

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements

For the nine-month periods ended
30 September 2015 and 2014
With Independent Auditors' Review Report

Address: No.296, Sec. 4, Jen Ai Road, Taipei, Taiwan, R.O.C.
Telephone: 886-2-2755-1299

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

Index to Consolidated Financial Statements

	<u>Page</u>
Independent Auditors' Review Report	3
Unaudited Consolidated Balance Sheets	4-5
Unaudited Consolidated Statements of Comprehensive Income	6-7
Unaudited Consolidated Statements of Changes in Equity	8
Unaudited Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-155

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

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

We have reviewed the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) and its subsidiaries as of 30 September 2015 and 30 September 2014 and the related consolidated statements of comprehensive income for three-month periods ended 30 September 2015 and 2014, and for the nine-month periods ended 30 September 2015 and 2014, and consolidated statement of changes in equity and cash flows for the nine-month periods ended 30 September 2015 and 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report on these consolidated financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with “Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises”, and IAS 34 “Interim Financial Reporting” as endorsed by Financial Supervisory Commission (“FSC”) of the Republic of China.

As described in Note 3 to the consolidated financial statements, the Company and its subsidiaries prepare the financial reports in accordance with the International Financial Reporting Standards (“IFRS”), International Accounting Standards, and interpretations issued, revised or amended (excluding IFRS 9), which are recognized by FSC and would be applicable for annual periods beginning on or after 1 January 2015. The consolidated financial statements for the nine-month period ended 30 September 2014, and the related consolidated balance sheets as of 1 January 2014 and 31 December 2014.

Ernst & Young
Taipei, Taiwan
The Republic of China

4 November 2015

Notice to Readers

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of 30 September 2015, 31 December 2014, 30 September 2014 and 1 January 2014

(30 September 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	30 September 2015	31 December 2014 (adjusted)	30 September 2014 (adjusted)	1 January 2014 (adjusted)
Cash and cash equivalents	4,6(1)	\$8,168,539	\$8,023,111	\$8,777,638	\$8,194,772
Receivables	4,6(2)	2,406,556	3,649,736	3,537,316	3,725,513
Financial assets at fair value through profit or loss	4,6(3)	1,928,250	1,514,144	1,353,913	1,312,025
Available-for-sale financial assets	4,6(4)	8,088,575	8,256,604	8,312,641	7,234,902
Derivative financial assets for hedging	4,6(5)	-	3,747	3,639	10,022
Investments accounted for using the equity method	4	-	-	-	829
Debt instrument investments for which no active market exists	4,6(6)	3,682,597	3,359,314	3,114,618	2,053,740
Held-to-maturity financial assets	4,6(7)	3,949,874	2,647,264	1,577,684	1,955,937
Loans	4,6(8)	365,531	397,313	416,522	422,521
Reinsurance assets	4,6(9)	5,781,718	6,089,372	5,792,566	5,057,226
Property and equipment		230,844	258,732	251,066	303,365
Intangible assets		48,174	26,155	30,194	29,031
Deferred tax assets		95,812	93,146	80,044	92,369
Other assets	6(10)	1,579,494	1,544,267	1,782,076	1,332,211
Total assets		\$36,325,964	\$35,862,905	\$35,029,917	\$31,724,463

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As of 30 September 2015, 31 December 2014, 30 September 2014 and 1 January 2014

(30 September 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Liabilities & equity	Notes	30 September 2015	31 December 2014 (adjusted)	30 September 2014 (adjusted)	1 January 2014 (adjusted)
Payables	4,6(11)	\$2,654,970	\$2,892,354	\$2,517,566	\$2,622,538
Financial liabilities at fair value through profit or loss	4,6(3)	277,467	176,626	55,051	28,352
Preferred stock liabilities	4,6(12)	1,000,000	1,000,000	1,000,000	1,000,000
Insurance liabilities	4,6(13)	24,453,394	23,943,870	23,870,845	21,853,590
Provisions	4,6(14)	282,891	283,132	323,992	325,367
Deferred tax liabilities		41,212	58,480	8,667	24,404
Other liabilities		435,995	679,739	636,411	433,062
Total liabilities		29,145,929	29,034,201	28,412,532	26,287,313
Equity attributable to owners of parent					
Capital stock	4,6(15)	2,802,202	2,721,879	2,721,879	2,721,879
Capital surplus					
Capital surplus - others		-	-	-	1,929
Retained earnings	4,6(16)				
Legal capital reserve		1,334,278	1,167,902	1,167,902	1,092,927
Special capital reserve		1,949,825	1,949,825	1,364,645	1,364,645
Undistributed earnings		988,939	247,594	621,950	74,938
Other equity		(341,089)	36,558	(36,407)	(169,280)
Non-controlling interests	4,6(17)	445,880	704,946	777,416	350,112
Total equity		7,180,035	6,828,704	6,617,385	5,437,150
Total liabilities and equity		\$36,325,964	\$35,862,905	\$35,029,917	\$31,724,463

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income

For the three-month periods ended 30 September 2015 and 2014, and nine-month periods ended 30 September 2015 and 2014

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars, except Earning per Share)

Items	Notes	2015.7.1~2015.9.30	2014.7.1~2014.9.30 (adjusted)	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating revenues					
Direct premium income	4,6(18)	\$5,412,840	\$5,022,630	\$15,377,742	\$15,116,670
Reinsurance premium income	4,6(18)	289,304	152,490	737,739	\$403,491
Premium income		5,702,144	5,175,120	16,115,481	15,520,161
Deduct: Premiums ceded to reinsurers	4,6(18)	(1,238,088)	(1,150,438)	(3,714,481)	(3,743,698)
Net changes in unearned premium reserve	4,6(18)	142,873	23,465	233,237	(91,371)
Retained earned premium		4,606,929	4,048,147	12,634,237	11,685,092
Reinsurance commission earned		120,370	162,348	380,967	510,113
Handling fees earned		11,239	11,081	33,920	31,933
Net investment profit and loss		250,791	351,138	767,925	728,594
Interest income		145,046	152,100	413,411	428,293
Gains (losses) on financial assets and financial liabilities at fair value through profit or loss		(331,723)	(60,410)	(211,273)	(81,684)
Realized gains (losses) on available-for-sale financial assets		17,040	124,301	291,427	319,263
Realized gains (losses) on debt instrument for which no active market exists		103	-	714	-
Realized gains (losses) on held-to-maturity financial assets		524	1,120	1,375	3,975
Share of profit (loss) of associates and joint ventures accounted for using the equity method		-	-	-	1,726
Gains (losses) on foreign exchange		419,801	134,027	272,271	57,021
Other operating revenue		9,213	(992)	14,224	2,917
Subtotal		4,998,542	4,571,722	13,831,273	12,958,649
Operating costs					
Insurance claims payments	4,6(19)	(2,838,140)	(2,985,130)	(8,259,380)	(7,882,455)
Deduct: Claims recovered from reinsurers	4,6(19)	524,483	778,963	1,756,780	1,765,288
Retained claim payments		(2,313,657)	(2,206,167)	(6,502,600)	(6,117,167)
Net changes in insurance liabilities	4,6(13)	(376,110)	(290,650)	(813,671)	(1,030,991)
Commission expenses		(356,347)	(321,238)	(969,629)	(862,656)
Other operating costs		(17,254)	(14,326)	(46,267)	(41,681)
Subtotal		(3,063,368)	(2,832,381)	(8,332,167)	(8,052,495)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income (continued)

For the three-month periods ended 30 September 2015 and 2014, and nine-month periods ended 30 September 2015 and 2014

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars, except Earning per Share)

Items	Notes	2015.7.1~2015.9.30	2014.7.1~2014.9.30 (adjusted)	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating expenses					
Business expenses		(1,185,351)	(1,116,247)	(3,442,523)	(3,331,695)
Administrative and general expenses		(391,399)	(325,875)	(1,078,605)	(957,667)
Employee training expenses		(4,326)	(4,427)	(7,838)	(8,051)
Subtotal		<u>(1,581,076)</u>	<u>(1,446,549)</u>	<u>(4,528,966)</u>	<u>(4,297,413)</u>
Operating income		354,098	292,792	970,140	608,741
Non-operating income and expenses		(6,183)	(1,260)	(13,618)	30,588
Profit before income tax from continuing operations		347,915	291,532	956,522	639,329
Income tax expense	4,6(22)	(97,127)	(52,714)	(229,234)	(97,633)
Profit from continuing operations		<u>250,788</u>	<u>238,818</u>	<u>727,288</u>	<u>541,696</u>
Net income		<u>250,788</u>	<u>238,818</u>	<u>727,288</u>	<u>541,696</u>
Other comprehensive income (loss)	4,6(20)				
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation		54,663	52,122	5,236	5,417
Unrealized gains (losses) on available-for-sale financial assets		(400,666)	150,835	(393,777)	146,867
Gains (losses) on effective portions of cash flow hedges		-	(922)	(3,747)	(6,382)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		-	-	-	(3)
Income taxes relating to the components to be reclassified to profit or loss in subsequent periods		10,222	1,237	16,331	(551)
Other comprehensive income, net of tax		<u>(335,781)</u>	<u>203,272</u>	<u>(375,957)</u>	<u>145,348</u>
Total comprehensive income		<u><u>\$(84,993)</u></u>	<u><u>\$442,090</u></u>	<u><u>\$351,331</u></u>	<u><u>\$687,044</u></u>
Net income attributable to:					
Owners of parent		<u>\$347,308</u>	<u>\$308,323</u>	<u>\$988,044</u>	<u>\$621,987</u>
Non-controlling interests		<u>\$(96,520)</u>	<u>\$(69,505)</u>	<u>\$(260,756)</u>	<u>\$(80,291)</u>
Comprehensive income attributable to:					
Owners of parent		<u>\$(3,079)</u>	<u>\$486,461</u>	<u>\$610,397</u>	<u>\$754,860</u>
Non-controlling interests		<u>\$81,914</u>	<u>\$(44,371)</u>	<u>\$(259,066)</u>	<u>\$(67,816)</u>
Basic earnings per share					
Net income (In dollars)	4,6(23)	<u>\$1.24</u>	<u>\$1.10</u>	<u>\$3.53</u>	<u>\$2.22</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

For the nine-month periods ended 30 September 2015 and 2014

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Items	Equity attributable to equity holders of the parent										Non-controlling interests	Total equity
	Retained earnings					Other equity						
	Common stock	Capital surplus	Legal reserve	Special capital reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Remeasurement of defined benefit plans	Total		
Balance on 1 January 2014	\$2,721,879	\$1,929	\$1,092,927	\$1,364,645	\$74,975	\$(36,559)	\$(68,830)	\$10,021	\$-	\$5,160,987	\$350,112	\$5,511,099
Amounts of retrospective adjustments	-	-	-	-	(37)	-	-	-	(73,912)	(73,949)	-	(73,949)
Balance on 1 January 2014 (adjusted)	2,721,879	1,929	1,092,927	1,364,645	74,938	(36,559)	(68,830)	10,021	(73,912)	5,087,038	350,112	5,437,150
Appropriations and distribution of earnings for the year 2013												
Legal capital reserve	-	-	113,928	-	(113,928)	-	-	-	-	-	-	-
Legal capital reserve used to cover accumulated deficits	-	-	(38,953)	-	38,953	-	-	-	-	-	-	-
Changes in other capital surplus:												
Share of changes in net assets of associates and joint ventures for using the equity method	-	(1,929)	-	-	-	-	-	-	-	(1,929)	-	(1,929)
Net income for the nine-month period ended 30 September 2014 (adjusted)	-	-	-	-	621,987	-	-	-	-	621,987	(80,291)	541,696
Other comprehensive income for the nine-month period ended 30 September 2014 (adjusted)	-	-	-	-	-	4,758	134,497	(6,382)	-	132,873	12,475	145,348
Total comprehensive income for the nine-month period ended 30 September 2014 (adjusted)	-	-	-	-	621,987	4,758	134,497	(6,382)	-	754,860	(67,816)	687,044
Other	-	-	-	-	-	-	-	-	-	-	495,120	495,120
Balance on 30 September 2014 (adjusted)	\$2,721,879	\$-	\$1,167,902	\$1,364,645	\$621,950	\$(31,801)	\$65,667	\$3,639	\$(73,912)	\$5,839,969	\$777,416	\$6,617,385
Balance on 1 January 2015	\$2,721,879	\$-	\$1,167,902	\$1,949,825	\$247,594	\$1,062	\$71,979	\$3,747	(40,230)	\$6,123,758	704,946	\$6,828,704
Appropriations and distribution of earnings for the year 2014												
Legal capital reserve	-	-	166,376	-	(166,376)	-	-	-	-	-	-	-
Stock dividends	80,323	-	-	-	(80,323)	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2015	-	-	-	-	988,044	-	-	-	-	988,044	(260,756)	727,288
Other comprehensive income for the nine-month period ended 30 September 2015	-	-	-	-	-	(3,456)	(370,444)	(3,747)	-	(377,647)	1,690	(375,957)
Total comprehensive income for the nine-month period ended 30 September 2015	-	-	-	-	988,044	(3,456)	(370,444)	(3,747)	-	610,397	(259,066)	351,331
Balance on 30 September 2015	\$2,802,202	\$-	\$1,334,278	\$1,949,825	\$988,939	\$(2,394)	\$(298,465)	\$-	\$(40,230)	\$6,734,155	\$445,880	\$7,180,035

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the nine-month periods ended 30 September 2015 and 2014

