999)	-		5
					Gains from Financial asset or	
					financial liability at fair value	
-			2,293	2,293	through profit or loss	5
					Realized gains from	
-			2,788	2,788	available-for-sale financial assets	5
					Realized gains from	
-			(13)	(13)	held-to-maturity financial assets	5
					Share of loss of associates and	
					joint ventures accounted for	
-	-			-	using the equity method	5
Gains on investments recognized						
under the equity method	-		-	-		5
Gains on foreign Exchange	(2,003)			(2,003)	Gains on foreign Exchange	
Gains on disposal of investments	2,069		(2,069)	-		5
Total	118,327			118,327	Total	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claims paid	(63,498)			(63,498)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	11,081			11,081	Deduct: Claims recovered from reinsurers	
Retained claim paid	(52,417)			(52,417)	Retained claim paid	
Changes in liability reserves	(16,863)			(16,863)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(16,184)		16,184	-		-
Change in special reserve - Net	(193)		193	-		-
Change in premiums deficiency reserve - Net	(486)		486	-		-
Commissions expenses	(7,199)			(7,199)	Commissions expenses	
Other operating costs	(341)			(341)	Other operating costs	
Total	(76,820)			(76,820)	Total	
Operating expenses	(38,868)			(38,868)	Operating expenses	
Operating income	2,639			2,639	Operating income	
-				(138)	Non-operating income and expenses	5
Non-operating revenues and gains	24		(24)	-		- 5
Non-operating expenses and losses	(162)		162	-		- 5
Consolidated income before income taxes	2,501			2,501	Profit before tax from continuing operations	
Income taxes expense	(1,240)			(1,240)	Income tax expense	
Consolidated net income	\$1,261			\$1,261	Profit from continuing operations	
				\$1,261	Net income	
					Other comprehensive income	
				(407)	Exchange differences resulting from translating the financial statements of a foreign operation	
				4,227	Unrealized gains from available-for-sale financial assets	
				(136)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				-		
				3,684	Other comprehensive income, net of tax	
				\$4,945	Total comprehensive income	

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3) Reconciliation of comprehensive income statement items for the nine-month periods ended 30 September 2012.

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$12,212,562			\$12,212,562	Direct premium income	
Reinsurance premium income	351,948			351,948	Reinsurance premium income	
Premiums income	12,564,510			12,564,510	Premiums income	
					Deduct: Reinsurance premiums	
Deduct: Reinsurance premiums ceded	(3,242,486)			(3,242,486)	ceded	
Change in unearned premiums					Change in unearned premiums	
reserve - Net	(707,786)			(707,786)	reserve - Net	
Retained earned premium	8,614,238			8,614,238	Retained earned premium	
Reinsurance commission earned	338,551			338,551	Reinsurance commission earned	
Handling fee earned	25,134			25,134	Handling fee earned	
Investment profit and loss	486,029			486,029	Investment profit and loss	
Interest income	290,078			290,078	Interest income	
Gains on valuation of financial assets	89,195		(89,195)	-		- 5
					Gains from Financial asset or	
					financial liability at fair value	
-			80,866	80,866	through profit or loss	5
					Realized gains from	
-			207,741	207,741	available-for-sale financial assets	5
					Realized gains from	
-			(820)	(820)	held-to-maturity financial assets	5
					Share of loss of associates and	
					joint ventures accounted for	
-			14	14	using the equity method	5
Losses on investments recognized						
under the equity method	14		(14)	-		- 5
Losses on foreign Exchange	(91,850)			(91,850)	Losses on foreign Exchange	
Gains on disposal of investments	198,592		(198,592)	-		- 5
Total	9,463,952			9,463,952	Total	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claims paid	(5,749,543)			(5,749,543)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	1,129,006			1,129,006	Deduct: Claims recovered from reinsurers	
Retained claim paid	(4,620,537)			(4,620,537)	Retained claim paid	
Changes in liability reserves	(660,540)			(660,540)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(600,483)		600,483	-		-
Change in special reserve - Net	(44,938)		44,938	-		-
Change in premiums deficiency reserve - Net	(15,119)		15,119	-		-
Commissions expenses	(535,587)			(535,587)	Commissions expenses	
Other operating costs	(35,625)			(35,625)	Other operating costs	
Total	(5,852,289)			(5,852,289)	Total	
Operating expenses	(3,178,805)			(3,178,805)	Operating expenses	
Operating income	432,858			432,858	Operating income	
-				(8,928)	Non-operating income and expenses	5
Non-operating revenues and gains	5,733		(5,733)	-		- 5
Non-operating expenses and losses	(14,661)		14,661	-		- 5
Consolidated income before income taxes	423,930			423,930	Profit before tax from continuing operations	
Income taxes expense	(111,495)			(111,495)	Income tax expense	
Consolidated net income	\$312,435			312,435	Profit from continuing operations	
				312,435	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(43,811)		
				96,664	Unrealized gains from available-for-sale financial assets	
				(10,322)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				(7)		
				42,524	Other comprehensive income, net of tax	
				\$354,959	Total comprehensive income	

