

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
As of March 31, 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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English Translation of Independent Auditors' Report Originally Issued in Chinese
Independent Auditors' Report

Board of Directors
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of March 31, 2013, December 31, 2012, March 31, 2012, and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the three months period ended on March 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three months ended March 31, 2013 and 2012 in order for them to be in conformity with Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises, and have adopted the IAS No.34 "Interim Financial Reporting", IFRS No.1 "First-time Adoption of International Financial Reporting Standards".

ERNST & YOUNG
Taipei, Taiwan
The republic of China
April 30, 2013

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

As of March 31, 2013 、 December 31, 2012 、 March 31, 2012 and January 1, 2012

(Expressed in thousands of dollars)

Assets	Notes	March 31, 2013		December 31, 2012		March 31, 2012		January 1, 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents		\$5,835,681	\$195,763	\$5,677,051	\$195,423	\$6,700,941	\$227,151	\$6,926,067	\$228,810
Receivables		2,968,447	99,579	3,291,611	113,308	2,808,068	95,189	2,909,396	96,115
Financial assets at fair value through profit or loss		489,461	16,419	437,273	15,053	287,743	9,754	619,455	20,464
Available-for-sale financial assets		8,594,970	288,325	8,404,492	289,311	6,354,155	215,395	5,897,618	194,834
Derivative financial assets for hedging		16,284	546	17,134	590	26,011	882	28,521	942
Investments accounted for using the equity method		1,486	50	1,490	51	5,464	185	5,465	181
Bond investments with no active market		1,871,712	62,788	1,323,270	45,552	1,547,447	52,456	1,192,997	39,411
Held-to-maturity financial assets		2,265,404	75,995	2,512,011	86,472	2,450,987	83,084	2,408,714	79,574
Secured Loans		523,297	17,554	522,080	17,972	524,186	17,769	551,965	18,235
Reinsurance contracts assets		5,264,819	176,612	5,514,577	189,831	5,362,961	181,795	5,202,403	171,867
Property and equipment		171,740	5,761	184,390	6,347	207,573	7,036	225,801	7,460
Intangible assets		26,082	875	35,755	1,231	35,031	1,187	37,323	1,233
Deferred income tax assets		87,957	2,951	80,750	2,780	80,668	2,735	105,494	3,484
Other assets		1,073,457	36,010	1,186,130	40,830	997,816	33,824	991,100	32,742
Total assets		<u>\$29,190,797</u>	<u>\$979,228</u>	<u>\$29,188,014</u>	<u>\$1,004,751</u>	<u>\$27,389,051</u>	<u>\$928,442</u>	<u>\$27,102,319</u>	<u>\$895,352</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2013 、 December 31, 2012 、 March 31, 2012 and January 1, 2012 were NT\$29.81 、 NT\$29.05 、 NT\$29.50 and NT\$30.27 to US\$1.00)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries**Unaudited consolidated balance sheets - (Continued)****As of March 31, 2013 、 December 31, 2012 、 March 31, 2012 and January 1, 2012****(Expressed in thousands of dollars)**

Liabilities & equity	Notes	March 31, 2013		December 31, 2012		March 31, 2012		January 1, 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables		\$2,133,430	\$71,567	\$2,223,005	\$76,523	\$1,922,626	\$65,174	\$2,101,262	\$69,417
Financial liabilities at fair value through profit or loss		94,825	3,181	-	-	-	-	45,000	1,487
Preferred stock liability		1,000,000	33,546	1,000,000	34,424	1,000,000	33,898	1,000,000	33,036
Insurance liabilities		20,435,699	685,532	20,440,598	703,635	19,361,751	656,331	19,075,973	630,194
Provision		248,378	8,332	247,950	8,535	256,153	8,683	259,488	8,573
Deferred income tax liabilities		26,509	889	18,305	631	10,532	357	22,311	736
Other liabilities		249,268	8,362	440,823	15,174	283,934	9,625	259,817	8,583
Total liabilities		24,188,109	811,409	24,370,681	838,922	22,834,996	774,068	22,763,851	752,026
Equity attributable to owners of parent									
Capital stock		2,522,950	84,634	2,522,950	86,849	2,317,006	78,543	2,317,006	76,545
Capital surplus									
Capital surplus - others		1,929	65	1,929	66	1,929	65	1,929	64
Retained earnings									
Legal reserve		954,800	32,029	954,800	32,867	834,443	28,286	834,443	27,567
Special capital reserve		923,897	30,993	923,897	31,804	462,480	15,677	462,480	15,278
Undistributed earnings		279,852	9,388	77,338	2,662	442,386	14,996	169,836	5,611
Other equity		55,855	1,874	36,129	1,244	(80,000)	(2,712)	(76,296)	(2,521)
Non-controlling interests		263,405	8,836	300,290	10,337	575,811	19,519	629,070	20,782
Total equity		5,002,688	167,819	4,817,333	165,829	4,554,055	154,374	4,338,468	143,326
Total equity and liabilities		\$29,190,797	\$979,228	\$29,188,014	\$1,004,751	\$27,389,051	\$928,442	\$27,102,319	\$895,352

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2013 、 December 31, 2012 、 March 31, 2012 and January 1, 2012 were NT\$29.81 、 NT\$29.05 、 NT\$29.50 and NT\$30.27 to US\$1.00)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of comprehensive income
For the three months ended March 31, 2013 and 2012
(Expressed in thousands of dollars, except earning per share)

Items	Notes	January 1-March 31, 2013		January 1-March 31, 2012	
		NTS	US\$	NTS	US\$
Operating revenues					
Direct premium income		\$4,311,615	\$144,636	\$3,646,518	\$123,611
Reinsurance premium income		116,011	3,892	92,627	3,140
Premiums income		4,427,626	148,528	3,739,145	126,751
Deduct: Reinsurance premiums ceded		(957,897)	(32,133)	(941,422)	(31,913)
Change in unearned premiums reserve - Net		(358,189)	(12,016)	(160,028)	(5,425)
Retained earned premium		3,111,540	104,379	2,637,695	89,413
Reinsurance commission earned		127,292	4,270	116,042	3,934
Handling fee earned		6,965	233	7,150	242
Investment profit and loss		118,510	3,976	183,996	6,237
Interest income		92,645	3,108	91,271	3,094
Gains (losses) from Financial asset or financial liability at fair value through profit or loss		(158,883)	(5,330)	67,091	2,274
Realized gains from available-for-sale financial assets		95,152	3,192	107,493	3,644
Realized gains (losses) from held-to-maturity financial assets		472	16	(167)	(6)
Share of profit (loss) of associates and joint ventures accounted for using the equity method		(4)	-	(2)	-
Gains (losses) on foreign Exchange		89,128	2,990	(81,690)	(2,769)
Subtotal		3,364,307	112,858	2,944,883	99,826
Operating costs					
Insurance claims paid		(2,346,252)	(78,707)	(1,797,047)	(60,917)
Deduct: Claims recovered from reinsurers		539,118	18,085	342,120	11,597
Retained claim paid		(1,807,134)	(60,622)	(1,454,927)	(49,320)
Changes in insurance liabilities-Net		46,847	1,571	(81,193)	(2,752)
Commissions expenses		(217,471)	(7,295)	(152,023)	(5,153)
Other operating costs		(11,933)	(400)	(10,944)	(371)
Subtotal		(1,989,691)	(66,746)	(1,699,087)	(57,596)
Operating expenses					
Marketing expenses		(909,512)	(30,510)	(763,270)	(25,873)
General and administrative expenses		(271,564)	(9,110)	(206,017)	(6,984)
Employee training expenses		(3,020)	(101)	(445)	(15)
Subtotal		(1,184,096)	(39,721)	(969,732)	(32,872)
Operating income		190,520	6,391	276,064	9,358
Non-operating income and expenses		8,767	294	325	11
Profit before tax from continuing operations		199,287	6,685	276,389	9,369
Income tax expense		(43,535)	(1,460)	(45,153)	(1,531)
Profit from continuing operations		155,752	5,225	231,236	7,838
Net income		155,752	5,225	231,236	7,838
Other comprehensive income					
Exchange differences resulting from translating the financial statements of a foreign operation		24,507	822	(38,797)	(1,315)
Unrealized gains (losses) from available-for-sale financial assets		14,062	472	25,657	870
Gains (losses) on cash flow hedges		(851)	(29)	(2,510)	(85)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		-	-	1	-
Income tax relating to components of other comprehensive income		(8,115)	(272)	-	-
Other comprehensive income, net of tax		29,603	993	(15,649)	(530)
Total comprehensive income		\$185,355	\$6,218	\$215,587	\$7,308
Net income attributable to :					
Owners of parent (net income)		\$202,514	\$6,794	\$272,550	\$9,239
Non-controlling interests (net loss)		\$(46,762)	\$(1,569)	\$(41,314)	\$(1,401)
Comprehensive income attributable to :					
Owners of parent (comprehensive income)		\$222,240	\$7,455	\$268,846	\$9,113
Non-controlling interests (comprehensive loss)		\$(36,885)	\$(1,237)	\$(53,259)	\$(1,805)
Earning per share (In dollars)					
Net income from continuing operations		\$0.80	\$0.03	\$1.08	\$0.04

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2013 and 2012 were NT\$29.81 and NT\$29.50 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated statements of changes in equity

For the three months ended March 31, 2013 and 2012

(Expressed in thousands of dollars)

Items	Equity attributable to owners of parent																					
	Retained earnings										Other equity						Total		Non-controlling interests		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\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2012	\$2,317,006	\$78,543	\$1,929	\$65	\$834,443	\$28,286	\$462,480	\$15,677	\$169,836	\$5,757	\$(22,377)	\$(759)	\$(82,440)	\$(2,794)	\$28,521	\$967	\$3,709,398	\$125,742	\$629,070	\$21,324	\$4,338,468	\$147,066
Consolidated net income for the three months ended March 31, 2012	-	-	-	-	-	-	-	-	272,550	9,239	-	-	-	-	-	-	272,550	9,239	(41,314)	(1,401)	231,236	7,838
Other comprehensive income for the three months ended March 31, 2012	-	-	-	-	-	-	-	-	-	-	(22,415)	(760)	21,221	719	(2,510)	(85)	(3,704)	(126)	(11,945)	(404)	(15,649)	(530)
Total comprehensive income	-	-	-	-	-	-	-	-	272,550	9,239	(22,415)	(760)	21,221	719	(2,510)	(85)	268,846	9,113	(53,259)	(1,805)	215,587	7,308
Balance on March 31, 2012	<u>\$2,317,006</u>	<u>\$78,543</u>	<u>\$1,929</u>	<u>\$65</u>	<u>\$834,443</u>	<u>\$28,286</u>	<u>\$462,480</u>	<u>\$15,677</u>	<u>\$442,386</u>	<u>\$14,996</u>	<u>\$(44,792)</u>	<u>\$(1,519)</u>	<u>\$(61,219)</u>	<u>\$(2,075)</u>	<u>\$26,011</u>	<u>\$882</u>	<u>\$3,978,244</u>	<u>\$134,855</u>	<u>\$575,811</u>	<u>\$19,519</u>	<u>\$4,554,055</u>	<u>\$154,374</u>
Balance on January 1, 2013	\$2,522,950	\$84,634	\$1,929	\$65	\$954,800	\$32,029	\$923,897	\$30,993	\$77,338	\$2,594	\$(52,535)	\$(1,762)	\$71,530	\$2,400	\$17,134	\$575	\$4,517,043	\$151,528	\$300,290	\$10,073	\$4,817,333	\$161,601
Consolidated net income for the three months ended March 31, 2013	-	-	-	-	-	-	-	-	202,514	6,794	-	-	-	-	-	-	202,514	6,794	(46,762)	(1,569)	155,752	5,225
Other comprehensive income for the three months ended March 31, 2013	-	-	-	-	-	-	-	-	-	-	16,437	551	4,140	139	(851)	(29)	19,726	661	9,877	332	29,603	993
Total comprehensive income	-	-	-	-	-	-	-	-	202,514	6,794	16,437	551	4,140	139	(851)	(29)	222,240	7,455	(36,885)	(1,237)	185,355	6,218
Balance on March 31, 2013	<u>\$2,522,950</u>	<u>\$84,634</u>	<u>\$1,929</u>	<u>\$65</u>	<u>\$954,800</u>	<u>\$32,029</u>	<u>\$923,897</u>	<u>\$30,993</u>	<u>\$279,852</u>	<u>\$9,388</u>	<u>\$(36,098)</u>	<u>\$(1,211)</u>	<u>\$75,670</u>	<u>\$2,539</u>	<u>\$16,283</u>	<u>\$546</u>	<u>\$4,739,283</u>	<u>\$158,983</u>	<u>\$263,405</u>	<u>\$8,836</u>	<u>\$5,002,688</u>	<u>\$167,819</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2013 and 2012 were NT\$29.81 and NT\$29.50 to US\$1.00)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated statements of cash flows

For the three months ended March 31, 2013 and 2012

(Expressed in thousands of dollars)

Items	January 1-March 31, 2013		January 1-March 31, 2012	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities :				
Profit before tax	\$199,287	\$6,685	\$276,389	\$9,369
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	19,448	652	19,946	676
Amortization	6,737	226	4,660	158
Net (gains) loss on financial asset or financial liability at fair value through profit or loss	158,883	5,330	(67,091)	(2,274)
Net (gains) on available-for-sale financial assets	(95,152)	(3,192)	(107,494)	(3,644)
Net (gains) loss from held-to-maturity financial assets	(472)	(16)	167	6
Interest income	(92,645)	(3,108)	(91,271)	(3,094)
Net changes of insurance liabilities	(46,064)	(1,545)	302,417	10,251
Share of profit (loss) of associates and joint ventures accounted for using the equity method	4	-	2	-
Changes in assets and liabilities from operating activities :				
(Increase) Decrease in financial assets at fair value through profit or loss	(116,246)	(3,899)	353,803	11,993
Decrease (Increase) in notes receivable	34,205	1,147	(15,457)	(524)
Decrease in premiums receivable	320,514	10,752	149,102	5,054
Increase in other accounts receivable	(9,862)	(331)	(10,419)	(353)
Increase in reinsurance contracts assets	260,249	8,730	(167,611)	(5,682)
Decrease (Increase) in other current assets	116,890	3,921	(7,158)	(243)
Decrease in claims outstanding	(16,344)	(548)	(11,614)	(394)
Increase in due to reinsurers and ceding companies	122,449	4,108	67,220	2,279
Increase (Decrease) in commissions payable	36,771	1,234	(13,079)	(443)
Decrease in other payables	(276,633)	(9,280)	(251,239)	(8,516)
Increase (Decrease) in provision	427	14	(3,335)	(113)
(Decrease) Increase in other liabilities	(191,556)	(6,426)	24,117	818
Cash flows from operating activities	430,890	14,454	452,055	15,324
Income taxes paid	(2,636)	(88)	(2,000)	(68)
Net cash flows from operating activities	428,254	14,366	450,055	15,256
Cash flows from investing activities :				
Acquisition of available-for-sale financial assets	(1,177,007)	(39,484)	(1,171,794)	(39,722)
Disposal of available-for-sale financial assets	1,095,902	36,763	848,714	28,770
Acquisition of bond investments with no active market	(548,442)	(18,398)	(354,451)	(12,015)
Acquisition of held-to-maturity financial assets	(153)	(5)	(218,864)	(7,419)
Disposal of held-to-maturity financial assets	247,232	8,294	176,424	5,980
Increase in secured loans	(18,600)	(624)	(500)	(17)
Decrease in secured loans	17,383	583	28,279	959
Acquisition of property and equipment	(9,368)	(314)	(5,214)	(177)
Acquisition of intangible assets	(327)	(11)	(606)	(21)
Interest received	70,952	2,380	69,372	2,352
Net cash flows used in investing activities	(322,428)	(10,816)	(628,640)	(21,310)
Effects of exchange rate changes on cash and cash equivalents	52,804	1,772	(46,541)	(1,577)
Increase in cash and cash equivalents	158,630	5,322	(225,126)	(7,631)
Cash and cash equivalents at the beginning of periods	5,677,051	190,441	6,926,067	234,782
Cash and cash equivalents at the end of periods	\$5,835,681	\$195,763	\$6,700,941	\$227,151

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2013 and 2012 were NT\$29.81 and NT\$29.50 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements

(Expressed in thousands of dollars unless otherwise stated)

March 31, 2013 and 2012

1. History and organization

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). The Company mainly engaged in the business of property and casualty insurance. On April 22, 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On August 2, 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the total numbers of employees were 2,382, 2,344, 1,999 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 three months ended March 31, 2013 and 2012 were authorized for issue in accordance with a resolution of the Board of Directors on April 30, 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 January 1, 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 Consolidated Company could not be determined at this stage.

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)

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

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<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”	January 1, 2013
IAS 1 “Presentation of Financial Statements”	January 1, 2013
IAS 16 “Property, Plant and Equipment”	January 1, 2013
IAS 32 “Financial Instruments: Presentation”	January 1, 2013
IAS 34 “Interim Financial Reporting”	January 1, 2013
Amendment to IFRS 10 “Consolidated Financial Statements”	January 1, 2014

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

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.

Amendments to IFRS 7 “Financial Instruments: Disclosures”

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

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.

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.

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.

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IAS 19 “Employee Benefits”

IAS 19 outlines the accounting requirements for employee benefits, including short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits. The standard establishes the principle that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits.

Amendments to IFRSs from 2009 to 2011

IAS 1 “Presentation of Financial Statements”

The amendment became aware of (a)diversity in views as to the requirements for comparative information when an entity provides individual financial statements beyond the minimum comparative information requirements. (b)comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements, both face of financial statements and notes, unless another Standard requires otherwise. (c)If comparative amounts are changed or reclassified, various disclosures are required.

Since the FSC has not yet published the effective dates of the aforementioned new, revised or amended standards or interpretations issued by the IASB, the Consolidated Company cannot evaluate the impact on its financial position, financial performance and cash flows as a result of the initial adoption.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the three-month periods ended March 31, 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.

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(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.

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
			2013.3.31	2012.12.31	2012.3.31	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 August 26, 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China). As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the total numbers of employees were 589, 557, 366 and 319, respectively.

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Investor	Subsidiary	Business Nature	Ownership Interest				Notes
			2013.3.31	2012.12.31	2012.3.31	2012.1.1	
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 November 2, 2010. The Company owns 100% interest of Cathay Insurance (Vietnam). As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the total numbers of employees were 100, 97, 67 and 69, respectively.

(4) Foreign currency transactions

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

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

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

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

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

(5) Translation of financial statements in foreign currency

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

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. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Company's cash management are also included as a component of cash and cash equivalent.

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(7) Financial assets and financial liabilities

Recognition and Measurement

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

Financial assets and financial liabilities within scope of IAS 39 “Financial Instruments: Recognition and Measurement” 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.

Measurement 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:

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

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

B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, investments in debt securities with no active market, held-to-maturity financial assets, and secured loans and receivables. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Available-for-sale financial asset that would have met the definition of 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.

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C. Derivative financial assets or liabilities for hedging

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

D. Held-to-maturity financial assets

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

E. Secured loans and receivables

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

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

F. Financial liabilities

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

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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.

For less complexity financial instruments, Such as Interest rate swap contracts, Current swaps and options, The Company and Subsidiaries applies valuation techniques widely used by the market participators. The variables of these valuation techniques include mostly observable market information.

The Company and Subsidiaries adopts both self-developed and externally-developed pricing models which are consistent with accepted economic methodologies for pricing financial instruments. Such models are used on measuring derivatives, equity and instruments not quoted in an active market (including embedded derivative) and other debt instruments not publicly traded. The variable of these pricing models include unobservable inputs and thus the Company and Subsidiaries own assumptions and estimates.

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.

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

Reclassification of financial assets

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

- A. shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss.
- 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.

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Offsetting a financial asset and a financial liability

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

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

Impairment of financial assets

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

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.

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

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

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

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

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

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Derivative financial instruments

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

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

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

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

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

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

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A. Fair value hedges

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

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

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

B. Cash flow hedges

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

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C. Hedges of a net investment in a foreign operation

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

(8) Assessment of impairment for loans and receivables

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.

In addition to the foregoing assessment, the Company does refer to the "Insurance Asset Valuation and Overdue Loans and Bad Debts" requirement since January 2011 from January to the first category, net assets of life insurance loan premiums and paid for our government authorities after 0.5% credit balance, and since January 1, 2011 within three years from the date set aside enough, the second loan assets Debt balances two percent, the third loan assets Debt balance the ten percent, the fourth loan assets Debt balances fifty percent and the fifth category of loan assets and debt balances all of the minimum standards, set aside enough allowance for doubtful accounts.

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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.

The financial statements of the associate 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.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company 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.

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

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

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(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 are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life 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.

(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.

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For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the 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

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

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

A. Government bonds, not including exchangeable government bonds.

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

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

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

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

A. Treasury bills

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

C. Government bonds in a repo transaction

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

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

According to article six of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, when the Company suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves set aside for handling of this

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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 Consolidated Company defined that significant insurance risk refers to any insured event that occurs and causes the Consolidated Company to pay additional significant fees.