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Cash flows from operating activities:		
Profit before income tax	\$956,522	\$639,329
Adjustments:		
Income and other adjustments with no cash flow effects		
Depreciation expenses	81,349	76,233
Amortization expenses	17,737	25,982
Provision (reversal of provision) for bad debt expense	(10,218)	13,974
Net losses (gains) on financial assets or financial liabilities at fair value through profit or loss	211,273	81,684
Net losses (gains) on available-for-sale financial assets	(291,427)	(319,263)
Net losses (gains) on debt instrument for which with no active market exists	(714)	-
Net losses (gains) from held-to-maturity financial assets	(1,375)	(3,975)
Interest income	(413,411)	(428,293)
Net changes in insurance liabilities	458,814	2,006,334
Share of loss (profit) of associates and joint ventures accounted for using the equity method	-	(1,726)
Gain on disposal and scrapping of property and equipment	9	10
Changes in assets and liabilities from operating activities:		
Increase in financial assets at fair value through profit or loss	(514,741)	(97,348)
Increase in available-for-sale financial assets	(49,664)	(679,171)
Increase in debt instrument for which no active market exists	(319,444)	(1,054,911)
(Increase) decrease in held-to-maturity financial assets	(1,304,676)	385,372
(Increase) decrease in notes receivable	(37,634)	40,421
Decrease (increase) in premiums receivable	1,351,048	(98,379)
(Increase) decrease in other accounts receivable	(70,394)	254,021
Decrease (increase) in reinsurance assets	314,908	(729,627)
Increase in other assets	(30,559)	(453,077)
(Decrease) increase in claims outstanding	(2,237)	20,300
Decrease in due to reinsurers and ceding companies	(57,595)	(111,313)
(Decrease) increase in commissions payable	(23,982)	87,015
Decrease in other payables	(331,428)	(182,007)
Decrease in provisions	(241)	(1,375)
(Decrease) increase in other liabilities	(243,744)	203,349
Cash flows used in operating activities	<u>(311,824)</u>	<u>(326,441)</u>
Interest received	421,596	378,780
Dividends received	129,155	100,289
Interest paid	(37,996)	(1,268)
Income taxes paid	(16,882)	(19,295)
Net cash flows from operating activities	<u>184,049</u>	<u>132,065</u>
Cash flows from investing activities:		
Capital reduction in investments for using the equity method	-	535
Acquisition of property and equipment	(52,063)	(23,617)
Acquisition of intangible assets	(37,720)	(25,804)
Increase in loans	(33,730)	(53,450)
Decrease in loans	65,511	59,450
Net cash flows used in investing activities	<u>(58,002)</u>	<u>(42,886)</u>
Cash flows from financing activities:		
Issuance of common stock for cash	-	495,119
Net cash flows from financing activities	<u>-</u>	<u>495,119</u>
Effects of exchange rate changes on cash and cash equivalents	19,381	(1,432)
Increase in cash and cash equivalents	145,428	582,866
Cash and cash equivalents at the beginning of periods	8,023,111	8,194,772
Cash and cash equivalents at the end of periods	<u>\$8,168,539</u>	<u>\$8,777,638</u>

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd. and Subsidiaries
Notes to Consolidated Interim Financial Statements
For the nine-month periods ended 30 September 2015 and 2014
(30 September 2014 and 2013 reviewed only, not audited in accordance with
the generally accepted auditing standards)
(Expressed in thousands of New Taiwan dollars unless otherwise stated)

1. History and organization

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

Cathay Financial Holdings Co., Ltd. is the Company’s parent company and ultimate parent company.

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

The consolidated financial statements of the Company and its subsidiaries (the “Consolidated Company”) for the nine-month periods ended 30 September 2015 and 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 4 November 2015.

3. Newly issued or revised standards and interpretations

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Consolidated Company applied for the first time the International Financial Reporting Standards, International Accounting Standards, and interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard and amendment that has a material effect on the Consolidated Company are described below:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

A. IAS 19 “Employee Benefits”

The revised IAS 19 brought about the following changes to defined benefit plans which are summarized below:

- (a) The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.
- (b) In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested, or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognized. Therefore unvested past service cost is no longer deferred over future vesting periods.
- (c) The revised IAS 19 required more disclosure.
- (d) The Consolidated Company applied the revised IAS 19 “Employee Benefits” retrospectively in the current period in accordance with the transitional provisions set out in the revised standard except that the carrying amount of assets was not adjusted for changes in employee benefit cost that were included in the carrying amount before 1 January 2014. The figures of the earliest comparative period presented and the comparative period have been accordingly restated.
- (e) In the previous version of IAS 19, the Consolidated Company amortize the amount that net cumulative unrecognized actuarial gains and losses exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets over the expected remaining working lives of employees participating in the plan. Under the amended standard, the remeasurement of net defined benefit liability (asset) will be recognized in other comprehensive income and other equity immediately when occurs.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Impact on the statement of comprehensive income:

	2015.1.1 ~2015.9.30	2014.1.1 ~2014.9.30
Operating expense:		
Business expenses	\$14	\$(589)
Administrative and general expenses	6	(253)
Total operating expenses	20	(842)
Profit or loss before tax	(20)	842
Income tax expense	3	(143)
Net income	\$(17)	\$699
Net income attributable to:		
Owners of parent	\$(17)	\$699
Non-controlling interests	-	-
Earnings per share (in dollars)		
Basic earnings per share	\$-	\$-

Impact on the balance sheet:

	2015.9.30	2014.12.31	2014.9.30	2014.1.1
Provisions	47,412	\$47,392	\$88,252	\$89,095
Deferred tax assets	8,060	8,057	15,003	15,146
Retained earnings				
Undistributed earnings	895	(37)	(37)	(37)
Net income for the periods	(17)	932	699	-
Other comprehensive income				
Remeasurement of defined benefit plans	(40,230)	(40,230)	(73,911)	(73,912)

B. IFRS 7 “Financial Instruments Disclosures” -Transfers of Financial Assets

The amendments require that additional quantitative and qualitative disclosure on financial assets that have been transferred but not derecognized at reporting date and that have been derecognized but for which the entity retains continuing involvement. The Company and subsidiaries has added additional nature and quantitative disclosures for transferred financial assets.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

C. IFRS 7 “Financial Instruments Disclosures” -Offsetting Financial Assets and Financial Liabilities

The amendments require the entity disclose more information about offsetting of financial instrument. The disclosure shall enable users to evaluate the effect of offsetting on the entity's financial position. Financial instruments that offset in accordance with IAS 32 Financial Instruments: Presentation and that do not offset but subject to enforceable master netting settlement or other similar agreements but not offset are included in the disclosure. The Company and subsidiaries has added additional nature and quantitative disclosures for transferred financial assets.

D. IFRS 13 “Fair Value Measurements”

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The Consolidated Company re-assessed its policies for measuring fair values. Application of IFRS 13 has not materially impacted the fair value measurements of the Consolidated Company.

Additional disclosures where required under IFRS 13, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 12. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of 1 January 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before 1 January 2015.

E. IAS 1 “Presentation of Financial Statements” -Presentation of items of other comprehensive income

Beginning 1 January 2014, the Consolidated Company presented its items of other comprehensive income that will be reclassified to profit or loss separately from items that will not be reclassified in accordance with the amendments to IAS 1. The amendments affect presentation of statement of comprehensive income only and have no impact on the Consolidated Company’s financial position or performance.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

F. IAS 1 “Presentation of Financial Statements” -Clarification of the requirement for comparative information

Beginning 1 January 2014, according to the amendments to IAS 1, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, the opening statement of financial position does not have to be accompanied by comparative information in the related notes. The amendments affect notes accompanying the financial statements only and have no impact on the Consolidated Company’s financial position or performance.

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

A. IAS 36 “Impairment of Assets” (Amendment)

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendment is effective for annual periods beginning on or after 1 January 2014.

B. IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

C. Novation of derivative instruments and continuation of hedge accounting

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

D. IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

E. Improvements to International Financial Reporting Standards (2010-2012 cycle)

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of ‘vesting condition’ and ‘market condition’ and add definitions for ‘performance condition’ and ‘service condition’ (which were previously part of the definition of ‘vesting condition’). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to “other applicable IFRSs” in the classification requirements; (2) deleting the reference to “IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate”, other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.7.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 24 “Related Party Disclosures”

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 38 “Intangible Assets”

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

F. Improvements to International Financial Reporting Standards (2011-2013 cycle)

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

IFRS 3 “Business Combinations”

This amendment clarifies that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 40 “Investment Property”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. IFRS 14 “Regulatory Deferral Accounts”

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

H. IFRS 11 “Joint Arrangements” -Accounting for Acquisitions of Interests in Joint Operations

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

I. IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization

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

J. IFRS 15 “Revenue from Contracts with Customers”

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

The new standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018.

K. IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants

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

L. IFRS 9 “Financial Instruments”

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

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

M.IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements

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

N. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

IFRS 7 “Financial Instruments: Disclosures”

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

IAS 19 “Employee Benefits”

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

IAS 34 “Interim Financial Reporting”

The amendment clarifies what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is effective for annual periods beginning on or after 1 January 2016.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

Q. IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28 “Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the nine-month periods ended 30 September 2015 and 2014 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 “Interim Financial Reporting” as recognized by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Consolidated Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Consolidated Company controls an investee if and only if the Consolidated Company has:

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

When the Consolidated Company has less than a majority of the voting or similar rights of an investee, the Consolidated Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Consolidated Company's voting rights and potential voting rights

The Consolidated Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

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

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

If the Consolidated Company loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest			Notes
			2015.9.30	2014.12.31	2014.9.30	
The Company	Cathay Insurance Company Ltd. (China) (“Cathay Insurance (China)”)	Property Insurance	50.00	50.00	50.00	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China).
The Company	Cathay Insurance (Vietnam) Ltd. (“Cathay Insurance (Vietnam)”)	Property Insurance	100.00	100.00	100.00	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on 2 November 2010. The Company owns 100% interest of Cathay Insurance (Vietnam).

(4) Foreign currency transactions

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Consolidated Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Consolidated Company classifies time deposits as cash equivalents when they have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

(7) Financial assets and financial liabilities

Initial recognition and subsequent measurement

According to the IAS 39, financial assets are categorized as financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial assets for hedging, held-to-maturity financial assets, and loans and receivables. Financial liabilities are categorized as financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging and financial liabilities carried at amortized cost.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

All regular way purchase or sales of financial assets are recorded using trade date accounting.

Subsequent measurement of each category of financial instruments is listed below:

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

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity financial assets. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in equity, except for impairment losses and gains or losses arising from the translation of monetary financial assets interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument. When the financial assets are derecognized, the cumulative gains or losses previously recorded in equity are recognized in profit or loss.

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 equity shall be amortized over the remaining life of the asset.

C. Derivative financial assets and liabilities for hedging

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

D. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Consolidated Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss 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 arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial assets, transactions costs, fees and premiums/ discounts are taken into the consideration when calculating the effective interest rate.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

E. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- a. Those that the Consolidated Company intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- b. Those that the Consolidated Company and Subsidiaries upon initial recognition designates as available for sale; or
- c. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Loans shall be measured at amortized cost using the effective interest method; however, they need not be discounted if the effect of discounting is immaterial.

F. Financial liabilities

Financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging which are measured at fair value.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Derecognition of financial assets and liabilities

A. Financial assets

The Consolidated Company derecognizes financial assets when the contractual rights to the cash flows from the assets expire or when it transfers substantially all the risks and rewards of ownership of the asset.

Securities lending transactions and repurchase agreements do not result in derecognition because the Consolidated Company has nearly retained all such risks and rewards.

B. Financial liabilities

The Consolidated Company derecognizes all or part of the financial liabilities when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the liability extinguished and the liability recognized is recognized in profit or loss.

Reclassification of financial assets

In accordance with IAS 39:

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

B. The Consolidated Company shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Impairment of financial assets

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Other loss events include:

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Consolidated Company first assesses whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Consolidated Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

In addition, in accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- A. 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.
- B. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.
- C. Total unsecured portion of loans overdue and receivable on demand.

The minimum amounts should be recorded within three years starting on January 2014.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Derivative financial instruments and hedging transactions

The Consolidated Company engages in derivative financial instrument transactions, such as to currency forward contracts, interest rate swaps, cross currency swaps, options and futures, to hedge its risk associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash hedges, which are recognized in equity.

Hedging relationships consist of these types:

- A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment.
- B. Cash flow hedges: a hedge of exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or with a highly probable forecast transaction and could affect profit or loss.
- C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

At the inception of a hedge relationship, the Consolidated Company formally designates and documents hedge relationship to which the Consolidated Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Consolidated Company 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 or cash flows attributable to the hedged risk, 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 for the hedge.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

A. Fair value hedges

Fair value hedges is a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss. The carrying amount of the hedged item is adjusted and gains or losses attributable to the hedged risk. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the IAS 21 The Effects of Changes in Foreign Exchange Rates (for a non-derivative hedging instrument) is recognized in profit or loss.

For a hedged interest-bearing financial instrument, the adjustment arising from above paragraph to its carrying amount is amortized to profit or loss based on an effective interest rate over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be subject to hedge accounting.

B. Cash flow hedges

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other equity shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses initially recognized in other equity shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the cumulative gain or loss that was previously recognized in equity remain in other equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from other equity.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation 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 in other 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 gains or losses recognized in other equity is transferred to profit or loss.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability, or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Consolidated Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Consolidated Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Investments accounted for using the equity method

Investment in the associate of the Consolidated Company is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Consolidated Company has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

When an associate or joint venture issues new stock and the Consolidated Company's interest in an associate or a joint venture is reduced or increased as the Consolidated Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Consolidated Company disposes of the associate or joint venture.

