Cathay Century Insurance Co., Ltd.

Unaudited Financial Statements

Together with

Independent auditors' review report

As of September 30, 2012 and 2011

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

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

Board of Directors
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of September 30, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our reviewed.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine months ended September 30, 2012 and 2011 in order for them to be in conformity with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and generally accepted accounting principles in the Republic of China.

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

ERNST & YOUNG
Taipei, Taiwan
Republic of China
October 31, 2012

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets

As of September 30, 2012 and 2011

(Expressed in thousands of dollars)

Assets	Notes	September 30,2012 NT$	September 30,2012 US$	September 30,2011 NT$	September 30,2011 US$
Cash and cash equivalents	2,4	$6,117,093	$208,846	$6,075,647	$199,529
Receivables					
Notes receivable		278,097	9,495	233,373	7,664
Premiums receivable	2,10	2,495,928	85,214	2,546,590	83,632
Claims recoverable from reinsurers		228,905	7,815	284,565	9,345
Due from reinsurers and ceding companies		400,554	13,676	470,918	15,465
Other accounts receivable		86,054	2,938	136,649	4,488
Subtotal		3,489,538	119,138	3,672,095	120,594
Investment					
Financial assets at fair value through profit or loss	2,5	229,194	7,825	795,733	26,133
Available-for-sale financial assets	2,6	7,045,164	240,531	4,067,300	133,573
Derivative financial assets for hedging	2,8	18,199	621	27,719	910
Financial assets carried at cost	2,13	-	-	25,500	838
Long-term investments under equity method	2,15	813,056	27,759	1,100,320	36,135
Investments in debt securities with no active market	2,14	1,174,707	40,106	658,760	21,634
Held-to-maturity financial assets	2,12	2,404,010	82,076	2,499,350	82,081
Secured Loans	2,11	557,790	19,044	641,618	21,071
Subtotal		12,242,120	417,962	9,816,300	322,375
Reinsurance Reserve Assets - Net					
Ceded unearned premiums reserve		2,332,506	79,635	2,126,548	69,837
Ceded claims reserve		1,790,939	61,145	2,189,147	71,893
Ceded premiums deficiency reserve		1,604	55	17,523	576
Subtotal		4,125,049	140,835	4,333,218	142,306
Property and equipment - Net	2,16				
Other equipment		373,173	12,740	368,066	12,088
Less: Accumulated depreciation		(266,257)	(9,090)	(235,840)	(7,745)
Prepayments for equipments		1,575	54	13,099	430
Subtotal		108,491	3,704	145,325	4,773
Intangible assets					
Computer software cost	2,17	20,337	694	16,415	539
Deferred pension cost		4,062	139	4,642	152
Subtotal		24,399	833	21,057	691
Other assets					
Prepayments		7,171	244	5,946	195
Guarantee deposits paid	2	579,218	19,775	486,291	15,970
Deferred income tax assets		20,659	706	55,945	1,837
Other assets - others		33,658	1,149	40,652	1,335
Subtotal		640,706	21,874	588,834	19,337
Total assets		$26,747,396	$913,192	$24,652,476	$809,605

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets - (Continued)

As of September 30, 2012 and 2011

(Expressed in thousands of dollars)

		September 30,2012		September 30,2011	
Liabilities & stockholders' equity	Notes	NT$	US$	NT$	US$
Payables					
Claims outstanding		$4,858	$166	$3,297	$108
Commissions payable		106,716	3,644	96,274	3,162
Due to reinsurers and ceding companies		989,125	33,770	1,346,170	44,209
Other payables		517,821	17,679	415,458	13,644
Subtotal		1,618,520	55,259	1,861,199	61,123
Financial Liabilities					
Financial liabilities at fair value through profit or loss		-	-	132,000	4,335
Preferred stock liability		1,000,000	34,141	-	-
Subtotal		1,000,000	34,141	132,000	4,335
Reserve for operating and liability	2,19				
Unearned premiums reserve		9,323,339	318,311	8,466,374	278,042
Claims reserve		5,144,404	175,637	5,030,860	165,217
Special reserve		4,806,040	164,084	5,159,320	169,436
Premiums deficiency reserve		20,723	708	32,343	1,062
Subtotal		19,294,506	658,740	18,688,897	613,757
Other liabilities					
Guarantee deposits received		30	1	30	1
Accrued pension liabilities		119,896	4,093	58,022	1,905
Other liabilities - others		345,061	11,781	403,237	13,243
Subtotal		464,987	15,875	461,289	15,149
Total liabilities		22,378,013	764,015	21,143,385	694,364
Capital stock					
Common stock	20	2,522,950	86,137	2,317,006	76,092
Capital surplus					
Capital surplus - others		1,929	66	1,929	63
Retained earnings	21				
Legal reserve		954,800	32,598	834,443	27,404
Special reserve		516,399	17,631	-	-
Unappropriated retained earnings		507,131	17,314	547,553	17,982
Equity adjustment					
Unrealized gains or losses on financial instruments		28,017	956	(125,307)	(4,115)
Cumulative translation adjustments		(48,685)	(1,662)	(19,165)	(629)
Net loss not recognized as net pension cost		(113,158)	(3,863)	(47,368)	(1,556)
Total stockholders' equity		4,369,383	149,177	3,509,091	115,241
Total liabilities and stockholders' equity		$26,747,396	$913,192	$24,652,476	$809,605

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2012 and 2011

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

Items	Notes	January 1-September 30,2012 NT$	January 1-September 30,2012 US$	January 1-September 30,2011 NT$	January 1-September 30,2011 US$
Operating revenues	2				
Direct premium income		$11,224,012	$383,203	$10,077,165	$330,941
Reinsurance premium income		336,541	11,490	377,811	12,408
Premiums income		11,560,553	394,693	10,454,976	343,349
Deduct: Reinsurance premiums ceded		(2,953,471)	(100,835)	(2,812,879)	(92,377)
Change in unearned premiums reserve - Net		(518,363)	(17,698)	(664,657)	(21,828)
Retained earned premiums		8,088,719	276,160	6,977,440	229,144
Reinsurance commission earned		261,357	8,923	225,657	7,411
Handling fee earned		24,593	840	23,477	771
Net investment profit and loss		196,766	6,717	249,076	8,180
Interest income		241,091	8,231	223,003	7,323
Gains (Losses) on valuation of financial assets		89,195	3,045	(4,726)	(155)
Losses on valuation of financial liabilities		-	-	(312,807)	(10,273)
Losses on investments recognized under the equity method	2,16	(217,996)	(7,443)	(73,459)	(2,412)
(Losses) Gains on foreign exchange		(92,171)	(3,147)	140,979	4,630
Gains on disposal of investments		176,647	6,031	276,086	9,067
Subtotal		8,571,435	292,640	7,475,650	245,506
Operating costs	2				
Insurance claims paid		(5,449,511)	(186,054)	(5,572,676)	(183,011)
Deduct: Claims recovered from reinsurers		1,057,735	36,113	1,370,172	44,998
Retained claim paid		(4,391,776)	(149,941)	(4,202,504)	(138,013)
Changes in liability reserves		(423,742)	(14,467)	(70,819)	(2,326)
Change in claims reserve - Net		(375,080)	(12,806)	(69,909)	(2,296)
Change in special reserve - Net		(44,938)	(1,534)	3,928	129
Change in premiums deficiency reserve - Net		(3,724)	(127)	(4,838)	(159)
Commissions expenses		(404,536)	(13,811)	(364,862)	(11,983)
Other operating costs		(28,049)	(958)	(46,502)	(1,527)
Subtotal		(5,248,103)	(179,177)	(4,684,687)	(153,849)
Operating expenses	2				
Marketing expenses		(2,290,535)	(78,202)	(2,053,550)	(67,440)
General and administrative expenses		(400,234)	(13,664)	(372,200)	(12,223)
Employee training expenses		(4,821)	(165)	(6,336)	(208)
Subtotal		(2,695,590)	(92,031)	(2,432,086)	(79,871)
Operating income		627,742	21,432	358,877	11,786
Non-operating revenues					
Gains on disposal of fixed assets		-	-	303	10
Other non-operating revenues and gains		5,318	182	2,713	89
Subtotal		5,318	182	3,016	99
Non-operating expenses and losses					
Losses on disposal of fixed assets		(11)	-	(458)	(15)
Dividends on preferred stock liabilities		(13,924)	(475)	-	-
Loss on retiremant of fixed assets		(427)	(15)	(1)	-
Other non-operating expenses and losses		(72)	(3)	(115)	(4)
Subtotal		(14,434)	(493)	(574)	(19)
Income from continuing operations before income taxes		618,626	21,121	361,319	11,866
Income taxes	2,23	(111,495)	(3,807)	(54,684)	(1,796)
Net income		$507,131	$17,314	$306,635	$10,070
Earning per share (In dollars)	24				
Income before income taxes		$2.45	$0.08	$1.43	$0.05
Net income		$2.01	$0.07	$1.22	$0.04

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2012 and 2011

(Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings						Equity adjustment							
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative translation adjustments		Net loss not recognized as net pension cost		Total	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2011	$2,317,006	$76,092	$1,929	$63	$774,213	$25,426	$-	$-	$301,148	$9,890	$187,787	$6,167	$(63,039)	$(2,070)	$(47,368)	$(1,556)	$3,471,676	$114,012
Appropriations and distributions for 2010																		
Legal reserve	-	-	-	-	60,230	1,978	-	-	(60,230)	(1,978)	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial	-	-	-	-	-	-	-	-	-	-	(313,094)	(10,282)	-	-	-	-	(313,094)	(10,282)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	43,874	1,441	-	-	43,874	1,441
Net Income for the nine months ended September 30, 2011	-	-	-	-	-	-	-	-	306,635	10,070	-	-	-	-	-	-	306,635	10,070
Balance on September 30, 2011	$2,317,006	$76,092	$1,929	$63	$834,443	$27,404	$-	$-	$547,553	$17,982	$(125,307)	$(4,115)	$(19,165)	$(629)	$(47,368)	$(1,556)	$3,509,091	$115,241
Balance on January 1, 2012	$2,317,006	$79,106	$1,929	$66	$834,443	$28,489	$462,480	$15,790	$380,220	$12,981	$(53,919)	$(1,841)	$(22,377)	$(764)	$(113,158)	$(3,863)	$3,806,624	$129,964
Appropriations and distributions for 2011(Note)																		
Legal reserve	-	-	-	-	120,357	4,109	-	-	(120,357)	(4,109)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	53,919	1,841	(53,919)	(1,841)	-	-	-	-	-	-	-	-
Stock dividends	205,944	7,031	-	-	-	-	-	-	(205,944)	(7,031)	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	81,936	2,797	-	-	-	-	81,936	2,797
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(26,308)	(898)	-	-	(26,308)	(898)
Net Income for the nine months ended September 30, 2012	-	-	-	-	-	-	-	-	507,131	17,314	-	-	-	-	-	-	507,131	17,314
Balance on September 30, 2012	$2,522,950	$86,137	$1,929	$66	$954,800	$32,598	$516,399	$17,631	$507,131	$17,314	$28,017	$956	$(48,685)	$(1,662)	$(113,158)	$(3,863)	$4,369,383	$149,177

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

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29and NT$30.45 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows

For the nine months ended September 30, 2012 and 2011

(Expressed in thousands of dollars)