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

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

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(16) Reinsurance contracts assets

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

The Consolidated 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 Consolidated 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" and "Regulations for the Management of the Various Reserves for Nuclear energy insurance". Also, the booked reserves shall be validated by the certified actuarial professionals approved by Financial Supervisory Commission.

A. Unearned premium reserve

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

B. 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.

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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 January 1, 2011, they should be shown as a liability item on the balance sheet. Since January 1, 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.

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.

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b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

(18) Insurance premium revenues and the acquisition costs

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

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

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

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

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

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

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

(19) Insurance claim costs

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

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

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

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

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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 its recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under SFAS 40. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(21) Reinsurance ceded

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

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

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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.

(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.

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(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.

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 Consolidated 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

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Current income tax

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

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

Deferred tax

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

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

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

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

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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5. Significant accounting judgments, estimates and assumptions

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

(1) Judgments

In the process of applying the Consolidated 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.

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

The risk ratio of re-insurance policy = $(\Sigma \text{PV amount to assumed re-insurer occur net loss} \times \text{the ratio of occurrence} / \text{PV of premium that assumed re-insurer expected}) \times 100\%$

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

(2) Estimates and assumptions

A. Post-employment benefit

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

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

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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.

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.

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6. Contents of significant accounts

(1) Cash and cash equivalents

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$11,257	\$378	\$7,792	\$268
Cash in banks	1,491,650	50,039	1,555,534	53,547
Time deposits	3,942,933	132,269	3,968,185	136,598
Cash equivalents	389,841	13,077	145,540	5,010
Total	<u>\$5,835,681</u>	<u>\$195,763</u>	<u>\$5,677,051</u>	<u>\$195,423</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$11,030	\$374	\$7,040	\$233
Cash in banks	1,578,650	53,514	1,444,523	47,721
Time deposits	4,951,075	167,833	4,933,846	162,995
Cash equivalents	160,186	5,430	540,658	17,861
Total	<u>\$6,700,941</u>	<u>\$227,151</u>	<u>\$6,926,067</u>	<u>\$228,810</u>

(2) Receivable

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$243,523	\$8,169	\$277,728	\$9,560
Premiums receivable	2,548,840	85,503	2,869,353	98,773
Other receivable	176,084	5,907	144,530	4,975
Total	<u>\$2,968,447</u>	<u>\$99,579</u>	<u>\$3,291,611</u>	<u>\$113,308</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$270,050	\$9,154	\$254,593	\$8,411
Premiums receivable	2,392,797	81,112	2,541,899	83,974
Other receivable	145,221	4,923	112,904	3,730
Total	<u>\$2,808,068</u>	<u>\$95,189</u>	<u>\$2,909,396</u>	<u>\$96,115</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)****(3) Financial assets at fair value through profit or loss**

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$10,050	\$337	\$-	\$-
Beneficiary certificates	479,411	16,082	376,694	12,967
Derivative financial instruments	-	-	60,579	2,086
Total	<u>\$489,461</u>	<u>\$16,419</u>	<u>\$437,273</u>	<u>\$15,053</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Beneficiary certificates	\$283,504	\$9,610	\$619,455	\$20,464
Derivative financial instruments	4,239	144	-	-
Total	<u>\$287,743</u>	<u>\$9,754</u>	<u>\$619,455</u>	<u>\$20,464</u>

(4) Available-for-sale financial assets

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,406,979	\$47,198	\$1,423,602	\$49,005
Overseas stocks	60,312	2,023	83,307	2,868
Beneficiary certificates	3,485,280	116,917	2,895,043	99,657
Corporate bonds	1,203,854	40,384	1,178,127	40,555
Real Estate Investment Trust	-	-	393,138	13,533
Financial debentures	1,207,447	40,505	1,203,348	41,423
Government bonds	806,504	27,055	813,488	28,003
Overseas bonds	424,594	14,243	414,439	14,267
Total	<u>\$8,594,970</u>	<u>\$288,325</u>	<u>\$8,404,492</u>	<u>\$289,311</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,683,636	\$57,072	\$1,594,312	\$52,670
Overseas stocks	26,610	902	25,163	831
Beneficiary certificates	991,179	33,599	880,895	29,101
Corporate bonds	1,474,820	49,994	1,249,973	41,294
Real Estate Investment Trust	189,367	6,419	483,916	15,987
Financial debentures	1,200,113	40,682	900,138	29,737
Government bonds	788,430	26,727	763,221	25,214
Total	<u>\$6,354,155</u>	<u>\$215,395</u>	<u>\$5,897,618</u>	<u>\$194,834</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)

(5) Bond investments with no active market

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Preferred stocks	\$400,000	\$13,418	\$400,000	\$13,769
Company bonds	500,000	16,773	500,000	17,212
Overseas bonds	899,559	30,177	272,459	9,379
Time deposits	72,153	2,420	150,811	5,192
Total	<u>\$1,871,712</u>	<u>\$62,788</u>	<u>\$1,323,270</u>	<u>\$45,552</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Preferred stocks	\$400,000	\$13,559	\$400,000	\$13,214
Company bonds	800,000	27,119	500,000	16,518
Overseas bonds	277,115	9,394	220,809	7,294
Time deposits	70,332	2,384	72,188	2,385
Total	<u>\$1,547,447</u>	<u>\$52,456</u>	<u>\$1,192,997</u>	<u>\$39,411</u>

(6) Held-to-maturity financial assets

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Overseas bonds	<u>\$2,265,404</u>	<u>\$75,995</u>	<u>\$2,512,011</u>	<u>\$86,472</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Overseas bonds	<u>\$2,450,987</u>	<u>\$83,084</u>	<u>\$2,408,714</u>	<u>\$79,574</u>

(7) Secured loans

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Secured loans	\$596,466	\$20,009	\$595,243	\$20,490
Less: Allowance for bad debts	(73,169)	(2,455)	(73,163)	(2,518)
Net	<u>\$523,297</u>	<u>\$17,554</u>	<u>\$522,080</u>	<u>\$17,972</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)

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Secured loans	\$557,374	\$18,894	\$569,737	\$18,822
Less: Allowance for bad debts	(33,188)	(1,125)	(17,772)	(587)
Net	<u>\$524,186</u>	<u>\$17,769</u>	<u>\$551,965</u>	<u>\$18,235</u>

(8) Preferred stock liability

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

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

- A. Issuance period covers from November 11, 2011, the issue date, to November 11, 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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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(9) Insurance liabilities

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$10,316,036	\$346,060	\$10,100,374	\$347,689
Claims reserve	5,610,453	188,207	5,807,437	199,912
Special reserve	4,415,834	148,133	4,455,638	153,378
Premiums deficiency reserve	93,376	3,132	77,149	2,656
Total	<u>\$20,435,699</u>	<u>\$685,532</u>	<u>\$20,440,598</u>	<u>\$703,635</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$9,018,039	\$305,696	\$8,925,059	\$294,848
Claims reserve	5,430,565	184,087	5,364,787	177,231
Special reserve	4,787,436	162,286	4,761,102	157,288
Premiums deficiency reserve	125,711	4,262	25,025	827
Total	<u>\$19,361,751</u>	<u>\$656,331</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	March 31, 2013							
	Unearned premium reserve				Ceded unearned premium reserve			
			Assumed reinsurance business		Ceded reinsurance business		Retained business	
	Direct business		business		business		business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,835,937	\$61,588	\$61,314	\$2,057	\$800,317	\$26,847	\$1,096,934	\$36,798
Marine insurance	217,194	7,286	20,565	690	184,883	6,202	52,876	1,774
Land and air insurance	3,325,795	111,567	9,862	331	150,416	5,046	3,185,241	106,852
Liability insurance	522,914	17,542	85	3	160,189	5,374	362,810	12,171
Bonding insurance	33,067	1,109	525	17	16,925	568	16,667	558
Other property insurance	1,154,119	38,716	12,852	431	507,778	17,034	659,193	22,113
Accident insurance	1,566,106	52,536	3,806	128	79,010	2,650	1,490,902	50,014
Health insurance	89,433	3,000	-	-	756	25	88,677	2,975
Compulsory automobile liability insurance	1,274,442	42,752	188,020	6,307	490,990	16,471	971,472	32,588
Total	<u>\$10,019,007</u>	<u>\$336,096</u>	<u>\$297,029</u>	<u>\$9,964</u>	<u>\$2,391,264</u>	<u>\$80,217</u>	<u>\$7,924,772</u>	<u>\$265,843</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

December 31, 2012

Item	December 31, 2012							
	Unearned premium reserve				Ceded unearned premium			
					reserve			
	Direct business		Assumed reinsurance		Ceded reinsurance		Retained business	
business			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	\$9,805,332	\$337,533	\$295,042	\$10,156	\$2,547,036	\$87,678	\$7,553,338	\$260,011

March 31, 2012

Item	Statement of Financial Position							
	Unearned premium reserve				Ceded unearned premium			
					reserve			
	Direct business		Assumed reinsurance		Ceded reinsurance		Retained business	
business			business					
NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Fire insurance	\$1,671,782	\$56,671	\$40,299	\$1,366	\$648,992	\$22,000	\$1,063,089	\$36,037
Marine insurance	235,622	7,987	3,141	106	205,717	6,973	33,046	1,120
Land and air insurance	2,669,563	90,494	4,048	137	124,861	4,233	2,548,750	86,398
Liability insurance	460,941	15,625	249	8	147,507	5,000	313,683	10,633
Bonding insurance	29,560	1,002	548	19	12,287	417	17,821	604
Other property insurance	932,837	31,622	10,468	355	505,299	17,129	438,006	14,848
Accident insurance	1,486,643	50,395	11,527	391	82,787	2,806	1,415,383	47,980
Health insurance	125,029	4,238	-	-	2,348	79	122,681	4,159
Compulsory automobile liability insurance	1,155,736	39,177	180,046	6,103	463,141	15,700	872,641	29,580
Total	\$8,767,713	\$297,211	\$250,326	\$8,485	\$2,192,939	\$74,337	\$6,825,100	\$231,359

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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)

January 1, 2012

Item	Unearned premium reserve		Ceded unearned premium reserve		Ceded unearned premium reserve		Retained business	
	Assumed reinsurance		Ceded reinsurance					
	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

For the three months ended March 31, 2013

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

For the three months ended March 31, 2012

Item	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$8,925,059	\$302,544	\$2,254,873	\$76,436
Reserve	9,019,622	305,750	2,193,521	74,357
Recover	(8,918,865)	(302,334)	(2,252,792)	(76,366)
Effects of exchange rate changes	(7,777)	(264)	(2,663)	(90)
Ending balance	\$9,018,039	\$305,696	\$2,192,939	\$74,337

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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. Claims reserve

(a) Claims reserve and ceded claims reserve

March 31, 2013								
Item	Claims reserve				Ceded claims reserve			
	Assumed reinsurance				Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,741,313	\$125,505	\$252,802	\$8,481	\$1,432,636	\$48,059	\$2,561,479	\$85,927
Unreported claims	1,541,327	51,705	75,011	2,516	390,103	13,086	1,226,235	41,135
Total	<u>\$5,282,640</u>	<u>\$177,210</u>	<u>\$327,813</u>	<u>\$10,997</u>	<u>\$1,822,739</u>	<u>\$61,145</u>	<u>\$3,787,714</u>	<u>\$127,062</u>

December 31, 2012								
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	\$4,111,890	\$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	<u>\$5,474,182</u>	<u>\$188,440</u>	<u>\$333,255</u>	<u>\$11,472</u>	<u>\$2,014,316</u>	<u>\$69,339</u>	<u>\$3,793,121</u>	<u>\$130,573</u>

March 31, 2012								
Item	Claims reserve				Ceded claims reserve			
	Assumed reinsurance				Ceded reinsurance			
	Direct business		business		business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,881,573	\$131,579	\$218,586	\$7,410	\$1,805,804	\$61,214	\$2,294,355	\$77,775
Unreported claims	1,241,872	42,097	88,534	3,001	384,058	13,019	946,348	32,079
Total	<u>\$5,123,445</u>	<u>\$173,676</u>	<u>\$307,120</u>	<u>\$10,411</u>	<u>\$2,189,862</u>	<u>\$74,233</u>	<u>\$3,240,703</u>	<u>\$109,854</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)

January 1, 2012								
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

For the three months ended March 31, 2013								
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	(8)=(6)-(7)
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	
Claims reported but not paid off	\$3,732,738	\$4,118,236	\$252,802	\$293,676	\$(426,372)	\$1,430,082	\$1,726,155	\$(296,073)
Unreported claims	1,537,028	1,365,832	74,986	39,581	206,601	389,144	291,177	97,967
Total	<u>\$5,269,766</u>	<u>\$5,484,068</u>	<u>\$327,788</u>	<u>\$333,257</u>	<u>\$(219,771)</u>	<u>\$1,819,226</u>	<u>\$2,017,332</u>	<u>\$(198,106)</u>

For the three months ended March 31, 2013								
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	(8)=(6)-(7)
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	
Claims reported but not paid off	\$125,218	\$138,149	\$8,481	\$9,852	\$(14,302)	\$47,973	\$57,905	\$(9,932)
Unreported claims	51,561	45,818	2,515	1,328	6,930	13,054	9,768	3,286
Total	<u>\$176,779</u>	<u>\$183,967</u>	<u>\$10,996</u>	<u>\$11,180</u>	<u>\$(7,372)</u>	<u>\$61,027</u>	<u>\$67,673</u>	<u>\$(6,646)</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012

NT\$								
	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	\$3,882,364	\$4,058,365	\$218,586	\$196,679	\$(154,094)	\$1,806,020	\$1,895,595	\$(89,575)
Unreported claims	1,242,935	1,055,351	88,551	47,502	228,633	384,568	276,906	107,662
Total	<u>\$5,125,299</u>	<u>\$5,113,716</u>	<u>\$307,137</u>	<u>\$244,181</u>	<u>\$74,539</u>	<u>\$2,190,588</u>	<u>\$2,172,501</u>	<u>\$18,087</u>

For the three months ended March 31, 2012

US\$								
	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	\$131,606	\$137,572	\$7,409	\$6,667	\$(5,224)	\$61,221	\$64,257	\$(3,036)
Unreported claims	42,133	35,775	3,002	1,610	7,750	13,036	9,387	3,649
Total	<u>\$173,739</u>	<u>\$173,347</u>	<u>\$10,411</u>	<u>\$8,277</u>	<u>\$2,526</u>	<u>\$74,257</u>	<u>\$73,644</u>	<u>\$613</u>

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

March 31, 2013						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$912,599	\$30,614	\$41,081	\$1,378	\$953,680	\$31,992
Marine insurance	691,742	23,205	331,488	11,120	1,023,230	34,325
Land and air insurance	733,689	24,612	579,196	19,429	1,312,885	44,041
Liability insurance	250,715	8,410	321,740	10,793	572,455	19,203
Bonding insurance	18,490	620	1,747	59	20,237	679
Other property insurance	509,360	17,087	147,357	4,943	656,717	22,030
Accident insurance	57,773	1,938	148,788	4,991	206,561	6,929
Health insurance	7,467	251	22,555	757	30,022	1,008
Compulsory automobile liability insurance	812,280	27,249	22,386	751	834,666	28,000
Total	<u>\$3,994,115</u>	<u>\$133,986</u>	<u>\$1,616,338</u>	<u>\$54,221</u>	<u>\$5,610,453</u>	<u>\$188,207</u>

December 31, 2012						
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>

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)**

March 31, 2012						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,872,364	\$63,470	\$230,743	\$7,822	\$2,103,107	\$71,292
Marine insurance	660,206	22,380	236,943	8,032	897,149	30,412
Land and air insurance	439,140	14,886	451,366	15,301	890,506	30,187
Liability insurance	241,704	8,194	65,503	2,220	307,207	10,414
Bonding insurance	20,866	707	6,491	220	27,357	927
Other property insurance	306,940	10,405	78,425	2,658	385,365	13,063
Accident insurance	152,961	5,185	210,111	7,122	363,072	12,307
Health insurance	9,536	323	30,075	1,020	39,611	1,343
Compulsory automobile liability insurance	396,442	13,439	20,749	703	417,191	14,142
Total	<u>\$4,100,159</u>	<u>\$138,989</u>	<u>\$1,330,406</u>	<u>\$45,098</u>	<u>\$5,430,565</u>	<u>\$184,087</u>

January 1, 2012						
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>

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) Reinsurance asset- ceded claims reserve for policyholder

March 31, 2013						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$333,561	\$11,190	\$9,411	\$316	\$342,972	\$11,506
Marine insurance	528,873	17,741	243,339	8,163	772,212	25,904
Land and air insurance	51,787	1,737	15,681	526	67,468	2,263
Liability insurance	65,127	2,185	82,085	2,753	147,212	4,938
Bonding insurance	18,069	606	1,027	34	19,096	640
Other property insurance	144,088	4,833	17,969	603	162,057	5,436
Accident insurance	3,148	106	12,640	424	15,788	530
Health insurance	-	-	301	10	301	10
Compulsory automobile liability insurance	287,983	9,661	7,650	257	295,633	9,918
Total	<u>\$1,432,636</u>	<u>\$48,059</u>	<u>\$390,103</u>	<u>\$13,086</u>	<u>\$1,822,739</u>	<u>\$61,145</u>

December 31, 2012						
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>

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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)

March 31, 2012						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$943,281	\$31,976	\$158,004	\$5,356	\$1,101,285	\$37,332
Marine insurance	463,787	15,722	141,847	4,808	605,634	20,530
Land and air insurance	21,561	731	10,257	348	31,818	1,079
Liability insurance	92,693	3,142	23,587	800	116,280	3,942
Bonding insurance	18,928	642	717	24	19,645	666
Other property insurance	117,264	3,975	13,557	460	130,821	4,435
Accident insurance	23,639	801	27,542	934	51,181	1,735
Health insurance	-	-	1,306	44	1,306	44
Compulsory automobile liability insurance	124,651	4,225	7,241	245	131,892	4,470
Total	<u>\$1,805,804</u>	<u>\$61,214</u>	<u>\$384,058</u>	<u>\$13,019</u>	<u>\$2,189,862</u>	<u>\$74,233</u>

January 1, 2012						
Ceded claims reserve						
Item	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>

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

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

Item	For the three months ended March 31, 2012			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,364,787	\$181,857	\$2,175,269	\$73,738
Reserve	5,432,436	184,150	2,190,588	74,257
Recover	(5,357,897)	(181,624)	(2,172,501)	(73,644)
Effects of exchange rate changes	(8,761)	(296)	(3,494)	(118)
Ending balance	<u>\$5,430,565</u>	<u>\$184,087</u>	<u>\$2,189,862</u>	<u>\$74,233</u>

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

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

Item	For the three months ended March 31, 2012	
	NT\$	US\$
Beginning balance	\$2,434,892	\$82,539
Reserve	51,643	1,750
Recover	(20,083)	(681)
Ending balance	<u>\$2,466,452</u>	<u>\$83,608</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)****(b) Special reserve - Non-compulsory automobile liability insurance**

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

For the three months ended March 31, 2012						
Item	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,172,396	\$39,742	\$1,153,814	\$39,113	\$2,326,210	\$78,855
Reserve	-	-	-	-	-	-
Recover	-	-	(5,226)	(177)	(5,226)	(177)
Ending balance	<u>\$1,172,396</u>	<u>\$39,742</u>	<u>\$1,148,588</u>	<u>\$38,936</u>	<u>\$2,320,984</u>	<u>\$78,678</u>

According to “Precautions of Strengthening disaster insurance of property insurance industry (commercial earthquake and typhoon flood insurance)”, result in the Company had not complemented commercial earthquake and typhoon flood insurance yet, the special reserve can’t be transferred to special capital reserve, and had no impact in profit and loss.