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

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

- (1) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (2) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Upon loss of significant influence over the associate or joint venture, the Consolidated Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(10) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property and equipment are required to be replaced in intervals, the Consolidated Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

Transportation equipment	5years
Office equipment	5years
Leased assets	3years
Leasehold improvements	The shorter of lease terms or economic useful lives

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(11) Leases

The Consolidated Company as a lessee

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

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

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

(12) Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss when the asset is derecognized.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

(13) Impairment of non-financial assets

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(14) Separation requirement for specific assets

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

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

- A. Government bonds, not including exchangeable government bonds.
- B. Financial bonds, negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

- A. Treasury bills.
- B. Negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution.
- C. Government bonds in a repo transaction.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

(15) Insurance contract categories

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(16) Reinsurance assets

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

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

(17) Insurance liabilities

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

A. Unearned premium reserve

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Claims reserve

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

C. Special reserve

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

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

a. Special reserve for major incident

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(18) Insurance premium revenues and the acquisition costs

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

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

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

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

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

Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the authority’s approval unless otherwise regulated by law. The amount of unearned premium reserve should be audited by a certified actuary.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(19) Insurance claim costs

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

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

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

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

Claim reserve is not discounted to its present value.

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(20) Liability adequacy test

In alignment with Article 24-1 of “Regulations for the Various Reserves of Insurance Industry”, from 1 January 2011 on, 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 IFRS 4. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(21) Reinsurance ceded

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

(23) Contribution to the stabilization funds

From 1 January 2014 to 30 September 2014, the Company had made monthly contributions based on 2‰ of the gross premiums to the stabilization funds. Since 1 July 2014, according to the “Interpretations No.10302503181 Financial-Supervisory-Property-Insurance-Coporate” issued by Financial Supervisory Commission, the Company has changed its way of contribution to rate discrimination depositing in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

(24) Post-employment benefits plan

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Consolidated Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

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

(25) Income taxes

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Current income tax

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

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

Deferred tax

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

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

5. Significant accounting judgments, estimates and assumptions the main sources of uncertainty

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

(1) Judgments

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

A. Categories of financial assets

The management has to use their judgment to categorize financial assets. Different categories apply different measurements, which could have a significant effect on the Company's' financial position and performance.

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

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

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Company and Subsidiaries adopt pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a “discounted cash flow model. The cash flow projections are” derived from the budget for the next five years and do not include restructuring activities that the Company and Subsidiaries are not yet committed to or significant future investments that will enhance the asset’s performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

C. Post-employment benefit

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6, for more detail on the assumptions to measure pension costs and defined benefit obligation.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

E. Income taxes

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

6. Contents of significant accounts

(1) Cash and cash equivalents

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Petty cash and cash on hand	\$15,610	\$10,184	\$16,060
Cash in banks	1,511,963	1,187,967	1,014,578
Time deposits	4,748,809	6,069,785	6,596,454
Cash equivalents	1,892,157	755,175	1,150,546
Total	<u>\$8,168,539</u>	<u>\$8,023,111</u>	<u>\$8,777,638</u>

(2) Receivables

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Notes receivable - Net	\$271,282	\$233,647	\$247,041
Premiums receivable - Net	1,686,808	3,027,639	2,956,061
Other receivable - Net	448,466	388,450	334,214
Total	<u>\$2,406,556</u>	<u>\$3,649,736</u>	<u>\$3,537,316</u>

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

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Financial assets at fair value through profit or loss			
Held for trading:			
Derivative financial assets			
Derivatives not designated as hedging instruments			
Forward foreign exchange contracts	\$159	\$-	\$-
Non-derivative financial assets			
Stocks	4,240	-	-
Beneficiary certificates	1,923,851	1,514,144	1,353,913
Total	<u>\$1,928,250</u>	<u>\$1,514,144</u>	<u>\$1,353,913</u>

The financial assets at fair value through profit or loss held by the Consolidated Company were not pledged.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Financial liabilities at fair value through profit or loss			
Held for trading:			
Derivative financial assets			
Derivatives not designated as hedging instruments			
Forward foreign exchange contracts	<u>\$277,467</u>	<u>\$176,626</u>	<u>\$55,051</u>

Forward foreign exchange contracts

The Consolidated Company entered in to forward foreign exchange contracts to manage the risk exposure position for certain transactions but are not designated as hedging instruments. Details of the derivative financial instruments reported as held for trading not designated as hedging instruments as of 30 September 2015, 31 December 2014 and 30 September 2014, are as follows:

	<u>Nominal Amount</u>	<u>Contract Period</u>
<u>30 September 2015</u>		
Forward foreign exchange contracts	Sell USD 161,100	13 October 2015-28 April 2017
Forward foreign exchange contracts	Sell EUR 6,850	1 October 2015-27 October 27 2015
<u>31 December 2014</u>		
Forward foreign exchange contracts	Sell USD 137,600	12 January 2015-13 June 2016
Forward foreign exchange contracts	Sell EUR 2,350	12 January 2015-12 February 2015
<u>30 September 2014</u>		
Forward foreign exchange contracts	Sell USD 104,500	6 October 2014-13 June 2016
Forward foreign exchange contracts	Sell EUR 750	12 November 2014

The counterparties of the derivative financial instruments mentioned above are domestic banks and foreign banks with good credit rating. Consequently, there is no significant credit risk for these counterparties.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Available-for-sale financial assets

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Stocks	\$2,668,378	\$3,775,366	\$3,405,914
Overseas stocks	242,292	26,064	9,178
Beneficiary certificates	2,623,759	1,694,710	1,706,457
Corporate bonds	623,311	808,030	1,214,876
Real estate investment trust	-	34,725	-
Financial debentures	859,664	854,183	804,531
Government bonds	726,839	698,603	751,480
Overseas bonds	344,332	364,923	420,205
Total	<u>\$8,088,575</u>	<u>\$8,256,604</u>	<u>\$8,312,641</u>

The available-for-sale financial assets held by the Consolidated Company were not pledged.

(5) Derivative financial assets for hedging

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Derivative financial instruments			
Interest rate swap contracts	<u>\$-</u>	<u>\$3,747</u>	<u>\$3,639</u>

The international investment position bearing fixed interest rate may be exposed to the risk of fluctuation in fair value because of the changes in interest rate. Therefore, the Consolidated Company entered into interest rate swap contracts to hedge such interest rate risks.

Details of the unsettled interest rate swap contracts for hedging the interest rate risk arising from the international investment position are as follows:

	<u>Nominal Amount</u>	<u>Settlement Date</u>
<u>30 September 2015</u>		
Interest rate swap contracts	<u>\$-</u>	-
<u>31 December 2014</u>		
Interest rate swap contracts	<u>NTD200,000</u>	30 August 2015
<u>30 September 2014</u>		
Interest rate swap contracts	<u>NTD200,000</u>	30 August 2015

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(6) Debt instrument investments for which no active market exists

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Preferred stocks	\$400,000	\$400,000	\$400,000
Corporate bonds	650,000	650,000	450,000
Bank Debentures	550,000	-	-
Overseas bonds	1,778,588	1,711,546	1,526,191
Time deposits	304,009	597,768	738,427
Total	<u>\$3,682,597</u>	<u>\$3,359,314</u>	<u>\$3,114,618</u>

The debt instrument investments for which no active market exists held by the Consolidated Company were not pledged.

(7) Held-to-maturity financial assets

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Overseas bonds	<u>\$3,949,874</u>	<u>\$2,647,264</u>	<u>\$1,577,684</u>

The held-to-maturity financial assets held by the Consolidated Company were not pledged.

(8) Loans

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Loans	\$370,025	\$464,489	\$498,981
Less: Allowance for bad debts	(4,494)	(67,176)	(82,459)
Total	<u>\$365,531</u>	<u>\$397,313</u>	<u>\$416,522</u>

The movements in the provision for impairment of loans are as follows:

	<u>Individually Impaired</u>	<u>Collectively Impaired</u>	<u>Total</u>
1 January 2015	\$65,499	\$1,677	\$67,176
Reversal for the current period	(65,049)	2,367	(62,682)
Write off	-	-	-
30 September 2015	<u>\$450</u>	<u>\$4,044</u>	<u>\$4,494</u>
1 January 2014	\$81,061	\$1,563	\$82,624
Reversal for the current period	(292)	127	(165)
Write off	-	-	-
30 September 2014	<u>\$80,769</u>	<u>\$1,690</u>	<u>\$82,459</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Individually impaired loss as of 30 September 2015 and 2014 mainly results from the financial difficulties of the obligators. The individually impaired loss is recognized as the difference between the carrying amount and the present value of estimated future recoverable amount. The pledged assets of the loans are properties and equipments.

(9) Reinsurance assets

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Claims recoverable from reinsurers	\$263,437	\$321,809	\$237,372
Due from reinsurers and ceding companies	598,466	727,993	501,209
Reinsurance reserve assets			
Ceded unearned premium reserve	2,615,937	2,750,419	2,632,975
Ceded claims reserve	2,292,796	2,249,673	2,387,698
Ceded premium deficiency reserve	11,082	39,478	33,312
Subtotal	<u>4,919,815</u>	<u>5,039,570</u>	<u>5,053,985</u>
Total	<u>\$5,781,718</u>	<u>\$6,089,372</u>	<u>\$5,792,566</u>

(10) Other assets

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Prepayment	27,429	21,902	23,490
Guarantee deposits paid	1,485,442	1,449,059	1,641,950
Other assets - Other	66,803	73,306	116,636
Total	<u>\$1,579,494</u>	<u>\$1,544,267</u>	<u>\$1,782,076</u>

(11) Payables

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Claims outstanding	\$13,343	\$15,580	\$33,977
Commissions payable	201,091	225,073	235,311
Due to reinsurers and ceding companies	1,335,037	1,392,632	1,251,932
Other payables	1,105,499	1,259,069	996,346
Total	<u>\$2,654,970</u>	<u>\$2,892,354</u>	<u>\$2,517,566</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(12) Preferred stock liabilities

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

- A. Issuance period covers from 11 November 2011, the issue date, to 10 November 2018, seven years in total.
- B. Dividend yield is 1.86% per year based on the actual issue price of \$32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(13) Insurance liabilities

	2015.9.30	2014.12.31	2014.9.30
Unearned premium reserve	\$11,603,764	\$11,950,213	\$11,443,248
Claims reserve	8,873,530	8,154,755	8,457,069
Special reserve	3,631,672	3,639,138	3,799,501
Premiums deficiency reserve	344,428	199,764	171,027
Total	\$24,453,394	\$23,943,870	\$23,870,845

A. Unearned premium reserve

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

	2015.9.30			
	Unearned premium reserve	Ceded unearned premium reserve		
		Assumed reinsurance	Ceded reinsurance	Retained
	Direct business	business	business	business
Fire insurance	\$1,869,309	\$70,806	\$985,041	\$955,074
Marine insurance	142,944	7,698	109,507	41,135
Land and air insurance	3,876,532	10,704	185,894	3,701,342
Liability insurance	561,951	988	180,790	382,149
Bonding insurance	55,819	663	39,001	17,481
Other property insurance	1,415,812	24,568	376,900	1,063,480
Accident insurance	1,487,655	2,487	70,696	1,419,446
Health insurance	57,584	-	7	57,577
Compulsory automobile liability insurance	1,634,494	383,750	668,101	1,350,143
Total	\$11,102,100	\$501,664	\$2,615,937	\$8,987,827

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2014.9.30			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$2,065,033	\$74,606	\$1,035,197	\$1,104,442
Marine insurance	129,376	16,908	93,179	53,105
Land and air insurance	3,760,959	7,734	163,066	3,605,627
Liability insurance	520,507	1,106	159,134	362,479
Bonding insurance	40,126	586	24,692	16,020
Other property insurance	1,388,990	23,662	551,797	860,855
Accident insurance	1,562,730	2,248	73,389	1,491,589
Health insurance	40,508	-	6	40,502
Compulsory automobile liability insurance	1,608,500	199,669	532,515	1,275,654
Total	\$11,116,729	\$326,519	\$2,632,975	\$8,810,273

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.1.1 ~ 2015.9.30		2014.1.1 ~ 2014.9.30	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,950,213	\$2,750,419	\$11,213,469	\$2,495,090
Reserve	11,580,354	2,613,418	11,433,551	2,630,425
Recover	(11,950,105)	(2,749,932)	(11,206,568)	(2,494,813)
Losses (gains) on foreign exchange	23,302	2,032	2,796	2,273
Ending balance	<u>\$11,603,764</u>	<u>\$2,615,937</u>	<u>\$11,443,248</u>	<u>\$2,632,975</u>

B. Claims reserve

(a) Claims reserve and ceded claims reserve

	2015.9.30			
	Claims reserve		Ceded claims reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Reported but not paid claim	\$4,303,252	\$313,759	\$1,294,992	\$3,322,019
Unreported claims	3,989,180	267,339	997,804	3,258,715
Total	<u>\$8,292,432</u>	<u>\$581,098</u>	<u>\$2,292,796</u>	<u>\$6,580,734</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2014.9.30			
	Claims reserve		Ceded claims reserve	
	Assumed reinsurance		Ceded reinsurance	
	Direct business	business	business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Reported but not paid claim	\$4,409,607	\$251,293	\$1,418,466	\$3,242,434
Unreported claims	3,579,610	216,559	969,232	2,826,937
Total	\$7,989,217	\$467,852	\$2,387,698	\$6,069,371