Items	Notes	January 1-September 30,2012 NT$	January 1-September 30,2012 US$	January 1-September 30,2011 NT$	January 1-September 30,2011 US$
Cash flows from operating activities					
Net income		$507,131	$17,314	$306,635	$10,070
Adjustments to reconcile net income to net cash provided by (used in)					
Operating activities:					
Depreciation		36,960	1,262	31,445	1,033
Amortization		9,355	320	7,591	249
(Gains) Losses from valuation on financial assets		(89,195)	(3,045)	4,726	155
Losses from valuation on financial liabilities		-	-	312,807	10,273
Unearned premiums reserve		518,363	17,698	664,657	21,828
Claims reserve		375,080	12,806	69,909	2,296
Special reserve		44,938	1,534	(3,928)	(129)
Premiums deficiency reserve		3,724	127	4,838	159
Investment loss recognized under equity method		217,996	7,443	73,459	2,412
Gains on disposal of investments		(176,647)	(6,031)	(276,086)	(9,067)
Gains on disposal of property and equipment		-	-	(303)	(10)
Loss on disposal of property and equipment		11	-	458	15
Loss of property and equipment scrapped		427	15	1	-
Increase in notes receivable		(23,504)	(802)	(13,543)	(445)
Increase in premiums receivable		(27,506)	(939)	(491,978)	(16,157)
Decrease (Increase) in claims recoverable from reinsurers		39,346	1,343	(91,002)	(2,989)
Increase in other accounts receivable		(12,253)	(418)	(81,109)	(2,664)
Decrease (Increase) in financial assets at fair value through profit or loss		302,233	10,319	(664,853)	(21,834)
Decrease in financial liabilities at fair value through profit or loss		(45,001)	(1,536)	-	-
Decrease (Increase) in due from reinsurers and ceding companies		55,827	1,906	(354,101)	(11,629)
Increase in prepayments		(372)	(13)	(1,037)	(34)
(Increase) Decrease in guarantee deposits paid		(47,531)	(1,623)	126,074	4,140
Decrease (Increase) in deferred income tax assets		21,626	738	(3,646)	(120)
Decrease in other assets - others		1,127	38	90,969	2,988
Decrease in claims outstanding		(13,479)	(460)	(20,371)	(669)
(Decrease) Increase in commissions payable		(1,112)	(39)	92,044	3,023
(Decrease) Increase in due to reinsurers and ceding companies		(200,810)	(6,856)	423,603	13,911
Decrease in other payables		(128,143)	(4,375)	(323,955)	(10,639)
Decrease in guarantee deposits received		-	-	(320)	(10)
(Decrease) Increase in pension liabilities		(3,335)	(114)	474	16
Increase in other liabilities - others		146,637	5,006	234,571	7,704
Net cash provided by operating activities		1,511,893	51,618	118,029	3,876
Cash flows from investing activities					
Acquisition of financial assets		(1,534,858)	(52,402)	(491,585)	(16,144)
(Increase) Decrease in secured loans		(5,824)	(199)	63,596	2,088
Acquisition of fixed assets		(12,412)	(424)	(76,678)	(2,518)
Disposal of fixed assets		7	-	303	10
Acquisition of intangible assets		(1,090)	(37)	(1,835)	(60)
Net cash used in by investing activities		(1,554,177)	(53,062)	(506,199)	(16,624)
Decrease in cash and cash equivalents		(42,284)	(1,444)	(388,170)	(12,748)
Cash and cash equivalents at the beginning of periods		6,159,377	210,290	6,463,817	212,277
Cash and cash equivalents at the end of periods		$6,117,093	$208,846	$6,075,647	$199,529
Supplemental disclosure of cash flows information					
Income tax paid		$9,093	$310	$12,400	$407

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

1. Organization and business scope

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

As of September 30, 2012 and 2011, the total numbers of employees were 1,660 and 1,526, respectively.

2. Summary of significant accounting policies

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

(1) Cash and cash equivalents

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

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

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

(2) Assessment of impairment for loans and receivables

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

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Company shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for loans and receivables with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment.

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

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

(3) Financial assets and financial liabilities

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

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

A. Financial assets at fair value through profit or loss

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

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

a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

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

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

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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

(4) Long - term investments under equity method

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

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method. If the adjustment stated above is to debit the additional paid-in capital account and the amount of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.
Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and its subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

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

(5) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(6) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

C. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

(7) Derivative financial instruments

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

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

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

A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability.

B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.

C. Hedge of a net investment in a foreign operation.

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

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

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

Fair value hedges

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

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

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

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(8) Property and equipment

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

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

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

(9) Intangible assets

Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair values. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

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

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

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

(10) Accounting for asset impairment

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

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

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

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

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

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

(11) Separation requirement for specific assets

The Company provides compulsory automobile liability insurance ("this insurance") and establishes independent accounting to record the operational and financial status of this insurance incompliance with Compulsory Automobile Liability Insurance Act.
According to article five of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, for the special reserve set aside by the Company for this insurance, the Company shall purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the Company may purchase the following domestic securities:

(a) Government bonds, not including exchangeable government bonds.

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

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

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

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

(a) Treasury bills
(b) Negotiable certificates of deposit, bankers’ acceptances, and commercial paper guaranteed by a financial institution.
(c) Government bonds in a repo transaction

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

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

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

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

(12) Operating and liabilities reserves

Operating and liabilities reserves are set aside in accordance with “Regulations for the Management of the Various Reserves by Insurance Enterprises”, “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, ” Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for Nuclear energy insurance”. Also, the booked reserves shall be validated by the certified actuarial professionals approved by Financial Supervisory Commission.

A. Unearned premium reserve

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

B. Claims reserve

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

C. Special reserve

The special reserve is classified into 2 categories, “Special reserve for major incident” and “Special reserve for fluctuation of risks”. For the special reserves set aside by the Company before 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.

a. Special reserve for major incident

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

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

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

b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

(13) Insurance premium revenues and the acquisition costs

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

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

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

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

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

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

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

(14) Insurance claim costs

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

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

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

The claims recovered from reinsurance account for those paid claims would recovered from re-insurees according to reinsurance contracts. For those reported but unpaid claims and IBNR claims, are recognized as the gross change of claims reserve.
Claim reserve is not discounted to its present value.

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

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

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

(15)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.

(16)Reinsurance ceded

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

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

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

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

(17)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.

(18) Pension plan

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

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

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

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

(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

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

(20) Income Taxes

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

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

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

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

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

(21) Capital expenditure expenses

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

(22) Employee bonus and remuneration of directors

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

(23) Operating Segment Information

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

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

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

C. For which discrete financial information is available.

(24) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$ 29.29 and NT$ 30.45 provided by Federal Reserve Bank of New York of September 30, 2012 and 2011 are used for the conversion.

3. Changes in accounting and their effects

(1) Effective from January 1, 2011, the Company adopted the third revision of the SFAS No.34 “Financial Instruments: Recognition and Measurement”. This change in accounting principles had no significant impact on net income and earnings per share for the nine months ended September 30, 2011.

(2) Started from January 1, 2011 the Company applied SFAS No.40 “Insurance Contracts” and “Regular Governing the Preparation of Financial Reports by Insurance Enterprises” issued on December 30, 2009 according to FSC Insurance Interpretation No. 09802506492. Based on SFAS, preparing guidance and related interpretation. This change in accounting principles had no significant impact on net income and earnings per share For the nine months ended September 30, 2011.

In addition, the amount of special reserves for fluctuation of risks and major incidents that should have been set aside should be accounted for special reserve under retained earnings at year end. As of nine months ended September 30, 2011, the amount set aside was NT$304,994 (US$10,016) thousand dollars (after tax) .

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

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

4. Cash and cash equivalents

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Petty cash and cash on hand	$13,012	$444	$10,159	$334
Cash in banks	1,427,445	48,735	1,176,507	38,637
Time deposits	4,346,600	148,399	4,733,312	155,446
Cash equivalents	330,036	11,268	155,669	5,112
Total	$6,117,093	$208,846	$6,075,647	$199,529

5. Premiums receivable

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Premiums receivable	$2,569,421	$87,723	$2,612,211	$85,787
Less: Allowance for bad debts	(73,493)	(2,509)	(65,621)	(2,155)
Net	$2,495,928	$85,214	$2,546,590	$83,632

6. Financial assets at fair value through profit or loss

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Listed stocks	$-	$-	$129,814	$4,263
Beneficiary certificates	185,000	6,316	671,333	22,047
Subtotal	185,000	6,316	801,147	26,310
Add: Valuation adjustment	44,194	1,509	(5,414)	(177)
Total	$229,194	$7,825	$795,733	$26,133

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

7. Available-for-sale financial assets

Item	September 30, 2012 NT$	2012 US$	2011 NT$	2011 US$
Listed stocks	$1,717,119	$58,625	$1,187,276	$38,991
Overseas stocks	28,869	985	33,907	1,113
Beneficiary certificates	1,691,234	57,741	692,895	22,755
Real Estate Investment Trust	340,318	11,619	427,486	14,039
Corporate bonds	999,979	34,141	799,941	26,271
Financial debentures	1,200,116	40,973	700,059	22,990
Government bonds	727,825	24,849	366,878	12,049
Overseas bonds	301,454	10,292	-	-
Subtotal	7,006,914	239,225	4,208,442	138,208
Add: Valuation adjustment	38,250	1,306	(141,142)	(4,635)
Total	$7,045,164	$240,531	$4,067,300	$133,573

8. Derivative financial assets for hedging

	September 30, 2012 NT$	2012 US$	2011 NT$	2011 US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	18,199	621	27,719	910
Total	$18,199	$621	$27,719	$910

9. Financial assets carried at cost

Item	September 30, 2012 NT$	2012 US$	2011 NT$	2011 US$
KGEX. Com Co., Ltd.	$-	$-	$25,500	$838

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

10. Long-term investments under equity method

	September 30,			
	2012		2011	
Investee	NT$	US$	NT$	US$
Vista Technology Venture Capital Corp.	$3,382	$115	$5,706	$187
Cathay Insurance Company Limited. (China)	421,270	14,383	652,832	21,440
Cathay Insurance Company Limited (Vietnam)	388,404	13,261	441,782	14,508
Total	$813,056	$27,759	$1,100,320	$36,135

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

	For the nine months ended September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Balance on January 1	$1,055,058	$36,021	$1,143,316	$37,547
Add (less):				
Investment loss recognized under the equity method	(217,996)	(7,443)	(73,459)	(2,412)
Cumulative conversion adjustments	(26,308)	(898)	43,874	1,441
Unrealized gains or losses on financial instruments recognized under the equity investment	4,392	150	(13,411)	(441)
Disinvestment of investment under the equity method	(2,090)	(71)	-	-
Balance on September 30	$813,056	$27,759	$1,100,320	$36,135

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

B. The investment losses recognized under equity method for the nine months ended September 30, 2012 and 2011 are listed below:

	For the nine months ended September 30,			
	2012		2011	
Investee	NT$	US$	NT$	US$
Vista Technology Venture Capital Corp.	$13	$-	$(17)	$-
Cathay Insurance Company Limited. (China)	(194,695)	(6,647)	(84,068)	(2,761)
Cathay Insurance Company Limited (Vietnam)	(23,314)	(796)	10,626	349
Total	$(217,996)	$(7,443)	$(73,459)	$(2,412)

C. Equity method was applied for Vista Technology Venture Capital Corp. due to the ownership of more than 20% jointly holding by the Company and its related parties for the nine months ended September 30, 2012 and 2011.

11. Investments in debt securities with no active market

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Preferred stocks	$400,000	$13,656	$-	$-
Company bonds	500,000	17,071	500,000	16,420
Overseas bonds	274,707	9,379	158,760	5,214
Total	$1,174,707	40,106	$658,760	$21,634

12. Held-to-maturity financial assets

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Overseas bonds	$2,404,010	$82,076	$2,499,350	$82,081

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

13. Secured loans

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Secured loans	$618,221	$21,107	$648,350	$21,292
Less: Allowance for bad debts	(60,431)	(2,063)	(6,732)	(221)
Net	$557,790	$19,044	$641,618	$21,071

Secured loans are secured by real estate.

14. Fixed assets

	September 30, 2012					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Other equipments	$373,173	$12,740	$266,257	$9,090	$106,916	$3,650
Prepayments for equipments	1,575	54	-	-	1,575	54
Total	$374,748	$12,794	$266,257	$9,090	$108,491	$3,704

	September 30, 2011					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Communication and transportation equipments	$368,066	$12,088	$235,840	$7,745	$132,226	$4,343
Prepayments for equipments	13,099	430	-	-	13,099	430
Total	$381,165	$12,518	$235,840	$7,745	$145,325	$4,773

No equipments of the Company were pledged as of September 30, 2012 and 2011.