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$416,953			\$416,953	Direct premium income	
Reinsurance premium income	12,016			12,016	Reinsurance premium income	
Premiums income	428,969			428,969	Premiums income	
					Deduct: Reinsurance premiums	
Deduct: Reinsurance premiums ceded	(110,703)			(110,703)	ceded	
Change in unearned premiums					Change in unearned premiums	
reserve - Net	(24,164)			(24,164)	reserve - Net	
Retained earned premium	294,102			294,102	Retained earned premium	
Reinsurance commission earned	11,558			11,558	Reinsurance commission earned	
Handling fee earned	858			858	Handling fee earned	
Investment profit and loss	16,594			16,594	Investment profit and loss	
Interest income	9,904			9,904	Interest income	
Gains (losses) on valuation of						
financial assets	3,045		(3,045)	-		- 5
					Gains from Financial asset or	
					financial liability at fair value	
-			2,761	2,761	through profit or loss	5
					Realized gains from	
-			7,093	7,093	available-for-sale financial assets	5
					Realized gains from	
-			(28)	(28)	held-to-maturity financial assets	5
					Share of loss of associates and	
					joint ventures accounted for	
-				-	using the equity method	5
Gains on investments recognized						
under the equity method	-			-		- 5
Losses on foreign Exchange	(3,136)		-	(3,136)	Losses on foreign Exchange	
Gains on disposal of investments	6,781		(6,781)	-		- 5
Total	323,112			323,112	Total	

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claims paid	(196,297)			(196,297)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	38,546			38,546	Deduct: Claims recovered from reinsurers	
Retained claim paid	(157,751)			(157,751)	Retained claim paid	
Changes in liability reserves	(22,552)			(22,552)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(20,502)		20,502	-		-
Change in special reserve - Net	(1,534)		1,534	-		-
Change in premiums deficiency reserve - Net	(516)		516	-		-
Commissions expenses	(18,286)			(18,286)	Commissions expenses	
Other operating costs	(1,216)			(1,216)	Other operating costs	
Total	(199,805)			(199,805)	Total	
Operating expenses	(108,529)			(108,529)	Operating expenses	
Operating income	14,778			14,778	Operating income	
-				(304)	Non-operating income and expenses	5
Non-operating revenues and gains	196		(196)	-		5
Non-operating expenses and losses	(500)		500	-		5
Consolidated income before income taxes	14,474			14,474	Profit before tax from continuing operations	
Income taxes expense	(3,807)			(3,807)	Income tax expense	
Consolidated net income	\$10,667			\$10,667	Profit from continuing operations	
				10,667	Net income	
					Other comprehensive income	
				(1,496)	Exchange differences resulting from translating the financial statements of a foreign operation	
				3,300	Unrealized gains from available-for-sale financial assets	
				(352)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				-		
				1,452	Other comprehensive income, net of tax	
				\$12,119	Total comprehensive income	

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Material adjustments to the consolidated statement of cash flows for the nine-month periods ended 30 September 2012 and the year ended 31 December 2012

The transition from R.O.C. GAAP to TIFRS has not had a material impact on the statement of cash flows. The statement of cash flow prepared under R.O.C. GAAP was reported using the indirect method. Furthermore, cash flows from interest and dividends received and interest paid were classified as cash flows from operating activities and interest and dividends received were not disclosed separately. However, in accordance with the requirements under IAS 7 “Statement of Cash Flows”, the interest received and dividends receipt number for the year ended 31 December 2012, are separately disclosed in the statement of cash flow. For the nine-month period ended 30 September 2012, the interest and dividends received were recognized by NT\$231,449 (US\$7,902) and NT\$52,657 (US\$1,798), respectively.

Apart from the aforementioned differences, there were no material differences between the statements of cash flows prepared under R.O.C. GAAP and TIFRS.

1. Employee benefits

According to requirements of previous GAAP, the Consolidated Company conducted actuarial valuation on defined benefit obligation and recognized pension cost and accrued pension liabilities. After adopting IFRS, the actuarial valuation was performed in accordance with IAS 19 “Employee Benefits”. The Consolidated Company reperformed actuarial valuation on defined benefit obligation, zeroed accumulated actuarial profit or loss at the date of transition according to the adoption of exemptions stated in IFRS 1 “First-time Adoption of International Financial Reporting Standards” and recognized unrecognized transitional net benefit obligation at one time.

AS of 31 December 2011, the IFRSs adjustment resulted in decrease of accrual pension liability by NT\$ 117,219(US\$3,872), deferred pension cost by NT\$4,061(US\$134), net loss not recognized as pension cost by NT\$113,158(US\$3,738).

After that, in accordance with actuarial pension report to adjust pension, as of 30 September 2012, accrued pension liabilities increase by NT\$253,475(US\$8,654), deferred income tax assets increase by NT\$43,091(US\$1,471), retained earnings decrease by NT\$210,384 (US\$7,183).

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2. Deferred income tax

Classification and valuation of deferred tax

According to IAS 12, an entity can only offset deferred tax assets and deferred tax liabilities under the circumstances that the entity has a legally enforceable right to set off current tax asset against current tax liabilities; deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on the same taxable entity, which resulted in an increase of both deferred income tax assets and liabilities by NT\$17,297 (US\$591) on 30 September 2012, respectively.

3. According to IAS 7 “Statement of cash flows”, the long-term time deposits should not be classified as cash and cash equivalents but other appropriate subject. As of 30 September 2012, the time deposits amounted to NT\$124,430 (US\$4,249) thousands, should be reclassified to investments in debt securities with no active market, respectively.
4. In accordance with the presentation of financial statement of IFRSs, as of 30 September 2012, the adjustment resulted in a decrease of receivables and an increase of reinsurance contracts assets by NT\$636,685 (US\$21,737) thousands.
5. The Consolidated Company compiled consolidated statements of comprehensive income under R.O.C. GAAP and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises before amendments. After transition to IFRS, certain accounts had been reclassified properly in order to meet the presentation of IFRS and amended Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, certain items have been reclassified. The other adjustments related to the transition to IFRS are mentioned above.