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

	2015.1.1 ~ 2015.9.30							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2) +(3)-(4)	Reserve	Recover	(8)=(6)-(7)
	(1)	(2)	(3)	(4)		(6)	(7)	
Reported but not paid claim	\$4,283,832	\$4,064,575	\$313,759	\$223,378	\$309,638	\$1,288,872	\$1,320,537	\$(31,665)
Unreported claims	3,978,576	3,646,873	267,296	211,055	387,944	995,696	920,499	75,197
Total	\$8,262,408	\$7,711,448	\$581,055	\$434,433	\$697,582	\$2,284,568	\$2,241,036	\$43,532

	2014.1.1 ~ 2014.9.30							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2) +(3)-(4)	Reserve	Recover	(8)=(6)-(7)
	(1)	(2)	(3)	(4)		(6)	(7)	
Reported but not paid claim	\$4,399,489	\$3,882,078	\$251,292	\$307,234	\$461,469	\$1,414,241	\$1,350,397	\$63,844
Unreported claim	3,575,002	1,786,588	216,554	59,076	1,945,892	968,319	312,701	655,618
Total	\$7,974,491	\$5,668,666	\$467,846	\$366,310	\$2,407,361	\$2,382,560	\$1,663,098	\$719,462

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(c) Reported but not paid claim and unreported claims liabilities for policyholder

	2015.9.30		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$1,263,780	\$123,098	\$1,386,878
Marine insurance	410,576	65,212	475,788
Land and air insurance	966,884	972,608	1,939,492
Liability insurance	265,934	583,955	849,889
Bonding insurance	23,000	44,398	67,398
Other property insurance	797,592	322,510	1,120,102
Accident insurance	120,660	477,485	598,145
Health insurance	4,448	57,637	62,085
Compulsory automobile liability insurance	764,137	1,609,616	2,373,753
Total	\$4,617,011	\$4,256,519	\$8,873,530

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2014.9.30		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$1,549,290	\$113,163	\$1,662,453
Marine insurance	408,866	230,224	639,090
Land and air insurance	914,095	776,268	1,690,363
Liability insurance	271,141	469,853	740,994
Bonding insurance	20,125	3,357	23,482
Other property insurance	702,366	313,783	1,016,149
Accident insurance	101,664	388,917	490,581
Health insurance	3,793	39,604	43,397
Compulsory automobile liability insurance	689,560	1,461,000	2,150,560
Total	\$4,660,900	\$3,796,169	\$8,457,069

(d) Reinsurance assets- ceded claims reserve for policyholder

	2015.9.30		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$515,328	\$32,655	\$547,983
Marine insurance	251,686	32,012	283,698
Land and air insurance	46,232	25,663	71,895
Liability insurance	74,472	169,536	244,008
Bonding insurance	18,804	33,735	52,539
Other property insurance	233,979	57,724	291,703
Accident insurance	9,947	61,525	71,472
Health insurance	-	1,552	1,552
Compulsory automobile liability insurance	144,544	583,402	727,946
Total	\$1,294,992	\$997,804	\$2,292,796

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2014.9.30		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$603,761	\$38,227	\$641,988
Marine insurance	253,448	164,951	418,399
Land and air insurance	50,924	28,269	79,193
Liability insurance	74,936	137,459	212,395
Bonding insurance	18,214	1,276	19,490
Other property insurance	247,461	67,892	315,353
Accident insurance	8,946	42,941	51,887
Health insurance	-	(142)	(142)
Compulsory automobile liability insurance	160,776	488,359	649,135
Total	<u>\$1,418,466</u>	<u>\$969,232</u>	<u>\$2,387,698</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.1.1 ~ 2015.9.30		2014.1.1 ~ 2014.9.30	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$8,154,755	\$2,249,673	\$6,041,523	\$1,663,767
Reserve	8,843,463	2,284,568	8,442,337	2,382,560
Recover	(8,145,881)	(2,241,036)	(6,034,976)	(1,663,098)
Losses (gains) on foreign exchange	21,193	(409)	8,185	4,469
Ending balance	<u>\$8,873,530</u>	<u>\$2,292,796</u>	<u>\$8,457,069</u>	<u>\$2,387,698</u>

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

	2015.1.1 ~ 2015.9.30	2014.1.1 ~ 2014.9.30
Beginning balance	\$1,528,545	\$2,225,672
Reserve	116,606	25,290
Recover	(124,071)	(580,781)
Ending balance	<u>\$1,521,080</u>	<u>\$1,670,181</u>

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

	2015.1.1 ~ 2015.9.30		
	Major incidents	Fluctuation of risks	Total
Beginning balance	\$524,353	\$1,586,239	\$2,110,592
Reserve	-	-	-
Recover	-	-	-
Ending balance	<u>\$524,353</u>	<u>\$1,586,239</u>	<u>\$2,110,592</u>

	2014.1.1 ~ 2014.9.30		
	Major incidents	Fluctuation of risks	Total
Beginning balance	\$543,080	\$1,586,240	\$2,129,320
Reserve	-	-	-
Recover	-	-	-
Ending balance	<u>\$543,080</u>	<u>\$1,586,240</u>	<u>\$2,129,320</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

There is no material impact on the Company's profit or loss and earnings per share, when the Company does not apply to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for the nuclear Insurance”. The special reserve under liabilities increases \$1,277,740 thousand, and special capital reserve under equity decreases \$281,358 thousand.

D. Premium deficiency reserve

(a) Premium deficiency reserve and ceded premium deficiency reserve

	2015.9.30			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct	Assumed	Ceded	Retained
	business	reinsurance business	reinsurance business	business
Fire insurance	\$34	\$-	\$606	\$(572)
Marine insurance	-	-	55	(55)
Land and air insurance	-	9,368	-	9,368
Liability insurance	13,720	(7)	7,583	6,130
Bonding insurance	74	-	24	50
Other property insurance	263,085	68	2,814	260,339
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	58,086	-	-	58,086
Total	\$334,999	\$9,429	\$11,082	\$333,346

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2014.9.30			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct	Assumed	Ceded	Retained
	business	reinsurance business	reinsurance business	business
Fire insurance	\$288	\$1	\$-	\$289
Marine insurance	-	13	(3,367)	3,380
Land and air insurance	-	557	(228)	785
Liability insurance	16,802	10	2,302	14,510
Bonding insurance	23	-	4	19
Other property insurance	108,890	10	34,601	74,299
Accident insurance	-	16	-	16
Health insurance	-	-	-	-
Compulsory automobile liability insurance	44,417	-	-	44,417
Total	\$170,420	\$607	\$33,312	\$137,715

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.1.1 ~ 2015.9.30								
	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$34	\$-	\$-	\$-	\$34	\$595	\$-	\$595	\$(561)
Marine insurance	-	-	-	7	(7)	54	(1,183)	1,237	(1,244)
Land and air insurance	-	-	9,368	1,095	8,273	-	-	-	8,273
Liability insurance	13,474	14,913	(7)	5	(1,451)	7,447	2,073	5,374	(6,825)
Bonding insurance	73	510	-	-	(437)	23	8	15	(452)
Other property insurance	258,364	137,114	66	1	121,315	2,764	38,621	(35,857)	157,172
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	57,044	46,321	-	-	10,723	-	-	-	10,723
Total	\$328,989	\$198,858	\$9,427	\$1,108	\$138,450	\$10,883	\$39,519	\$(28,636)	\$167,086

	2014.1.1 ~ 2014.9.30								
	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$286	\$4,209	\$1	\$91	\$(4,013)	\$-	\$-	\$-	\$(4,013)
Marine insurance	-	159	13	2	(148)	(3,367)	(8,736)	5,369	(5,517)
Land and air insurance	-	-	557	377	180	(229)	(329)	100	80
Liability insurance	16,658	27,338	10	11	(10,681)	2,283	3,462	(1,179)	(9,502)
Bonding insurance	22	10,288	-	-	(10,266)	4	9,698	(9,694)	(572)
Other property insurance	107,955	160,035	10	422	(52,492)	34,304	-	34,304	(86,796)
Accident insurance	-	-	16	97	(81)	-	-	-	(81)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	44,035	39,051	-	-	4,984	-	-	-	4,984
Total	\$168,956	\$241,080	\$607	\$1,000	\$(72,517)	\$32,995	\$4,095	\$28,900	\$(101,417)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.1.1 ~ 2015.9.30		2014.1.1 ~ 2014.9.30	
	Premium deficiency reserve	Ceded premium deficiency reserve	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$199,764	\$39,478	\$243,606	\$4,118
Reserve	338,416	10,883	169,563	32,995
Recover	(199,966)	(39,519)	(242,080)	(4,095)
Loss (gains) on foreign exchange	6,214	240	(62)	294
Ending balance	\$344,428	\$11,082	\$171,027	\$33,312

- (d) Effects for the change of estimation and assumption

Premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio was referred to the insurance expense exhibit 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.

(14) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended 30 September 2015 and 2014 were \$28,207 thousand and \$16,223 thousand, respectively, and for the nine-month periods ended 30 September 2015 and 2014 were \$80,855 thousands and \$47,847 thousand, respectively.

Defined benefit plans

Expenses under the defined benefit plans for the three-month periods ended 30 September 2015 and 2014 were \$6,995 thousand and \$7,436 thousand, respectively, and for the nine-month periods ended 30 September 2015 and 2014 were \$20,985 thousand and \$22,309 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(15) Common stock

As of 30 September 2015, 31 December 2014 and 30 September 2014, the total authorized and issued shares were 280,220 thousand, 272,188 thousand, and 272,188 thousand at par value of \$10, respectively. Each share carries equal rights to vote and to receive dividends.

The recapitalization of earnings of 80,323 thousand by issuing 8,032 thousand shares was resolved at the Company's board of directors, acting on behalf of the shareholders on 30 April 2015. The recapitalization was approved by the Financial Supervisory Commission on 29 May 2015 and the recapitalization record date was 12 June 2015.

(16) Retained earnings

A. Legal capital reserve

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

B. Special capital reserve

Following the adoption of TIFRS, the "interpretations No. 10102508861 Financial-Supervisory-Property-Insurance-Corporate" issued by Financial Supervisory Commission on 5 June 2012, which sets out the following provisions for compliance:

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

Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special capital reserve under equity at the end of the year. For the nine-months period ended 30 September 2015, the reserves amounted to 1,949,825 thousand.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

C. Undistributed earnings

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

According to the addition of Article 235-1 of the Company Act announced on 20 May 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. The company is expected to revise the article based on the regulations mentioned above by the stockholders' meeting for the year ended 2016. Please refer to Note 6(21) for details of the estimation basis and recognized amount for employee remuneration (bonuses) and remuneration to directors and supervisors

However, the Company doesn't complete the revised draft of the Article of Incorporation yet. The employee remuneration is estimated temporarily with the current Article of Incorporation.

Earnings appropriation for 2014 and 2013 were approved by shareholder's meeting on 29 April 2015 and 21 April 2014, respectively. The results were as follows:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	Appropriation of Earnings		Dividend Per Share	
	2014	2013	2014	2013
Legal capital reserve	\$166,376	\$113,928	\$-	\$-
Legal capital reserve used to cover accumulated deficits	-	(38,953)	-	-
Special capital reserve-special reserve	585,180	494,667	-	-
Stock dividend	80,323	-	-	-
Employee cash bonus	1,362	-	-	-

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

Information on the Board of Directors' recommendations and shareholders' approval regarding the employee bonuses and remuneration to directors and supervisors please refer to the "Market Observation Post System" website of the TWSE.