15. Intangible assets - Computer software cost

	January 1,2012		Increase		Decrease		September 30, 2012	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$96,676	$3,301	$4,400	$150	$-	$-	$101,076	$3,451
Amortization and impairment								
Amortization	(71,384)	(2,437)	(9,355)	(320)	-	-	(80,739)	(2,757)
Book value	$25,292	$864					$20,337	$694

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

	January 1,2011		Increase		Decrease		September 30, 2011	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$81,402	$2,673	$3,846	$126	$-	$-	$85,248	$2,799
Amortization and impairment								
Amortization	(61,242)	(2,011)	(7,591)	(249)	-	-	(68,833)	(2,260)
Book value	$20,160	$662					$16,415	$539

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

16. Financial liabilities at fair value through profit or loss

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	-	-	132,000	4,335
Total	$-	$-	$132,000	$4,335

17. Preferred stock liabilities

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

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

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

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

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

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

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

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

18. Operating and liability reserve

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Unearned premiums reserve	$9,323,339	$318,311	$8,466,374	$278,042
Claims reserve	5,144,404	175,637	5,030,860	165,217
Special reserve	4,806,040	164,084	5,159,320	169,436
Premiums deficiency reserve	20,723	708	32,343	1,062
Total	$19,294,506	$658,740	$18,688,897	$613,757

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

(1) Unearned premiums reserve

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

September 30, 2012

	Unearned premium reserve				Ceded unearned premium reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,995,937	$68,144	$47,775	$1,631	$834,094	$28,477	$1,209,618	$41,298
Marine insurance	248,691	8,491	15,144	517	220,473	7,527	43,362	1,481
Land and air insurance	2,772,255	94,648	10,310	352	95,535	3,262	2,687,030	91,738
Liability insurance	395,410	13,500	191	7	133,523	4,559	262,078	8,948
Bonding insurance	25,913	885	487	17	11,592	396	14,808	506
Other property insurance	807,783	27,579	13,489	460	489,291	16,705	331,981	11,334
Accident insurance	1,493,398	50,987	24,879	849	70,360	2,402	1,447,917	49,434
Health insurance	96,250	3,286	-	-	1,083	37	95,167	3,249
Compulsory automobile liability insurance	1,191,387	40,675	184,040	6,283	476,555	16,270	898,872	30,688
Total	$9,027,024	$308,195	$296,315	$10,116	$2,332,506	$79,635	$6,990,833	$238,676

September 30, 2011

	Unearned premium reserve				Ceded unearned premium reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,810,774	$59,467	$47,549	$1,562	$736,811	$24,197	$1,121,512	$36,832
Marine insurance	235,790	7,743	1,969	65	204,076	6,702	33,683	1,106
Land and air insurance	2,231,640	73,289	8,004	263	86,720	2,848	2,152,924	70,704
Liability insurance	307,851	10,110	440	14	82,026	2,694	226,265	7,430
Bonding insurance	26,116	858	322	10	9,953	327	16,485	541
Other property insurance	822,755	27,020	11,038	362	469,121	15,406	364,672	11,976
Accident insurance	1,516,184	49,793	41,007	1,347	81,408	2,673	1,475,783	48,467
Health insurance	91,153	2,993	-	-	2,337	77	88,816	2,916
Compulsory automobile liability insurance	1,134,219	37,249	179,563	5,897	454,096	14,913	859,686	28,233
Total	$8,176,482	$268,522	$289,892	$9,520	$2,126,548	$69,837	$6,339,826	$208,205

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

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

	September 30, 2012			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$8,624,366	$294,447	$2,151,896	$73,469
Reserve	9,323,339	318,311	2,332,506	79,635
Recover	(8,624,366)	(294,447)	(2,151,896)	(73,469)
Ending balance	$9,323,339	$318,311	$2,332,506	$79,635

	September 30, 2011			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$7,448,272	$244,607	$1,773,103	$58,230
Reserve	8,466,374	278,042	2,126,548	69,837
Recover	(7,448,272)	(244,607)	(1,773,103)	(58,230)
Ending balance	$8,466,374	$278,042	$2,126,548	$69,837

(2) Claims reserve

A. Claim reserve and ceded claim reserve

	September 30, 2012							
	Claim reserve				Ceded claim reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Claim reported but not paid off	$4,076,926	$139,192	$235,870	$8,053	$1,711,672	$58,439	$2,601,124	$88,806
Unreported claim	820,558	28,015	11,050	377	79,267	2,706	752,341	25,686
Total	$4,897,484	$167,207	$246,920	$8,430	$1,790,939	$61,145	$3,353,465	$114,492

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

	September 30, 2011							
	Claim reserve				Ceded claim reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Claim reported but not paid off	$3,869,038	$127,062	$208,542	$6,849	$1,947,390	$63,954	$2,130,190	$69,957
Unreported claim	920,892	30,243	32,388	1,063	241,757	7,939	711,523	23,367
Total	$4,789,930	$157,305	$240,930	$7,912	$2,189,147	$71,893	$2,841,713	$93,324

B. Net changes for claim reserve and ceded claim reserve

	September 30, 2012							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
(NT$)	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
Item	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claim reported but not paid off	$4,076,926	$3,892,767	$235,870	$180,872	$239,157	$1,711,672	$1,841,574	$(129,902)
Unreported claim	820,558	904,613	11,050	44,432	(117,437)	79,267	202,725	(123,458)
Total	$4,897,484	$4,797,380	$246,920	$225,304	$121,720	$1,790,939	$2,044,299	$(253,360)

	September 30, 2012							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
(US$)	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
Item	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claim reported but not paid off	$139,192	$132,904	$8,053	$6,175	$8,166	$58,439	$62,874	$(4,435)
Unreported claim	28,015	30,885	377	1,517	(4,010)	2,706	6,921	(4,215)
Total	$167,207	$163,789	$8,430	$7,692	$4,156	$61,145	$69,795	$(8,650)

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

(NT$) Item	September 30, 2011							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claim reported but not paid off	$3,869,038	$3,571,273	$208,542	$54,195	$452,112	$1,947,390	$1,533,321	$414,069
Unreported claim	920,892	827,046	32,388	-	126,234	241,757	147,389	94,368
Total	$4,789,930	$4,398,319	$240,930	$54,195	$578,346	$2,189,147	$1,680,710	$508,437

(US$) Item	September 30, 2011							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claim reported but not paid off	$127,062	$117,283	$6,849	$1,780	$14,848	$63,954	$50,356	$13,598
Unreported claim	30,243	27,161	1,063	-	4,145	7,939	4,840	3,099
Total	$157,305	$144,444	$7,912	$1,780	$18,993	$71,893	$55,196	$16,697

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

Item	September 30, 2012					
	Claims reserve					
	Claims reported but not paid off		Unreported claims		Total	
	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,826,669	$62,365	$29,439	$1,005	$1,856,108	$63,370
Marine insurance	713,855	24,372	9,380	320	723,235	24,692
Land and air insurance	770,272	26,298	355,209	12,127	1,125,481	38,425
Liability insurance	126,056	4,304	113,510	3,875	239,566	8,179
Bonding insurance	20,905	714	337	12	21,242	726
Other property insurance	273,266	9,330	4,472	153	277,738	9,483
Accident insurance	119,813	4,091	260,825	8,905	380,638	12,996
Health insurance	7,744	264	37,141	1,268	44,885	1,532
Compulsory automobile liability insurance	454,216	15,507	21,295	727	475,511	16,234
Total	$4,312,796	$147,245	$831,608	$28,392	$5,144,404	$175,637

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

	September 30, 2011					
	Claims reserve					
	Claims reported but not paid off		Unreported claims		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,790,429	$58,799	$91,002	$2,988	$1,881,431	$61,787
Marine insurance	781,948	25,680	167,388	5,497	949,336	31,177
Land and air insurance	495,267	16,265	416,315	13,672	911,582	29,937
Liability insurance	198,529	6,520	30,650	1,007	229,179	7,527
Bonding insurance	22,694	745	25,941	852	48,635	1,597
Other property insurance	292,979	9,622	22,997	755	315,976	10,377
Accident insurance	102,017	3,350	177,004	5,813	279,021	9,163
Health insurance	4,102	135	1,406	46	5,508	181
Compulsory automobile liability insurance	389,615	12,795	20,577	676	410,192	13,471
Total	$4,077,580	$133,911	$953,280	$31,306	$5,030,860	$165,217

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

	September 30, 2012					
	Ceded claims reserve					
	Claims reported but not paid off		Unreported claims		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$864,415	$29,512	$-	$-	$864,415	$29,512
Marine insurance	415,112	14,173	-	-	415,112	14,173
Land and air insurance	92,890	3,171	8,694	297	101,584	3,468
Liability insurance	23,426	800	28,211	963	51,637	1,763
Bonding insurance	19,329	660	-	-	19,329	660
Other property insurance	135,592	4,629	-	-	135,592	4,629
Accident insurance	12,432	425	33,073	1,129	45,505	1,554
Health insurance	-	-	1,853	63	1,853	63
Compulsory automobile liability insurance	148,476	5,069	7,436	254	155,912	5,323
Total	$1,711,672	$58,439	$79,267	$2,706	$1,790,939	$61,145

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

	September 30, 2011					
	Ceded claims reserve					
	Claims reported but not paid off		Unreported claims		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$958,133	$31,466	$32,652	$1,072	$990,785	$32,538
Marine insurance	603,169	19,808	120,369	3,953	723,538	23,761
Land and air insurance	20,937	688	22,536	740	43,473	1,428
Liability insurance	78,108	2,565	12,449	409	90,557	2,974
Bonding insurance	19,468	639	22,030	723	41,498	1,362
Other property insurance	132,546	4,353	6,867	225	139,413	4,578
Accident insurance	10,709	352	17,657	580	28,366	932
Health insurance	-	-	47	2	47	2
Compulsory automobile liability insurance	124,320	4,083	7,150	235	131,470	4,318
Total	$1,947,390	$63,954	$241,757	$7,939	$2,189,147	$71,893

E. Reconciliation statement of claim reserve and ceded claim reserve

	September 30, 2012			
	Claim reserve		Ceded claim reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$5,022,684	$171,481	$2,044,299	$69,795
Reserve	5,144,404	175,637	1,790,939	61,145
Recover	(5,022,684)	(171,481)	(2,044,299)	(69,795)
Ending balance	$5,144,404	$175,637	$1,790,939	$61,145

	September 30, 2011			
	Claim reserve		Ceded claim reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$4,452,514	$146,224	$1,680,710	$55,196
Reserve	5,030,860	165,217	2,189,147	71,893
Recover	(4,452,514)	(146,224)	(1,680,710)	(55,196)
Ending balance	$5,030,860	$165,217	$2,189,147	$71,893

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

(3) Special reserve

A. Special reserve- Compulsory car insurance

Item	September 30, 2012 NT$	September 30, 2012 US$
Beginning balance	$2,434,891	$83,130
Reserve	207,313	7,078
Recover	(140,978)	(4,813)
Ending balance	$2,501,226	$85,395

Item	September 30, 2011 NT$	September 30, 2011 US$
Beginning balance	$2,335,811	$76,710
Reserve	214,126	7,032
Recover	(118,779)	(3,901)
Ending balance	$2,431,158	$79,841

B. Special reserve- Non-compulsory car insurance

	September 30, 2012					
	Liability					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Beginning balance	$1,172,396	$40,027	$1,153,815	$39,393	$2,326,211	$79,420
Reserve	-	-	-	-	-	-
Recover	-	-	(21,397)	(731)	(21,397)	(731)
Ending balance	$1,172,396	$40,027	$1,132,418	$38,662	$2,304,814	$78,689

	September 30, 2011					
	Liability					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Beginning balance	$1,183,609	$38,871	$1,643,828	$53,984	$2,827,437	$92,855
Reserve	-	-	6,355	209	6,355	209
Recover	-	-	(105,630)	(3,469)	(105,630)	(3,469)
Ending balance	$1,183,609	$38,871	$1,544,553	$50,724	$2,728,162	$89,595