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. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

	March 31, 2013							
	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	\$3,412	\$114	\$20	\$1	\$-	\$-	\$3,432	\$115
Marine insurance	8,333	280	922	31	(11,622)	(390)	20,877	701
Land and air insurance	-	-	5,775	194	-	-	5,775	194
Liability insurance	18,730	628	8	-	210	7	18,528	621
Bonding insurance	6,239	209	-	-	6,082	204	157	5
Other property insurance	42,058	1,411	313	10	20	1	42,351	1,420
Accident insurance	-	-	167	6	-	-	167	6
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	7,399	248	-	-	-	-	7,399	248
Total	\$86,171	\$2,890	\$7,205	\$242	\$(5,310)	\$(178)	\$98,686	\$3,310

	December 31, 2012							
	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

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)

	March 31, 2012							
	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	\$28,487	\$966	\$92	\$3	\$28,579	\$969	\$-	\$-
Marine insurance	345	12	32	1	(10,772)	(365)	11,149	378
Land and air insurance	-	-	488	17	(170)	(6)	658	23
Liability insurance	6	-	40	1	41	1	5	-
Bonding insurance	47	2	2	-	2	-	47	2
Other property insurance	96,086	3,257	86	3	90,837	3,079	5,335	181
Accident insurance	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-
Total	<u>\$124,971</u>	<u>\$4,237</u>	<u>\$740</u>	<u>\$25</u>	<u>\$108,517</u>	<u>\$3,678</u>	<u>\$17,194</u>	<u>\$584</u>
	January 1, 2012							
	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	<u>\$24,417</u>	<u>\$807</u>	<u>\$608</u>	<u>\$20</u>	<u>\$6,136</u>	<u>\$203</u>	<u>\$18,889</u>	<u>\$624</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)

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

For the three months ended March 31, 2013									
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	\$3,357	\$6,254	\$19	\$24	\$(2,902)	\$-	\$-	\$-	\$(2,902)
Marine insurance	8,331	9,325	922	726	(798)	(11,623)	(7,183)	(4,440)	3,642
Land and air insurance	-	-	5,775	9,319	(3,544)	-	-	-	(3,544)
Liability insurance	18,431	13,225	8	10	5,204	207	-	207	4,997
Bonding insurance	6,236	2,205	-	-	4,031	6,082	2,096	3,986	45
Other property insurance	41,385	36,132	308	441	5,120	20	34	(14)	5,134
Accident insurance	-	-	165	196	(31)	-	-	-	(31)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	7,281	-	-	-	7,281	-	-	-	7,281
Total	<u>\$85,021</u>	<u>\$67,141</u>	<u>\$7,197</u>	<u>\$10,716</u>	<u>\$14,361</u>	<u>\$(5,314)</u>	<u>\$(5,053)</u>	<u>\$(261)</u>	<u>\$14,622</u>

For the three months ended March 31, 2013									
US\$									
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	\$113	\$210	\$1	\$1	\$(97)	\$-	\$-	\$-	\$(97)
Marine insurance	280	313	31	24	(26)	(390)	(241)	(149)	123
Land and air insurance	-	-	194	313	(119)	-	-	-	(119)
Liability insurance	618	444	-	-	174	7	-	7	167
Bonding insurance	209	74	-	-	135	204	70	134	1
Other property insurance	1,388	1,212	10	15	171	1	1	-	171
Accident insurance	-	-	6	6	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	244	-	-	-	244	-	-	-	244
Total	<u>\$2,852</u>	<u>\$2,253</u>	<u>\$242</u>	<u>\$359</u>	<u>\$482</u>	<u>\$(178)</u>	<u>\$(170)</u>	<u>\$(8)</u>	<u>\$490</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)

For the three months ended March 31, 2012

Item	NT\$								
	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	\$28,487	\$-	\$92	\$432	\$28,147	\$28,579	\$(5,485)	\$34,064	\$(5,917)
Marine insurance	348	9,806	32	55	(9,481)	(10,772)	1,867	(12,639)	3,158
Land and air insurance	-	-	488	2	486	(170)	(1,480)	1,310	(824)
Liability insurance	6	-	40	49	(3)	41	49	(8)	5
Bonding insurance	47	11,292	2	6	(11,249)	2	11,185	(11,183)	(66)
Other property insurance	96,111	3,245	86	54	92,898	90,837	-	90,837	2,061
Accident insurance	-	-	-	11	(11)	-	-	-	(11)
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$124,999	\$24,343	\$740	\$609	\$100,787	\$108,517	\$6,136	\$102,381	\$(1,594)

For the three months ended March 31, 2012

Item	US\$								
	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	\$966	\$-	\$3	\$15	\$954	\$969	\$(186)	\$1,155	\$(201)
Marine insurance	12	332	1	2	(321)	(365)	63	(428)	107
Land and air insurance	-	-	17	-	17	(6)	(50)	44	(27)
Liability insurance	-	-	1	2	(1)	1	2	(1)	-
Bonding insurance	1	383	-	-	(382)	-	379	(379)	(3)
Other property insurance	3,258	110	3	2	3,149	3,079	-	3,079	70
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$4,237	\$825	\$25	\$21	\$3,416	\$3,678	\$208	\$3,470	\$(54)

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

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

Item	For the three months ended March 31, 2012			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$25,025	\$849	\$6,136	\$208
Reserve	125,739	4,262	108,517	3,678
Recover	(24,952)	(846)	(6,136)	(208)
Effects of exchange rate changes	(101)	(3)	-	-
Ending balance	<u>\$125,711</u>	<u>\$4,262</u>	<u>\$108,517</u>	<u>\$3,678</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.

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(10) 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.

Expenses under the defined contribution plan for the three-month period ended March 31, 2013 and 2012 are NT\$13,195 (US\$443) thousands and NT\$11,293(US\$383) thousands, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The 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.

Pension costs amounted to NT\$9,316(US\$313) thousands and NT\$8,033(US\$273) thousands were recognized for the three-month period ended March 31, 2013 and 2012.

The benefit expense under the defined benefit plan for the three-month period ended March 31, 2013 was classified under marketing expenses and general and administrative expenses, which amounted to NT\$6,521(US\$219) thousands and NT\$2,795(US\$94) thousands, respectively. The benefit expense under the defined benefit plan for the three-month period ended March 31, 2012 was classified under operating costs, selling expenses, administrative expenses and research and development expenses, which amounted to NT\$5,623(US\$191) thousands and NT\$2,410(US\$82) thousands, respectively.

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

	December 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Defined benefit obligation	\$(625,367)	\$(21,527)	\$(572,462)	\$(18,912)
Plan assets at fair value	348,590	12,000	312,974	10,339
Funded status	(276,777)	(9,527)	(259,488)	(8,573)
Unrecognized pension cost	-	-	-	-
Unrecognized past service income	28,827	992	-	-
Accrued pension liabilities recognized on the consolidated balance sheets	<u>\$(247,950)</u>	<u>\$(8,535)</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 December 31, 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 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 December 31, 2012	
	NT\$	US\$
Beginning fair value of plan assets	\$312,974	\$10,774
Expected return on plan assets	5,370	185
Contributions by employer	35,467	1,221
Benefits paid	(3,864)	(133)
Actuarial losses	(1,357)	(47)
Ending fair value of plan assets	<u>\$348,590</u>	<u>\$12,000</u>

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The Company expects to contribute NT\$35,386(US\$1,187) thousands to its defined benefit plan during the 12 months beginning after March 31, 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	
	December 31, 2012	January 1, 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 December 31, 2012, the actual amount of plan assets is NT\$4,012 (US\$138) thousands.

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:

	December 31, 2012	January 1, 2012
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:

	For the year ended December 31, 2012			
	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:

	For the year ended December 31, 2012	
	NT\$	US\$
Defined benefit obligation at present value	\$(625,367)	\$(21,527)
Plan assets at fair value	348,590	12,000
Surplus (deficit) in plan	(276,777)	(9,527)
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	-	-

(11) Common stock

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the authorized and issued shares were 252,295 thousands, 252,295 thousands, 23,701 thousands, and 231,701 thousands shares with par value of NT\$10 each.

As recommended and approved by the board meeting of directors on April 24, 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 June 8, 2012.

(12) 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.

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B. Special capital reserve

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

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

Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special capital reserve under equity at the end of the year. For the three months ended March 31, 2013, the reserves amounted to NT\$869,978 (US\$29,184) thousands.

C. Retained earnings

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

The Company accrued profit sharing to employees based on certain percentage of net income seated in the article of corporation after considering the legal reserve, which amount to \$0 (US\$0) for the three months ended March 31, 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.

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(13) Non-controlling interests

	For the three months ended March 31			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$300,290	\$10,073	\$629,070	\$21,324
Loss attributable to non-controlling interests	(46,762)	(1,569)	(41,314)	(1,400)
Other comprehensive income, attributable to non-controlling interests, net of tax:				
Exchange differences resulting from translating the financial statements of a foreign operation	8,070	271	(16,382)	(555)
Unrealized gains from available-for-sale financial assets	1,807	61	4,437	150
Ending balance	<u>\$263,405</u>	<u>\$8,836</u>	<u>\$575,811</u>	<u>\$19,519</u>

(14) Retained earned premium

Item	For the three months ended March 31, 2013					
	NT\$					
	Direct premium income	Reinsurance premium income	Reinsurance premiums ceded	Retained premiums	Net change for unearned premiums reserve	Retained earned premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)
Fire insurance	\$502,289	\$23,412	\$376,250	\$149,451	\$(146,905)	\$296,356
Marine insurance	166,710	12,879	121,211	58,378	2,291	56,087
Land and air insurance	1,557,838	928	58,106	1,500,660	375,227	1,125,433
Liability insurance	249,218	1	76,425	172,794	16,553	156,241
Bonding insurance	22,344	479	14,519	8,304	(1,231)	9,535
Other property insurance	353,720	8,674	70,342	292,052	3,369	288,683
Accident insurance	622,656	1,609	35,812	588,453	42,087	546,366
Health insurance	35,147	-	301	34,846	1,729	33,117
Compulsory automobile liability insurance	801,693	68,029	204,931	664,791	65,069	599,722
Total	<u>\$4,311,615</u>	<u>\$116,011</u>	<u>\$957,897</u>	<u>\$3,469,729</u>	<u>\$358,189</u>	<u>\$3,111,540</u>

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(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2013						
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	\$16,850	\$786	\$12,622	\$5,014	\$(4,928)	\$9,942
Marine insurance	5,592	432	4,066	1,958	77	1,881
Land and air insurance	52,259	31	1,949	50,341	12,588	37,753
Liability insurance	8,360	-	2,564	5,796	555	5,241
Bonding insurance	750	16	487	279	(41)	320
Other property insurance	11,866	291	2,360	9,797	113	9,684
Accident insurance	20,887	54	1,201	19,740	1,412	18,328
Health insurance	1,179	-	10	1,169	58	1,111
Compulsory automobile liability insurance	26,893	2,282	6,874	22,301	2,182	20,119
Total	<u>\$144,636</u>	<u>\$3,892</u>	<u>\$32,133</u>	<u>\$116,395</u>	<u>\$12,016</u>	<u>\$104,379</u>

For the three months ended March 31, 2012						
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	\$513,636	\$16,286	\$310,017	\$219,905	\$(46,846)	\$266,751
Marine insurance	189,220	3,381	158,132	34,469	(7,271)	41,740
Land and air insurance	1,147,215	1,670	20,006	1,128,879	218,703	910,176
Liability insurance	257,315	328	94,673	162,970	35,990	126,980
Bonding insurance	21,116	349	12,281	9,184	(517)	9,701
Other property insurance	268,886	2,976	115,087	156,775	26,734	130,041
Accident insurance	556,827	2,258	46,890	512,195	(46,509)	558,704
Health insurance	26,922	-	954	25,968	(22,545)	48,513
Compulsory automobile liability insurance	665,381	65,379	183,382	547,378	2,289	545,089
Total	<u>\$3,646,518</u>	<u>\$92,627</u>	<u>\$941,422</u>	<u>\$2,797,723</u>	<u>\$160,028</u>	<u>\$2,637,695</u>

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(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012						
US\$						
Item	Direct premium income	Reinsurance premium income	Reinsurance premiums ceded	Retained premiums	Net change for unearned premiums reserve	Retained earned premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)
Fire insurance	\$17,411	\$552	\$10,509	\$7,454	\$(1,587)	\$9,041
Marine insurance	6,414	115	5,361	1,168	(246)	1,414
Land and air insurance	38,889	57	678	38,268	7,414	30,854
Liability insurance	8,723	11	3,209	5,525	1,219	4,306
Bonding insurance	716	12	416	312	(18)	330
Other property insurance	9,115	101	3,901	5,315	907	4,408
Accident insurance	18,875	76	1,590	17,361	(1,576)	18,937
Health insurance	913	-	33	880	(765)	1,645
Compulsory automobile liability insurance	22,555	2,216	6,216	18,555	77	18,478
Total	\$123,611	\$3,140	\$31,913	\$94,838	\$5,425	\$89,413

(15) Retained claim paid

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

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

For the three months ended March 31, 2012				
Item	NT\$			
	Insurance claims paid	Reinsurance claims paid	Claims recovered from reinsurers	Retained claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$263,046	\$73	\$114,765	\$148,354
Marine insurance	68,733	4,504	23,806	49,431
Land and air insurance	632,230	1,165	18,225	615,170
Liability insurance	41,454	113	3,029	38,538
Bonding insurance	688	8	(2,074)	2,770
Other property insurance	61,445	1,024	3,477	58,992
Accident insurance	218,278	2,586	17,596	203,268
Health insurance	41,886	-	400	41,486
Compulsory automobile liability insurance	416,125	43,689	162,896	296,918
Total	\$1,743,885	\$53,162	\$342,120	\$1,454,927

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$8,917	\$2	\$3,890	\$5,029
Marine insurance	2,330	153	807	1,676
Land and air insurance	21,432	39	618	20,853
Liability insurance	1,405	4	103	1,306
Bonding insurance	23	-	(70)	93
Other property insurance	2,083	35	118	2,000
Accident insurance	7,399	88	596	6,891
Health insurance	1,420	-	13	1,407
Compulsory automobile liability insurance	14,106	1,481	5,522	10,065
Total	\$59,115	\$1,802	\$11,597	\$49,320

(16) Components of other comprehensive income

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

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

For the three months ended March 31, 2012					
NT\$					
	Reclassification	Other	Income tax relating to	Other	
Arising	adjustments	comprehensive	components of other	comprehensive	
during the	during the	income, before	comprehensive	income, net of	
period	period	tax	income	tax	
Exchange differences on translation					
foreign operations	\$(38,797)	\$-	\$(38,797)	\$-	\$(38,797)
Unrealized gains (losses) on					
available-for-sale financial assets	133,150	(107,493)	25,657	-	25,657
Gains (losses) on cash flow hedges	(2,510)	-	(2,510)	-	(2,510)
Share of other comprehensive income					
of associates and joint ventures					
accounted for using the equity					
method	1	-	1	-	1
Total of other comprehensive income	\$91,844	\$(107,493)	\$(15,649)	\$-	\$(15,649)

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For the three months ended March 31, 2012					
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 on translation foreign operations	\$ (1,315)	\$ -	\$ (1,315)	\$ -	\$ (1,315)
Unrealized gains (losses) on available-for-sale financial assets	4,514	(3,644)	870	-	870
Gains (losses) on cash flow hedges	(85)	-	(85)	-	(85)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	\$ 3,114	\$ (3,644)	\$ (530)	\$ -	\$ (530)

(17) Personnel, depreciation, depletion and amortization expenses

Item	For the three months ended March 31, 2013 (NT\$)			For the three months ended March 31, 2012 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$ -	\$ 512,472	\$ 512,472	\$ -	\$ 417,682	\$ 417,682
Labor & health insurance expenses	-	36,479	36,479	-	28,902	28,902
Pension expenses	-	22,511	22,511	-	19,326	19,326
Other expenses	-	16,012	16,012	-	10,918	10,918
Depreciation	-	19,448	19,448	-	19,946	19,946
Amortization	-	6,737	6,737	-	4,660	4,660

Item	For the three months ended March 31, 2013 (US\$)			For the three months ended March 31, 2012 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$ -	\$ 17,191	\$ 17,191	\$ -	\$ 14,159	\$ 14,159
Labor & health insurance expenses	-	1,224	1,224	-	980	980
Pension expenses	-	755	755	-	655	655
Other expenses	-	537	537	-	370	370
Depreciation	-	652	652	-	676	676
Amortization	-	226	226	-	158	158

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(18) Income tax

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

Income tax expense (income) recognized in profit or loss

	For the three months ended March 31,			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Current income tax expense (income):				
Current income tax charge	\$50,660	\$1,699	\$32,074	\$1,087
Deferred tax expense (income):				
Deferred tax expense (income)				
related to origination and reversal				
of temporary differences	(7,125)	(239)	13,079	444
Total income tax expense	<u>\$43,535</u>	<u>\$1,460</u>	<u>\$45,153</u>	<u>\$1,531</u>

Income tax related to components of other comprehensive income

	For the three months ended March 31,			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from				
available-for-sale financial assets	<u>\$8,115</u>	<u>\$272</u>	<u>\$-</u>	<u>\$-</u>

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

	For the three months ended March 31,			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Accounting profit before tax from continuing operations	<u>\$199,287</u>	<u>\$6,685</u>	<u>\$276,389</u>	<u>\$9,369</u>
At the Company's statutory income tax rate of 17%	\$41,828	\$1,403	\$54,010	\$1,831
Tax effect of expenses not deductible for tax purposes	1,153	39	(8,949)	(303)
Tax effect of revenues exempt from taxation	99	3	92	3
Tax effect of deferred tax assets/liabilities	455	15	-	-
Total income tax expense recognized in profit or loss	<u>\$43,535</u>	<u>\$1,460</u>	<u>\$45,153</u>	<u>\$1,531</u>

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Notes to unaudited consolidated financial statements (continued)

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Deferred tax assets (liabilities) relate to the following:

For the three months ended March 31, 2013					
NT\$					
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	\$ (17,949)	\$17,949	\$-	\$-	\$-
Revaluations of available-for-sale investments to fair value	-	-	(8,115)	-	(8,115)
Revaluations of financial liabilities at fair value through profit or loss	-	26,419	-	-	26,419
Employee benefits liability	42,607	(383)	-	-	42,224
Unrealized exchange (gain)loss	19,121	(37,508)	-	(7)	(18,394)
Loss on uncollectable accounts	18,666	648	-	-	19,314
Deferred tax income expense		\$7,125	\$(8,115)	\$(7)	
Net deferred tax assets/(liabilities)	\$62,445				\$61,448
Reflected in balance sheet as follows:					
Deferred tax assets	\$ 80,750				\$87,957
Deferred tax liabilities	\$ (18,305)				\$ (26,509)

For the three months ended March 31, 2013					
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	\$ (602)	\$602	\$-	\$-	\$-
Revaluations of available-for-sale investments to fair value	-	-	(272)	-	(272)
Revaluations of financial liabilities at fair value through profit or loss	-	886	-	-	886
Employee benefits liability	1,430	(13)	-	-	1,417
Unrealized exchange (gain)loss	641	(1,258)	-	-	(617)
Loss on uncollectable accounts	626	22	-	-	648
Deferred tax income expense		\$239	\$(272)	\$-	
Net deferred tax assets/(liabilities)	\$2,095				\$2,062
Reflected in balance sheet as follows:					
Deferred tax assets	\$ 2,709				\$2,951
Deferred tax liabilities	\$ (614)				\$ (889)

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For the three months ended March 31, 2012				
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	\$ -	\$(8,371)	\$-	\$(8,371)
Revaluations of financial liabilities at fair value through profit or loss	38,387	(38,387)	-	-
Employee benefits liability	44,113	(567)	-	43,546
Unrealized exchange (gain)loss	(22,311)	34,023	32	11,744
Loss on uncollectable accounts	19,369	223		19,592
Unused tax credits	3,625	-	-	3,625
Deferred tax income expense		\$(13,079)	\$32	
Net deferred tax assets/(liabilities)	\$83,183			\$70,136
Reflected in balance sheet as follows:				
Deferred tax assets	\$ 105,494			\$80,668
Deferred tax liabilities	\$ (22,311)			\$ (10,532)

For the three months ended March 31, 2012				
US\$				
	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	\$ -	\$(284)	\$-	\$(284)
Revaluations of financial liabilities at fair value through profit or loss	1,302	(1,302)	-	-
Employee benefits liability	1,495	(19)	-	1,476
Unrealized exchange (gain)loss	(756)	1,153	1	398
Loss on uncollectable accounts	657	8		665
Unused tax credits	123	-	-	123
Deferred tax income expense		\$(444)	\$1	
Net deferred tax assets/(liabilities)	\$2,821			\$2,378
Reflected in balance sheet as follows:				
Deferred tax assets	\$ 3,577			\$2,735
Deferred tax liabilities	\$ (756)			\$ (357)

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Unrecognized deferred tax assets

As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to NT\$128,961 (US\$4,326) thousands, NT\$122,863 (US\$4,229) thousands, NT\$70,870 (US\$2,402) thousands and NT\$59,705(US\$1,972) thousands, respectively.

Imputation credit information

NT\$	Mar. 31,2013	Dec. 31, 2012	Mar. 31,2012	Jan. 1, 2012
Balances of imputation credit amounts	\$5,924	\$5,924	\$8,203	\$8,203
US\$	Mar. 31,2013	Dec. 31, 2012	Mar. 31,2012	Jan. 1, 2012
Balances of imputation credit amounts	\$199	\$204	\$278	\$271

The expected creditable ratio for 2012 and the actual creditable ratio for 2011 were 2.08% and 2.16%, respectively.

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

The assessment of income tax returns

As of March 31, 2013, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns	Notes
The Company	Assessed and approved up to 2006	

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(19) 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.

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

	For the three months ended March 31,	
	2013	2012
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$202,514	\$272,550
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	252,295	252,295
Basic earnings per share (NT\$)	\$0.80	\$1.08

	For the three months ended March 31,	
	2013	2012
Profit attributable to ordinary equity holders of the Company (in thousand US\$)	\$6,794	\$9,239
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	252,295	252,295
Basic earnings per share (US\$)	\$0.03	\$0.04

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Notes to unaudited consolidated financial statements (continued)

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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.

(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.

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(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 :

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

(D) Business unit

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

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

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

- (a) To identify risk and report risk exposure.
- (b) To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.
- (c) To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
- (d) To oversee risk exposure and report when over-limit occur, including measures taken against it.