(17) Non-controlling interests

	2015.1.1 ~ 2015.9.30	2014.1.1 ~ 2014.9.30
Beginning balance	\$704,946	\$350,112
Net income (loss) attributable to non-controlling interests	(260,756)	(80,291)
Other comprehensive income attributable to non-controlling interests:		
Exchange differences resulting from translating the financial statements of foreign operations	8,693	659
Unrealized gains (losses) on available-for-sale financial assets	(7,003)	11,816
Others	-	495,120
Ending balance	<u>\$445,880</u>	<u>\$777,416</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(18) Retained earned premium

	2015.7.1 ~ 2015.9.30					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsurers (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$632,678	\$22,138	\$431,308	\$223,508	\$(122,910)	\$346,418
Marine insurance	166,245	14,952	137,291	43,906	(7,309)	51,215
Land and air insurance	1,777,899	4,305	72,978	1,709,226	(95,704)	1,804,930
Liability insurance	301,959	4,364	116,810	189,513	7,026	182,487
Bonding insurance	32,332	248	27,631	4,949	(5,331)	10,280
Other property insurance	693,594	10,227	88,428	615,393	15,623	599,770
Accident insurance	727,825	1,701	39,360	690,166	(7,590)	697,756
Health insurance	72,007	-	7	72,000	11,944	60,056
Compulsory automobile liability insurance	1,008,301	231,369	324,275	915,395	61,378	854,017
Total	\$5,412,840	\$289,304	\$1,238,088	\$4,464,056	\$(142,873)	\$4,606,929

	2014.7.1 ~ 2014.9.30					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsurers (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$630,031	\$31,811	\$393,190	\$268,652	\$(90,726)	\$359,378
Marine insurance	154,485	23,864	107,717	70,632	(230)	70,862
Land and air insurance	1,641,626	4,833	79,037	1,567,422	22,357	1,545,065
Liability insurance	253,957	1,300	86,663	168,594	(11,869)	180,463
Bonding insurance	19,787	233	12,276	7,744	(4,079)	11,823
Other property insurance	619,226	4,805	212,495	411,536	27,064	384,472
Accident insurance	693,817	1,499	39,540	655,776	7,216	648,560
Health insurance	49,466	-	(1,162)	50,628	(3,095)	53,723
Compulsory automobile liability insurance	960,235	84,145	220,682	823,698	29,897	793,801
Total	\$5,022,630	\$152,490	\$1,150,438	\$4,024,682	\$(23,465)	\$4,048,147

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2015.1.1 ~ 2015.9.30					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsurers (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$2,161,107	\$103,883	\$1,431,332	\$833,658	\$(145,913)	\$979,571
Marine insurance	523,237	22,888	382,472	163,653	(719)	164,372
Land and air insurance	4,985,809	13,596	223,086	4,776,319	(222,203)	4,998,522
Liability insurance	870,185	5,952	321,217	554,920	17,794	537,126
Bonding insurance	108,197	833	81,065	27,965	(3,841)	31,806
Other property insurance	1,855,940	25,575	215,028	1,666,487	192,758	1,473,729
Accident insurance	2,003,208	4,844	182,727	1,825,325	(124,015)	1,949,340
Health insurance	175,250	-	28	175,222	13,468	161,754
Compulsory automobile liability insurance	2,694,809	560,168	877,526	2,377,451	39,434	2,338,017
Total	\$15,377,742	\$737,739	\$3,714,481	\$12,401,000	\$(233,237)	\$12,634,237

	2014.1.1 ~ 2014.9.30					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsurers (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$2,341,731	\$99,420	\$1,475,215	\$965,936	\$(11,290)	\$977,226
Marine insurance	471,550	30,996	338,862	163,684	3,642	160,042
Land and air insurance	4,891,086	10,078	233,947	4,667,217	187,669	4,479,548
Liability insurance	737,446	1,516	207,941	531,021	(11,201)	542,222
Bonding insurance	73,658	999	47,165	27,492	(1,474)	28,966
Other property insurance	1,670,697	19,795	634,743	1,055,749	(174,163)	1,229,912
Accident insurance	2,016,560	4,555	155,960	1,865,155	49,394	1,815,761
Health insurance	134,986	-	(60)	135,046	(8,221)	143,267
Compulsory automobile liability insurance	2,778,956	236,132	649,925	2,365,163	57,015	2,308,148
Total	\$15,116,670	\$403,491	\$3,743,698	\$11,776,463	\$91,371	\$11,685,092

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(19) Retained claim payment

	2015.7.1 ~ 2015.9.30			
	Insurance	Reinsurance	Claims recovered	Retained
	claims paid	claims paid	from reinsurers	claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(183,752)	\$(1,368)	\$(95,283)	\$(89,837)
Marine insurance	(72,856)	(26,091)	(46,193)	(52,754)
Land and air insurance	(1,081,163)	(2,812)	(67,034)	(1,016,941)
Liability insurance	(117,832)	(18)	(25,283)	(92,567)
Bonding insurance	12,836	(125)	14,060	(1,349)
Other property insurance	(328,431)	(6,071)	(69,565)	(264,937)
Accident insurance	(266,732)	(139)	(29,148)	(237,723)
Health insurance	(37,505)	-	-	(37,505)
Compulsory automobile liability insurance	(616,925)	(109,156)	(206,037)	(520,044)
Total	<u>\$(2,692,360)</u>	<u>\$(145,780)</u>	<u>\$(524,483)</u>	<u>\$(2,313,657)</u>

	2014.7.1 ~ 2014.9.30			
	Insurance	Reinsurance	Claims recovered	Retained
	claims paid	claims paid	from reinsurers	claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(172,366)	\$(143)	\$(61,453)	\$(111,056)
Marine insurance	(137,290)	(3,345)	(89,133)	(51,502)
Land and air insurance	(1,258,462)	(76,381)	(303,987)	(1,030,856)
Liability insurance	(133,656)	(12)	(39,147)	(94,521)
Bonding insurance	(981)	(71)	(293)	(759)
Other property insurance	(302,060)	(2,651)	(49,884)	(254,827)
Accident insurance	(311,808)	(283)	(70,519)	(241,572)
Health insurance	(27,551)	-	-	(27,551)
Compulsory automobile liability insurance	(498,975)	(59,095)	(164,547)	(393,523)
Total	<u>\$(2,843,149)</u>	<u>\$(141,981)</u>	<u>\$(778,963)</u>	<u>\$(2,206,167)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2015.1.1 ~ 2015.9.30			
	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(449,914)	\$ (22,243)	\$(204,667)	\$(267,490)
Marine insurance	(192,381)	(36,408)	(119,448)	(109,341)
Land and air insurance	(3,291,511)	(82,723)	(403,737)	(2,970,497)
Liability insurance	(379,705)	(87)	(127,181)	(252,611)
Bonding insurance	3,688	(189)	5,841	(2,342)
Other property insurance	(866,050)	(10,034)	(214,465)	(661,619)
Accident insurance	(727,079)	(139)	(89,051)	(638,167)
Health insurance	(90,253)	-	-	(90,253)
Compulsory automobile liability insurance	(1,827,318)	(287,034)	(604,072)	(1,510,280)
Total	<u>\$(7,820,523)</u>	<u>\$(438,857)</u>	<u>\$(1,756,780)</u>	<u>\$(6,502,600)</u>

	2014.1.1 ~ 2014.9.30			
	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(380,607)	\$(1,270)	\$(174,935)	\$(206,942)
Marine insurance	(325,678)	(127,809)	(361,704)	(91,783)
Land and air insurance	(3,073,790)	(84,221)	(341,620)	(2,816,391)
Liability insurance	(355,979)	(19)	(122,813)	(233,185)
Bonding insurance	(10,672)	(177)	(662)	(10,187)
Other property insurance	(863,389)	(9,973)	(113,132)	(760,230)
Accident insurance	(767,871)	(327)	(105,193)	(663,005)
Health insurance	(72,698)	-	-	(72,698)
Compulsory automobile liability insurance	(1,601,275)	(206,700)	(545,229)	(1,262,746)
Total	<u>\$(7,451,959)</u>	<u>\$(430,496)</u>	<u>\$(1,765,288)</u>	<u>\$(6,117,167)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(20) Components of other comprehensive income

	2015.7.1 ~ 2015.9.30				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$54,663	\$-	\$54,663	\$-	\$54,663
Unrealized gains (losses) on available-for-sale financial assets	(505,340)	104,674	(400,666)	10,222	(390,444)
Total	\$(450,677)	\$104,674	\$(346,003)	\$10,222	\$(335,781)

	2014.7.1 ~ 2014.9.30				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$52,122	\$-	\$52,122	\$-	\$52,122
Unrealized gains (losses) on available-for-sale financial assets	(256,639)	407,474	150,835	1,237	152,072
Effective portion of gains (losses) on hedging instruments in cash flow hedges	(922)	-	(922)	-	(922)
Total	\$(205,439)	\$407,474	\$202,035	\$1,237	\$203,272

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2015.1.1 ~ 2015.9.30				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$5,236	\$-	\$5,236	\$-	\$5,236
Unrealized gains (losses) on available-for-sale financial assets	(236,716)	(157,061)	(393,777)	16,331	(377,446)
Effective portion of gains (losses) on hedging instruments in cash flow hedges	(3,747)	-	(3,747)	-	(3,747)
Total	\$(235,227)	\$(157,061)	\$(392,288)	\$16,331	\$(375,957)

	2014.1.1 ~ 2014.9.30				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$5,417	\$-	\$5,417	\$-	\$5,417
Unrealized gains (losses) on available-for-sale financial assets	(69,104)	215,971	146,867	(551)	146,316
Effective portion of gains (losses) on hedging instruments in cash flow hedges	(6,382)	-	(6,382)	-	(6,382)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(3)	-	(3)	-	(3)
Total	\$(70,072)	\$215,971	\$145,899	\$(551)	\$145,348

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(21) Summary statement of employee benefits, depreciation and amortization expenses by function

Description \ Function	2015.7.1 ~ 2015.9.30			2014.7.1 ~ 2014.9.30		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salary and wages	\$-	\$582,413	\$582,413	\$-	\$546,583	\$546,583
Labor & health insurance	-	43,589	43,589	-	46,008	46,008
Pension expenses	-	35,202	35,202	-	23,659	23,659
Other employee benefits	-	26,955	26,955	-	23,431	23,431
Depreciation	-	27,583	27,583	-	25,690	25,690
Amortization	-	4,167	4,167	-	9,152	9,152

Description \ Function	2015.1.1 ~ 2015.9.30			2014.1.1 ~ 2014.9.30		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salary and wages	\$-	\$1,688,504	\$1,688,504	\$-	\$1,614,192	\$1,614,192
Labor & health insurance	-	135,577	135,577	-	144,598	144,598
Pension expenses	-	101,840	101,840	-	70,156	70,156
Other employee benefits	-	68,397	68,397	-	63,176	63,176
Depreciation	-	81,349	81,349	-	76,233	76,233
Amortization	-	17,737	17,737	-	25,982	25,982

The Company estimated the amounts of the employee bonuses and remunerations to directors and supervisors for the nine-month period ended 30 September 2015 based on actual profit of the year. The estimated employee bonuses and remunerations to directors and supervisors are recognized as operating costs or operating expenses for the period. If the board of directors modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The employee bonuses and remunerations to directors and supervisors for the three-month periods and nine-month periods ended 30 September 2015 were both \$0 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

The Company estimated the amounts of the employee bonuses and remunerations to directors and supervisors for the nine-month period ended 30 September 2014 based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remunerations to directors and supervisors are recognized as operating costs or operating expenses for the period. If the board of directors modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The employee bonuses and remunerations to directors and supervisors for the three-month periods and nine-month periods ended 30 September 2015 were both \$0 thousand, respectively.

(22) Income tax

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

Income tax expense (income) recognized in profit or loss

	2015.7.1 ~ 2015.9.30	2014.7.1 ~ 2014.9.30
Current income tax expense:		
Current income tax charge	\$63,676	\$38,468
Adjustments in respect of current income tax of prior periods	6,090	256
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	27,361	13,990
Total income tax expense	<u>\$97,127</u>	<u>\$52,714</u>
	2015.1.1 ~ 2015.9.30	2014.1.1 ~ 2014.9.30
Current income tax expense:		
Current income tax charge	\$226,504	\$101,483
Adjustments in respect of current income tax of prior periods	6,090	256
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(3,360)	(4,106)
Total income tax expense	<u>\$229,234</u>	<u>\$97,633</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Income tax related to components of other comprehensive income

	2015.7.1 ~ 2015.9.30	2014.7.1 ~ 2014.9.30
Deferred tax expense (income):		
Unrealized gains (losses) on available-for-sale financial assets	\$(10,222)	\$(1,237)
	2015.1.1 ~ 2015.9.30	2014.1.1 ~ 2014.9.30
Deferred tax expense (income):		
Unrealized gains (losses) on available-for-sale financial assets	\$(16,331)	\$551

Imputation credit information

	2015.9.30	2014.12.31	2014.9.30
Balances of imputation credit amounts	\$13,462	\$10,273	\$23,884

The actual creditable ratio for 2014 and 2013 were 1.35% and 6.5%, respectively.

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

The assessment of income tax returns

As of 30 September 2015, the assessment of the income tax returns of the Consolidated Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2009

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(23) Earnings per share

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

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

	2015.7.1 ~ <u>2015.9.30</u>	2014.7.1 ~ <u>2014.9.30</u>
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	<u>\$347,308</u>	<u>\$308,323</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	<u>280,220</u>	<u>280,220</u>
Basic earnings per share (in dollars)	<u>\$1.24</u>	<u>\$1.10</u>
	2015.1.1 ~ <u>2015.9.30</u>	2014.1.1 ~ <u>2014.9.30</u>
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	<u>\$988,044</u>	<u>\$621,987</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	<u>280,220</u>	<u>280,220</u>
Basic earnings per share (in dollars)	<u>\$3.53</u>	<u>\$2.22</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

7. Risk management for insurance contracts and financial instruments

(1) The structure, organization, the scope of rights and responsibilities of risk management:

A. Framework of risk management, organization, structure and responsibility responsibilities:

(A) Board of directors

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

(B) Risk management committee

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(C) Chief risk officer

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

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

(D) Risk management department

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(E) Business unit

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

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

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

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

(F) Audit department

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

(A) Risks reporting

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

(B) Scope and nature of risk evaluation system

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

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

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

	2015	2014
Fire insurance	NT\$827,000	NT\$729,000
Marine insurance	NT\$827,000	NT\$729,000
Engineering insurance	NT\$827,000	NT\$729,000
Other property insurance	NT\$827,000	NT\$729,000
Automobile insurance	NT\$827,000	NT\$729,000
Health and injury insurance	NT\$827,000	NT\$729,000

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

F. Methods of asset / liability management

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

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

	Premiums receivable (Note)		
	2015.9.30	2014.12.31	2014.9.30
Fire insurance	\$596,556	\$694,299	\$756,724
Marine insurance	278,148	253,767	246,217
Land and air insurance	165,790	986,485	794,475
Liability insurance	149,096	153,702	150,491
Bonding insurance	53,595	39,522	43,443
Other property insurance	338,735	352,528	408,327
Accident insurance	158,537	272,721	291,049
Health insurance	16,336	15,934	14,147
Compulsory automobile liability insurance	38,340	338,731	326,387
Total	1,795,133	3,107,689	3,031,260
Less: Allowance for bad debts	(108,325)	(80,050)	(75,199)
Net	<u>\$1,686,808</u>	<u>\$3,027,639</u>	<u>\$2,956,061</u>

Note: As of 30 September 2015, 31 December 2014 and 30 September 2014, the receivables included overdue receivables amounted to \$395,521 thousand, \$227,092 thousand, and \$911,353 thousand, respectively. The allowance for bad debts amounted to \$74,599 thousand, \$24,293 thousand, and \$21,411 thousand, respectively.