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

(4) Premiums deficiency reserve

A. Premiums deficiency reserve and ceded premiums deficiency reserve

	September 30, 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	$-	$-	$-	$-	$-	$-	$-	$-
Marine insurance	9,413	322	621	21	(1,856)	(63)	11,890	406
Land and air insurance	-	-	7,229	247	-	-	7,229	247
Liability insurance	-	-	-	-	-	-	-	-
Bonding insurance	3,460	118	-	-	3,460	118	-	-
Other property insurance	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-
Total	$12,873	$440	$7,850	$268	$1,604	$55	$19,119	$653

	September 30, 2011							
	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	$-	$-	$763	$25	$(6,251)	$(205)	$7,014	$230
Marine insurance	9,243	304	403	13	1,980	65	7,666	252
Land and air insurance	-	-	-	-	(134)	(4)	134	4
Liability insurance	-	-	49	2	49	2	-	-
Bonding insurance	21,868	718	11	-	21,879	718	-	-
Other property insurance	-	-	6	-	-	-	6	-
Accident insurance	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-
Total	$31,111	$1,022	$1,232	$40	$17,523	$576	$14,820	$486

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

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

	September 30, 2012								
	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		
(NT$) Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$-	$432	$(432)	$-	$(5,485)	$5,485	$(5,917)
Marine insurance	9,413	9,805	621	55	174	(1,856)	1,867	(3,723)	3,897
Land and air insurance	-	-	7,229	2	7,227	-	(1,480)	1,480	5,747
Liability insurance	-	-	-	49	(49)	-	49	(49)	-
Bonding insurance	3,460	11,179	-	6	(7,725)	3,460	11,185	(7,725)	-
Other property insurance	-	-	-	3	(3)	-	-	-	(3)
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$12,873	$20,984	$7,850	$547	$(808)	$1,604	$6,136	$(4,532)	$3,724

	September 30, 2012								
	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		
(US$) Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$-	$15	$(15)	$-	$(187)	$187	$(202)
Marine insurance	322	335	21	2	6	(63)	64	(127)	133
Land and air insurance	-	-	247	-	247	-	(51)	51	195
Liability insurance	-	-	-	2	(2)	-	2	(2)	-
Bonding insurance	118	381	-	-	(263)	118	382	(264)	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$440	$716	$268	$19	$(27)	$55	$209	$(154)	$127

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

	September 30, 2011								
	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		
(NT$) Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$763	$-	$763	$(6,251)	$-	$(6,251)	$7,014
Marine insurance	9,243	61,778	403	139	(52,271)	1,980	56,155	(54,175)	1,904
Land and air insurance	-	-	-	-	-	(134)	(4,220)	4,086	(4,086)
Liability insurance	-	-	49	-	49	49	-	49	-
Bonding insurance	21,868	9,053	11	-	12,826	21,879	9,053	12,826	-
Other property insurance	-	-	6	-	6	-	-	-	6
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$31,111	$70,831	$1,232	$139	$(38,627)	$17,523	$60,988	$(43,465)	$4,838

	September 30, 2011								
	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		
(US$) Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$25	$-	$25	$(205)	$-	$(205)	$230
Marine insurance	304	2,029	13	5	(1,717)	65	1,844	(1,779)	62
Land and air insurance	-	-	-	-	-	(4)	(138)	134	(134)
Liability insurance	-	-	2	-	2	2	-	2	-
Bonding insurance	718	297	-	-	421	718	298	420	1
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$1,022	$2,326	$40	$5	$(1,269)	$576	$2,004	$(1,428)	$159

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

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

	September 30, 2012			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$21,531	$735	$6,136	$209
Reserve	20,723	708	1,604	55
Recover	(21,531)	(735)	(6,136)	(209)
Ending balance	$20,723	$708	$1,604	$55

	September 30, 2011			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$70,970	$2,331	$60,988	$2,004
Reserve	32,343	1,062	17,523	576
Recover	(70,970)	(2,331)	(60,988)	(2,004)
Ending balance	$32,343	$1,062	$17,523	$576

D. Effects for the change of estimation and assumption

Premiums deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data from the company 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 from the company 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.

19. Common stock

As of September 30, 2012 and 2011, the authorized and issued thousand shares were 252,295 and 231,701 with par value of NT$10, respectively.

20. Retained earnings

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

(2) Since January 1, 2011, the dollar amount net of tax of special reserves should be set aside under stockholders' equity.

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

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

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

(6) The accrual of employee bonus of $0 (US$0) For the nine months ended as of September 30, 2012 and 2011 was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2013 and 2012.

(7) The Company's distribution of 2011 retained earnings has been approved by the board of directors. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

(8) Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2011 should be NT$1,839 (US$61) thousands, there was no difference between the accrual and actual amount of the employee bonus and directors' compensation for 2011.

(9) There was no difference between the accrual and actual amount of employee bonus and directors' compensation for 2011.

(10) Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special reserve under equity at the end of the year. For the nine months ended September 30, 2012, the reserves amounted to NT$311,098 (US$10,621) thousands.

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

21. Personnel, depreciation, depletion and amortization expenses

Item	For the nine months ended September 30, 2012 (NT$)			For the nine months ended September 30, 2011 (NT$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$1,166,289	$1,166,289	$-	$997,288	$997,288
Labor & health insurance expenses	-	74,628	74,628	-	62,862	62,862
Pension expenses	-	57,468	57,468	-	51,777	51,777
Other expenses	-	30,691	30,691	-	28,732	28,732
Depreciation	-	36,960	36,960	-	31,445	31,445
Depletion	-	-	-	-	-	-
Amortization	-	9,355	9,355	-	7,591	7,591

Item	For the nine months ended September 30, 2012 (US$)			For the nine months ended September 30, 2011 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$39,819	$39,819	$-	$32,752	$32,752
Labor & health insurance expenses	-	2,548	2,548	-	2,064	2,064
Pension expenses	-	1,962	1,962	-	1,700	1,700
Other expenses	-	1,048	1,048	-	944	944
Depreciation	-	1,262	1,262	-	1,033	1,033
Depletion	-	-	-	-	-	-
Amortization	-	320	320	-	249	249

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

22. Estimated income taxes

(1) Income tax expenses include the following:

	For the nine months ended September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Taxable income tax calculates on accounting	$618,626	$21,121	$361,319	$11,866
Adjustments:				
(Gains) Losses from valuation on financial assets	(315,003)	(10,755)	459,882	15,103
Gain derived from investment	(49,700)	(1,697)	(11,013)	(362)
Gains derived from securities/futures transactions	(133,123)	(4,545)	(109,097)	(3,583)
Investment losses recognized by the equity method	217,996	7,443	73,459	2,413
Unrealized losses (gains) on foreign exchanges	91,198	3,114	(140,961)	(4,629)
Realized gains (losses) on foreign exchanges	118,342	4,040	(273,159)	(8,971)
Others	5,672	194	(17,440)	(573)
Taxable Income	$554,008	$18,915	342,990	11,264
Multiply by : tax rate	17%	17%	17%	17%
Subtotal	94,181	3,216	58,308	1,915
Tax effects under integrated income tax systems	-	-	-	-
Subtotal	94,181	3,216	58,308	1,915
Adjustment of prior year's income tax	(4,313)	(147)	21	1
Deferred income tax expenses (benefits)	21,627	738	(3,645)	(120)
Total income tax expenses	$111,495	$3,807	$54,684	$1,796

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

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
A. Total deferred income tax assets	$35,811	$1,223	$79,908	$2,624
Total deferred income tax liabilities	$15,152	$517	$23,963	$787
B. Temporary differences:				
Bad debts exceeding legal limitation	$116,776	$3,987	$110,518	$3,630
Unrealized gains on foreign exchanges	-	-	(140,961)	(4,629)
Unrealized losses on foreign exchanges	91,198	3,114	-	-
Unrealized gains from valuation on financial assets	(89,127)	(3,043)	-	-
Unrealized losses from valuation on financial assets	-	-	312,807	10,273
Others	2,678	92	6,013	197
Total	$121,525	$4,150	$288,377	$9,471
C. Investment tax credit	$-	$-	$6,921	$227
D. Deferred income tax assets	$35,811	$1,223	$79,908	$2,624
Deferred income tax liabilities	(15,152)	(517)	(23,963)	(787)
Net balance of deferred income tax assets	$20,659	$706	$55,945	$1,837

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

(4) Information related to imputation

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Balance of imputation credit account	$12,734	$435	$15,367	$505

	September 30, 2012 (real)	September 30, 2011(real)
Imputation creditable ratio	2.16%	4.85%

(5) Information relating of undistributed earnings

	September 30,			
	2012		2011	
Year	NT$	US$	NT$	US$
Prior to 1997	$-	$-	$-	$-
After 1998	-	-	240,918	7,912
Total	$-	$-	$240,918	$7,912

Net income after tax For the nine months ended September 30, 2012 and 2011 are not included in the undistributed earnings after 1998 expressed above.

23. Earnings per share

	For the nine months ended September 30, 2012		For the nine months ended September 30, 2011	
	NT$	US$	NT$	US$
Net income (A)	$507,131	$17,314	$306,635	$10,070
Outstanding number of shares (in thousands shares)(B)	252,295	252,295	252,295	252,295
Weighted average outstanding number of shares (in thousands shares) (C)	252,295	252,295	252,295	252,295
Earnings per shares (in dollars)(A)/(C)	$2.01	$0.07	$1.22	$0.04

24. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Conning Asset Management Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Insurance Company Limited. (China)	Subsidiary of the Company
Cathay Insurance Company Limited (Vietnam)	Subsidiary of the Company
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance Co., Ltd. (China)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co, Ltd.
Indovina Bank Limited.	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Other related parties	The directors, supervisors, mangers, and their spouses, as well as their second immediate families

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

(2) Significant transactions with related parties

A. Premiums income

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$103,157	$3,522	$104,221	$3,423
Cathay United Bank Co., Ltd.	43,745	1,493	47,030	1,544
Cathay Real Estate Development Co., Ltd.	6,841	234	2,866	94
Total	$153,743	$5,249	$154,117	$5,061

B. Premiums receivable

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$12,290	$419	$15,605	$513
Cathay United Bank Co., Ltd.	4,415	151	9,052	297
Total	$16,705	$570	$24,657	$810

C. Cash in banks

		For the nine months ended September 30, 2012		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Cash in banks	$508,221	0.02%~0.2%	$335
	Time deposits	$751,700	0.17%-1.345%	$8,250

		For the nine months ended September 30, 2012		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Cash in banks	$17,351	0.02%~0.2%	$11
	Time deposits	$25,664	0.17%-1.345%	$282

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

		For the nine months ended September 30, 2011		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$422,498	0.17%	$408
Co., Ltd.	Time deposits	$927,000	0.82%~1.37%	$4,101

		For the nine months ended September 30, 2011		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	13,875	0.17%	$13
Co., Ltd.	Time deposits	30,443	0.82%~1.37%	$135

D. Secured loans

	For the nine months ended September 30, 2012			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Other related parties	$41,474	$37,927	1.88%~2.03%	$577

	For the nine months ended September 30, 2012			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Other related parties	$1,416	$1,295	1.88%~2.03%	$20

	For the nine months ended September 30, 2011			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Other related parties	$42,144	$40,178	1.95%	$497

	For the nine months ended September 30, 2011			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Other related parties	$1,384	$1,319	1.95%	$16

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

E. Available-for-sale financial assets

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd. Managed funds	$88,262	$3,013	$81,964	$2,692

F. Guarantee deposits paid

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$22,435	$766	$22,619	$743
Cathay Futures Co., Ltd.	5,144	176	14,932	490
Total	$27,579	$942	$37,551	$1,233

G. Other assets-other

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance Company Limited. (China)	$14,458	$493	$14,458	$475

H. Other payables

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd. (Note)	$99,013	$3,380	$45,908	$1,508
Cathay Life Insurance Co., Ltd.	110,448	3,771	182,987	6,009
Symphox Information Co., Ltd	3,755	128	1,691	56
Total	$213,216	$7,279	$230,586	$7,573

(Note) Other payable as of September 30, 2012 are consisted of interest payable of preferred stock liability and tax payable under the consolidated income tax system.