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- (e) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
- (f) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of the Company.
- (g) To assist in collecting information regarding operation risk.

(E) Internal audit room

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

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

(A) Risks reporting

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

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(Expressed in thousands of dollars unless otherwise stated)

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.

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

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

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

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

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(Expressed in thousands of dollars unless otherwise stated)

Item	2013		2012	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$673,000	\$22,576	\$613,000	\$21,102
Marine insurance	673,000	22,576	613,000	21,102
Engineering insurance	673,000	22,576	613,000	21,102
Other property insurance	673,000	22,576	613,000	21,102
Automobile insurance	673,000	22,576	613,000	21,102
Health and injury insurance	673,000	22,576	613,000	21,102

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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Notes to unaudited consolidated financial statements (continued)

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(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)			
	NT\$			
	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Fire insurance	\$369,777	\$665,154	\$329,374	\$342,994
Marine insurance	286,175	369,048	506,840	477,307
Land and air insurance	777,943	748,157	528,512	638,561
Liability insurance	175,841	217,416	164,658	135,547
Bonding insurance	22,296	13,983	17,716	11,456
Other property insurance	342,604	345,181	426,702	440,887
Accident insurance	316,196	288,526	237,806	235,275
Health insurance	21,391	22,994	9,222	87,566
Compulsory automobile liability insurance	302,973	268,872	240,954	251,058
Total	2,615,196	2,939,331	2,461,784	2,620,651
Less: Allowance for bad debts	(66,356)	(69,978)	(68,987)	(78,752)
Net	<u>\$2,548,840</u>	<u>\$2,869,353</u>	<u>\$2,392,797</u>	<u>\$2,541,899</u>

Item	Premiums receivable(Note)			
	US\$			
	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Fire insurance	\$12,404	\$22,897	\$11,165	\$11,331
Marine insurance	9,600	12,704	17,181	15,768
Land and air insurance	26,097	25,754	17,916	21,096
Liability insurance	5,899	7,484	5,582	4,478
Bonding insurance	748	481	601	378
Other property insurance	11,493	11,882	14,464	14,565
Accident insurance	10,607	9,932	8,061	7,773
Health insurance	718	792	313	2,893
Compulsory automobile liability insurance	10,163	9,255	8,168	8,294
Total	87,729	101,181	83,451	86,576
Less: Allowance for bad debts	(2,226)	(2,408)	(2,339)	(2,602)
Net	<u>\$85,503</u>	<u>\$98,773</u>	<u>\$81,112</u>	<u>\$83,974</u>

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Note : As of March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the receivables included overdue receivables amounted to NT\$419,858 (US\$14,084) thousands, NT\$497,914(US\$17,140) thousands, NT\$407,165 (US\$13,802) thousands and NT\$281,695 (US\$9,306) thousands, the allowance for bad debts amounted to NT\$33,963 (US\$1,139) thousands, NT\$31,767 (US\$1,094) thousands, NT\$36,237 (US\$1,228) thousands and NT\$42,183 (US\$1,394) thousands.

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

Item	Claims reported and paid off			
	NT\$			
	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Fire insurance	\$117,859	\$241,267	\$51,948	\$76,577
Marine insurance	71,666	42,699	25,764	58,775
Land and air insurance	18,794	40,214	19,008	18,463
Liability insurance	18,415	13,506	4,613	14,907
Bonding insurance	125	8	(170)	2,406
Other property insurance	9,069	8,231	9,435	25,509
Accident insurance	11,412	23,435	18,568	17,873
Health insurance	-	-	-	-
Compulsory automobile liability insurance	131,557	144,232	127,509	53,741
Total	378,897	513,592	256,675	268,251
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$378,897</u>	<u>\$513,592</u>	<u>\$256,675</u>	<u>\$268,251</u>

Item	Claims reported and paid off			
	US\$			
	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Fire insurance	\$3,954	\$8,305	\$1,761	\$2,530
Marine insurance	2,404	1,470	873	1,942
Land and air insurance	630	1,385	644	610
Liability insurance	618	465	157	493
Bonding insurance	4	-	(6)	79
Other property insurance	304	283	320	843
Accident insurance	383	807	630	590
Health insurance	-	-	-	-
Compulsory automobile liability insurance	4,413	4,965	4,322	1,775
Total	12,710	17,680	8,701	8,862
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$12,710</u>	<u>\$17,680</u>	<u>\$8,701</u>	<u>\$8,862</u>

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Item	March 31, 2013					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$4,294	\$144	\$8,386	\$281	\$12,680	\$425
Marine insurance	1,337	45	7,738	260	9,075	305
Land and air insurance	2,950	99	90,515	3,037	93,465	3,136
Liability insurance	8,407	282	5,873	197	14,280	479
Bonding insurance	100	3	111	4	211	7
Other property insurance	37,888	1,271	8,981	301	46,869	1,572
Accident insurance	-	-	31,443	1,055	31,443	1,055
Health insurance	469	16	4,902	164	5,371	180
Compulsory automobile liability insurance	93,697	3,143	93,697	3,143	187,394	6,286
Total	<u>\$149,142</u>	<u>\$5,003</u>	<u>\$251,646</u>	<u>\$8,442</u>	<u>\$400,788</u>	<u>\$13,445</u>

Item	December 31, 2012					
	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>

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Item	March 31, 2012					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$15,447	\$524	\$7,287	\$247	\$22,734	\$771
Marine insurance	6,279	213	4,587	155	10,866	368
Land and air insurance	1,572	53	73,298	2,485	74,870	2,538
Liability insurance	4,216	143	4,905	166	9,121	309
Bonding insurance	1,543	52	98	3	1,641	55
Other property insurance	14,904	505	9,012	306	23,916	811
Accident insurance	-	-	27,752	941	27,752	941
Health insurance	-	-	5,724	194	5,724	194
Compulsory automobile liability insurance	78,884	2,674	-	-	78,884	2,674
Total	\$122,845	\$4,164	\$132,663	\$4,497	\$255,508	\$8,661

Item	January 1, 2012					
	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	\$135,923	\$4,490	\$174,625	\$5,769	\$310,548	\$10,259

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

Item	March 31, 2013			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the				
R.O.C	\$54,534	\$1,829	\$213,579	\$7,165
Jia Peng Re	22,338	749	28,504	956
Best Re	28,598	959	19,236	645
Central Re	51,920	1,742	97,090	3,257
Elite	27,628	927	25,466	854
FP Marine	110,702	3,714	101,488	3,404
Guy Carpenter	44,307	1,486	114,780	3,850
Hannover Re	23,239	780	48,107	1,614
Korean Re	57,145	1,917	60,613	2,034
Swiss Re	1,803	60	79,147	2,655
Willis	1,642	55	53,133	1,782
Wilson Re	44,429	1,491	8,992	302
Zurich	364	12	74,163	2,488
Others	214,852	7,207	403,252	13,527
Total	683,501	22,928	1,327,550	44,533
Less: Allowance for bad debts	(6,272)	(210)	-	-
Net	\$677,229	\$22,718	\$1,327,550	\$44,533

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Item	December 31, 2012			
	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 & OMPANY.LTD	-	-	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	March 31, 2012			
	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	\$52,860	\$1,792	\$203,754	\$6,907
Taian	33,418	1,133	10,729	364
Fubon	53,263	1,805	1,510	51
Huanan	29,678	1,006	6,791	230
Tokio Marine	19,913	675	9,627	326
Best Re	22,831	774	21,292	722
Central Re	80,056	2,714	142,571	4,833
Everest Re	46,058	1,561	33,835	1,147
FP Marine	36,146	1,225	74,887	2,539
Guy Carpenter	1,198	40	113,910	3,861
Korean Re	39,497	1,339	60,152	2,039
Marsh	24,775	840	47,784	1,620
Sompo Japan Re	21,482	728	69,603	2,359
Swiss Re	1,494	51	76,077	2,579
Willis	25	1	45,968	1,558
Zurich	19	1	64,219	2,177
Others	197,260	6,687	345,949	11,727
Total	659,973	22,372	1,328,658	45,039
Less: Allowance for bad debts	(45,005)	(1,526)	-	-
Net	\$614,968	\$20,846	\$1,328,658	\$45,039

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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)

Item	January 1, 2012			
	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 March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$419,858(US\$14,084) thousands, NT\$54,939(US\$1,891) thousands, NT\$45,005(US\$1,526) thousands and NT\$52,091(US\$1,721) thousands, the allowance for bad debts amounted to NT\$33,963(US\$1,139) thousands, NT\$5,494(US\$189) thousands, NT\$45,005(US\$1,526) thousands and NT\$52,091 (US\$1,721) thousands.

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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)

(3) Information of management achievements

A. Acquisition cost for insurance contracts

For the three months ended March 31, 2013						
NT\$						
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$12,466	\$1,050	\$9,305	\$151	\$18,891	\$41,863
Marine insurance	3,289	723	929	1,018	17,243	23,202
Land and air insurance	5,865	698	-	358	200,275	207,196
Liability insurance	7,221	516	17,024	28	14,059	38,848
Bonding insurance	326	8	107	-	393	834
Other property insurance	2,536	365	32,332	1,918	19,617	56,768
Accident insurance	3,493	505	-	6	81,012	85,016
Health insurance	2,316	201	-	-	2,951	5,468
Compulsory automobile liability insurance	-	-	112,717	-	1,660	114,377
Total	<u>\$37,512</u>	<u>\$4,066</u>	<u>\$172,414</u>	<u>\$3,479</u>	<u>\$356,101</u>	<u>\$573,572</u>

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

For the three months ended March 31, 2012

NT\$

Item	Commission expense	Agency fee	Surcharge	Reinsurance commission		Total
				expense	Other cost	
Fire insurance	\$575	\$1,067	\$10,376	\$461	\$20,650	\$33,129
Marine insurance	2,111	224	1,973	252	12,680	17,240
Land and air insurance	6,740	392	-	581	169,179	176,892
Liability insurance	1,935	203	6,054	305	13,067	21,564
Bonding insurance	477	(8)	288	(2)	248	1,003
Other property insurance	9,459	1,175	11,257	714	18,326	40,931
Accident insurance	2,085	83	2	53	77,414	79,637
Health insurance	575	52	-	-	4,096	4,723
Compulsory automobile liability insurance	-	-	92,564	-	1,693	94,257
Total	\$23,957	\$3,188	\$122,514	\$2,364	\$317,353	\$469,376

For the three months ended March 31, 2012

US\$

Item	Commission expense	Agency fee	Surcharge	Reinsurance commission		Total
				expense	Other cost	
Fire insurance	\$19	\$36	\$352	\$16	\$700	\$1,123
Marine insurance	72	7	67	8	430	584
Land and air insurance	228	13	-	20	5,735	5,996
Liability insurance	66	7	205	10	443	731
Bonding insurance	16	-	10	-	8	34
Other property insurance	321	40	381	24	622	1,388
Accident insurance	71	3	-	2	2,624	2,700
Health insurance	19	2	-	-	139	160
Compulsory automobile liability insurance	-	-	3,138	-	57	3,195
Total	\$812	\$108	\$4,153	\$80	\$10,758	\$15,911

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)

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

For the three months ended March 31, 2013						
NT\$						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$502,289	\$264,409	\$(41,712)	\$(416,738)	\$409,718	\$717,966
Marine insurance	166,710	23,771	(22,184)	(105,667)	(78,837)	(16,207)
Land and air insurance	1,557,838	(370,375)	(206,838)	(746,455)	(127,795)	106,375
Liability insurance	249,218	(3,650)	(38,820)	(100,524)	(91,730)	14,494
Bonding insurance	22,344	(6,543)	(834)	(1,237)	13,926	27,656
Other property insurance	353,720	(1,167)	(54,850)	(138,155)	(13,660)	145,888
Accident insurance	622,656	(36,590)	(85,010)	(194,208)	145,340	452,188
Health insurance	35,147	(1,331)	(5,468)	(42,185)	16,023	2,186
Compulsory automobile liability insurance	801,693	(75,715)	(114,377)	(469,160)	(58,683)	83,758
Total	\$4,311,615	\$(207,191)	\$(570,093)	\$(2,214,329)	\$214,302	\$1,534,304

For the three months ended March 31, 2013						
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	\$16,850	\$8,870	\$(1,399)	\$(13,980)	\$13,744	\$24,085
Marine insurance	5,592	797	(744)	(3,545)	(2,645)	(545)
Land and air insurance	52,259	(12,425)	(6,938)	(25,040)	(4,287)	3,569
Liability insurance	8,360	(122)	(1,302)	(3,372)	(3,077)	487
Bonding insurance	750	(219)	(28)	(41)	467	929
Other property insurance	11,866	(39)	(1,840)	(4,635)	(458)	4,894
Accident insurance	20,887	(1,227)	(2,852)	(6,515)	4,876	15,169
Health insurance	1,179	(45)	(184)	(1,415)	537	72
Compulsory automobile liability insurance	26,893	(2,540)	(3,837)	(15,738)	(1,969)	2,809
Total	\$144,636	\$(6,950)	\$(19,124)	\$(74,281)	\$7,188	\$51,469

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012

Item	NT\$					
	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	\$513,636	\$125,599	\$(32,668)	\$(263,046)	\$131,117	\$474,638
Marine insurance	189,220	21,756	(16,988)	(68,733)	(88,834)	36,421
Land and air insurance	1,147,215	(195,082)	(176,311)	(632,230)	85,433	229,025
Liability insurance	257,315	(65,318)	(21,259)	(41,454)	(21,241)	108,043
Bonding insurance	21,116	(4,894)	(1,005)	(688)	388	14,917
Other property insurance	268,886	(40,619)	(40,217)	(61,445)	(34,546)	92,059
Accident insurance	556,827	23,334	(79,584)	(218,278)	(66,363)	215,936
Health insurance	26,922	22,614	(4,723)	(41,886)	(27,691)	(24,764)
Compulsory automobile liability insurance	665,381	(8,596)	(94,257)	(416,125)	10,069	156,472
Total	<u>\$3,646,518</u>	<u>\$(121,206)</u>	<u>\$(467,012)</u>	<u>\$(1,743,885)</u>	<u>\$(11,668)</u>	<u>\$1,302,747</u>

For the three months ended March 31, 2012

Item	US\$					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$17,411	\$4,257	\$(1,107)	\$(8,917)	\$4,445	\$16,089
Marine insurance	6,414	737	(576)	(2,330)	(3,011)	1,234
Land and air insurance	38,889	(6,613)	(5,976)	(21,432)	2,896	7,764
Liability insurance	8,723	(2,214)	(721)	(1,405)	(720)	3,663
Bonding insurance	716	(166)	(34)	(23)	13	506
Other property insurance	9,115	(1,377)	(1,364)	(2,083)	(1,171)	3,120
Accident insurance	18,875	791	(2,698)	(7,399)	(2,249)	7,320
Health insurance	913	767	(160)	(1,420)	(939)	(839)
Compulsory automobile liability insurance	22,555	(291)	(3,195)	(14,106)	341	5,304
Total	<u>\$123,611</u>	<u>\$(4,109)</u>	<u>\$(15,831)</u>	<u>\$(59,115)</u>	<u>\$(395)</u>	<u>\$44,161</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. Cost benefit analysis for assumed reinsurance business

For the three months ended March 31, 2013						
NT\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$23,412	\$(4,416)	\$(151)	\$(113)	\$(152)	\$18,580
Marine insurance	12,879	(3,133)	(1,018)	(45,218)	11,359	(25,131)
Land and air insurance	928	3,335	(358)	(3,175)	(3,238)	(2,508)
Liability insurance	1	90	(28)	(14)	(29)	20
Bonding insurance	479	12	-	(11)	20	500
Other property insurance	8,674	3,166	(1,918)	(2,986)	(22)	6,914
Accident insurance	1,609	183	(6)	(6)	1,570	3,350
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	68,029	(1,116)	-	(80,400)	(4,039)	(17,526)
Total	\$116,011	\$(1,879)	\$(3,479)	\$(131,923)	\$5,469	\$(15,801)

For the three months ended March 31, 2013						
US\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$786	\$(148)	\$(5)	\$(4)	\$(5)	\$624
Marine insurance	432	(105)	(34)	(1,517)	381	(843)
Land and air insurance	31	112	(12)	(107)	(109)	(85)
Liability insurance	-	3	(1)	(1)	(1)	-
Bonding insurance	16	-	-	-	1	17
Other property insurance	291	106	(65)	(100)	(1)	231
Accident insurance	54	6	-	-	53	113
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,282	(37)	-	(2,697)	(135)	(587)
Total	\$3,892	\$(63)	\$(117)	\$(4,426)	\$184	\$(530)

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012						
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	\$16,286	\$211	\$(461)	\$(73)	\$(19,814)	\$(3,851)
Marine insurance	3,381	(1,719)	(252)	(4,504)	(5,207)	(8,301)
Land and air insurance	1,670	1,274	(581)	(1,165)	(12,862)	(11,664)
Liability insurance	328	(130)	(305)	(113)	1,158	938
Bonding insurance	349	(151)	2	(8)	8	200
Other property insurance	2,976	4,594	(714)	(1,024)	24	5,856
Accident insurance	2,258	14,346	(53)	(2,586)	(6,596)	7,369
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	65,379	2,024	-	(43,689)	(19,781)	3,933
Total	<u>\$92,627</u>	<u>\$20,449</u>	<u>\$(2,364)</u>	<u>\$(53,162)</u>	<u>\$(62,956)</u>	<u>\$(5,406)</u>

For the three months ended March 31, 2012						
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	\$552	\$7	\$(16)	\$(2)	\$(671)	\$(130)
Marine insurance	115	(58)	(8)	(153)	(177)	(281)
Land and air insurance	57	43	(20)	(39)	(436)	(395)
Liability insurance	11	(4)	(10)	(4)	39	32
Bonding insurance	12	(5)	-	-	-	7
Other property insurance	101	155	(24)	(35)	1	198
Accident insurance	76	486	(2)	(88)	(223)	249
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	2,216	69	-	(1,481)	(671)	133
Total	<u>\$3,140</u>	<u>\$693</u>	<u>\$(80)</u>	<u>\$(1,802)</u>	<u>\$(2,134)</u>	<u>\$(183)</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)

c. Recognized gain (loss) for reinsurance contract purchased

For the three months ended March 31, 2013						
NT\$						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$376,250	\$113,088	\$(46,327)	\$(146,837)	\$219,863	\$516,037
Marine insurance	121,211	22,929	(18,700)	(125,911)	(23,490)	(23,961)
Land and air insurance	58,106	8,187	(17,224)	(22,760)	(13,547)	12,762
Liability insurance	76,425	12,993	(21,200)	(29,579)	(312)	38,327
Bonding insurance	14,519	(7,763)	(2,909)	(153)	4,858	8,552
Other property insurance	70,342	5,369	(10,525)	(17,335)	9,414	57,265
Accident insurance	35,812	5,680	(10,297)	(11,472)	22,691	42,414
Health insurance	301	398	(110)	(160)	1,172	1,601
Compulsory automobile liability insurance	204,931	(11,762)	-	(184,911)	(22,543)	(14,285)
Total	\$957,897	\$149,119	\$(127,292)	\$(539,118)	\$198,106	\$638,712

For the three months ended March 31, 2013						
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	\$12,622	\$3,794	\$(1,554)	\$(4,926)	\$7,375	\$17,311
Marine insurance	4,066	769	(627)	(4,224)	(788)	(804)
Land and air insurance	1,949	275	(578)	(763)	(455)	428
Liability insurance	2,564	436	(711)	(992)	(10)	1,287
Bonding insurance	487	(260)	(98)	(5)	163	287
Other property insurance	2,360	180	(353)	(582)	316	1,921
Accident insurance	1,201	191	(345)	(385)	761	1,423
Health insurance	10	13	(4)	(5)	39	53
Compulsory automobile liability insurance	6,874	(395)	-	(6,203)	(756)	(480)
Total	\$32,133	\$5,003	\$(4,270)	\$(18,085)	\$6,645	\$21,426

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012						
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	\$310,017	\$78,964	\$(20,862)	\$(114,765)	\$45,742	\$299,096
Marine insurance	158,132	12,766	(30,841)	(23,806)	(30,108)	86,143
Land and air insurance	20,006	24,895	(6,841)	(18,225)	(8,201)	11,634
Liability insurance	94,673	(29,458)	(24,400)	(3,029)	(12,871)	24,915
Bonding insurance	12,281	(5,562)	(2,516)	2,074	481	6,758
Other property insurance	115,087	(9,291)	(20,930)	(3,477)	2,040	83,429
Accident insurance	46,890	(8,829)	(9,317)	(17,596)	(18,079)	(6,931)
Health insurance	954	69	(335)	(400)	(1,174)	(886)
Compulsory automobile liability insurance	183,382	(4,283)	-	(162,896)	3,998	20,201
Total	\$941,422	\$59,271	\$(116,042)	\$(342,120)	\$(18,172)	\$524,359

For the three months ended March 31, 2012						
US\$						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$10,509	\$2,677	\$(707)	\$(3,890)	\$1,551	\$10,140
Marine insurance	5,361	433	(1,046)	(807)	(1,021)	2,920
Land and air insurance	678	844	(232)	(618)	(278)	394
Liability insurance	3,209	(999)	(827)	(103)	(436)	844
Bonding insurance	416	(189)	(85)	70	16	228
Other property insurance	3,901	(315)	(710)	(118)	69	2,827
Accident insurance	1,590	(299)	(316)	(596)	(613)	(234)
Health insurance	33	2	(11)	(13)	(40)	(29)
Compulsory automobile liability insurance	6,216	(145)	-	(5,522)	136	685
Total	\$31,913	\$2,009	\$(3,934)	\$(11,597)	\$(616)	\$17,775

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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 loss ratio	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	\$405,118	\$13,590	63.18	\$20,256	\$679	\$10,084	\$338
Marine insurance	158,322	5,311	64.77	7,916	266	1,687	57
Land and air insurance	1,550,611	52,016	65.02	77,531	2,601	48,395	1,623
Liability insurance	162,766	5,460	68.07	8,138	273	4,421	148
Bonding insurance	20,708	695	68.04	1,035	35	225	8
Other property insurance	145,392	4,877	61.81	7,270	244	3,199	107
Accident insurance	620,913	20,829	72.10	31,046	1,041	20,592	691
Health insurance	35,147	1,179	69.60	1,757	59	1,215	41
Compulsory automobile liability insurance	749,023	25,127	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.