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

	Claims reported and paid off		
	2015.9.30	2014.12.31	2014.9.30
Fire insurance	\$10,894	\$34,417	\$11,776
Marine insurance	26,452	23,522	36,029
Land and air insurance	53,056	38,387	37,154
Liability insurance	17,130	27,060	17,526
Bonding insurance	126	(6)	(4)
Other property insurance	12,074	10,043	6,890
Accident insurance	15,898	16,075	19,687
Health insurance	-	-	-
Compulsory automobile liability insurance	127,807	172,311	108,314
Total	263,437	321,809	237,372
Less: Allowance for bad debts	-	-	-
Net	<u>\$263,437</u>	<u>\$321,809</u>	<u>\$237,372</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

C. Payables of insurance contracts

	2015.9.30		
	Commissions payables	Other payables	Total
Fire insurance	\$40,265	\$16,391	\$56,656
Marine insurance	10,780	8,946	19,726
Land and air insurance	24,658	104,868	129,526
Liability insurance	17,875	11,906	29,781
Bonding insurance	5,660	1,425	7,085
Other property insurance	35,312	9,449	44,761
Accident insurance	9,742	54,093	63,835
Health insurance	4,145	2,756	6,901
Compulsory automobile liability insurance	52,654	40,964	93,618
Total	<u>\$201,091</u>	<u>\$250,798</u>	<u>\$451,889</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2014.9.30		
	Commissions payables	Other payables	Total
Fire insurance	\$26,458	\$15,861	\$42,319
Marine insurance	5,812	9,382	15,194
Land and air insurance	29,951	175,559	205,510
Liability insurance	9,992	10,987	20,979
Bonding insurance	3,914	392	4,306
Other property insurance	41,754	11,948	53,702
Accident insurance	5,999	77,853	83,852
Health insurance	3,131	2,506	5,637
Compulsory automobile liability insurance	108,300	-	108,300
Total	<u>\$235,311</u>	<u>\$304,488</u>	<u>\$539,799</u>

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

	2015.9.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$108,994	\$284,025
Sompo Japan Re	91,697	36,952
Guy Carpenter	61,022	73,127
Marsh	46,384	167,838
AON	24,943	98,529
Others	316,301	674,566
Total	<u>649,341</u>	<u>1,335,037</u>
Less: Allowance for bad debts	<u>(50,875)</u>	<u>-</u>
Net	<u>\$598,466</u>	<u>\$1,335,037</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2014.9.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$59,519	\$216,431
Munich Re Group	-	185,151
AON	16,652	64,787
Central Re	43,726	105,765
FP Marine	78,915	20,170
Marsh	12,012	78,941
Swiss Re	1,352	80,559
Wilson Re	27,938	165
Others	275,192	499,963
Total	515,306	1,251,932
Less: Allowance for bad debts	(14,097)	-
Net	<u>\$501,209</u>	<u>\$1,251,932</u>

Note: As of 30 September 2015, 31 December 2014 and 30 September 2014, the due from reinsurers and ceding companies included overdue receivables amounted to \$30,027 thousand, \$47,827 thousand, and \$40,971 thousand, respectively. The allowance for bad debts amounted to \$30,027 thousand, \$19,566 thousand, and \$14,097 thousand, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3) Information of management achievements

A. Acquisition cost for insurance contracts

Item	2015.7.1 ~ 2015.9.30				
	Commission		Reinsurance		Total
	expenses	Surcharge	expenses	Other cost	
Fire insurance	\$16,073	\$13,134	\$1,704	\$24,963	\$55,874
Marine insurance	2,866	1,365	959	8,422	13,612
Land and air insurance	42,038	-	57	230,090	272,185
Liability insurance	9,641	6,034	76	21,003	36,754
Bonding insurance	2,215	33	-	1,472	3,720
Other property insurance	3,237	122,250	2,247	11,574	139,308
Accident insurance	11,207	-	-	113,145	124,352
Health insurance	6,957	-	-	8,007	14,964
Compulsory automobile liability insurance	-	114,254	-	-	114,254
Total	\$94,234	\$257,070	\$5,043	\$418,676	\$775,023

Item	2014.7.1 ~ 2014.9.30				
	Commission		Reinsurance		Total
	expenses	Surcharge	expenses	Other cost	
Fire insurance	\$27,996	\$8,372	\$2,582	\$20,323	\$59,273
Marine insurance	5,728	447	1,547	12,120	19,842
Land and air insurance	38,894	-	(4)	204,361	243,251
Liability insurance	10,044	5,056	96	17,458	32,654
Bonding insurance	5,531	23	-	662	6,216
Other property insurance	7,393	76,475	732	13,165	97,765
Accident insurance	14,902	-	(1)	101,554	116,455
Health insurance	10,420	-	-	6,101	16,521
Compulsory automobile liability insurance	-	105,005	-	-	105,005
Total	\$120,908	\$195,378	\$4,952	\$375,744	\$696,982

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2015.1.1 ~ 2015.9.30				
	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	\$46,563	\$31,974	\$9,826	\$75,472	\$163,835
Marine insurance	11,054	4,630	1,858	25,900	43,442
Land and air insurance	98,354	-	649	689,203	788,206
Liability insurance	28,157	16,446	457	58,562	103,622
Bonding insurance	8,629	319	3	3,221	12,172
Other property insurance	10,176	313,987	4,836	40,150	369,149
Accident insurance	29,456	-	-	320,390	349,846
Health insurance	16,509	-	-	20,777	37,286
Compulsory automobile liability insurance	-	335,746	-	-	335,746
Total	<u>\$248,898</u>	<u>\$703,102</u>	<u>\$17,629</u>	<u>\$1,233,675</u>	<u>\$2,203,304</u>

Item	2014.1.1 ~ 2014.9.30				
	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	\$47,813	\$23,338	\$6,346	\$75,258	\$152,755
Marine insurance	13,175	2,202	2,224	34,591	52,192
Land and air insurance	85,250	-	403	698,338	783,991
Liability insurance	25,730	13,687	160	55,246	94,823
Bonding insurance	7,476	155	1	1,497	9,129
Other property insurance	14,387	204,650	2,600	53,308	274,945
Accident insurance	26,469	-	(1)	318,274	344,742
Health insurance	20,633	-	-	9,581	30,214
Compulsory automobile liability insurance	-	365,958	-	2,742	368,700
Total	<u>\$240,933</u>	<u>\$609,990</u>	<u>\$11,733</u>	<u>\$1,248,835</u>	<u>\$2,111,491</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

Item	2015.7.1 ~ 2015.9.30					
	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
income	premium	insurance	payments	reserve		
Fire insurance	\$632,678	\$207,151	\$(54,170)	\$(183,752)	\$(235,942)	\$365,965
Marine insurance	166,245	35,038	(12,653)	(72,856)	29,160	144,934
Land and air insurance	1,777,899	150,652	(272,128)	(1,081,163)	(10,113)	565,147
Liability insurance	301,959	(18,226)	(36,678)	(117,832)	86,457	215,680
Bonding insurance	32,332	3,169	(3,720)	12,836	27,229	71,846
Other property insurance	693,594	(51,548)	(137,061)	(328,431)	(59,863)	116,691
Accident insurance	727,825	17,172	(124,352)	(266,732)	(49,570)	304,343
Health insurance	72,007	(11,951)	(14,964)	(37,505)	(4,958)	2,629
Compulsory automobile liability insurance	1,008,301	(36,676)	(114,254)	(616,925)	23,529	263,975
Total	\$5,412,840	\$294,781	\$(769,980)	\$(2,692,360)	\$(194,071)	\$2,051,210

Item	2014.7.1 ~ 2014.9.30					
	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
income	premium	insurance	payments	reserve		
Fire insurance	\$630,031	\$130,469	\$(56,691)	\$(172,366)	\$(100,466)	430,977
Marine insurance	154,485	31,572	(18,295)	(137,290)	48,716	79,188
Land and air insurance	1,641,626	(8,200)	(243,255)	(1,258,462)	(33,314)	98,395
Liability insurance	253,957	1,147	(32,558)	(133,656)	(84,301)	4,589
Bonding insurance	19,787	6,752	(6,216)	(981)	596	19,938
Other property insurance	619,226	10,088	(97,033)	(302,060)	(51,805)	178,416
Accident insurance	693,817	11,446	(116,456)	(311,808)	(38,543)	238,456
Health insurance	49,466	3,401	(16,521)	(27,551)	(3,192)	5,603
Compulsory automobile liability insurance	960,235	(28,506)	(105,005)	(498,975)	32,092	359,841
Total	\$5,022,630	\$158,169	\$(692,030)	\$(2,843,149)	\$(230,217)	\$1,415,403

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2015.1.1 ~ 2015.9.30						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premium	insurance	payments	reserve	
		reserve	contracts			
Fire insurance	\$2,161,107	\$157,691	\$(154,009)	\$(449,914)	\$(156,113)	\$1,558,762
Marine insurance	523,237	(24,385)	(41,584)	(192,381)	38,914	303,801
Land and air insurance	4,985,809	363,105	(787,557)	(3,291,511)	(214,149)	1,055,697
Liability insurance	870,185	(43,022)	(103,165)	(379,705)	(61,960)	282,333
Bonding insurance	108,197	(10,865)	(12,169)	3,688	15	88,866
Other property insurance	1,855,940	(16,440)	(364,313)	(866,050)	(71,956)	537,181
Accident insurance	2,003,208	127,526	(349,846)	(727,079)	(42,070)	1,011,739
Health insurance	175,250	(13,475)	(37,286)	(90,253)	(10,654)	23,582
Compulsory automobile						
liability insurance	2,694,809	13,705	(335,746)	(1,827,318)	(32,987)	512,463
Total	\$15,377,742	\$553,840	\$(2,185,675)	\$(7,820,523)	\$(550,960)	\$5,374,424

2014.1.1 ~ 2014.9.30						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premium	insurance	payments	reserve	
		reserve	contracts			
Fire insurance	\$2,341,731	\$(38,009)	\$(146,409)	\$(380,607)	\$(621,529)	\$1,155,177
Marine insurance	471,550	10,407	(49,968)	(325,678)	54,384	160,695
Land and air insurance	4,891,086	(169,929)	(783,588)	(3,073,790)	(259,144)	604,635
Liability insurance	737,446	18,115	(94,663)	(355,979)	(200,079)	104,840
Bonding insurance	73,658	(4,396)	(9,128)	(10,672)	(1,830)	47,632
Other property insurance	1,670,697	89,739	(272,345)	(863,389)	(160,643)	464,059
Accident insurance	2,016,560	(51,788)	(344,743)	(767,871)	(74,086)	778,072
Health insurance	134,986	8,371	(30,214)	(72,698)	7,269	47,714
Compulsory automobile						
liability insurance	2,778,956	(63,000)	(368,700)	(1,601,275)	(1,050,167)	(304,186)
Total	\$15,116,670	\$(200,490)	\$(2,099,758)	\$(7,451,959)	\$(2,305,825)	\$3,058,638

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

b. Cost benefit analysis for assumed reinsurance business

Item	2015.7.1 ~ 2015.9.30					
	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	\$22,138	\$9,211	\$(1,704)	\$(1,368)	\$2,698	\$30,975
Marine insurance	14,952	7,966	(959)	(26,091)	(38,872)	(43,004)
Land and air insurance	4,305	(3,808)	(57)	(2,812)	8,522	6,150
Liability insurance	4,364	(54)	(76)	(18)	(36)	4,180
Bonding insurance	248	107	-	(125)	7	237
Other property insurance	10,227	1,039	(2,247)	(6,071)	(755)	2,193
Accident insurance	1,701	(21)	-	(139)	500	2,041
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	231,369	(83,539)	-	(109,156)	(57,069)	(18,395)
Total	\$289,304	\$(69,099)	\$(5,043)	\$(145,780)	\$(85,005)	\$(15,623)

Item	2014.7.1 ~ 2014.9.30					
	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	\$31,811	\$(3,700)	\$(2,582)	\$(143)	\$(2,343)	\$23,043
Marine insurance	23,864	995	(1,547)	(3,345)	(14,348)	5,619
Land and air insurance	4,833	(1,875)	4	(76,381)	214,867	141,448
Liability insurance	1,300	(754)	(96)	(12)	(229)	209
Bonding insurance	233	114	-	(71)	32	308
Other property insurance	4,805	5,599	(732)	(2,651)	(244)	6,777
Accident insurance	1,499	625	1	(283)	(152)	1,690
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	84,145	(5,573)	-	(59,095)	(5,638)	13,839
Total	\$152,490	\$(4,569)	\$(4,952)	\$(141,981)	\$191,945	\$192,933

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2015.1.1 ~ 2015.9.30						
Item	Net change					Net (loss) gain for assumed reinsurance
	Reinsurance premium income	for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	
Fire insurance	\$103,883	\$975	\$(9,826)	\$(22,243)	\$3,318	\$76,107
Marine insurance	22,888	2,370	(1,858)	(36,408)	(5,536)	(18,544)
Land and air insurance	13,596	(5,450)	(649)	(82,723)	3,813	(71,413)
Liability insurance	5,952	4	(457)	(87)	(278)	5,134
Bonding insurance	833	234	(3)	(189)	(17)	858
Other property insurance	25,575	561	(4,836)	(10,034)	3,012	14,278
Accident insurance	4,844	(109)	-	(139)	531	5,127
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	560,168	(182,674)	-	(287,034)	(151,465)	(61,005)
Total	\$737,739	\$(184,089)	\$(17,629)	\$(438,857)	\$(146,622)	\$(49,458)