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

I. Preferred stock liability

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$1,000,000	$34,141	$-	$-

J. Operating costs

		For the nine months ended September 30,			
		2012		2011	
Name	Summary	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Handing fee paid	$11,411	$390	$10,130	333

K. Operating expenses

		For the nine months ended September 30,			
		2012		2011	
Name	Summary	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Rental expenses	$69,818	$2,384	$68,292	$2,243
	Marketing expenses	773,597	26,412	866,756	28,465
	Party premium expenses	8,629	294	8,247	271
	Administrative expenses	5,100	174	4,703	154
Cathay United Bank Co., Ltd.	Marketing expenses	45,233	1,544	46,458	1,526
	Rental expenses	5,583	191	4,888	160
Total		$907,960	$30,999	$999,344	$32,819

L. Other expenses

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$21,681	$740	$17,193	$565

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

M. Non-operating expenses and losses

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co.,Ltd.	$13,925	$475	$-	$-

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

N. Other

As of September 30, 2012 and 2011 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

	September 30,	
Item	2012	2011
CS contracts	US$60,550	US$41,050
IRS	NT$400,000	NT$600,000
	(US$13,657)	(US$19,704)

25. Pledged assets

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Government deposits				
paid-Government bonds	$461,441	$15,754	$354,328	$11,636
Guarantee deposits paid				
-Time deposits	20,000	683	20,000	657
Total	$481,441	$16,437	$374,328	$12,293

According to Article 141 of the ROC Insurance Law, the Company should deposit government bonds at an amount equal to 15% of its paid-in capital in the Central Bank of China as capital guarantee deposit. The above assets were stated at book value.

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

26. 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

	September 30, 2012		
	NT$		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$6,117,093	$-	$6,117,093
Receivables	3,489,538	-	3,489,538
Investments	5,070,853	7,171,267	12,242,120
Reinsurance reserve assets - Net	-	4,125,049	4,125,049
Property and equipment - Net	-	108,491	108,491
Intangible assets	-	20,337	20,337
Deferred pension cost	-	4,062	4,062
Other assets	-	640,706	640,706
Total assets			$26,747,396

	September 30, 2012		
	NT$		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Payables	$1,618,520	$-	$1,618,520
Financial liabilities	-	1,000,000	1,000,000
Operating and liability reserves	-	19,294,506	19,294,506
Other liabilities	-	464,987	464,987
Total liabilities			$22,378,013

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

	September 30, 2012		
	US$		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$208,846	-	$208,846
Receivables	119,138	-	119,138
Investments	173,126	244,836	417,962
Reinsurance reserve assets - Net	-	140,835	140,835
Property and equipment - Net	-	3,704	3,704
Intangible assets	-	694	694
Deferred pension cost	-	139	139
Other assets	-	21,874	21,874
Total assets			$913,192

	September 30, 2012		
	US$		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Payables	$55,259	$-	$55,259
Financial liabilities	-	34,141	34,141
Operating and liability reserves	-	658,740	658,740
Other liabilities	-	15,875	15,875
Total liabilities			$764,015

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

27. Commitment and contingent liabilities

As of September 30, 2012, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount (NT$)	Amount (US$)
October 1, 2012 ~ September 30, 2013	$110,664	$3,778
October 1, 2013 ~ September 30, 2014	110,664	3,778
October 1, 2014 ~ September 30, 2015	110,664	3,778
October 1, 2015 ~ September 30, 2016	110,664	3,778
October 1, 2016 ~ September 30, 2017	110,664	3,778
Total	$553,320	$18,890

28. The change of capital structure: None.

29. Significant subsequent events: None.

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

31. Significant disaster losses: None.

32. Significant lawsuit: None.

33. Significant contract: None.

34. Pension related information

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

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

35. Discretionary account management

	September 30, 2012			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$-	$-	$-	$-
Short - term notes	-	-	-	-
Cash in banks	-	-	-	-
Net other assets less liabilities	-	-	-	-
Total	$-	$-	$-	$-

	September 30, 2011			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$121,547	$3,992	$121,547	$3,992
Short - term notes	50,142	1,647	50,142	1,647
Cash in banks	83,872	2,754	83,872	2,754
Net other assets less liabilities	5,662	186	5,662	186
Total	$261,223	$8,579	$261,223	$8,579

As of September 30, 2012 and 2011, the Company had discretionary account management contracts in the amount of NT$0 (US$0) and NT$300,000 (US$9,852), respectively.

36. Segment information

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

37. Discontinued operation: None.

38. Merger and acquisition: None.

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

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

40. Information for investment in Mainland China

On December 31, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$28,960 as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life Insurance). The Company has received approved from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The Company and Cathay Life Insurance subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise as legal person on August 26, 2008. As of September 30, 2012, the Company’s remittances to this company totaled approximately US$27,820.

41. Private placement of securities: None.

42. Investment in derivative financial instruments: None.

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

44. Significant impact from government regulation change: None.

45. Others

(1) Risk management policies and hedge strategies

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

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

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

Foreign currency risk

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

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

Credit risk

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

Operational Risk

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

Liquidity risk

The company's exposure to liquidity risk is minimal.

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

(2) Financial instruments related information

	September 30, 2012			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$6,117,093	$6,117,093	$208,846	$208,846
Receivables	3,489,538	3,489,538	119,138	119,138
Financial assets at fair value through profit or loss	185,067	185,067	6,318	6,318
Available-for-sale financial assets	7,045,164	7,045,164	240,531	240,531
Long-term investments under equity method	813,056	813,056	27,759	27,759
Investments in debt securities with no active market	1,174,707	1,174,707	40,106	40,106
Held-to-maturity financial assets	2,404,010	2,404,010	82,076	82,076
Secured loans	557,790	557,790	19,044	19,044
Reinsurance Reserve Assets	4,125,049	4,125,049	140,835	140,835
Guarantee deposits paid	579,218	579,218	19,775	19,775
Derivative financial instruments:				
Financial assets at fair value through profit or loss				
Forward and SWAP	44,127	44,127	1,507	1,507
Derivative financial assets for hedging				
IRS	18,199	18,199	621	621
Liabilities				
Non-derivative financial instrument:				
Payables	1,618,520	1,618,520	55,259	55,259
Preferred stock liability	1,000,000	1,000,000	34,141	34,141
Reserve for operating and liability	19,294,506	19,294,506	658,740	658,740

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

	September 30, 2011			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$6,075,647	$6,075,647	$199,529	$199,529
Receivables	3,672,095	3,672,095	120,594	120,594
Financial assets at fair value through profit or loss	795,733	795,733	26,133	26,133
Available-for-sale financial assets	4,067,300	4,067,300	133,573	133,573
Financial assets carried at cost	25,500	-	838	-
Long-term investments under equity method	1,100,320	1,100,320	36,135	36,135
Investments in debt securities with no active market	658,760	658,760	21,634	21,634
Held-to-maturity financial assets	2,499,350	2,499,350	82,081	82,081
Secured loans	641,618	641,618	21,071	21,071
Reinsurance Reserve Assets	4,333,218	4,333,218	142,306	142,306
Guarantee deposits paid	486,291	486,291	15,970	15,970
Derivative financial instruments:				
Derivative financial assets for hedging				
IRS	27,719	27,719	910	910
Liabilities				
Non-derivative financial instrument:				
Payables	1,861,199	1,861,199	61,123	61,123
Reserve for operating and liability	18,688,897	18,688,897	613,757	613,757
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	132,000	132,000	4,335	4,335

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

① The fair value of the Company’s short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.

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

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

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

④ The fair value of the Company's financial instruments is based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value is based on relevant financial or any other information.

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

⑥ The following table summarizes the fair value information of the Company's financial assets and liabilities at September 30, 2012 and 2011:

	September 30,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2012	2011	2012	2011
Assets-non-derivative				
Cash and cash equivalents	$5,787,057	$5,919,978	$330,036	$155,669
Financial assets at fair value through profit or loss	185,067	795,733	-	-
Available-for-sale financial assets	7,045,164	4,067,300	-	-
Long-term investments under equity method	-	-	813,056	1,100,320
Investment in debt securities with no active market	-	-	1,174,707	658,760
Held-to-maturity financial assets	-	-	2,404,010	2,499,350
Assets- derivative				
Financial assets at fair value through profit and loss				
Forward and SWAP	-	-	44,127	-
Derivative financial assets for hedging-current				
IRS	-	-	18,199	27,719
Liabilities- derivative				
Financial liabilities at fair value through profit and loss				
Forward and SWAP	-	-	-	132,000

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

	September 30,			
	US$			
	Based on the quoted market price		Based on valuation technique	
Financial Instruments	2012	2011	2012	2011
Assets-non-derivative				
Cash and cash equivalents	$197,578	$194,417	$11,268	$5,112
Financial assets at fair value through profit or loss	6,318	26,133	-	-
Available-for-sale financial assets	240,531	133,573	-	-
Long-term investments under the equity method	-	-	27,759	36,135
Investment in debt securities with no active market	-	-	40,106	21,634
Held-to-maturity financial asset	-	-	82,076	82,081
Assets-derivative				
Financial assets at fair value through profit or loss				
Forward and SWAP	-	-	1,507	-
Derivative financial liabilities for hedging				
IRS	-	-	621	910
Liabilities-derivative				
Financial liabilities at fair value through profit and loss				
Forward and SWAP	-	-	-	4,335

(3) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at September 30, 2012 and 2011:

Fixed interest rate

① September 30, 2012

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$202,708	$6,921	$404,304	$13,803	$70,125	$2,394	$211,314	$7,215
Held-to-maturity financial assets	653,867	22,324	741,452	25,314	-	-	79,330	2,708
Investments in debt securities with no active market	-	-	200,000	6,828	-	-	-	-

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

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$1,789,828	$61,107	$2,678,279	$91,440
Held-to-maturity financial assets	624,513	21,322	304,848	10,408	2,404,010	82,076
Investments in debt securities with no active market	300,000	10,242	674,707	23,036	1,174,707	40,106

② September 30, 2011

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$100,523	$3,301	$202,191	$6,640	$409,836	$13,459	$-	$-
Held-to-maturity financial assets	193,383	6,351	1,086,599	35,685	270,698	8,890	114,162	3,749
Investments in debt securities with no active market	300,000	9,852	200,000	6,568	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$214,683	$7,051	$369,897	$12,148	$1,297,130	$42,599
Held-to-maturity financial assets	-	-	834,508	27,406	2,499,350	82,081
Investments in debt securities with no active market	-	-	158,760	5,214	658,760	21,634

Floating interest rate

① September 30, 2012

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,828	$200,000	$6,828	$200,000	$6,828	$-	$-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$-	$-	$600,000	$20,484

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

② September 30, 2011

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,568	$-	$-	$200,000	$6,568	$200,000	$6,568

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$-	$-	$600,000	$19,704

(4) Credit risk

The Company's exposure to credit risk in minimal.

(5) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap hedging for bonds at September 30, 2012:

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$200,000	$6,828	2.65%	Each quarter	9/30/2014
$200,000	$6,828	2.785%	Each quarter	4/30/2015

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. As of September 30, 2012 and 2011, unrealized gains on these financial instruments recognized in equity were NT$18,199 (US$621) thousands and NT$27,719 (US$910) thousands, respectively.

(6) Risk Management Framework, Organization, and Responsibility

① Board of Directors

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

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

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

② Risk Management Department

A. Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks. It's responsibilities are as follows:

B. Responsibilities of risk management team：

a. Formulate risk management policies, frameworks, and organizations. Build quantitative and qualitative management standards. Regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.

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

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

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

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

C. Responsibility of risk management division：

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

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

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

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

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

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

g. Other risk management related tasks

③ Business unit (sales unit and administrative unit)

A. Responsibilities in risk management of business are as follows：

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

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

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

a. Identify risk and report risk exposure.

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

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

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

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

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

g. Assist in collecting information regarding operation risk

④ Internal audit room

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

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

① Risks reporting

A. Each business unit within the company should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and corresponding measures when risk exposure is over limit.