B. Cathay Insurance (China)

Insurance type	Premium income		Expected loss ratio	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	\$85,974	\$2,884		\$4,299	\$144	\$1,119	\$38
Marine insurance	7,436	249		372	12	210	7
Liability insurance	86,193	2,891		4,310	145	2,956	99
Bonding insurance	1,636	55		82	3	67	2
Other property insurance	208,259	6,986		10,413	349	10,236	343
Accident insurance	-	-		-	-	1	-
Compulsory automobile liability insurance	52,670	1,767		2,633	88	2,633	88

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

(5)Concentration Risk

A. The Company

a. Situations that might cause concentration of insurance risk :

I.Single insurance contract or few related contracts

For the three month ended March 31, 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.

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

For the three months ended March 31, 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.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the three months ended March 31, 2013, no material lawsuit or legal risks has taken place.

IV. Correlation and mutual influence between different risks °

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, the company has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the three months ended March 31, 2013, there is no catastrophe has taken place.

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

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

VI. Concentration risks in geographic regions and operating segments

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

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

Insurance type	For the three months ended March 31, 2013 (NT\$)				For the three months ended March 31, 2013 (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	\$2,566,621	\$69,251	\$260,162	\$2,375,710	\$86,099	\$2,323	\$8,727	\$79,695
Fire insurance	410,393	22,647	302,455	130,585	13,767	760	10,146	4,381
Marine insurance	159,039	11,351	118,711	51,679	5,335	381	3,982	1,734
Engineering insurance	124,490	3,681	49,175	78,996	4,176	123	1,650	2,649
Health and injury insurance	330,499	1,506	27,945	304,060	11,087	50	937	10,200
Other insurance	255,871	2,218	86,551	171,538	8,583	75	2,903	5,755
Total	\$3,846,913	\$110,654	\$844,999	\$3,112,568	\$129,047	\$3,712	\$28,345	\$104,414

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- 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 2000 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 :

I. The exposure of unanticipated change in trend

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

II. The correlation and cross effect between different risks

When significant incidents happened, Cathay Insurance (China) may face huge claim loss for the insured cases or the impairment loss for intangible or tangible assets. It may also create risks such as market risk, credit risk, liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Insurance (China) established “Notice for significant incidents handling process”. If necessary, the general manager or assigned personnel will held the emergency response team to make sure the operation of Cathay Insurance (China) and protect the safety of policyholders’ property as well as its equity. There is no significant incident occurred for the years ended December 31, 2012.

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

Insurance type	For the three months ended March 31, 2013 (NT\$)				For the three months ended March 31, 2013 (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	\$248,583	\$3,335	\$859	\$251,059	\$8,339	\$112	\$29	\$8,422
Fire insurance	89,080	723	65,980	23,823	2,988	24	2,213	799
Marine insurance	7,436	1,235	4,466	4,205	250	41	150	141
Engineering insurance	6,523	-	4,363	2,160	219	-	146	721
Health and injury insurance	-	23	-	23	-	1	-	1
Other insurance	90,545	-	27,366	63,179	3,037	-	918	2,119
Total	\$442,167	\$5,316	\$103,034	\$344,449	\$14,833	\$178	\$3,456	\$11,555

(6) Claim development table

A. The company

Underwriting Year (NT\$)	2008.1.1-2008.3.31	2008.4.1-2009.3.31	2009.4.1-2010.3.31	2010.4.1-2011.3.31	2011.4.1-2012.3.31	2012.4.1-2013.3.31	Total
Estimate of cumulative claims incurred:							
At end of underwriting year	\$2,857,559	\$3,309,373	\$3,451,224	\$5,047,820	\$4,157,056	\$5,956,442	
One year later	3,594,047	4,395,761	4,362,499	6,226,914	4,979,753		
Two year later	3,503,804	4,390,348	4,509,300	5,907,031			
Three year later	3,492,947	4,463,529	4,548,580				
Four year later	3,511,120	4,526,001					
Five year later	3,518,675						
Estimate of cumulative claims incurred	3,518,675	4,526,001	4,548,580	5,907,031	4,979,753	5,956,442	
Cumulative payment to date	3,472,531	4,451,323	4,406,101	5,521,521	4,624,147	3,284,601	
Subtotal	46,144	74,678	142,479	385,510	355,606	2,671,841	3,676,258
Reconciliation	-	-	-	-	-	52,793	52,793
Recorded in balance sheet	\$46,144	\$74,678	\$142,479	\$385,510	\$355,606	\$2,724,634	\$3,729,051

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	2008.1.1- 2008.3.31	2008.4.1- 2009.3.31	2009.4.1- 2010.3.31	2010.4.1- 2011.3.31	2011.4.1- 2012.3.31	2012.4.1- 2013.3.31	Total
Underwriting Year (US\$)							
Estimate of cumulative claims incurred:							
At end of underwriting year	\$95,859	\$111,016	\$115,774	\$169,333	\$139,452	\$199,814	
One year later	120,565	147,459	146,343	208,887	167,050		
Two year later	117,538	147,278	151,268	198,156			
Three year later	117,174	149,733	152,586				
Four year later	117,783	151,828					
Five year later	118,037						
Estimate of cumulative claims incurred	118,037	151,828	152,586	198,156	167,050	199,814	
Cumulative payment to date	116,489	149,323	147,806	185,224	155,121	110,185	
Subtotal	1,548	2,505	4,780	12,932	11,929	89,629	123,323
Reconciliation	-	-	-	-	-	1,771	1,771
Recorded in balance sheet	\$1,548	\$2,505	\$4,780	\$12,932	\$11,929	\$91,400	\$125,094

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. The upper table excluding claim reserve of compulsory automobile liability insurance NT\$832,302(US\$27,920) thousands and assumed reinsurance (except compulsory automobile liability insurance) NT\$233,033(US\$7,817) 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- 2013.3.31	
Estimated accumulation amount of claim							
As to 2008/12/31	\$2,633						
As to 2009/12/31	2,509	\$152,765					
As to 2010/12/31	2,505	146,807	\$326,695				
As to 2011/12/31	2,532	143,850	323,587	\$351,579			
As to 2012/12/31	1,315	124,872	290,601	314,872	\$977,962		
As to 2013/3/31	1,315	124,873	290,257	318,699	855,573	\$285,456	
Estimated accumulation of claim	1,315	124,873	290,257	318,699	855,573	285,456	\$1,876,173
Accumulated claim paid	1,315	124,741	286,822	270,720	407,336	24,337	1,115,271
Subtotal	-	132	3,435	47,979	448,237	261,119	760,902
Indirect claim expense, discount and risk margin							36,672
Recognized amount on balance sheet							<u>\$797,574</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- 2013.3.31	
Estimated accumulation amount of claim							
As to 2008/12/31	\$88						
As to 2009/12/31	84	\$5,125					
As to 2010/12/31	84	4,925	\$10,959				
As to 2011/12/31	85	4,826	10,855	\$11,794			
As to 2012/12/31	44	4,189	9,748	10,563	\$32,807		
As to 2013/3/31	44	4,189	9,737	10,691	28,701	\$9,576	
Estimated accumulation of claim	44	4,189	9,737	10,691	28,701	9,576	\$62,938
Accumulated claim paid	44	4,185	9,622	9,082	13,664	816	37,413
Subtotal	-	4	115	1,609	15,037	8,760	25,525
Indirect claim expense, discount and risk margin							1,230
Recognized amount on balance sheet							<u>\$26,755</u>

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C. Cathay Insurance (Vietnam)

Due to Cathay Insurance (Vietnam) has been operated for less than one year, there is no historical data for loss development trends. Cathay Insurance (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QCBH for loss reserving method with IBNR, which is calculated as a rate of 5% of its annual retained premiums.

(7) Financial instruments

Financial instruments (NT\$)	Mar 31, 2013	Dec 31, 2012	Mar 31, 2012	Jan 1, 2012
<u>Financial assets</u>				
Financial assets at fair value through profit or loss:				
Held for trading	\$489,461	\$437,273	\$287,743	\$619,455
Available-for-sale financial assets	8,594,970	8,404,492	6,354,155	5,897,618
Held-to-maturity investments	2,265,404	2,512,011	2,450,987	2,408,714
Loans and receivables:				
Cash and cash equivalents (exclude cash on hand)	5,824,424	5,669,259	6,689,911	6,919,027
Bond investments with no active market	1,871,712	1,323,270	1,547,447	1,192,997
Trade receivables	2,968,447	3,291,611	2,808,068	2,909,396
Subtotal	10,664,583	10,284,140	11,045,426	11,021,420
Derivative financial assets for hedging	16,284	17,134	26,011	28,521
Total	<u>\$22,030,702</u>	<u>\$21,655,050</u>	<u>\$20,164,322</u>	<u>\$19,975,728</u>
<u>Financial liabilities</u>				
Financial liabilities measured at amortised cost:				
Payables	\$2,133,430	\$2,223,005	\$1,922,626	\$2,101,262
Financial liabilities at fair value through profit or loss:				
Held for trading	94,825	-	-	45,000
Preferred stock liability	1,000,000	1,000,000	1,000,000	1,000,000
Total	<u>\$3,228,255</u>	<u>\$3,223,005</u>	<u>\$2,922,626</u>	<u>\$3,146,262</u>

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Financial instruments (US\$)	Mar 31, 2013	Dec 31, 2012	Mar 31, 2012	Jan 1, 2012
<u>Financial assets</u>				
Financial assets at fair value through profit or loss:				
Held for trading	\$16,419	\$15,053	\$9,754	\$20,464
Available-for-sale financial assets	288,325	289,311	215,395	194,834
Held-to-maturity investments	75,995	86,472	83,084	79,574
Loans and receivables:				
Cash and cash equivalents (exclude cash on hand)	195,385	195,155	226,777	228,577
Bond investments with no active market	62,788	45,552	52,456	39,411
Trade Receivables	99,579	113,308	95,189	96,115
Subtotal	357,752	354,015	374,422	364,103
Derivative financial assets for hedging	546	590	882	942
Total	<u>\$739,037</u>	<u>\$745,441</u>	<u>\$683,537</u>	<u>\$659,917</u>
<u>Financial liabilities</u>				
Financial liabilities measured at amortised cost:				
Payables	\$71,567	\$76,523	\$65,174	\$69,417
Financial liabilities at fair value through profit or loss:				
Held for trading	3,181	-	-	1,487
Preferred stock liability	33,546	34,424	33,898	33,036
Total	<u>\$108,294</u>	<u>\$110,947</u>	<u>\$99,072</u>	<u>\$103,940</u>

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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 derivative financial instruments the Consolidated Company held to avoid the share price risk, foreign currency risk and interest rate risk including the futures options contracts, forward and SWAP. The Consolidated Company doesn't have trading derivative instruments transactions.

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:

A. Market risk

a. Foreign currency risk

The Consolidated Company holds investments in foreign money trust specific exposure to U.S. dollar exchange rate risk and NT. Since the amount of investment positions that is significant, the Company's investment for this part of the implementation of activities a forward foreign exchange contracts hedging.

Another result of the Consolidated Company's non-functional currency denominated reinsurance operating activities arising exchange rate risk. Because this type of trading is usually shorter collection period, assessing exchange rate fluctuations, the Company is not in principle for this type of hedge transaction.

The Consolidated Company assesses that their conditions of hedging instrument and of hedged item are the same ,that can maximize effectiveness of hedge

b. Interest rate risk

Interest rate risk due to a result of changes in market interest rates of financial instruments at fair value or future cash flows will fluctuate, the combined company's interest rate risk primarily from classified as available-for-sale financial assets are floating rate investments and fixed rate preferred shares liabilities.

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c. Equity price risk

The Company's listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's listed equity securities are classified under held for trading financial assets or available-for-sale financial assets. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

a. Credit risk management policies

The Consolidated Company trades only with established and creditworthy third party transactions, the Company's policy that all customers who trade on credit terms are subject to credit verification procedures, and ongoing assessment of premiums receivable and notes receivable, which consequently minimizes the Company bad debt situation is good. In addition, once the credit of the Republic of China, the Company will freeze the relevant contracts, upon reply transaction status may only continue after the rights and obligations related to the exercise.

The Consolidated Company's secured lending operations are the approved also by the executive to credit verification procedures and obtain the counterparty to provide real property as collateral, if the credit of adverse circumstances, prompting the Company may directly on guarantees real implementation of the relevant the right to ensure that the Company's interests are not related damage.

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

I. Issuer credit risk is the risk that the issuer or bank fail to delivery due to default, bankruptcy and settlement in accordance with agreement, and the financial debt instrument hold by the Consolidated Company and cash in the bank incurred loss.

II. Counterparty credit risk is the risk that counterparty transacted with the Company fail to delivery before the settlement date incur the loss to Company.

III. Credit risk of the underlying assets is the risk due to credit rating of underling assets tied to financial instrument weakened ,increase in credit premium ,credit rating downgrade and event of default be document on the contract occurred.

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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					
	March 31, 2013 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,708,633	\$114	\$19,074	\$183,795	\$924,065	\$5,835,681
Financial assets at fair value through profit or loss	377,807	-	-	-	111,654	489,461
Available-for-sale financial assets	4,824,014	-	-	266,109	3,504,847	8,594,970
Derivative financial assets for hedging	16,284	-	-	-	-	16,284
Bond investments for which no active market exists	900,000	-	320,406	300,111	351,195	1,871,712
Held-to-maturity investments	-	-	-	2,265,404	-	2,265,404
Total	\$10,826,738	\$114	\$339,480	\$3,015,419	\$4,891,761	\$19,073,512
Each area percentage	56.76%	0.00%	1.78%	15.81%	25.65%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	March 31, 2013 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$157,955	\$4	\$640	\$6,166	\$30,998	\$195,763
Financial assets at fair value through profit or loss	12,674	-	-	-	3,745	16,419
Available-for-sale financial assets	161,825	-	-	8,927	117,573	288,325
Derivative financial assets for hedging	546	-	-	-	-	546
Bond investments for which no active market exists	30,192	-	10,748	10,067	11,781	62,788
Held-to-maturity investments	-	-	-	75,995	-	75,995
Total	\$363,192	\$4	\$11,388	\$101,155	\$164,097	\$639,836
Each area percentage	56.76%	0.00%	1.78%	15.81%	25.65%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	December 31, 2012 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,850,799	\$54	\$14,840	\$110,172	\$701,186	\$5,677,051
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 for which no active market exists	900,000	-	-	-	423,270	1,323,270
Held-to-maturity investments	-	-	-	2,512,011	-	2,512,011
Total	\$11,017,310	\$54	\$14,840	\$2,906,326	\$4,432,701	\$18,371,231
Each area percentage	59.97%	0.00%	0.08%	15.82%	24.13%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	December 31, 2012 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$166,981	\$2	\$511	\$3,792	\$24,137	\$195,423
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 for which no active market exists	30,981	-	-	-	14,571	45,552
Held-to-maturity investments	-	-	-	86,472	-	86,472
Total	\$379,253	\$2	\$511	\$100,045	\$152,590	\$632,401
Each area percentage	59.97%	0.00%	0.08%	15.82%	24.13%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	March 31, 2012 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,742,913	\$-	\$9	\$389,069	\$568,950	\$6,700,941
Financial assets at fair value through profit or loss	149,013	-	-	-	138,730	287,743
Available-for-sale financial assets	5,377,156	-	-	26,610	950,389	6,354,155
Derivative financial assets for hedging	26,011	-	-	-	-	26,011
Bond investments for which no active market exists	1,200,000	-	-	-	347,447	1,547,447
Held-to-maturity investments	-	-	-	2,450,987	-	2,450,987
Total	\$12,495,093	\$-	\$9	\$2,866,666	\$2,005,516	\$17,367,284
Each area percentage	71.95%	0.00%	0.00%	16.50%	11.55%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	March 31, 2012 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$194,675	\$-	\$-	\$13,189	\$19,287	\$227,151
Financial assets at fair value through profit or loss	5,051	-	-	-	4,703	9,754
Available-for-sale financial assets	182,276	-	-	902	32,217	215,395
Derivative financial assets for hedging	882	-	-	-	-	882
Bond investments for which no active market exists	40,678	-	-	-	11,778	52,456
Held-to-maturity investments	-	-	-	83,084	-	83,084
Total	\$423,562	\$-	\$-	\$97,175	\$67,985	\$588,722
Each area percentage	71.95%	0.00%	0.00%	16.50%	11.55%	100.00%

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(Expressed in thousands of dollars unless otherwise stated)

Financial assets	The amount of credit risk exposure - by area					
	January 1, 2012 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,950,700	\$-	\$9	\$310,066	\$665,292	\$6,926,067
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 for which no active market exists	900,000	-	-	-	292,997	1,192,997
Held-to-maturity investments	-	-	-	2,408,714	-	2,408,714
Total	\$12,333,922	\$-	\$9	\$2,743,943	\$1,995,498	\$17,073,372
Each area percentage	72.24%	0.00%	0.00%	16.07%	11.69%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	January 1, 2012 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$196,588	\$-	\$-	\$10,243	\$21,979	\$228,810
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 for which no active market exists	29,732	-	-	-	9,679	39,411
Held-to-maturity investments	-	-	-	79,574	-	79,574
Total	\$407,464	\$-	\$-	\$90,648	\$65,923	\$564,035
Each area percentage	72.24%	0.00%	0.00%	16.07%	11.69%	100.00%

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c. Credit risk quality analysis

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

Financial assets	Credit quality of financial assets				
	March 31, 2013 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,835,681	\$-	\$-	\$-	\$5,835,681
Financial assets at fair value through profit or loss	489,461	-	-	-	489,461
Available-for-sale financial assets	8,536,072	-	-	58,898	8,594,970
Derivative financial assets for hedging	16,284	-	-	-	16,284
Bond investments for which no active market exists	1,871,712	-	-	-	1,871,712
Held-to-maturity investments	2,265,404	-	-	-	2,265,404
Total	\$19,014,614	\$-	\$-	\$58,898	\$19,073,512

Financial assets	Credit quality of financial assets				
	March 31, 2013 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,763	\$-	\$-	\$-	\$195,763
Financial assets at fair value through profit or loss	16,419	-	-	-	16,419
Available-for-sale financial assets	286,349	-	-	1,976	288,325
Derivative financial assets for hedging	546	-	-	-	546
Bond investments for which no active market exists	62,788	-	-	-	62,788
Held-to-maturity investments	75,995	-	-	-	75,995
Total	\$637,860	\$-	\$-	\$1,976	\$639,836

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Financial assets	Credit quality of financial assets				
	December 31, 2012 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,677,051	\$-	\$-	\$-	\$5,677,051
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 for which no active market exists	1,323,270	-	-	-	1,323,270
Held-to-maturity investments	2,512,011	-	-	-	2,512,011
Total	\$18,371,231	\$-	\$-	\$-	\$18,371,231

Financial assets	Credit quality of financial assets				
	December 31, 2012 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,423	\$-	\$-	\$-	\$195,423
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 for which no active market exists	45,552	-	-	-	45,552
Held-to-maturity investments	86,472	-	-	-	86,472
Total	\$632,401	\$-	\$-	\$-	\$632,401

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Financial assets	Credit quality of financial assets				
	March 31, 2012 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,700,941	\$-	\$-	\$-	\$6,700,941
Financial assets at fair value through profit or loss	287,743	-	-	-	287,743
Available-for-sale financial assets	6,354,155	-	-	-	6,354,155
Derivative financial assets for hedging	26,011	-	-	-	26,011
Bond investments for which no active market exists	1,547,447	-	-	-	1,547,447
Held-to-maturity investments	2,450,987	-	-	-	2,450,987
Total	\$17,367,284	\$-	\$-	\$-	\$17,367,284

Financial assets	Credit quality of financial assets				
	March 31, 2012 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$227,151	\$-	\$-	\$-	\$227,151
Financial assets at fair value through profit or loss	9,754	-	-	-	9,754
Available-for-sale financial assets	215,395	-	-	-	215,395
Derivative financial assets for hedging	882	-	-	-	882
Bond investments for which no active market exists	52,456	-	-	-	52,456
Held-to-maturity investments	83,084	-	-	-	83,084
Total	\$588,722	\$-	\$-	\$-	\$588,722

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Financial assets	Credit quality of financial assets				
	January 1, 2012 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,926,067	\$-	\$-	\$-	\$6,926,067
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 for which no active market exists	1,192,997	-	-	-	1,192,997
Held-to-maturity investments	2,408,714	-	-	-	2,408,714
Total	\$17,073,372	\$-	\$-	\$-	\$17,073,372

Financial assets	Credit quality of financial assets				
	January 1, 2012 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$228,810	\$-	\$-	\$-	\$228,810
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 for which no active market exists	39,411	-	-	-	39,411
Held-to-maturity investments	79,574	-	-	-	79,574
Total	\$564,035	\$-	\$-	\$-	\$564,035

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

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

Secured loans	December 31, 2012 (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	December 31, 2012 (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	March 31, 2012 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$143,337	\$-	\$-	\$-	\$110,440	\$253,777	\$1,269	\$252,508
Corporate Finance	-	-	-	-	303,597	303,597	31,919	271,678
Total	\$143,337	\$-	\$-	\$-	\$414,037	\$557,374	\$33,188	\$524,186

Secured loans	March 31, 2012 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,859	\$-	\$-	\$-	\$3,744	\$8,603	\$43	\$8,560
Corporate Finance	-	-	-	-	10,291	10,291	1,082	9,209
Total	\$4,859	\$-	\$-	\$-	\$14,035	\$18,894	\$1,125	\$17,769

Secured loans	January 1, 2012 (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	January 1, 2012 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,930	\$-	\$-	\$-	\$3,834	\$8,764	\$57	\$8,707
Corporate Finance	2,643	-	-	-	7,415	10,058	530	9,528
Total	\$7,573	\$-	\$-	\$-	\$11,249	\$18,822	\$587	\$18,235

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C. 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 adapt and implement the internal control regulations and sheets. The Company and Subsidiary establish the information systems to accommodate the aforementioned policies.