2014.1.1 ~ 2014.9.30						
Item	Net change					Net (loss) gain for assumed reinsurance
	Reinsurance premium income	for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	
Fire insurance	\$99,420	\$(20,532)	\$(6,346)	\$(1,270)	\$(40,149)	\$31,123
Marine insurance	30,996	(1,952)	(2,224)	(127,809)	104,377	3,388
Land and air insurance	10,078	891	(403)	(84,221)	7,384	(66,271)
Liability insurance	1,516	(508)	(160)	(19)	(329)	500
Bonding insurance	999	136	(1)	(177)	(14)	943
Other property insurance	19,795	6,536	(2,600)	(9,973)	(10,079)	3,679
Accident insurance	4,555	342	1	(327)	330	4,901
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	236,132	(11,406)	-	(206,700)	(163,056)	(145,030)
Total	\$403,491	\$(26,493)	\$(11,733)	\$(430,496)	\$(101,536)	\$(166,767)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

c. Recognized gain (loss) for reinsurance contracts purchased

Item	2015.7.1 ~ 2015.9.30					
	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$431,308	\$93,452	\$(41,150)	\$(95,283)	\$(75,132)	\$313,195
Marine insurance	137,291	35,695	(14,914)	(46,193)	6,548	118,427
Land and air insurance	72,978	51,140	(18,334)	(67,034)	25,156	63,906
Liability insurance	116,810	(11,254)	(23,438)	(25,283)	7,054	63,889
Bonding insurance	27,631	(2,055)	(4,830)	14,060	24,998	59,804
Other property insurance	88,428	(34,886)	(7,249)	(69,565)	6,411	(16,861)
Accident insurance	39,360	9,561	(10,455)	(29,148)	5,578	14,896
Health insurance	7	(7)	-	-	(1,962)	(1,962)
Compulsory automobile liability insurance	324,275	(58,837)	-	(206,037)	(24,506)	34,895
Total	\$1,238,088	\$82,809	\$(120,370)	\$(524,483)	\$(25,855)	\$650,189

Item	2014.7.1 ~ 2014.9.30					
	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$393,190	\$36,043	\$(37,256)	\$(61,453)	\$(55,242)	\$275,282
Marine insurance	107,717	32,337	(9,994)	(89,133)	37,665	78,592
Land and air insurance	79,037	12,282	(16,445)	(303,987)	205,076	(24,037)
Liability insurance	86,663	(11,476)	(28,376)	(39,147)	(36,413)	(28,749)
Bonding insurance	12,276	2,787	(2,467)	(293)	1,621	13,924
Other property insurance	212,495	42,751	(58,258)	(49,884)	(29,971)	117,133
Accident insurance	39,540	19,287	(9,956)	(70,519)	(18,787)	(40,435)
Health insurance	(1,162)	306	404	-	75	(377)
Compulsory automobile liability insurance	220,682	(4,182)	-	(164,547)	32,983	84,936
Total	\$1,150,438	\$130,135	\$(162,348)	\$(778,963)	\$137,007	\$476,269

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2015.1.1 ~ 2015.9.30						
Item	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,431,332	\$12,753	\$(118,322)	\$(204,667)	\$(44,151)	\$1,076,945
Marine insurance	382,472	(22,734)	(43,787)	(119,448)	21,506	218,009
Land and air insurance	223,086	135,452	(61,862)	(403,737)	1,683	(105,378)
Liability insurance	321,217	(25,224)	(59,761)	(127,181)	(23,871)	85,180
Bonding insurance	81,065	(14,472)	(14,866)	5,841	(1,329)	56,239
Other property insurance	215,028	176,879	(37,564)	(214,465)	86,570	226,448
Accident insurance	182,727	3,402	(44,805)	(89,051)	(11,833)	40,440
Health insurance	28	(7)	-	-	(1,867)	(1,846)
Compulsory automobile liability insurance	877,526	(129,535)	-	(604,072)	(70,240)	73,679
Total	\$3,714,481	\$136,514	\$(380,967)	\$(1,756,780)	\$(43,532)	\$1,669,716

2014.1.1 ~ 2014.9.30						
Item	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,475,215	\$(69,831)	\$(117,230)	\$(174,935)	\$(317,540)	\$795,679
Marine insurance	338,862	12,097	(36,841)	(361,704)	143,315	95,729
Land and air insurance	233,947	18,631	(64,012)	(341,620)	(847)	(153,901)
Liability insurance	207,941	6,406	(58,587)	(122,813)	(51,540)	(18,593)
Bonding insurance	47,165	(5,734)	(8,715)	(662)	(612)	31,442
Other property insurance	634,743	(77,888)	(186,860)	(113,132)	(120,793)	136,070
Accident insurance	155,960	(2,052)	(37,868)	(105,193)	(18,359)	(7,512)
Health insurance	(60)	150	-	-	835	925
Compulsory automobile liability insurance	649,925	(17,391)	-	(545,229)	(353,921)	(266,616)
Total	\$3,743,698	\$(135,612)	\$(510,113)	\$(1,765,288)	\$(719,462)	\$613,223

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Sensitivity of insurance risk

A. The Company

Insurance type	Premium income	Expected loss ratio	Changes in income when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	\$1,864,661	61.87	\$93,233	\$57,202
Marine insurance	485,846	63.49	24,292	6,721
Land and air insurance	4,957,762	66.26	247,888	155,493
Liability insurance	730,812	67.30	36,541	18,333
Bonding insurance	102,501	67.80	5,125	527
Other property insurance	424,377	60.92	21,219	9,127
Accident insurance	1,995,437	74.03	99,772	66,622
Health insurance	175,250	72.40	8,762	6,327
Compulsory automobile liability insurance	2,105,060	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 ratio 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B.Cathay Insurance (China)

Insurance type	Premium income	Changes in income when the expected loss ratio increases 5%	
		Before reinsurance	After reinsurance
Fire insurance	\$235,414	\$11,771	\$4,694
Marine insurance	32,309	1,615	938
Liability insurance	141,722	7,086	2,866
Bonding insurance	2,468	123	62
Other property insurance	1,431,186	71,559	70,724
Compulsory automobile liability insurance	589,749	29,488	29,488

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

(5) Interpretation of concentration of insurance risk

A. The Company

a. Situations that might cause concentration of insurance risk:

I. Single insurance contract or few related contracts

For the nine-month period ended 30 September 2015, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

II. Exposure to unanticipated change in trend

For the nine-month period ended 30 September 2015, the loss rates of the rest insurance categories are still within reasonable range.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the Company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the nine-month period ended 30 September 2015, no material lawsuit or legal risks has taken place.

IV. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the Company being severely endangered by these derived risks, the Company has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to guard financial order. For the nine-month period ended 30 September 2015, there is no catastrophe has taken place.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

In addition, the implementation of stress tests for overall business every year, the impact assessment of the assets and the insurance risk of extreme financial position of the Company's situation, understand the major risk factors to adjust the response in advance.

VI. Concentration risks in geographic regions and operating segments

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

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

Insurance type	2015.7.1 ~ 2015.9.30			
	Direct Premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income
Automobile insurance	\$2,842,584	\$231,818	\$543,961	\$2,530,441
Fire insurance	547,614	19,719	(489,903)	1,057,236
Marine insurance	153,965	17,156	(31,602)	202,723
Engineering insurance	145,391	2,289	417,318	(269,638)
Health and injury insurance	445,286	1,558	120,953	325,891
Other insurance	342,579	12,839	565,369	(209,951)
Total	\$4,477,419	\$285,379	\$1,126,096	\$3,636,702

Insurance type	2015.1.1 ~ 2015.9.30			
	Direct Premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income
Automobile insurance	\$7,830,767	\$562,551	\$1,231,237	\$7,162,081
Fire insurance	1,894,019	98,664	362,738	1,629,945
Marine insurance	494,355	31,496	223,051	302,800
Engineering insurance	380,420	6,840	509,385	(122,125)
Health and injury insurance	1,222,707	4,492	182,755	1,044,444
Other insurance	1,017,471	25,273	877,526	165,218
Total	\$12,839,739	\$729,316	\$3,386,692	\$10,182,363

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- c. Disclosure the prior management performance in the risk, which had huge effect but relative low occurrence frequency, to help financial statement user to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business.

The Company in order to control the occurrence of low frequency, but will affect greatly the risk of an event, the event has special coverage for natural disasters, the subject of risk assessment and loss prevention seminars are held regularly to help customers reduce the incidence of disasters.

B. Cathay Insurance (China)

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

I. The exposure of unanticipated change in trend

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

II. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the nine-month period ended 30 September 2015.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

Insurance type	2015.7.1 ~ 2015.9.30			
	Direct Premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income
Automobile insurance	\$744,706	\$-	\$(116)	\$744,822
Fire insurance	82,786	2,136	41,740	43,182
Marine insurance	10,308	1,443	12,925	(1,174)
Engineering insurance	6,066	(119)	3,900	2,047
Health and injury insurance	-	-	-	-
Other insurance	54,156	160	33,013	21,303
Total	\$898,022	\$3,620	\$91,462	\$810,180

Insurance type	2015.1.1 ~ 2015.9.30			
	Direct Premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income
Automobile insurance	\$1,983,417	\$-	\$(186)	\$1,983,603
Fire insurance	242,688	3,767	149,485	96,970
Marine insurance	32,309	2,379	15,922	18,766
Engineering insurance	19,300	(81)	12,614	6,605
Health and injury insurance	-	2	-	2
Other insurance	155,134	829	86,469	69,494
Total	\$2,432,848	\$6,896	\$264,304	\$2,175,440

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(6) Claim development trend

A. The Company

	2009.10.1- -2009.9.30	2010.10.1- 2010.9.30	2011.10.1- 2011.9.30	2012.10.1- 2012.9.30	2013.10.1- 2013.9.30	2014.10.1- 2014.9.30	2015.9.30	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,735,223	\$7,020,725	\$6,911,681	
One year later	4,039,173	4,872,374	5,667,748	5,613,239	5,894,046	7,093,497		
Two year later	4,142,479	4,895,061	5,701,952	5,746,960	5,872,691			
Three year later	4,178,118	5,180,738	5,754,805	5,749,726				
Four year later	4,340,338	5,209,418	5,760,640					
Five year later	4,355,842	5,178,125						
Six year later	4,400,739							
Estimate of cumulative claims incurred	4,400,739	5,178,125	5,760,640	5,749,726	5,872,691	7,093,497	6,911,681	\$40,967,099
Cumulative payment to date	4,299,837	5,064,109	5,648,664	5,639,528	5,571,440	6,194,048	3,889,379	36,307,005
Subtotal	100,902	114,016	111,976	110,198	301,251	899,449	3,022,302	4,660,094
Reconciliation	-	-	-	-	-	-	110,517	110,517
Recorded in balance sheet	\$100,902	\$114,016	\$111,976	\$110,198	\$301,251	\$899,449	\$3,132,819	\$4,770,611

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

The upper table excluding claim reserve of compulsory automobile liability insurance \$1,976,809 thousand and assumed reinsurance (except compulsory automobile liability insurance) \$184,748 thousand.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Cathay Insurance (China)

	-2010.9.30	2010.10.1- 2011.9.30	2011.10.1- 2012.9.30	2012.10.1- 2013.9.30	2013.10.1- 2014.9.30	2014.10.1- 2015.9.30	Total
Estimated accumulation amount of claim:							
As to 2010/12/31	\$353,898						
As to 2011/12/31	350,563	\$380,888					
As to 2012/12/31	314,826	341,121	\$1,059,489				
As to 2013/12/31	314,852	359,030	890,022	\$1,549,225			
As to 2014/12/31	313,974	370,343	847,453	1,402,660	\$2,102,715		
As to 2015/9/30	314,480	356,077	838,123	1,394,279	1,917,988	\$1,692,485	
Estimated accumulation of claim	314,480	356,077	838,123	1,394,279	1,917,988	1,692,485	\$6,513,432
Accumulated claim paid	314,474	351,292	824,482	1,297,928	1,595,405	644,080	5,027,661
Subtotal	6	4,785	13,641	96,351	322,583	1,048,405	1,485,771
Indirect claim expense, discount and risk margin							66,519
Recognized amount on balance sheet							<u>\$1,552,290</u>

C. Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) is still in initial stage, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premium.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(7) Financial instruments

Financial instruments	2015.9.30	2014.12.31	2014.9.30
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$1,928,250	\$1,514,144	\$1,353,913
Available-for-sale financial assets	8,088,575	8,256,604	8,312,641
Derivative financial assets for hedging	-	3,747	3,639
Held-to-maturity financial assets	3,949,874	2,647,264	1,577,684
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	8,152,929	8,012,927	8,761,578
Debt instrument investments for which no active market exists	3,682,597	3,359,314	3,114,618
Receivables	2,406,556	3,649,736	3,537,316
Loans	365,531	397,313	416,522
Guarantee deposits paid	1,485,442	1,449,059	1,641,950
Subtotal	<u>16,093,035</u>	<u>16,868,349</u>	<u>17,471,984</u>
Total	<u>\$30,059,754</u>	<u>\$29,290,108</u>	<u>\$28,719,861</u>
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss:			
Held for trading	277,467	176,626	55,051
Financial liabilities measured at amortized cost:			
Payables	2,654,970	2,892,354	2,517,566
Preferred stock liabilities	1,000,000	1,000,000	1,000,000
Total	<u>\$3,932,437</u>	<u>\$4,068,980</u>	<u>\$3,572,617</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(8) Financial risk management objectives and policies

The Consolidated Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Consolidated Company identifies measures and manage the aforementioned risks based on the Consolidated Company's policy and risk appetite.