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

②Scope and nature of risk evaluation system

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

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

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

(9) Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

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

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

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

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

According to the Company’s risk management mechanism for reinsurance business, the maximum for the retained risk per risk unit is calculated as 10% of the summary amount of stockholder’s equities and special reserves (excluding of Compulsory automobile insurance). The retained risk per risk unit for each type of insurance business is disclosure as follow

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

	2012		2011	
Item	NT$	US$	NT$	US$
Fire insurance	$613,000	$20,929	$630,000	$20,690
Marine insurance	613,000	20,929	$365,400	12,000
Engineering insurance	613,000	20,929	630,000	20,690
Other property insurance	613,000	20,929	630,000	20,690
Automobile insurance	613,000	20,929	630,000	20,690
Health and injury insurance	613,000	20,929	630,000	20,690

(11) Methods of asset/liability management

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

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

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

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

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

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

(13) Information of insurance contract

① Receivables and payables of insurance contract

A. Receivables of insurance contract

Item	September 30,2012 Premiums receivable(Notes) NT$	US$
Fire insurance	$538,568	$18,387
Marine insurance	410,570	14,017
Land and air insurance	560,370	19,132
Liability insurance	161,720	5,521
Bonding insurance	12,338	421
Other property insurance	349,302	11,926
Accident insurance	255,365	8,719
Health insurance	19,002	649
Compulsory automobile liability insurance	262,186	8,951
Total	2,569,421	87,723
Less: Allowance for bad debts	(73,493)	(2,509)
Net	$2,495,928	$85,214

Item	September 30,2011 Premiums receivable(Notes) NT$	US$
Fire insurance	$668,783	$21,963
Marine insurance	421,831	13,853
Land and air insurance	468,831	15,397
Liability insurance	106,713	3,505
Bonding insurance	8,924	293
Other property insurance	419,697	13,783
Accident insurance	269,792	8,860
Health insurance	12,779	420
Compulsory automobile liability insurance	234,860	7,713
Total	2,612,210	85,787
Less: Allowance for bad debts	(65,620)	(2,155)
Net	$2,546,590	$83,632

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

Notes：As of September 30, 2012 and 2011, the receivable included overdue receivables amounted to NT$ 645,231 (US$ 22,029) and NT$ 812,501 (US$ 26,683), the allowance for bad debts amounted to NT$ 54,251 (US$ 1,852) and NT$ 47,623 (US$ 1,564).

B. Reinsurance asset- claims recoverable from reinsurers

	September 30,2012	
	Claim reported and paid off	
Item	NT$	US$
Fire insurance	$13,261	$453
Marine insurance	25,697	877
Land and air insurance	17,250	589
Liability insurance	10,362	354
Bonding insurance	81	3
Other property insurance	25,117	857
Accident insurance	17,834	609
Health insurance	-	-
Compulsory automobile liability insurance	119,303	4,073
Total	228,905	7,815
Less: Allowance for bad debts	-	-
Net	$228,905	$7,815

	September 30,2011	
	Claim reported and paid off	
Item	NT$	US$
Fire insurance	$14,064	$462
Marine insurance	42,344	1,391
Land and air insurance	19,482	640
Liability insurance	9,184	301
Bonding insurance	4,934	162
Other property insurance	24,147	793
Accident insurance	22,441	737
Health insurance	-	-
Compulsory automobile liability insurance	147,969	4,859
Total	284,565	9,345
Less: Allowance for bad debts	-	-
Net	$284,565	$9,345

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

C. Payables of insurance contract

	September 30,2012					
	Commission payable		Other		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$1,122	$38	$7,369	$252	$8,491	$290
Marine insurance	682	23	13,972	477	14,654	500
Land and air insurance	2,177	74	83,586	2,854	85,763	2,928
Liability insurance	-	-	12,960	443	12,960	443
Bonding insurance	-	-	43	1	43	1
Other property insurance	2,785	95	4,065	139	6,850	234
Accident insurance	-	-	39,861	1,361	39,861	1,361
Health insurance	23	1	3,879	132	3,902	133
Compulsory automobile liability insurance	99,927	3,412	-	-	99,927	3,412
Total	$106,716	$3,643	$165,735	$5,659	$272,451	$9,302

	September 30,2011					
	Commission payable		Other		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$(590)	$(19)	$6,886	$226	$6,296	$207
Marine insurance	1,161	38	3,240	106	4,401	144
Land and air insurance	1,103	36	75,133	2,468	76,236	2,504
Liability insurance	1,720	57	4,089	134	5,809	191
Bonding insurance	-	-	58	2	58	2
Other property insurance	2,355	77	9,466	311	11,821	388
Accident insurance	136	5	40,096	1,317	40,232	1,322
Health insurance	-	-	3,787	124	3,787	124
Compulsory automobile liability insurance	90,389	2,968	-	-	90,389	2,968
Total	$96,274	$3,162	$142,755	$4,688	$239,029	$7,850

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

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

Item	September 30,2012			
	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	$55,133	$1,882	$199,522	$6,812
Taian	33,084	1,129	7,469	255
Fubon	43,775	1,495	2,641	90
Asia Capital Re	18,043	616	8,370	286
Best Re	19,126	653	17,160	586
Central Re	7,155	244	63,786	2,178
Cubic	13,185	450	5,988	204
Elite	18,201	621	40,577	1,385
FP Marine	48,934	1,671	57,986	1,980
Korean Re	5,706	196	40,800	1,393
Marsh	43,115	1,472	49,646	1,695
Swiss Re	-	-	78,221	2,671
Zurich	49	2	67,078	2,290
Others	99,704	3,404	349,881	11,945
Total	405,210	13,835	989,125	33,770
Less: Allowance for bad debts	(4,656)	(159)	-	-
Net	$400,554	$13,676	$989,125	33,770

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

	September 30,2011			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
Item	NT$	US$	NT$	US$
Non-Life Insurance Association of the R.O.C	$59,015	$1,938	$197,462	$6,485
Fubon	16,748	550	3,989	131
AON	28,561	938	137,319	4,510
Central Re	84,319	2,769	126,225	4,145
Elite	24,074	791	33,112	1,087
FP Marine	51,365	1,687	120,270	3,950
Marsh	60,156	1,975	83,224	2,733
Wilson Re	15,533	510	24,239	796
Others	191,978	6,305	620,330	20,372
Total	531,749	17,463	1,346,170	44,209
Less: Allowance for bad debts	(60,831)	(1,998)	-	-
Net	$470,918	$15,465	$1,346,170	$44,209

Note：As of September 30, 2012 and 2011, the due from reinsurers and ceding companies included overdue receivables by NT$ 46,561 (US$ 1,590) and NT$ 60,831 (US$1,998), the allowance for bad debts amounted to NT$ 4,656 (US$ 159) and NT$ 60,831 (US$ 1,998).

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

② Information of Management Achievements

A. Acquisition cost for insurance contracts

	For the nine month ended September 30, 2012					
	NT$					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$15,312	$4,812	$1,153	$1,115	$66,330	$88,722
Marine insurance	7,197	1,902	145	2,222	52,382	63,848
Land and air insurance	23,578	1,404	-	2,371	495,652	523,005
Liability insurance	12,637	1,263	-	129	40,773	54,802
Bonding insurance	620	14	-	(1)	1,280	1,913
Other property insurance	16,696	2,411	2	2,347	60,541	81,997
Accident insurance	8,452	716	7	20	249,413	258,608
Health insurance	2,757	227	-	-	8,556	11,540
Compulsory automobile liability insurance	-	-	295,028	-	7,071	302,099
Total	$87,249	$12,749	$296,335	$8,203	$981,998	$1,386,534

	For the nine month ended September 30, 2012					
	US$					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$523	$164	$39	$38	$2,265	$3,029
Marine insurance	246	65	5	76	1,788	2,180
Land and air insurance	805	48	-	81	16,922	17,856
Liability insurance	431	43	-	5	1,392	1,871
Bonding insurance	21	-	-	-	44	65
Other property insurance	570	82	-	80	2,067	2,799
Accident insurance	289	25	-	-	8,515	8,829
Health insurance	94	8	-	-	292	394
Compulsory automobile liability insurance	-	-	10,073	-	242	10,315
Total	$2,979	$435	$10,117	$280	$33,527	$47,338

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

For the nine month ended September 30, 2011

NT$

Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$24,744	$3,510	$1,104	$672	$61,111	$91,141
Marine insurance	10,159	1,742	205	662	28,566	41,334
Land and air insurance	6,529	611	-	2,246	441,127	450,513
Liability insurance	9,200	707	-	56	30,940	40,903
Bonding insurance	261	29	-	(1)	744	1,033
Other property insurance	13,273	645	-	2,446	53,957	70,321
Accident insurance	5,125	429	10	1,341	235,641	242,546
Health insurance	504	5	-	-	8,542	9,051
Compulsory automobile liability insurance	-	-	278,648	-	28,076	306,724
Total	$69,795	$7,678	$279,967	$7,422	$888,704	$1,253,566

For the nine month ended September 30, 2011

US$

Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$813	$115	$37	$22	$2,007	$2,994
Marine insurance	334	57	7	22	938	1,358
Land and air insurance	214	20	-	74	14,487	14,795
Liability insurance	302	24	-	2	1,016	1,344
Bonding insurance	9	1	-	-	24	34
Other property insurance	436	21	-	80	1,772	2,309
Accident insurance	168	14	-	44	7,739	7,965
Health insurance	16	-	-	-	281	297
Compulsory automobile liability insurance	-	-	9,151	-	922	10,073
Total	$2,292	$252	$9,195	$244	$29,186	$41,169

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

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

	For the nine month ended September 30, 2012					
	NT$					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	$2,076,065	$(316,584)	$(87,607)	$(604,395)	$230,337	$1,297,816
Marine insurance	594,504	2,754	(61,626)	(197,628)	(717)	337,287
Land and air insurance	3,517,130	(302,528)	(520,634)	(2,018,517)	(144,884)	530,567
Liability insurance	533,253	(60,670)	(54,673)	(158,363)	(4,428)	255,119
Bonding insurance	44,126	(3,380)	(1,914)	(3,050)	1,338	37,120
Other property insurance	511,436	(13,426)	(79,650)	(174,196)	(14,263)	229,901
Accident insurance	1,750,188	15,047	(258,588)	(726,285)	(84,526)	695,836
Health insurance	92,170	51,392	(11,540)	(113,778)	(32,965)	(14,721)
Compulsory automobile liability insurance	2,105,140	(44,247)	(302,099)	(1,264,459)	(49,995)	444,340
Total	$11,224,012	$(671,642)	$(1,378,331)	$(5,260,671)	$(100,103)	$3,813,265

	For the nine month ended September 30, 2012					
	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	$70,880	$(10,809)	$(2,991)	$(20,635)	$7,864	$44,309
Marine insurance	20,297	94	(2,104)	(6,747)	(25)	11,515
Land and air insurance	120,080	(10,329)	(17,775)	(68,915)	(4,947)	18,114
Liability insurance	18,206	(2,071)	(1,866)	(5,407)	(151)	8,711
Bonding insurance	1,506	(115)	(65)	(104)	46	1,268
Other property insurance	17,461	(458)	(2,719)	(5,947)	(487)	7,850
Accident insurance	59,754	514	(8,829)	(24,797)	(2,886)	23,756
Health insurance	3,147	1,754	(394)	(3,885)	(1,125)	(503)
Compulsory automobile liability insurance	71,872	(1,511)	(10,315)	(43,170)	(1,707)	15,169
Total	$383,203	$(22,931)	$(47,058)	$(179,607)	$(3,418)	$130,189

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to unaudited financial statements (continued)