D. Liquidity risk

a. Definition and resource of liquidity risk

Liquidity risk includes capital liquidity and market liquidity risk. Capital liquidity happens when the Company can not to raise sufficiently capital on reasonable terms and reasonable cost of capital leading to cash flow gap. Market liquidity risk when happens the Company raises the necessary capital but sell assets at below market price leading the Company taking the risk of loss

b. Liquidity risk management

The Company establishes an ideal capital liquidity management mechanism based on business estimate and the situation of monitoring short-term cash flow. And considering the trading volume and holding position, the Company carefully manages the market liquidity risk. Besides, the Company drawn up a plan for abnormal and emergency conditions on the capital requirement to deal with significant liquidity risk.

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

Under the cash flow gap, risk management department have a internal discussion, and the result is presented to supervisors and capital movement department, and to take the necessary procedures to prevent the Company from related stress events.

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

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

Liabilities	March 31, 2013 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$71,567	\$44,534	\$43,058	\$1,277	\$31	\$168	\$-
Financial liabilities at fair value through profit or loss	3,181	3,181	-	3,181	-	-	-
Preferred stock liability	33,546	33,546	-	-	-	-	33,546

Liabilities	December 31, 2012(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

Liabilities	December 31, 2012(US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$76,523	\$41,484	\$40,715	\$577	\$133	\$59	\$-
Preferred stock liability	34,424	34,424	-	-	-	-	34,424

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Liabilities	March 31, 2012 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$1,922,626	\$1,328,658	\$1,308,841	\$13,331	\$5,145	\$1,341	\$-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	March 31, 2012 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$65,174	\$45,039	\$44,368	\$452	\$174	\$45	\$-
Preferred stock liability	33,898	33,898	-	-	-	-	34,423

Liabilities	January 1, 2012 (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

Liabilities	January 1, 2012 (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

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E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of exchange rate, commodities price, interest credit spreads, stock price the market risk factors.

The Company continues to use value-at-risk, stress testing and market risk management tools in order 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 (next week or two weeks) with a 99% level of confidence.

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

b. Stress testing

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

Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variable extremely changes.

The Company periodically conducts stress testing on holding options position by simple sensitivity analysis method and scenario analysis. The stress testing contains change in risk factor in all kinds of historical context that could make losses in investment portfolio.

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I. Simple Sensitivity

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

II. Scenario Analysis

Scenario Analysis is a measure utilized for the evaluation of the change in value of portfolio under stress events occurred. The measures include :

i. Historical scenarios

Historical scenario is a measure that volatility of risk factor selected from historical data be added to a given portfolio, and calculates the amount of loss.

ii. Hypothetical scenarios

Hypothetical scenario is a measure that to write the reasonable hypothesis included the possible extreme movement may incur in the future and risk factor under the hypothesis is added to a given portfolio, and evaluates the amount of loss.

The risk management department use historical scenario and hypothetical scenarios to conduct the stress testing. And, the company perform risk analysis, risk alert and business management are based on the stress test report

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

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

March 31, 2012	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	10%	\$184,435	\$6,252
Interest rate risk (Yield curve)	20bp	65,402	2,217
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(112,066)	(3,799)

March 31, 2012		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	NTD appreciate 1 %	\$(2,833)	\$(96)	\$-	\$-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,108)	(38)	-	-
	Yield curve (NTD) flat rises 1bp	(165)	(6)	(1,997)	(68)
Equity securities price sensitivity	Increase 1% in equity price	-	-	(18,444)	(625)

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(9) 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			
	March31, 2013	December 31, 2012	March31, 2012	January 1, 2012	March31, 2013	December 31, 2012	March31, 2012	January 1, 2012
Held-to-maturity investments								
Bonds	\$2,265,404	\$2,512,011	\$2,450,987	\$2,408,714	\$2,423,257	\$2,670,313	\$2,654,768	\$2,643,649
Bond investments with no active market								
Bonds	1,871,712	1,323,270	1,547,447	1,192,997	1,909,422	1,349,477	1,551,674	1,191,612

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US\$	Carrying amount as at				Fair value as at			
	March31, 2013	December 31, 2012	March31, 2012	January 1, 2012	March31, 2013	December 31, 2012	March31, 2012	January 1, 2012
Held-to-maturity investments								
Bonds	\$75,995	\$86,472	\$83,084	\$79,574	\$81,290	\$91,921	\$89,992	\$87,336
Bond investments with no active market								
Bonds	62,788	45,552	52,456	39,411	64,053	46,454	52,599	39,366

C. Assets measured at fair value

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.

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Financial instruments at fair value (NT\$)	March 31, 2013			
	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				
Stocks	\$10,050	\$10,050	\$-	\$-
Others	479,411	479,411	-	-
Available-for-sale financial assets				
Stock	1,467,291	1,467,291	-	-
Bonds	3,901,787	3,477,193	424,594	-
Others	3,225,892	3,225,892	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	16,284	16,284	-	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	94,825	94,825	-	-

Financial instruments at fair value (US\$)	March 31, 2013			
	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				
Stocks	\$337	\$337	\$-	\$-
Others	16,082	16,082	-	-
Available-for-sale financial assets				
Stock	49,221	49,221	-	-
Bonds	130,889	116,645	14,244	-
Others	108,215	108,215	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	546	546	-	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	3,181	3,181	-	-

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)**

Financial instruments at fair value (NT\$)	December 31, 2012			
	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				
Forward and SWAP	60,579	60,579	-	-
Derivative financial assets for hedging				
IRS	17,134	17,134	-	-

Financial instruments at fair value (US\$)	December 31, 2012			
	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	109,982	14,266	-
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	-	-

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)**

Financial instruments at fair value (NT\$)	March 31, 2012			
	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	\$283,504	\$283,504	\$-	\$-
Available-for-sale financial assets				
Stock	1,710,246	1,710,246	-	-
Bonds	3,853,795	3,853,795	-	-
Others	790,114	790,114	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	4,239	4,239	-	-
Derivative financial assets for hedging				
IRS	26,011	26,011	-	-

Financial instruments at fair value (US\$)	March 31, 2012			
	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	\$9,610	\$9,610	\$-	\$-
Available-for-sale financial assets				
Stock	57,974	57,974	-	-
Bonds	130,637	130,637	-	-
Others	26,784	26,784	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	144	144	-	-
Derivative financial assets for hedging				
IRS	882	882	-	-

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)**

Financial instruments at fair value (NT\$)	January 1, 2012			
	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	-	-

Financial instruments at fair value (NT\$)	January 1, 2012			
	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 three months ending March 31, 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

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. During the three months ending March 31, 2013 and 2012, there were no Level 3 fair value measurements.

8.Related party transactions

(1)Significant transactions with related parties

A. Premiums income

Name	For the three months ended March 31,			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$75,594	\$2,536	\$81,694	\$2,769
Cathay United Bank Co., Ltd.	17,315	581	16,270	552
Total	<u>\$92,909</u>	<u>\$3,117</u>	<u>\$97,964</u>	<u>\$3,321</u>

B. Premiums receivable

Name	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$4,332	\$146	\$5,732	\$197
Cathay United Bank Co., Ltd.	11,393	382	4,855	167
Total	<u>\$15,725</u>	<u>\$528</u>	<u>\$10,587</u>	<u>\$364</u>

Name	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$5,769	\$195	\$-	\$-
Cathay United Bank Co., Ltd.	10,484	356	44,226	1,461
Total	<u>\$16,253</u>	<u>\$551</u>	<u>\$44,226</u>	<u>1,461</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. Cash in banks**

Name	Type	For the three months ended March 31, 2013		
		Ending balance	Interest rate	Interest income
Other related parties		NT\$		NT\$
Cathay United Bank	Cash in banks	\$598,280	0.01%~0.75%	\$115
Co., Ltd.	Time deposits	\$670,500	0.17%~1.345%	\$2,218

Name	Type	For the three months ended March 31, 2013		
		Ending balance	Interest rate	Interest income
Other related parties		US\$		US\$
Cathay United Bank	Cash in banks	\$20,070	0.01%~0.75%	\$4
Co., Ltd.	Time deposits	\$22,492	0.17%~1.345%	\$74

Name	Type	For the year ended December 31, 2012		
		Ending balance	Interest rate	Interest income
Other related parties		NT\$		NT\$
Cathay United Bank	Cash in banks	\$589,915	0.01%~0.75%	\$447
Co., Ltd.	Time deposits	\$695,800	0.17%~1.7%	\$10,644

Name	Type	For the year ended December 31, 2012		
		Ending balance	Interest rate	Interest income
Other related parties		US\$		US\$
Cathay United Bank	Cash in banks	\$20,307	0.01%~0.75%	\$15
Co., Ltd.	Time deposits	\$23,952	0.17%~1.7%	\$366

Name	Type	For the three months ended March 31, 2012		
		Ending balance	Interest rate	Interest income
Other related parties		NT\$		NT\$
Cathay United Bank	Cash in banks	\$459,760	0.17%	\$103
Co., Ltd.	Time deposits	\$903,600	0.17%~1.345%	\$2,883

Name	Type	For the three months ended March 31, 2012		
		Ending balance	Interest rate	Interest income
Other related parties		US\$		US\$
Cathay United Bank	Cash in banks	\$15,585	0.17%	\$3
Co., Ltd.	Time deposits	\$30,631	0.17%~1.345%	\$98

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)**

Name	Type	For the year ended December 31, 2011		
		Ending balance	Interest rate	Interest income
Other related parties		NT\$		NT\$
Cathay United Bank	Cash in banks	\$420,125	0.17%	\$556
Co., Ltd.	Time deposits	\$915,000	0.1%~1.345%	\$7,107

Name	Type	For the year ended December 31, 2011		
		Ending balance	Interest rate	Interest income
Other related parties		US\$		US\$
Cathay United Bank	Cash in banks	\$13,879	0.17%	\$18
Co., Ltd.	Time deposits	\$30,228	0.1%~1.345%	\$235

D. Secured Loans

Name	For the three months ended March 31, 2013			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Other related parties	\$38,291	\$36,752	1.84%	\$184

Name	For the three months ended March 31, 2013			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Other related parties	\$1,285	\$1,233	1.84%	\$6

Name	For the year ended December 31, 2012			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Other related parties	\$42,258	\$38,291	1.88%~2.03%	\$768

Name	For the year ended December 31, 2012			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Other related parties	\$1,455	\$1,318	1.88%~2.03%	\$26

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)**

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

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

Name	For the year ended December 31, 2011			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Other related parties	\$32,638	\$30,737	2.03%	\$526

Name	For the year ended December 31, 2011			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Other related parties	\$1,078	\$1,015	2.03%	\$17

E. Available-for-sale financial assets

Name	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	\$58,076	\$1,948	\$67,557	\$2,326

Name	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	\$56,340	\$1,910	\$50,845	\$1,680

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. Guarantee deposits paid**

Name	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$23,725	\$796	\$22,678	\$781
Cathay Futures Co., Ltd.	4,966	167	5,145	177
Total	<u>\$28,691</u>	<u>\$963</u>	<u>\$27,823</u>	<u>\$958</u>

Name	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$22,420	\$760	\$23,234	\$767
Cathay Futures Co., Ltd.	6,088	206	7,528	249
Total	<u>\$28,508</u>	<u>\$966</u>	<u>\$30,762</u>	<u>\$1,016</u>

G. Other payable

Name	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$225,498	\$7,565	\$172,887	\$5,951
Other related parties				
Cathay Life Insurance Co., Ltd.	178,929	6,002	141,412	4,868
Total	<u>\$404,427</u>	<u>\$13,567</u>	<u>\$314,299</u>	<u>\$10,819</u>

Name	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$133,791	\$4,535	\$103,717	\$3,427
Other related parties				
Cathay Life Insurance Co., Ltd.	152,937	5,185	217,861	7,197
Total	<u>\$286,728</u>	<u>\$9,720</u>	<u>\$321,578</u>	<u>\$10,624</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)****H. Preferred stock liability**

Name	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,546</u>	<u>\$1,000,000</u>	<u>\$34,424</u>

Name	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,898</u>	<u>\$1,000,000</u>	<u>\$33,036</u>

I. Operating costs

Name	Summary	For the three months ended March 31,			
		2013		2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	<u>\$4,443</u>	<u>\$149</u>	<u>\$3,766</u>	<u>\$128</u>

J. Operating expenses

Name	Summary	For the three months ended March 31,			
		2013		2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$25,894	\$869	\$23,543	\$798
	Marketing expenses	319,922	10,732	286,266	9,704
	Party premium expenses	2,197	74	2,444	83
	Administrative expenses	1,248	42	1,281	43
Cathay United Bank Co., Ltd.	Marketing expenses	13,299	446	14,377	487
	Rental expenses	2,098	70	1,670	57
Total		<u>\$364,658</u>	<u>\$12,233</u>	<u>\$329,581</u>	<u>\$11,172</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)

K. Other expenses

Name	For the three months ended March 31,			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	\$7,443	\$250	\$6,291	\$213

L. Other

As of March 31, 2013 and 2012, the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Name	Item	March 31, 2013	December 31, 2012
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$88,250	US\$75,250
	IRS	NT\$400,000	NT\$400,000
		(US\$13,418)	(US\$13,769)

Name	Item	March 31, 2012	January 1, 2012
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$44,050	US\$41,050
	IRS	NT\$600,000	NT\$600,000
		(US\$20,339)	(US\$19,822)

M. Key management personnel compensation in total

Item	For the three months ended March 31,			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$20,072	\$673	\$16,891	\$573
Post-employment benefits	880	30	765	26
Termination benefits	2,708	91	-	-
	\$23,660	\$794	\$17,656	\$599

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

9. Pledged assets

(1) The Company

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Government deposits paid-government bonds	\$473,495	\$15,884	\$626,639	\$21,571
Guarantee deposits paid	20,000	671	20,000	688
Total	<u>\$493,495</u>	<u>\$16,555</u>	<u>\$646,639</u>	<u>\$22,259</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Government deposits paid-government bonds	\$402,916	\$13,658	\$403,738	\$13,338
Guarantee deposits paid	20,000	678	20,000	661
Total	<u>\$422,916</u>	<u>\$14,336</u>	<u>\$423,738</u>	<u>\$13,999</u>

As of March 31, 2013, December 31, 2012, March 31, 2012, and January 1, 2012, the Company provided government bonds amounting to NT\$473,495 (US\$15,884) thousand, NT\$626,639 (US\$21,571) thousand, NT\$402,916 (US\$13,659) thousand, and 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	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	<u>\$384,816</u>	<u>\$12,909</u>	<u>\$373,928</u>	<u>\$12,872</u>

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	<u>\$375,104</u>	<u>\$12,715</u>	<u>\$385,000</u>	<u>\$12,719</u>

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

(3) Cathay Insurance (Vietnam)

Item	March 31, 2013		December 31, 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	\$8,414	\$282	\$8,231	\$283

Item	March 31, 2012		January 1, 2012	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	\$8,384	\$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.

10. Commitment and contingent liabilities

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 March 31, 2013, December 31, 2012, March 31, 2012 and January 1, 2012 are as follows:

(1) Significant lease contracts of the Company

NT\$	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Not later than 1 year	\$120,303	\$118,857	\$103,979	\$104,074
Later than 1 year but not later than 5 years	481,213	475,428	415,917	419,772
Later than 5 years	-	-	-	-
	\$601,516	\$594,285	\$519,896	\$523,846

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

US\$	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Not later than 1 year	\$4,035	\$4,091	\$3,525	\$3,438
Later than 1 year but not later than 5 years	16,143	16,366	14,099	13,868
Later than 5 years	-	-	-	-
	<u>\$20,178</u>	<u>\$20,457</u>	<u>\$17,624</u>	<u>\$17,306</u>

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

NT\$	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Not later than 1 year	\$58,140	\$62,124	\$65,487	\$77,453
Later than 1 year but not later than 5 years	54,858	47,032	60,640	68,137
Later than 5 years	-	-	-	-
	<u>\$112,998</u>	<u>\$109,156</u>	<u>\$126,127</u>	<u>\$145,590</u>

US\$	March 31, 2013	December 31, 2012	March 31, 2012	January 1, 2012
Not later than 1 year	\$1,951	\$2,139	\$2,220	\$2,559
Later than 1 year but not later than 5 years	1,840	1,619	2,055	2,251
Later than 5 years	-	-	-	-
	<u>\$3,791</u>	<u>\$3,758</u>	<u>\$4,275</u>	<u>\$4,810</u>

11. Significant disaster losses: None.

12. Subsequent events: None.

13. 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.

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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)

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

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

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Item	December 31, 2012 (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	\$2,223,005	\$-	\$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>

Item	December 31, 2012 (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	\$76,523	\$-	\$76,523
Financial Liabilities	-	34,424	34,424
Insurance liabilities	-	703,635	703,635
Provision	-	8,535	8,535
Other liabilities	-	15,805	15,805
Total liabilities			<u>\$838,922</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	March 31, 2012 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,700,941	\$-	\$6,700,941
Receivables	2,808,068	-	2,808,068
Investments	4,349,690	6,846,303	11,195,993
Reinsurance contracts assets	-	5,362,961	5,362,961
Property and equipment	-	207,573	207,573
Intangible assets	-	35,031	35,031
Other assets	-	1,078,484	1,078,484
Total assets			<u>\$27,389,051</u>
Payables	\$1,922,626	\$-	\$1,922,626
Financial Liabilities	-	1,000,000	1,000,000
Insurance liabilities	-	19,361,751	19,361,751
Provision	-	256,153	256,153
Other liabilities	-	294,466	294,466
Total liabilities			<u>\$22,834,996</u>

Item	March 31, 2012 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$227,151	\$-	\$227,151
Receivables	95,189	-	95,189
Investments	147,447	232,078	379,525
Reinsurance contracts assets	-	181,795	181,795
Property and equipment	-	7,036	7,036
Intangible assets	-	1,187	1,187
Other assets	-	36,559	36,559
Total assets			<u>\$928,442</u>
Payables	\$65,174	\$-	\$65,174
Financial Liabilities	-	33,898	33,898
Insurance liabilities	-	656,331	656,331
Provision	-	8,683	8,683
Other liabilities	-	9,982	9,982
Total liabilities			<u>\$774,068</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	January 1, 2012 (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	\$2,101,262	\$-	\$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>

Item	January 1, 2012 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$228,810	\$-	\$228,810
Receivables	96,115	-	96,115
Investments	149,692	203,949	353,641
Reinsurance contracts assets	-	171,867	171,867
Property and equipment	-	7,460	7,460
Intangible assets	-	1,233	1,233
Other assets	-	36,226	36,226
Total assets			<u>\$895,352</u>
Payables	\$69,417	\$-	\$69,417
Financial Liabilities	1,487	33,036	34,523
Insurance liabilities	-	630,194	630,194
Provision	-	8,573	8,573
Other liabilities	-	9,319	9,319
Total liabilities			<u>\$752,026</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)

(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 March 31, 2013:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,709	2.65%	Each quarter	Sep. 30, 2014
\$200,000	\$6,709	2.40%	Each quarter	Sep. 28, 2012
\$200,000	\$6,709	2.785%	Each quarter	Apr. 30, 2015

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$16,284 (US\$546) and NT\$26,011 (US\$882) as of March 31, 2013 and 2012, respectively.