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

As of September 30, 2012 and 2011

	For the nine month ended September 30, 2011					
	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	$1,652,102	$(117,665)	$(90,469)	$(791,923)	$41,480	$693,525
Marine insurance	567,950	6,223	(40,672)	(271,940)	(164,297)	97,264
Land and air insurance	2,898,100	(304,683)	(448,267)	(1,767,146)	(133,481)	244,523
Liability insurance	403,812	(24,604)	(40,847)	(134,473)	(30,587)	173,301
Bonding insurance	41,697	(2,466)	(1,034)	(22,980)	(20,244)	(5,027)
Other property insurance	724,124	(423,976)	(67,875)	(155,837)	17,836	94,272
Accident insurance	1,724,236	(230,693)	(241,205)	(665,993)	(67,837)	518,508
Health insurance	64,246	47,433	(9,051)	(92,072)	(251)	10,305
Compulsory automobile liability insurance	2,000,898	(32,091)	(306,724)	(1,215,212)	(34,230)	412,641
Total	$10,077,165	$(1,082,522)	$(1,246,144)	$(5,117,576)	$(391,611)	$2,239,312

	For the nine month ended September 30, 2011					
	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	$54,256	$(3,864)	$(2,972)	$(26,007)	$1,362	$22,775
Marine insurance	18,652	204	(1,336)	(8,931)	(5,396)	3,193
Land and air insurance	95,176	(10,006)	(14,721)	(58,034)	(4,384)	8,031
Liability insurance	13,261	(808)	(1,342)	(4,416)	(1,004)	5,691
Bonding insurance	1,369	(81)	(34)	(755)	(665)	(166
Other property insurance	23,781	(13,924)	(2,229)	(5,118)	586	3,096
Accident insurance	56,625	(7,576)	(7,921)	(21,872)	(2,228)	17,028
Health insurance	2,110	1,558	(297)	(3,024)	(8)	339
Compulsory automobile liability insurance	65,711	(1,054)	(10,073)	(39,908)	(1,124)	13,552
Total	$330,941	$(35,551)	$(40,925)	$(168,065)	$(12,861)	$73,539

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

(B) Cost benefit analysis for assumed reinsurance business

For the nine month ended September 30, 2012

NT$

Item	Reinsurance premiums income	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claim reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$60,317	$(7,555)	$(1,115)	$(1,932)	$1,285	$51,000
Marine insurance	32,416	(13,749)	(2,222)	5,902	34,207	56,554
Land and air insurance	12,815	(4,988)	(2,371)	(7,663)	(17,875)	(20,082)
Liability insurance	410	(72)	(129)	(128)	1,090	1,171
Bonding insurance	913	(90)	1	(51)	13	786
Other property insurance	16,690	126	(2,347)	(6,524)	275	8,220
Accident insurance	4,952	966	(20)	(8,044)	(6,881)	(9,027)
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	208,028	(1,969)	-	(170,400)	(33,845)	1,814
Total	$336,541	$(27,331)	$(8,203)	$(188,840)	$(21,617)	$90,550

For the nine month ended September 30, 2012

NT$

Item	Reinsurance premiums income	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claim reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$2,059	$(258)	$(38)	$(66)	$44	$1,741
Marine insurance	1,107	(469)	(76)	202	1,168	1,932
Land and air insurance	438	(170)	(81)	(261)	(610)	(684)
Liability insurance	14	(3)	(5)	(4)	37	39
Bonding insurance	31	(3)	-	(2)	-	26
Other property insurance	570	4	(80)	(223)	9	280
Accident insurance	169	33	-	(275)	(235)	(308)
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	7,102	(67)	-	(5,818)	(1,155)	62
Total	$11,490	$(933)	$(280)	$(6,447)	$(738)	$3,092

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

For the nine month ended September 30, 2011

NT$

Item	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claim reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$51,894	$5,193	$(672)	$(267,868)	$(2,173)	$(213,626
Marine insurance	21,118	323	(662)	(11,520)	(145,395)	(136,136
Land and air insurance	10,228	102,635	(2,246)	(3,494)	(3,599)	103,524
Liability insurance	1,285	245	(56)	(465)	(384)	625
Bonding insurance	441	90	1	(150)	(96)	286
Other property insurance	21,860	(6,040)	(2,446)	(10,212)	(293)	2,869
Accident insurance	65,241	(37,411)	(1,341)	(12,121)	(1,053)	13,315
Health insurance	-	-	-	-	(31)	(31
Compulsory automobile liability insurance	205,744	(615)	-	(149,270)	(33,711)	22,148
Total	$377,811	$64,420	$(7,422)	$(455,100)	$(186,735)	$(207,026

For the nine month ended September 30, 2011

US$

Item	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claim reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$1,704	$170	$(22)	$(8,797)	$(71)	$(7,016
Marine insurance	694	11	(22)	(378)	(4,775)	(4,470
Land and air insurance	336	3,371	(74)	(115)	(118)	3,40
Liability insurance	42	8	(2)	(15)	(13)	2
Bonding insurance	14	3	-	(5)	(3)	
Other property insurance	718	(198)	(80)	(336)	(10)	9
Accident insurance	2,143	(1,229)	(44)	(398)	(34)	43
Health insurance	-	-	-	-	(1)	(1
Compulsory automobile liability insurance	6,757	(20)	-	(4,902)	(1,107)	72
Total	$12,408	$2,116	$(244)	$(14,946)	$(6,132)	$(6,798

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

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

	For the nine month ended September 30, 2012					
Item (NT$)	Reinsurance premiums ceded	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$1,186,996	$(164,146)	$(45,189)	$(250,450)	$203,025	$930,236
Marine insurance	510,060	(4,244)	(68,356)	(97,182)	145,431	485,709
Land and air insurance	99,446	54,220	(27,647)	(56,428)	(77,966)	(8,375)
Liability insurance	174,688	(40,138)	(44,587)	(31,538)	31,243	89,668
Bonding insurance	22,568	(5,174)	(4,745)	(6,372)	(173)	6,104
Other property insurance	272,226	(8,364)	(39,967)	(51,891)	(14,053)	157,951
Accident insurance	109,498	3,598	(30,317)	(66,794)	(12,404)	3,581
Health insurance	1,569	1,334	(549)	(950)	(1,721)	(317)
Compulsory automobile liability insurance	576,420	(17,696)	-	(496,130)	(20,022)	42,572
Total	$2,953,471	$(180,610)	$(261,357)	$(1,057,735)	$253,360	$1,707,129

	For the nine month ended September 30, 2012					
Item (US$)	Reinsurance premiums ceded	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$40,526	$(5,604)	$(1,543)	$(8,551)	$6,932	$31,760
Marine insurance	17,414	(145)	(2,334)	(3,318)	4,965	16,582
Land and air insurance	3,395	1,851	(944)	(1,927)	(2,662)	(287)
Liability insurance	5,964	(1,370)	(1,522)	(1,077)	1,067	3,062
Bonding insurance	771	(177)	(162)	(217)	(6)	209
Other property insurance	9,294	(286)	(1,364)	(1,772)	(480)	5,392
Accident insurance	3,738	123	(1,035)	(2,280)	(423)	123
Health insurance	53	46	(19)	(32)	(59)	(11)
Compulsory automobile liability insurance	19,680	(604)	-	(16,939)	(684)	1,453
Total	$100,835	$(6,166)	$(8,923)	$(36,113)	$8,650	$58,283

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

	For the nine month ended September 30, 2011					
Item(NT$)	Reinsurance premiums ceded	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$1,013,046	$(48,108)	$(40,968)	$(476,572)	$(109,207)	$338,191
Marine insurance	462,700	(553)	(62,391)	(142,029)	(382,159)	(124,432)
Land and air insurance	97,693	64,367	(22,150)	(57,704)	(6,304)	75,902
Liability insurance	121,024	(11,636)	(35,729)	(37,975)	(7,118)	28,566
Bonding insurance	19,678	(3,381)	(5,008)	(18,867)	(20,163)	(27,741)
Other property insurance	433,994	(360,925)	(30,520)	(79,258)	28,362	(8,347)
Accident insurance	116,844	20,558	(28,159)	(71,682)	3,020	40,581
Health insurance	2,080	(522)	(732)	-	(43)	783
Compulsory automobile liability insurance	545,820	(13,245)	-	(486,085)	(14,825)	31,665
Total	$2,812,879	$(353,445)	$(225,657)	$(1,370,172)	$(508,437)	$355,168

	For the nine month ended September 30, 2011					
Item (US$)	Reinsurance premiums ceded	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recoverable from reinsurers	Net change for claim reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$33,269	$(1,580)	$(1,345)	$(15,651)	$(3,586)	$11,107
Marine insurance	15,195	(18)	(2,049)	(4,664)	(12,550)	(4,086)
Land and air insurance	3,208	2,114	(728)	(1,895)	(207)	2,492
Liability insurance	3,975	(382)	(1,173)	(1,247)	(234)	939
Bonding insurance	646	(111)	(165)	(620)	(662)	(912)
Other property insurance	14,253	(11,853)	(1,002)	(2,603)	931	(274)
Accident insurance	3,837	675	(925)	(2,354)	99	1,332
Health insurance	68	(17)	(24)	-	(1)	26
Compulsory automobile liability insurance	17,925	(435)	-	(15,964)	(487)	1,039
Total	$92,376	$(11,607)	$(7,411)	$(44,998)	$(16,697)	$11,663

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

(14) Sensitivity of insurance risk

NT$						The impact to profit and loss when the expected loss ratio increases 5%	
Insurance type	Premium income	Expected loss ratio	Retention ratio	Expected claim	Expected net claim	Before reinsurance	After reinsurance
Fire insurance	$2,080,498	63.60	45.47	$1,323,263	$601,709	$104,025	$30,085
Marine insurance	594,504	64.98	19.65	386,309	75,903	29,725	3,795
Land and air insurance	3,517,130	65.00	97.36	2,286,295	2,225,993	175,857	111,300
Liability insurance	533,253	68.06	67.24	362,914	244,039	26,663	12,202
Bonding insurance	44,126	69.33	50.93	30,595	15,581	2,206	779
Other property insurance	511,436	62.04	49.94	317,305	158,470	25,572	7,924
Accident insurance	1,750,188	72.26	94.03	1,264,601	1,189,061	87,509	59,453
Health insurance	92,170	69.60	98.30	64,150	63,058	4,608	3,153
Compulsory automobile liability insurance	2,105,140	NA	NA	NA	NA	NA	NA

US$						The impact to profit and loss when the expected loss ratio increases 5%	
Insurance type	Premium income	Expected loss ratio	Retention ratio	Expected claim	Expected net claim	Before reinsurance	After reinsurance
Fire insurance	$71,031	63.60	45.47	$45,178	$20,543	$3,552	$1,027
Marine insurance	20,297	64.98	19.65	13,189	2,591	1,015	130
Land and air insurance	120,080	65.00	97.36	78,057	75,998	6,004	3,800
Liability insurance	18,206	68.06	67.24	12,390	8,332	910	417
Bonding insurance	1,507	69.33	50.93	1,045	532	75	27
Other property insurance	17,461	62.04	49.94	10,833	5,410	873	271
Accident insurance	59,754	72.26	94.03	43,175	40,596	2,988	2,030
Health insurance	3,147	69.60	98.30	2,190	2,153	157	108
Compulsory automobile liability insurance	71,872	NA	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.

(15) Concentration Risk

① Situations that might cause concentration of insurance risk：

A. Single insurance contract or few related contracts

For the nine months ended September 30, 2012, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

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

For the nine months ended September 30, 2012, the loss rate of health insurance is high due to several large claim cases. Other than these, the loss rates of the rest insurance categories are still within reasonable range.

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

"Regulations for Assisting Lawsuit Cases of Cathay Century Insurance" is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the nine months ended September 30, 2012, no material lawsuit or legal risks has taken place.

D. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, the company has established "Operation standards under crisis" that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the nine months ended September 30, 2012, there is no catastrophe has taken place.

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

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

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

F. Concentration risks in geographic regions and operating segments

The Company's catastrophe insurance for earthquakes and floods are centralize in the areas of Taipei, Taiyuan, Hinchey, Chiai, Tainan, Kaohsiung and Panting

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

Insurance type	For the nine months ended September 30,2012 (NT$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	$6,377,931	$214,822	$672,442	$5,920,311
Fire insurance	2,096,258	60,310	1,186,768	969,800
Marine insurance	589,711	38,443	513,131	115,023
Engineering insurance	437,125	10,837	249,559	198,403
Health and injury insurance	1,012,916	4,682	97,864	919,734
Other insurance	710,071	7,447	233,707	483,811
Total	$11,224,012	$336,541	$2,953,471	$8,607,082

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

Insurance type	For the nine months ended September 30,2012 (US$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	$217,751	$7,334	$22,958	$202,127
Fire insurance	71,569	2,059	40,518	33,110
Marine insurance	20,134	1,313	17,519	3,928
Engineering insurance	14,924	370	8,520	6,774
Health and injury insurance	34,582	160	3,341	31,401
Other insurance	24,243	254	7,979	16,518
Total	$383,203	$11,490	$100,835	$293,858

③ Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business. The greatest loss rate for such catastrophes for the company in the past would be the 2000 Typhoon 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.

(16) Claim development table

Underwriting Year NT$	2007.10.1-2008.9.30	2008.10.1-2009.9.30	2009.10.1-2010.9.30	2010.10.1-2011.9.30	2011.10.1-2012.9.30	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	$3,011,211	$3,607,632	$3,858,045	$4,559,046	$5,052,957	
One year later	4,251,160	4,219,320	5,376,973	5,373,906	-	
Two year later	4,364,655	4,307,725	5,064,805	-	-	
Three year later	4,317,060	4,376,088	-	-	-	
Four year later	4,325,373	-	-	-	-	
Estimate of cumulative claims incurred	4,325,373	4,376,088	5,064,805	5,373,906	5,052,957	
Cumulative payment to date	4,256,487	4,194,397	4,507,822	4,774,932	2,982,419	
Subtotal	68,886	181,691	556,983	598,974	2,070,538	3,477,072
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	$68,886	$181,691	$556,983	$598,974	$2,070,538	$3,477,072

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

Underwriting Year US$	2007.10.1-2008.9.30	2008.10.1-2009.9.30	2009.10.1-2010.9.30	2010.10.1-2011.9.30	2011.10.1-2012.9.30	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	$102,807	$123,169	$131,719	$155,652	$172,515	
One year later	145,140	144,053	183,577	183,472	-	
Two year later	149,015	147,072	172,919	-	-	
Three year later	147,390	149,406	-	-	-	
Four year later	147,674	-	-	-	-	
Estimate of cumulative claims incurred	147,674	149,405	172,919	183,472	172,515	
Cumulative payment to date	145,322	143,202	153,903	163,022	101,824	
Subtotal	2,352	6,203	19,016	20,450	70,691	118,712
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	$2,352	$6,203	$19,016	$20,450	$70,691	$118,712

Note：The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time; the lower part adjusts cumulative claim amount to the balance sheet.

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

	September 30,2012			September 30,2011		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$133,540	29.342	$3,918,331	$102,042	30.5060	$3,112,890
CNY	121,660	4.6566	566,522			
Non-Monetary Items						
USD	136,820 (Nominal amount)	29.342	- (Note)	-	-	-
Financial Liabilities						
Non-Monetary Items						
USD	-	-	-	95,320 (Nominal amount)	30.5060	- (Note)
Long-Term Investments Under Equity Method						
CNY	$90,233	4.6687	$421,270	136,659	4.7771	652,832
VND	285,591,241	0.001360	388,404	312,213,513	0.001415	441,782

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

Note: The Company conducted forward currency contracts for hedging. As of September 30, 2012, gains from valuation on financial assets was recognized in income statement by NT$ 44,127 (US$1,507). As of September 30, 2011, gains from valuation on financial liabilities was recognized in income statement by NT$132,000 (US$4,335).

(18) Pre-disclosures on the adoption of IFRSs

The Financial Supervisory Commission ("FSC") requires insurance companies to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as "IFRSs"), and the Guidelines Governing the Preparation of Financial Reports by Insurance of Insurance, starting 2013. Under Rule No. 10002506141 issued by the FSC on April 15, 2011, the Company makes the pre-disclosures on the adoption of IFRSs as follows:

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

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

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

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

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

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

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

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

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

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

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

Item (NT$)	ROC GAAP	Adjustments	IFRSs
Cash and cash equivalents	$6,159,377	$-	$6,159,377
Receivable	3,519,359	-	3,519,359
Investments	10,901,527	-	10,901,527
Reinsurance reserve assets	4,202,331	-	4,202,331
Property and equipment	136,795	-	136,795
Intangible assets(a)	29,353	(4,062)	25,291
Other assets(a) (c)	616,315	63,209	679,524
Total assets	25,565,057	59,147	25,624,204
Payables	1,962,065	-	1,962,065
Financial liabilities	1,045,000	-	1,045,000
Operating and liability reserves(b)	18,429,683	(2,326,210)	16,103,473
Other liabilities(a) (b) (c)	321,685	551,829	873,514
Total liabilities	21,758,433	(1,774,381)	19,984,052
Common stock	2,317,006	-	2,317,006
Capital surplus	1,929	-	1,929
Retained earnings(a) (b)	1,677,143	1,720,370	3,397,513
Equity adjustment(a)	(189,454)	113,158	(76,296)
Stockholders' equity	$3,806,624	$1,833,528	$5,640,152

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

Item (US$)	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents	$203,481	$-	$203,481
Receivable	116,266	-	116,266
Investments	360,143	-	360,143
Reinsurance reserve assets	138,828	-	138,828
Property and equipment	4,519	-	4,519
Intangible assets(a)	970	(134)	836
Other assets(a) (c)	20,360	2,088	22,448
Total assets	844,567	1,954	846,521
Payables	64,819	-	64,819
Financial liabilities	34,522	-	34,522
Operating and liability reserves(b)	608,843	(76,848)	531,995
Other liabilities(a) (b) (c)	10,627	18,230	28,857
Total liabilities	718,811	(58,618)	660,193
Common stock	76,544	-	76,544
Capital surplus	64	-	64
Retained earnings(a) (b)	55,406	56,834	112,240
Equity adjustment(a)	(6,258)	3,738	(2,520)
Stockholders' equity	$125,756	$60,752	$186,328

(a) The Company adopted IAS 19 “Employee Benefit” to measure pension liability, and recognize all cumulative actuarial gains and losses according to the IFRS I. As of January, 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$136,255 (US$4,501) thousands, and deferred income tax assets by NT$43,091 (US$1,423) thousands; a decrease of deferred pension cost by NT$4,062 (US$134) thousands, net loss not recognized as pension cost by NT$113,158 (US$3,738) thousands and retained earnings by NT$210,384 (US$6,950) thousands.

(b) In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. As of September 30, 2012, the special reserve of major incident and special reserve of fluctuation of risk recorded under liabilities amounted to

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

NT$2,326,210 (US$76,848) should be reclassified to special reserve under retained earnings. The transition resulted in recognizing special reserve under retained earnings by NT$1,930,754 (US$63,784) thousands, and a corresponding tax effect of increase of deferred income tax liabilities by NT$395,456 (US$13,064) thousands.

(c) According to the IAS 12, deferred income tax assets and liabilities should not be offset against each other, which resulted in an increase of both deferred income tax assets and liabilities by NT$20,118 (US$665) thousands.

B. Reconciliation of the balance sheet as at September 30, 2012:

Item(NT$)	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents	$6,117,093	$-	$6,117,093
Receivable	3,489,538	-	3,489,538
Investments	12,242,120	-	12,242,120
Reinsurance reserve assets	4,125,049	-	4,125,049
Property and equipment	108,491	-	108,491
Intangible assets(a)	24,399	(4,062)	20,337
Other assets(a) (c)	640,706	58,243	698,949
Total assets	26,747,396	54,181	26,801,577
Payables	1,618,520	-	1,618,520
Financial liabilities	1,000,000	-	1,000,000
Operating and liability reserves(b)	19,294,506	(2,304,814)	16,989,692
Other liabilities(a) (b) (c)	464,987	543,225	1,008,212
Total liabilities	22,378,013	(1,761,589)	20,616,424
Common stock	2,522,950	-	2,522,950
Capital surplus	1,929	-	1,929
Retained earnings(a) (b)	1,978,330	1,702,612	3,680,942
Equity adjustment(a)	(133,826)	113,158	(20,668)
Stockholders' equity	$4,369,383	$1,815,770	$6,185,153

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

As of September 30, 2012 and 2011

Item (US$)	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents	$208,846	$-	$208,846
Receivable	119,138	-	119,138
Investments	417,962	-	417,962
Reinsurance reserve assets	40,835	-	40,835
Property and equipment	3,704	-	3,704
Intangible assets(a)	833	(139)	694
Other assets(a) (c)	21,874	1,988	23,862
Total assets	913,192	1,849	915,041
Payables	55,259	-	55,259
Financial liabilities	34,141	-	34,141
Operating and liability reserves(b)	658,740	(78,689)	580,051
Other liabilities(a) (b) (c)	15,875	18,546	34,421
Total liabilities	764,015	(60,143)	703,872
Common stock	86,137	-	86,137
Capital surplus	66	-	66
Retained earnings(a) (b)	67,543	58,129	125,672
Equity adjustment(a)	(4,569)	3,863	706
Stockholders' equity	$149,177	$61,992	$211,169

(a) The Company adopted IAS 19 “Employee Benefit” to measure pension Liability, and recognize all cumulative actuarial gains and losses according to the IFRS I. As of January, 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$136,255 (US$4,652) thousands, and deferred income tax assets by NT$43,091 (US$1,471) thousands; a decrease of deferred pension cost by NT$4,062 (US$139) thousands, net loss not recognized as pension cost by NT$113,158 (US$3,863) thousands and retained earnings by NT$210,384 (US$7,183) thousands.

(b) In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. As of September 30, 2012, the special reserve for major incidents and the special reserve for fluctuation of risks recorded under liabilities (exclude the compulsory automobile insurance), amounting to NT$2,304,814 (US$78,689) thousands, should be reclassified to special reserve under retained earnings. The transition resulted in recognizing special reserve under retained earnings by NT$1,912,996 (US$65,312) thousands and a corresponding tax effect of increase of deferred income tax liabilities by NT$391,818 (US$13,377) thousands; a decrease of changes in provision for special reserve by NT$21,397 (US$730) thousands and income tax expense by NT$3,638 (US$124) thousands.

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

(c) According to the IAS 12, deferred income tax assets and liabilities should not be offset against each other, which resulted in an increase of both deferred income tax assets and liabilities by NT$15,152 (US$517) thousands.

C. Reconciliation of the income statement for the nine months period ended September 30, 2012:

Item (NT$)	ROC GAAP	Adjustments	IFRSs
Operating revenues	$8,571,435	$-	$8,571,435
Operating costs (b)	(5,248,103)	(21,397)	(5,269,500)
Operating expenses	(2,695,590)	-	(2,695,590)
Operating income	627,742	-	606,345
Non-operating revenue/ gains or expenses/losses	(9,116)	-	(9,116)
Net income before income tax	618,626	(21,397)	597,229
Income tax expense (b)	(111,495)	3,638	(107,857)
Net income after income tax	$507,131	$(17,759)	$489,372

Item(US$)	ROC GAAP	Adjustments	IFRSs
Operating revenues	$292,640	$	$292,640
Operating costs (b)	(179,177)	(730)	(179,907)
Operating expenses	(92,031)	-	(92,031)
Operating income	21,432	-	20,702
Non-operating revenue/ gains or expenses/losses	(311)	-	(311)
Net income before income tax	21,121	(730)	20,391
Income tax expense (b)	(3,807)	124	(3,683)
Net income after income tax	$17,314	$(606)	$16,708

About reconciliation of income statement, please refer to the notes of reconciliation of balance sheet.

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

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

B. The Company has selected to disclose present value of defined pension plan, fair value of assets, surplus or shortage of the plans and experience adjustment information required by IAS 19 prospectively from January 1, 2012.

(19) Presentation of financial statements

Certain accounts in financial statements for the nine month ended September 30, 2011 have been reclassified in order to be comparable with those in the financial statements For the nine months ended September 30, 2012.