(3) Eliminated inter-company transactions

Transactions (NT\$)	For the three months ended March 31, 2013		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment			
profit and loss	\$54,116	\$(46,762)	\$(7,354)
k Eliminate subsidiaries equity	(642,200)	526,811	378,794
Transactions (US\$)	For the three months ended March 31, 2013		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment			
profit and loss	\$1,815	\$(1,568)	\$(247)
k Eliminate subsidiaries equity	(21,543)	17,672	12,707

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the three months ended March 31, 2012			
Company name and debit(credit) amounts			
Transactions (NT\$)	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment			
profit and loss	\$47,705	\$(41,314)	\$(6,391)
k Eliminate subsidiaries equity	(983,912)	1,151,623	408,100

For the three months ended March 31, 2013			
Company name and debit(credit) amounts			
Transactions (US\$)	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment			
profit and loss	\$1,617	\$(1,400)	\$(217)
k Eliminate subsidiaries equity	(33,353)	39,038	13,834

Note: The eliminated difference of inter-company result in non-controlling equity NT\$263,405(US\$8,836) and NT\$575,811(US\$1,519) for the three months ended March 31, 2013 and 2012.

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

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

	March 31, 2013			December 31, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$182,061	29.875	\$5,439,069	\$174,121	29.136	\$5,073,189
RMB	167,335	4.8129	805,363	127,845	4.6588	595,604
Non-Monetary Items						
USD	194,920	29.875	-	176,020	29.136	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)
Investment under equity method						
RMB	54,760	4.8102	263,407	64,246	4.6741	300,290
VND	275,486,774	0.001375	378,794	280,878,487	0.001345	377,782

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	March 31, 2012			January 1, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$112,066	29.53	\$3,309,309	\$103,478	30.29	\$3,134,349
Non-Monetary Items						
USD	102,320	29.53	-	95,320	30.29	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)
Investment under equity method						
RMB	122,806	4.6888	575,813	130,716	4.8125	629,071
VND	297,882,871	0.00137	408,100	302,534,342	0.00139	420,523

Note: The Consolidated Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial assets at fair value through profit and loss were recognized in income statement by NT\$60,579(US\$2,086), NT\$4,239(US\$144) at December 31, 2012 and March 31, 2012. Financial liabilities at fair value through profit and loss were recognized by NT\$94,825 (US\$3,181), NT\$45,000 (US\$1,487) at March 31, 2013 and January 1, 2012.

(5) Capital management

A. Objective

According to the Regulations Governing Capital Adequacy of Insurance Companies by FSC and internal management regulations, the primary objective of the Company's capital management is to ensure that it maintains a healthy capital structure and advances business growing up to support adequate capital and absorb various risk effectively.

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Policy

In order that the Company has adequacy capital to cover various risks, the indicator of the Company's capital adequacy management is capital adequacy ratio. The Company calculates capital adequacy ratio on a regular or non-regular time schedule to ensure the overview of capital adequacy in short-term and medium-term, and it can be the reference to business target, asset configuration plan and dividend policy.

C. Procedures

a. Calculate on regular time schedule

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

b. Calculate on non-regular time schedule

The Company analyzes capital adequacy ratio of significant capital usage, business development, re-insurance arrangement or market change to assess the impact of capital adequacy level.

D. Capital adequacy ratio overview

The capital adequacy ratio of the Company are 200% or more nearly 2 years that in line with the Regulations Governing Capital Adequacy of Insurance Companies.

(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.

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(Expressed in thousands of dollars unless otherwise stated)

14. First-time adoption of TIFRS

For all periods up to and including the year ended December 31, 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 period ended March 31, 2013 are the first the Consolidated Company has prepared in accordance with TIFRS.

Accordingly, the Consolidated Company has prepared financial statements which comply with TIFRS and the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises for periods beginning January 1, 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 January 1, 2012, the Consolidated Company’s date of transition to TIFRS.

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 Consolidated Company has recognized all cumulative actuarial gains and losses on pensions as at the date of transition to TIFRS directly in retained earnings.
- (2) The Consolidated Company has elected to disclose amounts required by paragraph 120A(p) of IAS 19 prospectively from the date of transition to TIFRS.

Impacts of transitioning to TIFRS

The following tables contain reconciliation of balance sheets as at January 1, 2012 (the date of transition to TIFRS), March 31, 2012 and December 31, 2012 and statements of comprehensive income for the three-month period ended March 31, 2012 and the year ended December 31, 2012:

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(1) Reconciliation of consolidated balance sheet items as at January 1, 2012 (the date of transition to TIFRS)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Not
Cash and Cash equivalents	\$6,998,255		(72,188)	\$6,926,067	Cash and Cash equivalents	3
Notes receivable	254,593			254,593	Notes receivable	
Premium receivable	2,541,899			2,541,899	Premium receivable	
Claims recoverable from reinsurers	268,251		(268,251)	-	-	4
Due from reinsurers and ceding companies	497,874		(497,874)	-	-	4
Other accounts receivable	112,904			112,904	Other accounts receivable	
Receivables	3,675,521			2,909,396	Receivables	
Financial assets at fair value through profit or loss	619,455			619,455	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	5,897,618			5,897,618	Available-for-sale financial assets	
Derivative financial assets for hedging	28,521			28,521	Derivative financial assets for hedging	
Investments under equity method	5,465			5,465	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,120,809		72,188	1,192,997	Bond investments with no active market	3
Held-to-maturity financial assets	2,408,714			2,408,714	Held-to-maturity financial assets	
Secured Loans	551,965			551,965	Secured Loans	
Investments	10,632,547			10,704,735	Investments	
Reinsurance Reserve Assets - Net	4,436,278		766,125	5,202,403	Reinsurance contracts assets	4
Other equipment	496,640			496,640	Other equipment	
Leasehold improvements	44,598			44,598	Leasehold improvements	
Subtotal	541,238			541,238	-	
Less: Accumulated depreciation	(319,739)			(319,739)	Less: Accumulated depreciation	
Prepayments for equipments	4,302			4,302	Prepayments for equipments	
Property and equipment - Net	225,801			225,801	Property and equipment	
Intangible assets	41,384	(4,061)		37,323	Intangible assets	1
-	-		105,494	105,494	Deferred income tax assets	2
Prepayments	9,187			9,187	Prepayments	
Guarantee deposits paid	940,947			940,947	Guarantee deposits paid	
Deferred income tax assets	40,092	65,402	(105,494)	-	-	1, 2
Other assets - others	40,966			40,966	Other assets - others	
Other assets	1,031,192			991,100	Other assets	
Total assets	\$27,040,978			\$27,102,319	Total assets	

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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	\$16,970			\$16,970	Claims outstanding	
Commissions payable	135,923			135,923	Commissions payable	
Due to reinsurers and ceding companies	1,261,437			1,261,437	Due to reinsurers and ceding companies	
Other payables	686,932			686,932	Other payables	
Payables	2,101,262			2,101,262	Payables	
Financial liabilities at fair value through profit or loss	45,000			45,000	Financial liabilities at fair value through profit or loss	
Preferred stock liability	1,000,000			1,000,000	Preferred stock liability	
Financial Liabilities	1,045,000			1,045,000	Financial Liabilities	
Unearned premiums reserve	8,925,059			8,925,059	Unearned premiums reserve	
Claim reserve	5,364,787			5,364,787	Claim reserve	
Special reserve	4,761,102			4,761,102	Special reserve	
Premiums deficiency reserve	25,025			25,025	Premiums deficiency reserve	
Reserve for operating and liability	19,075,973			19,075,973	Operating and liability reserves	
-	-		259,488	259,488	Provision	1
-	-		22,311	22,311	Deferred income tax liabilities	2
Guarantee deposits received	30			30	Guarantee deposits received	
Accrued pension liabilities	123,232	136,256	(259,488)	-	-	1
Deferred income tax liabilities	-	22,311	(22,311)	-	-	2
Other liabilities - others	259,787			259,787	Other liabilities - others	
Other liabilities	383,049			259,817	Other liabilities	
Total liabilities	\$22,605,284			\$22,763,851	Total liabilities	
Capital stock					Capital stock	
Common stock	\$2,317,006			\$2,317,006	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	1,929			1,929	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	834,443			834,443	Legal reserve	
Special capital reserve	462,480			462,480	Special capital reserve	
Unappropriated retained earnings	380,220	(210,384)		169,836	Undistributed earnings	1

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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	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(22,377)			(22,377)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	(82,440)			(82,440)	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	28,521			28,521	hedges	
Net loss not recognized as net						
pension cost	(113,158)	113,158		-		1
Minority interest	629,070			629,070	Non-controlling interests	
Total stockholders' equity	4,435,694			4,338,468	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$27,040,978			\$27,102,319	stockholders' equity	

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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\$)		Not
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and Cash equivalents	\$231,194		(2,384)	\$228,810	Cash and Cash equivalents	3
Notes receivable	8,411			8,411	Notes receivable	
Premium receivable	83,974			83,974	Premium receivable	
Claims recoverable from reinsurers	8,862		(8,862)	-	-	4
Due from reinsurers and ceding companies	16,448		(16,448)	-	-	4
Other accounts receivable	3,730			3,730	Other accounts receivable	
Receivables	121,425			96,115	Receivables	
Financial assets at fair value through profit or loss	20,464			20,464	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	194,834			194,834	Available-for-sale financial assets	
Derivative financial assets for hedging	942			942	Derivative financial assets for hedging	
Investments under equity method	181			181	Investments accounted for using the equity method	
Investments in debt securities with no active market	37,027		2,384	39,411	Bond investments with no active market	3
Held-to-maturity financial assets	79,574			79,574	Held-to-maturity financial assets	
Secured Loans	18,235			18,235	Secured Loans	
Investments	351,257			353,641	Investments	
Reinsurance Reserve Assets - Net	146,557		25,310	171,867	Reinsurance contracts assets	4
Other equipment	16,407			16,407	Other equipment	
Leasehold improvements	1,473			1,473	Leasehold improvements	
Subtotal	17,880			17,880	-	
Less: Accumulated depreciation	(10,562)			(10,562)	Less: Accumulated depreciation	
Prepayments for equipments	142			142	Prepayments for equipments	
Property and equipment - Net	7,460			7,460	Property and equipment	
Intangible assets	1,367	(134)		1,233	Intangible assets	1
-	-		3,484	3,484	Deferred income tax assets	2
Prepayments	304			304	Prepayments	
Guarantee deposits paid	31,085			31,085	Guarantee deposits paid	
Deferred income tax assets	1,324	2,161	(3,485)	-	-	1、2
Other assets - others	1,353			1,353	Other assets - others	
Other assets	34,066			32,742	Other assets	
Total assets	\$893,326			\$895,352	Total assets	

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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	
Claims outstanding	\$561			\$561	Claims outstanding	
Commissions payable	4,490			4,490	Commissions payable	
Due to reinsurers and ceding companies	41,673			41,673	Due to reinsurers and ceding companies	
Other payables	22,693			22,693	Other payables	
Payables	69,417			69,417	Payables	
Financial liabilities at fair value through profit or loss	1,487			1,487	Financial liabilities at fair value through profit or loss	
Preferred stock liability	33,036			33,036	Preferred stock liability	
Financial Liabilities	34,523			34,523	Financial Liabilities	
Unearned premiums reserve	294,848			294,848	Unearned premiums reserve	
Claim reserve	177,231			177,231	Claim reserve	
Special reserve	157,288			157,288	Special reserve	
Premiums deficiency reserve	827			827	Premiums deficiency reserve	
Reserve for operating and liability	630,194			630,194	Operating and liability reserves	
-	-		8,573	8,573	Provision	1
-	-		736	736	Deferred income tax liabilities	2
Guarantee deposits received	1			1	Guarantee deposits received	
Accrued pension liabilities	4,071	4,501	(8,572)	-	-	1
Deferred income tax liabilities	-	22,311	(22,311)	-	-	2
Other liabilities - others	8,582			8,582	Other liabilities - others	
Other liabilities	12,654			8,583	Other liabilities	
Total liabilities	\$746,788			\$752,026	Total liabilities	
Capital stock					Capital stock	
Common stock	\$76,545			\$76,545	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	64			64	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	27,567			27,567	Legal reserve	
Special capital reserve	15,278			15,278	Special capital reserve	
Unappropriated retained earnings	12,561	(6,950)		5,611	Undistributed earnings	1

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(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	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(740)			(740)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	(2,723)			(2,723)	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	942			942	hedges	
Net loss not recognized as net						
pension cost	(3,738)	3,738		-		1
Minority interest	20,782			20,782	Non-controlling interests	
Total stockholders' equity	146,538			143,326	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$893,326			\$895,352	stockholders' equity	

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(Expressed in thousands of dollars unless otherwise stated)

(2) Reconciliation of consolidated balance sheet items as at March 31, 2012.

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Not
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and Cash equivalents	\$6,771,273		(70,332)	\$6,700,941	Cash and Cash equivalents	3
Notes receivable	270,050			270,050	Notes receivable	
Premium receivable	2,392,797			2,392,797	Premium receivable	
Claims recoverable from reinsurers	256,675		(256,675)	-	-	4
Due from reinsurers and ceding companies	614,968		(614,968)	-	-	4
Other accounts receivable	145,221			145,221	Other accounts receivable	
Receivables	3,679,711			2,808,068	Receivables	
Financial assets at fair value through profit or loss	287,743			287,743	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	6,354,155			6,354,155	Available-for-sale financial assets	
Derivative financial assets for hedging	26,011			26,011	Derivative financial assets for hedging	
Investments under equity method	5,464			5,464	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,477,115		70,332	1,547,447	Bond investments with no active market	3
Held-to-maturity financial assets	2,450,987			2,450,987	Held-to-maturity financial assets	
Secured Loans	524,186			524,186	Secured Loans	
Investments	11,125,661			11,195,993	Investments	
Reinsurance Reserve Assets - Net	4,491,318		871,643	5,362,961	Reinsurance contracts assets	4
Other equipment	496,699			496,699	Other equipment	
Leasehold improvements	43,453			43,453	Leasehold improvements	
Subtotal	540,152			540,152	-	
Less: Accumulated depreciation	(337,765)			(337,765)	Less: Accumulated depreciation	
Prepayments for equipments	5,186			5,186	Prepayments for equipments	
Property and equipment - Net	207,573			207,573	Property and equipment	
Intangible assets	39,092	(4,061)		35,031	Intangible assets	1
-	-		80,668	80,668	Deferred income tax assets	2
Prepayments	6,491			6,491	Prepayments	
Guarantee deposits paid	933,046			933,046	Guarantee deposits paid	
Deferred income tax assets	29,206	51,462	(80,668)	-	-	1 & 2
Other assets - others	58,279			58,279	Other assets - others	
Other assets	1,027,022			997,816	Other assets	
Total assets	\$27,341,650			\$27,389,051	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	\$5,356			\$5,356	Claims outstanding	
Commissions payable	122,845			122,845	Commissions payable	
Due to reinsurers and ceding companies	1,328,658			1,328,658	Due to reinsurers and ceding companies	
Other payables	465,767			465,767	Other payables	
Payables	1,922,626			1,922,626	Payables	
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	9,018,039			9,018,039	Unearned premiums reserve	
Claim reserve	5,430,565			5,430,565	Claim reserve	
Special reserve	4,787,436			4,787,436	Special reserve	
Premiums deficiency reserve	125,711			125,711	Premiums deficiency reserve	
Reserve for operating and liability	19,361,751			19,361,751	Operating and liability reserves	
-	-		256,153	256,153	Provision	1
-	-		10,532	10,532	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	2,161	8,371	(10,532)	-	-	2
Other liabilities - others	283,904			283,904	Other liabilities - others	
Other liabilities	405,992			283,934	Other liabilities	
Total liabilities	\$22,690,369			\$22,834,996	Total liabilities	
Capital stock					Capital stock	
Common stock	\$2,317,006			\$2,317,006	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	1,929			1,929	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	834,443			834,443	Legal reserve	
Special capital reserve	462,480			462,480	Special capital reserve	
Unappropriated retained earnings	652,770	(210,384)		442,386	Undistributed earnings	1

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(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	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(44,791)			(44,791)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	(61,220)			(61,220)	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	26,011			26,011	hedges	
Net loss not recognized as net						
pension cost	(113,158)	113,158		-		1
Minority interest	575,811			575,811	Non-controlling interests	
Total stockholders' equity	4,651,281			4,554,055	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$27,341,650			\$27,389,051	stockholders' equity	

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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	Not
Cash and Cash equivalents	\$229,535		(2,384)	\$227,151	Cash and Cash equivalents	3
Notes receivable	9,154			9,154	Notes receivable	
Premium receivable	81,112			81,112	Premium receivable	
Claims recoverable from reinsurers	8,701		(8,701)	-		4
Due from reinsurers and ceding companies	20,846		(20,846)	-		4
Other accounts receivable	4,923			4,923	Other accounts receivable	
Receivables	124,736			95,189	Receivables	
Financial assets at fair value through profit or loss	9,754			9,754	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	215,395			215,395	Available-for-sale financial assets	
Derivative financial assets for hedging	882			882	Derivative financial assets for hedging	
Investments under equity method	185			185	Investments accounted for using the equity method	
Investments in debt securities with no active market	50,072		2,384	52,456	Bond investments with no active market	3
Held-to-maturity financial assets	83,084			83,084	Held-to-maturity financial assets	
Secured Loans	17,769			17,769	Secured Loans	
Investments	377,141			379,525	Investments	
Reinsurance Reserve Assets - Net	152,248		29,547	181,795	Reinsurance contracts assets	4
Other equipment	16,837			16,837	Other equipment	
Leasehold improvements	1,473			1,473	Leasehold improvements	
Subtotal	18,310			18,310		
Less: Accumulated depreciation	(11,450)			(11,450)	Less: Accumulated depreciation	
Prepayments for equipments	176			176	Prepayments for equipments	
Property and equipment - Net	7,036			7,036	Property and equipment	
Intangible assets	1,325	(138)		1,187	Intangible assets	1
-	-		2,735	2,735	Deferred income tax assets	2
Prepayments	220			220	Prepayments	
Guarantee deposits paid	31,629			31,629	Guarantee deposits paid	
Deferred income tax assets	990	1,745	(2,735)	-		1、2
Other assets - others	1,975			1,975	Other assets - others	
Other assets	34,814			33,824	Other assets	
Total assets	\$926,835			\$928,442	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 (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$182			\$182	Claims outstanding	
Commissions payable	4,164			4,164	Commissions payable	
Due to reinsurers and ceding companies	45,039			45,039	Due to reinsurers and ceding companies	
Other payables	15,789			15,789	Other payables	
Payables	65,174			65,174	Payables	
Preferred stock liability	33,898			33,898	Preferred stock liability	
Financial Liabilities	33,898			33,898	Financial Liabilities	
Unearned premiums reserve	305,696			305,696	Unearned premiums reserve	
Claim reserve	184,087			184,087	Claim reserve	
Special reserve	162,287			162,287	Special reserve	
Premiums deficiency reserve	4,261			4,261	Premiums deficiency reserve	
Reserve for operating and liability	656,331			656,331	Operating and liability reserves	
-	-		8,683	8,683	Provision	1
-	-		357	357	Deferred income tax liabilities	2
Guarantee deposits received	1			1	Guarantee deposits received	
Accrued pension liabilities	4,064	4,619	(8,683)	-	-	1
Deferred income tax liabilities	73	284	(357)	-	-	2
Other liabilities - others	9,624			9,624	Other liabilities - others	
Other liabilities	13,762			9,625	Other liabilities	
Total liabilities	\$769,165			\$774,068	Total liabilities	
Capital stock					Capital stock	
Common stock	\$78,543			\$78,543	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	65			65	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	28,286			28,286	Legal reserve	
Special capital reserve	15,677			15,677	Special capital reserve	
Unappropriated retained earnings	22,128	(7,132)		14,996	Undistributed earnings	1

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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	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(1,519)			(1,519)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	(2,075)			(2,075)	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	882			882	hedges	
Net loss not recognized as net						
pension cost	(3,836)	3,836		-		1
Minority interest	19,519			19,519	Non-controlling interests	
Total stockholders' equity	157,670			154,374	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$926,762			\$928,442	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)

(3) Reconciliation of consolidated balance sheet items as at December 31, 2012.

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Not
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and Cash equivalents	\$5,827,862		(150,811)	\$5,677,051	Cash and Cash equivalents	3
Notes receivable	277,728			277,728	Notes receivable	
Premium receivable	2,869,353			2,869,353	Premium receivable	
Claims recoverable from reinsurers	513,592		(513,592)	-	-	4
Due from reinsurers and ceding companies	444,688		(444,688)	-	-	4
Other accounts receivable	144,530			144,530	Other accounts receivable	
Receivables	4,249,891			3,291,611	Receivables	
Financial assets at fair value through profit or loss	437,273			437,273	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	8,404,492			8,404,492	Available-for-sale financial assets	
Derivative financial assets for hedging	17,134			17,134	Derivative financial assets for hedging	
Investments under equity method	1,490			1,490	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,172,459		150,811	1,323,270	Bond investments with no active market	3
Held-to-maturity financial assets	2,512,011			2,512,011	Held-to-maturity financial assets	
Secured Loans	522,080			522,080	Secured Loans	
Investments	13,066,939			13,217,750	Investments	
Reinsurance Reserve Assets - Net	4,556,297		958,280	5,514,577	Reinsurance contracts assets	4
Other equipment	440,965			440,965	Other equipment	
Leasehold improvements	53,497			53,497	Leasehold improvements	
Subtotal	494,462			494,462	-	
Less: Accumulated depreciation	(310,320)			(310,320)	Less: Accumulated depreciation	
Prepayments for equipments	248			248	Prepayments for equipments	
Property and equipment - Net	184,390			184,390	Property and equipment	
Intangible assets	\$39,236	\$ (3,481)		\$35,755	Intangible assets	1
-	-		80,750	80,750	Deferred income tax assets	2
Prepayments	7,319			7,319	Prepayments	
Guarantee deposits paid	1,139,563			1,139,563	Guarantee deposits paid	
Deferred income tax assets	20,294	60,456	(80,750)	-	-	1 & 2
Other assets - others	39,248			39,248	Other assets - others	
Other assets	1,206,424			1,186,130	Other assets	
Total assets	\$29,131,039			\$29,188,014	Total assets	

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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	\$21,009			\$21,009	Claims outstanding	
Commissions payable	112,371			112,371	Commissions payable	
Due to reinsurers and ceding companies	1,205,101			1,205,101	Due to reinsurers and ceding companies	
Other payables	881,846		2,678	884,524	Other payables	
Payables	2,220,327			2,223,005	Payables	
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	10,100,374			10,100,374	Unearned premiums reserve	
Claim reserve	5,807,437			5,807,437	Claim reserve	
Special reserve	4,455,638			4,455,638	Special reserve	
Premiums deficiency reserve	77,149			77,149	Premiums deficiency reserve	
Reserve for operating and liability	20,440,598			20,440,598	Operating and liability reserves	
-	-		247,950	247,950	Provision	1
-	-		18,305	18,305	Deferred income tax liabilities	2
Guarantee deposits received	30			30	Guarantee deposits received	
Accrued pension liabilities	144,832	105,796	(250,528)	-	-	1
Deferred income tax liabilities	-	18,305	(18,305)	-	-	2
Other liabilities - others	440,793			440,793	Other liabilities - others	
Other liabilities	585,655			440,823	Other liabilities	
Total liabilities	\$24,246,580			\$24,370,681	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	923,897			923,897	Special capital reserve	
Unappropriated retained earnings	283,137	(205,799)		77,338	Undistributed earnings	1

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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	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(52,535)			(52,535)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	71,530			71,530	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	17,134			17,134	hedges	
Net loss not recognized as net						
pension cost	(138,673)	138,673		-		1
Minority interest	300,290			300,290	Non-controlling interests	
Total stockholders' equity	4,884,459			4,817,333	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$29,131,039			\$29,188,014	stockholders' equity	

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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	Not
Cash and Cash equivalents	\$200,615		(5,192)	\$195,423	Cash and Cash equivalents	3
Notes receivable	9,560			9,560	Notes receivable	
Premium receivable	98,773			98,773	Premium receivable	
Claims recoverable from reinsurers	17,680		(17,680)	-	-	4
Due from reinsurers and ceding companies	15,308		(15,308)	-	-	4
Other accounts receivable	4,975			4,975	Other accounts receivable	
Receivables	146,296			113,308	Receivables	
Financial assets at fair value through profit or loss	15,053			15,053	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	289,311			289,311	Available-for-sale financial assets	
Derivative financial assets for hedging	590			590	Derivative financial assets for hedging	
Investments under equity method	51			51	Investments accounted for using the equity method	
Investments in debt securities with no active market	40,360		5,192	45,552	Bond investments with no active market	3
Held-to-maturity financial assets	86,472			86,472	Held-to-maturity financial assets	
Secured Loans	17,972			17,972	Secured Loans	
Investments	449,809			455,001	Investments	
Reinsurance Reserve Assets - Net	156,843		32,988	189,831	Reinsurance contracts assets	4
Other equipment	15,179			15,179	Other equipment	
Leasehold improvements	1,842			1,842	Leasehold improvements	
Subtotal	17,021			17,021	-	
Less: Accumulated depreciation	(10,682)			(10,682)	Less: Accumulated depreciation	
Prepayments for equipments	8			8	Prepayments for equipments	
Property and equipment - Net	6,347			6,347	Property and equipment	
Intangible assets	\$1,351	\$(120)		\$1,231	Intangible assets	1
-	-		2,780	2,780	Deferred income tax assets	2
Prepayments	252			252	Prepayments	
Guarantee deposits paid	39,228			39,228	Guarantee deposits paid	
Deferred income tax assets	698	2,082	(2,780)	-	-	1 & 2
Other assets - others	1,351			1,351	Other assets - others	
Other assets	41,529			40,831	Other assets	
Total assets	\$1,002,790			\$1,004,751	Total assets	

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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	
Claims outstanding	\$723			\$723	Claims outstanding	
Commissions payable	3,868			3,868	Commissions payable	
Due to reinsurers and ceding companies	41,484			41,484	Due to reinsurers and ceding companies	
Other payables	30,356		92	30,448	Other payables	
Payables	76,431			76,523	Payables	
Preferred stock liability	34,424			34,424	Preferred stock liability	
Financial Liabilities	34,424			34,424	Financial Liabilities	
Unearned premiums reserve	347,689			347,689	Unearned premiums reserve	
Claim reserve	199,912			199,912	Claim reserve	
Special reserve	153,378			153,378	Special reserve	
Premiums deficiency reserve	2,656			2,656	Premiums deficiency reserve	
Reserve for operating and liability	703,635			703,635	Operating and liability reserves	
-	-		8,535	8,535	Provision	1
-	-		631	631	Deferred income tax liabilities	2
Guarantee deposits received	1			1	Guarantee deposits received	
Accrued pension liabilities	4,986	3,642	(8,628)	-	-	1
Deferred income tax liabilities	-	631	(631)	-	-	2
Other liabilities - others	15,173			15,173	Other liabilities - others	
Other liabilities	20,160			15,174	Other liabilities	
Total liabilities	\$834,650			\$838,922	Total liabilities	
Capital stock					Capital stock	
Common stock	\$86,849			\$86,849	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	66			66	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	32,867			32,867	Legal reserve	
Special capital reserve	31,804			31,804	Special capital reserve	
Unappropriated retained earnings	9,747	(7,085)		2,662	Undistributed earnings	1

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Notes to unaudited consolidated financial statements (continued)

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R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(1,808)			(1,808)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	2,462			2,462	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	590			590	hedges	
Net loss not recognized as net						
pension cost	(4,774)	4,774		-		1
Minority interest	10,337			10,337	Non-controlling interests	
Total stockholders' equity	168,140			165,829	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$1,002,790			\$1,004,751	stockholders' equity	

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Reconciliation of comprehensive income statement items for the three months ended March 31, 2012.

R.O.C. GAAP (\$NT)		Impact of transitioning to TIFRS (\$NT)		TIFRS (\$NT)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$3,646,518			\$3,646,518	Direct premium income	
Reinsurance premium income	92,627			92,627	Reinsurance premium income	
Premiums income	3,739,145			3,739,145	Premiums income	
Deduct: Reinsurance premiums ceded	(941,422)			(941,422)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(160,028)			(160,028)	Change in unearned premiums reserve - Net	
Retained earned premium	2,637,695			2,637,695	Retained earned premium	
Reinsurance commission earned	116,042			116,042	Reinsurance commission earned	
Handling fee earned	7,150			7,150	Handling fee earned	
Investment profit and loss	183,996			183,996	Investment profit and loss	
Interest income	91,271			91,271	Interest income	
Gains on valuation of financial assets	47,871		\$(47,871)	-	Gains from Financial asset or financial liability at fair value through profit or loss	5
-			67,091	67,091	Realized gains from available-for-sale financial assets	5
-			107,493	107,493	Realized gains from held-to-maturity financial assets	5
-			(167)	(167)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			(2)	(2)		
Losses on investments recognized under the equity method	(2)		2	-		5
Losses on foreign Exchange	(81,690)			(81,690)	Losses on foreign Exchange	
Gains on disposal of investments	126,546		(126,546)	-		5
Total	2,944,883			2,944,883	Total	
Operating costs					Operating costs	
Insurance claims paid	(1,797,047)			(1,797,047)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	342,120			342,120	Deduct: Claims recovered from reinsurers	
Retained claim paid	(1,454,927)			(1,454,927)	Retained claim paid	

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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	
Changes in liability reserves	(81,193)			(81,193)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(56,452)			(56,452)		-
Change in special reserve - Net	(26,335)			(26,335)		-
Change in premiums deficiency reserve - Net	1,594			1,594		-
Commissions expenses	(152,023)			(152,023)	Commissions expenses	
Other operating costs	(10,944)			(10,944)	Other operating costs	
Total	<u>(1,699,087)</u>			<u>(1,699,087)</u>	Total	
Operating expenses	<u>(969,732)</u>			<u>(969,732)</u>	Operating expenses	
Operating income	<u>276,064</u>			<u>276,064</u>	Operating income	
-	-		325	325	Non-operating income and expenses	5
Non-operating revenues and gains	<u>5,047</u>		(5,047)	<u>-</u>		- 5
Non-operating expenses and losses	<u>(4,722)</u>		4,722	<u>-</u>		- 5
Consolidated income before income taxes	\$276,389			\$276,389	Profit before tax from continuing operations	
Income taxes expense	<u>(45,153)</u>			<u>(45,153)</u>	Income tax expense	
Consolidated net income	<u>\$231,236</u>			<u>231,236</u>	Profit from continuing operations	
				231,236	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(38,797)	Unrealized gains from available-for-sale financial assets	
				25,657		
				(2,510)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				<u>1</u>		
				<u>(15,649)</u>	Other comprehensive income, net of tax	
				<u>\$215,587</u>	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)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$123,611			\$123,611	Direct premium income	
Reinsurance premium income	3,140			3,140	Reinsurance premium income	
Premiums income	126,751			126,751	Premiums income	
Deduct: Reinsurance premiums ceded	(31,913)			(31,913)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(5,425)			(5,425)	Change in unearned premiums reserve - Net	
Retained earned premium	89,413			89,413	Retained earned premium	
Reinsurance commission earned	3,934			3,934	Reinsurance commission earned	
Handling fee earned	242			242	Handling fee earned	
Investment profit and loss	6,237			6,237	Investment profit and loss	
Interest income	3,094			3,094	Interest income	
Gains on valuation of financial assets	1,622		\$(1,622)	-	Gains from Financial asset or financial liability at fair value through profit or loss	5
-			2,274	2,274	Realized gains from available-for-sale financial assets	5
-			3,644	3,644	Realized gains from held-to-maturity financial assets	5
-			(6)	(6)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			-	-		
Losses on investments recognized under the equity method	-		-	-		5
Losses on foreign Exchange	(2,769)			(2,769)	Losses on foreign Exchange	
Gains on disposal of investments	4,290		(4,290)	-		5
Total	99,826			99,826	Total	
Operating costs					Operating costs	
Insurance claims paid	(60,917)			(60,917)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	11,597			11,597	Deduct: Claims recovered from reinsurers	
Retained claim paid	(49,320)			(49,320)	Retained claim paid	

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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	
					Changes in insurance liabilities-Net	
Changes in liability reserves	(2,752)			(2,752)		
Change in claims reserve - Net	(1,913)			(1,913)		-
Change in special reserve - Net	(893)			(893)		-
Change in premiums deficiency reserve - Net	54			54		-
Commissions expenses	(5,153)			(5,153)	Commissions expenses	
Other operating costs	(371)			(371)	Other operating costs	
Total	(57,596)			(57,596)	Total	
Operating expenses	(32,872)			(32,872)	Operating expenses	
Operating income	9,358			9,358	Operating income	
-	-		11	11	Non-operating income and expenses	5
Non-operating revenues and gains	171		(171)	-		- 5
Non-operating expenses and losses	(160)		(160)	-		- 5
Consolidated income before income taxes	\$9,369			\$9,369	Profit before tax from continuing operations	
Income taxes expense	(1,531)			(1,531)	Income tax expense	
Consolidated net income	7,838			7,838	Profit from continuing operations	
				7,838	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(1,315)	Unrealized gains from available-for-sale financial assets	
				870		
				(85)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				-		
				(530)	Other 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)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
					net of tax	
				<u>\$7,308</u>	Total comprehensive income	

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Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5) Reconciliation of comprehensive income statement items for the year ended December 31, 2012.

R.O.C. GAAP (\$NT)		Impact of transitioning to TIFRS (\$NT)		TIFRS (\$NT)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$16,545,315			\$16,545,315	Direct premium income	
Reinsurance premium income	494,931			494,931	Reinsurance premium income	
Premiums income	17,040,246			17,040,246	Premiums income	
Deduct: Reinsurance premiums ceded	(4,426,479)			(4,426,479)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(890,021)			(890,021)	Change in unearned premiums reserve - Net	
Retained earned premium	11,723,746			11,723,746	Retained earned premium	
Reinsurance commission earned	463,969			463,939	Reinsurance commission earned	
Handling fee earned	33,345			33,345	Handling fee earned	
Investment profit and loss	595,257			595,257	Investment profit and loss	
Interest income	413,175			413,175	Interest income	
Gains on valuation of financial assets	105,865		(105,865)	-	Gains from Financial asset or financial liability at fair value through profit or loss	5
-			117,792	117,792	Realized gains from available-for-sale financial assets	5
-			195,948	195,948	Realized gains from held-to-maturity financial assets	5
-			(805)	(805)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			(1,879)	(1,879)		
Losses on investments recognized under the equity method	(1,879)		1,879	-		5
Losses on foreign Exchange	(128,974)			(128,974)	Losses on foreign Exchange	
Gains on disposal of investments	207,070		(207,070)	-		5
Other operating revenues	73			73	Other operating revenues	
Total	12,816,390			12,816,390	Total	
Operating costs					Operating costs	
Insurance claims paid	(8,595,725)			(8,595,725)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	1,926,425			1,926,425	Deduct: Claims recovered from reinsurers	

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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	
Retained claim paid	(6,669,300)			(6,669,300)	Retained claim paid	
Changes in liability reserves	(369,079)			(369,079)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(610,892)			(610,892)		-
Change in special reserve - Net	305,464			305,464		-
Change in premiums deficiency reserve - Net	(63,651)			(63,651)		-
Commissions expenses	(722,989)			(722,989)	Commissions expenses	
Other operating costs	(51,324)			(51,324)	Other operating costs	
Total	<u>(7,812,692)</u>			<u>(7,812,692)</u>	Total	
Operating expenses	<u>(4,432,882)</u>	5,524		<u>(4,427,358)</u>	Operating expenses	
Operating income	<u>570,816</u>			<u>576,340</u>	Operating income	
-	-		(9,219)	(9,219)	Non-operating income and expenses	5
Non-operating revenues and gains	<u>18,829</u>		(18,829)	<u>-</u>		- 5
Non-operating expenses and losses	<u>(28,048)</u>		28,048	<u>-</u>		- 5
Consolidated income before income taxes	561,597			567,121	Profit before tax from continuing operations	
Income taxes expense	<u>(195,458)</u>	(939)		<u>(196,397)</u>	Income tax expense	
Consolidated net income	<u><u>\$366,139</u></u>			<u>370,724</u>	Profit from continuing operations	
				370,724	Net income	
					Other comprehensive income	
				(47,244)	Exchange differences resulting from translating the financial statements of a foreign operation	
					Unrealized gains from available-for-sale financial assets	
				166,779		
				(11,387)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				<u>(6)</u>		
				<u>108,142</u>	Other comprehensive income, net of tax	

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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	
				\$478,866	Total comprehensive income	
R.O.C. GAAP (\$US)		Impact of transitioning to TIFRS (\$US)		TIFRS (\$US)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$569,546			\$569,546	Direct premium income	
Reinsurance premium income	17,037			17,037	Reinsurance premium income	
Premiums income	586,583			586,583	Premiums income	
Deduct: Reinsurance premiums ceded	(152,374)			(152,374)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(30,638)			(30,638)	Change in unearned premiums reserve - Net	
Retained earned premium	403,571			403,571	Retained earned premium	
Reinsurance commission earned	15,971			15,971	Reinsurance commission earned	
Handling fee earned	1,148			1,148	Handling fee earned	
Investment profit and loss	20,491			20,491	Investment profit and loss	
Interest income	14,223			14,223	Interest income	
Gains on valuation of financial assets	3,644		(3,644)	-	Gains from Financial asset or financial liability at fair value through profit or loss	5
-			4,055	4,055	Realized gains from available-for-sale financial assets	5
-			6,745	6,745	Realized gains from held-to-maturity financial assets	5
-			(28)	(28)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			(65)	(65)		
Losses on investments recognized under the equity method	(65)		65	-		5
Losses on foreign Exchange	(4,439)			(4,439)	Losses on foreign Exchange	
Gains on disposal of investments	7,128		(7,128)	-		5
Other operating revenues	3			3	Other operating revenues	
Total	441,184			441,184	Total	
Operating costs					Operating costs	
Insurance claims paid	(295,894)			(295,894)	Insurance claims paid	

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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	
Deduct: Claims recovered from reinsurers	66,314			66,314	Deduct: Claims recovered from reinsurers	
Retained claim paid	(229,580)			(229,580)	Retained claim paid	
Changes in liability reserves	(12,705)			(12,705)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(21,029)			(21,029)		-
Change in special reserve - Net	10,515			10,515		-
Change in premiums deficiency reserve - Net	(2,191)			(2,191)		-
Commissions expenses	(24,888)			(24,888)	Commissions expenses	
Other operating costs	(1,767)			(1,767)	Other operating costs	
Total	(268,940)			(268,940)	Total	
Operating expenses	(152,595)	190		(152,405)	Operating expenses	
Operating income	19,649			19,839	Operating income	
-	-		(317)	(317)	Non-operating income and expenses	5
Non-operating revenues and gains	648		(648)	-		- 5
Non-operating expenses and losses	(965)		965	-		- 5
Consolidated income before income taxes	19,332			19,522	Profit before tax from continuing operations	
Income taxes expense	(6,728)	(32)		(6,760)	Income tax expense	
Consolidated net income	\$12,604			12,762	Profit from continuing operations	
				12,762	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(1,626)	Unrealized gains from available-for-sale financial assets	
				5,741	Losses on cash flow hedges	
				(392)	Share of other comprehensive income of associates and joint	
				-		

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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	
					ventures accounted for using the equity method	
					Other comprehensive income, net of tax	
				3,723		
				\$16,485	Total comprehensive income	

Material adjustments to the consolidated statement of cash flows for the three months period ended March 31, 2012 and the year ended December 31, 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 for the year ended December 31, 2012, are separately disclosed in the statement of cash flow in the amount of NT\$69,372(US\$2,388), 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

The Company used actuarial techniques to calculate the defined benefit obligation and recognized related pension costs and accrued pension liabilities under R.O.C. GAAP. Upon transitioning to TIFRS, actuarial calculations were made in accordance with the requirements under IAS 19 “Employee Benefits”. As of January 1, 2012, March 31, 2012 and December 31, 2012, adjustments were made to accrued pension liabilities in the amount of NT\$136,256(US\$4,501), NT\$136,256(US\$4,619) and NT\$105,796 (US\$3,642) thousands, deferred income tax assets by NT\$43,091(US\$1,424), NT\$43,091(US\$1,461), NT\$42,154(US\$1,451), retained earnings by NT\$210,384(US\$7,242) and pension costs by NT\$0(US\$0) and NT\$5,524(US\$190) thousands for the three months ended March 31, 2012 and the year ended December 31, 2012.

2. Income tax

Classification and valuation of deferred tax

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Under the requirements of IAS 12 “Income Taxes”, an entity shall offset deferred tax assets and deferred tax liabilities if, and only if, the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity, which resulted in an increase of both deferred income tax assets and liabilities by NT\$22,311 (US\$737), NT\$10,532 (US\$357), and NT\$18,305 (US\$630) thousands, 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 January 1, 2012, March 31, 2012, December 31, 2012, the time deposits amounted to NT\$72,188 (US\$2,385) , NT\$70,332 (US\$2,384) , NT\$150,811 (US\$5,192) 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, the adjustment resulted in a decrease of receivables by NT\$766,125 (US\$25,310), NT\$ 871,643(US\$29,547), NT\$958,280 (US\$32,987) thousands, and an increase of reinsurance reserve assets by NT\$766,125 (US\$25,310), NT\$ 871,643(US\$29,547), NT\$958,280 (US\$32,988) thousands.
5. The Consolidated Company have been prepared the consolidated income statement in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises before amendment, the classification of investment gain(loss)-net are different with TIFRS. In accordance with the presentation of TIFRS and the amended Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises, a part of comprehensive income statement items has been reclassified. Other adjustments of the transition from R.O.C. GAAP to TIFRS have been described as above.