The Consolidated Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

(A) Foreign currency risk

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(B) Interest rate risk

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

(C) Equity price risk

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

B. Credit risk

(A) Credit risk management policies

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- I. Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which the Consolidated Company maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and the Consolidated Company incur financial losses as a result.
- II. Counterparty risk is the risk that a counterparty of the Consolidated Company to deliver as obligated before the settlement date which then causes losses to the Consolidated Company.
- III. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

(B) Credit concentration risk analysis

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

	2015.9.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,565,474	-	\$63,254	\$551,515	\$1,972,686	\$8,152,929
Financial assets at fair value through profit or loss	1,394,197	-	-	-	534,053	1,928,250
Available-for-sale financial assets	5,863,653	-	324,223	270,497	1,630,202	8,088,575
Debt instrument investments for which no active market exists	1,600,000	-	355,928	674,410	1,052,259	3,682,597
Held-to-maturity financial assets	205,340	-	1,074,771	1,473,692	1,196,071	3,949,874
Total	\$14,628,664	-	\$1,818,176	\$2,970,114	\$6,385,271	\$25,802,225
Proportion	56.70%	0.00%	7.04%	11.51%	24.75%	100.00%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2014.9.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,548,540	\$434	\$4,390	\$863,761	\$3,344,453	\$8,761,578
Financial assets at fair value through profit or loss	1,302,620	-	-	-	51,293	1,353,913
Available-for-sale financial assets	6,693,504	-	96,802	53,080	1,469,255	8,312,641
Derivative financial assets for hedging	3,639	-	-	-	-	3,639
Debt instrument investments for which no active market exists	850,000	-	326,772	504,416	1,433,430	3,114,618
Held-to-maturity financial assets	-	-	-	1,287,424	290,260	1,577,684
Total	\$13,398,303	\$434	\$427,964	\$2,708,681	\$6,588,691	\$23,124,073
Proportion	57.94%	0.00%	1.85%	11.72%	28.49%	100.00%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(C) Credit risk quality analysis

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

Financial assets	Credit quality of financial assets				
	2015.9.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade			
Cash and cash equivalents	\$8,152,929	\$-	\$-	\$-	\$8,152,929
Financial assets at fair value through profit or loss	1,928,250	-	-	-	1,928,250
Available-for-sale financial assets	8,088,575	-	-	-	8,088,575
Debt instrument investments for which no active market exists	3,682,597	-	-	-	3,682,597
Held-to-maturity financial assets	3,949,874	-	-	-	3,949,874
Total	\$25,802,225	\$-	\$-	\$-	\$25,802,225

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Financial assets	Credit quality of financial assets				
	2014.9.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade			
Cash and cash equivalents	\$8,761,578	\$-	\$-	\$-	\$8,761,578
Financial assets at fair value through profit or loss	1,353,913	-	-	-	1,353,913
Available-for-sale financial assets	8,312,641	-	-	-	8,312,641
Derivative financial assets for hedging	3,639	-	-	-	3,639
Debt instrument investments for which no active market exists	3,114,618	-	-	-	3,114,618
Held-to-maturity financial assets	1,577,684	-	-	-	1,577,684
Total	\$23,124,073	\$-	\$-	\$-	\$23,124,073

Note: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

II. Loans

Loans	2015.9.30							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$173,321	\$-	\$-	\$-	\$113,624	\$286,945	\$3,012	\$283,933
Corporate Finance	60,580	-	-	-	22,500	83,080	1,482	81,598
Total	\$233,901	\$-	\$-	\$-	\$136,124	\$370,025	\$4,494	\$365,531

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Loans	2014.9.30							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$156,695	\$-	\$-	\$-	\$121,270	\$277,965	\$1,690	\$276,275
Corporate Finance	60,000	-	-	-	161,016	221,016	80,769	140,247
Total	\$216,695	\$-	\$-	\$-	\$282,286	\$498,981	\$82,459	\$416,522

C. Operational Risk

In order to avoid the potential losses caused by failed internal controls, employee fraud or misconduct and management negligence, the Company had set up the standard operating procedures and computer systems based on the business nature of the front, middle, and back departments, and manage the operational risk effectively by strict systems of internal control, internal audits, external audits, and regulatory compliance. The Company had set and implemented "Regulations Reporting the Losses by Operational Risk" as well to establish the data base of losses resulting from operational risk by "Losses by Operational Risk Reporting System".

D. Liquidity risk

(A) Sources of liquidity risk

Liquidity risks of the financial instruments are classified as "funding liquidity risk" and "market liquidity risk". "Funding liquidity risk" represents the default risk that the Company is unable to turn assets into cash or obtain sufficient funds. "Market liquidity risk" represents the risk of significant changes in fair value that the Company faces when it sells or offsets its assets during market disorder.

(B) Liquidity risk management

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

Liabilities	2015.9.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,654,970	\$1,335,037	\$1,298,184	\$28,292	\$4,104	\$4,457	\$-
Financial liabilities at fair value through profit or loss	277,467	277,467	155,723	114,205	7,539	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	-	1,000,000	-

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Liabilities	2014.9.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,517,566	\$1,251,932	\$1,232,777	\$11,838	\$5,936	\$1,381	\$-
Financial liabilities at fair value through profit or loss	55,051	55,051	33,023	20,525	1,503	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	-	1,000,000	-

E. Market risk analysis

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

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

(A) Value-at-risk

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(B) Stress testing

In addition to the value-at-risk model, the Consolidated Company periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

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

I. Simple Sensitivity

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

II. Scenario Analysis

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

i. Historical scenarios

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

ii. Hypothetical scenarios

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2015.9.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	(712,386)
Interest rate risk (Yield curve)	20bp	(128,119)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(103,046)
Merchandise risk (merchandise price)	-10%	-

2015.9.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$183	\$602
	RMB appreciate 1 %	16,413	821
	HKD appreciate 1 %	247	2,937
	NTD appreciate 1 %	(34,351)	(6,692)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,053)	(123)
	Yield curve (RMB) flat rises 1bp	(62)	(73)
	Yield curve (NTD) flat rises 1bp	(808)	(1,288)
Equity securities price sensitivity	Increase 1% in equity price	71	71,239

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.9.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(227,035)
Interest rate risk (Yield curve)	20bp	(70,301)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(111,772)
Merchandise risk (merchandise price)	-10%	-

2014.9.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1%	\$-	\$150
	RMB appreciate 1%	17,706	981
	HKD appreciate 1%	-	173
	NTD appreciate 1%	(32,066)	(3,262)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,823)	(133)
	Yield curve (RMB) flat rises 1bp	(52)	(73)
	Yield curve (NTD) flat rises 1bp	(131)	(1,313)
Equity securities price sensitivity	Increase 1% in equity price	-	24,549

(9) Fair values of financial instruments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Consolidated Company to measure or disclose the fair values of financial assets and financial liabilities:

- I. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- II. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures, etc.) at the reporting date.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- III. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- IV. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)
- V. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- VI. The Company adjusts the credit risk of the derivative contract traded over-the-counter including credit value adjustment (“CVA”) and debit value adjustments (“DVA”), to reflect the likelihood that the counterparty (CVA) or the Company (DVA) dues the whole payment or charges the whole market value of the transactions. The Company evaluates the probability of default (“PD”) of the counterparty, through the following calculation. Under the assumption that the Company will not default, the Company determines its CVA by multiplying three factors, PD, loss given default (“LGD”), and exposure at default (“EAD”), of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its DVA by multiplying three factors, PD, LGD, and EAD, of the Company. The Company decides estimated PD by referring to the probability of default announced by external credit rating agencies. The Company sets estimated LGD at 60 % by considering the experience of John Gregory, a scholar, and foreign financial institutions. The estimated EAD for current period is evaluated by considering the fair value of the derivative instruments traded approach at OTC, which considers the adjustments of the credit risk of the derivative contract in evaluating fair value of financial instruments, to reflect the credit qualities of the counterparty and the Company, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Consolidated Company's financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount			Fair value		
	2015.9.30	2014.12.31	2014.9.30	2015.9.30	2014.12.31	2014.9.30
Held-to-maturity financial assets	\$ 3,949,874	\$2,647,264	\$1,577,684	\$3,987,686	\$2,767,723	\$1,646,095
Debt instrument investments for which						
no active market exists	3,682,597	3,359,314	3,114,618	3,715,893	3,399,085	3,145,754

(10) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 -Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 -Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 -Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Consolidated Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Fair value measurement hierarchy of the Consolidated Company's assets and liabilities

The Consolidated Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Consolidated Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As at 30 September 2015:

	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$4,240	\$-	\$-	\$4,240
Beneficiary certificates	1,923,851	-	-	1,923,851
Available-for-sale financial assets				
Stocks	2,510,670	-	400,000	2,910,670
Bonds	615,408	1,938,738	-	2,554,146
Beneficiary certificates	1,975,302	648,457	-	2,623,759
<u>Derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	-	159	-	159
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	277,467	-	277,467

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As at 31 December 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Non-derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$1,514,144	\$-	\$-	\$1,514,144
Available-for-sale financial assets				
Stocks	2,849,230	-	952,200	3,801,430
Bonds	1,032,630	1,693,109	-	2,725,739
Beneficiary certificates	1,508,276	221,159	-	1,729,435
<u>Derivative financial instruments:</u>				
Assets				
Derivative financial assets for hedging				
Swap contracts	-	3,747	-	3,747
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	176,626	-	176,626

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As at 30 September 2014:

	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$1,353,913	\$-	\$-	\$1,353,913
Available-for-sale financial assets				
Stocks	2,256,792	-	1,158,300	3,415,092
Bonds	1,494,901	1,696,191	-	3,191,092
Beneficiary certificates	1,706,457	-	-	1,706,457
<u>Derivative financial instruments:</u>				
Assets				
Derivative financial assets for hedging				
Swap contracts	-	3,639	-	3,639
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	55,051	-	55,051

Transfers between Level 1 and Level 2

During the nine-month periods ended 30 September 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements is as follows:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Available-for-sale financial assets	Stocks
1 January 2015	\$952,200
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	(52,200)
Acquisitions or issuances	(500,000)
30 September 2015	\$400,000
1 January 2014	\$-
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	258,300
Acquisitions or issuances	900,000
30 September 2014	\$1,158,300

Total gains (losses) recognized in profit or loss in the table above contains gains (losses) related to assets on hand as at 30 September 2015 and 2014 in the amount of \$0 thousand, respectively.

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As at 30 September 2015

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	0%	The fair value was recognized by the price of latest transaction

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As at 31 December 2014

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks

As at 30 September 2014

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Available-for-sale				
Stocks	Cost approach	discount for lack of marketability	0%	From the beginning of six-month period after acquisition, the fair value was recognized by the price of acquisition

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Consolidated Company's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Consolidated Company's accounting policies at each reporting date.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- C. Fair value measurement hierarchy of the Consolidated Company's assets and liabilities not measured at fair value but for which the fair value is disclosed

As at 30 September 2015

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value for which only the fair value is disclosed:				
Held-to-maturity financial assets		\$- 3,987,686		\$- 3,987,686
Debt instrument investments for which no active market exists	95,540	3,620,353		- 3,715,893

As at 31 December 2014

Not applicable

As at 30 September 2014

Not applicable

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

8. Related parties transactions

(1) Premium income

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related parties				
Cathay Life Insurance Co., Ltd.	\$13,238	\$32,052	\$134,444	\$153,772
Cathay United Bank Co., Ltd.	32,608	24,978	91,649	71,789
San Ching Engineering Co., Ltd.	5,671	9,833	7,360	14,611
Cathay Real Estate Co., Ltd.	2,320	4,612	5,278	6,647
Cathay General Hospital Co., Ltd.	2,628	2,597	3,475	3,264
Total	<u>\$56,465</u>	<u>\$74,072</u>	<u>\$242,206</u>	<u>\$250,083</u>

Premium rates were no materially different from that with unrelated parties.

(2) Premiums receivable

Name	2015.9.30	%	2014.12.31	%	2014.9.30	%
Other related parties						
Cathay Life Insurance Co., Ltd.	\$11,544	0.68	\$3,084	0.10	\$15,807	0.53
Cathay United Bank Co., Ltd.	24,375	1.45	338	0.01	12,860	0.44
San Ching Engineering Co., Ltd.	4,299	0.25	6	-	1,472	0.05
Total	<u>\$40,218</u>		<u>\$3,422</u>		<u>\$28,667</u>	

Transactions with other related parties are primarily from the operating transactions, and the average collection period is one month.

(3) Insurance claims payment

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related parties				
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$-	\$7,836
San Ching Engineering Co., Ltd.	-	-	3,000	-
Total	<u>\$-</u>	<u>\$-</u>	<u>\$3,000</u>	<u>\$7,836</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Cash in banks

Name	Type	2015.9.30	2014.12.31	2014.9.30
Other related parties				
Cathay United Bank Co., Ltd.	Cash in banks	\$396,833	\$655,280	\$405,721
	Checking Deposits	121,428	101,828	113,265
	Time deposits	628,200	623,200	631,525
Indovina Bank Ltd.	Cash in banks	3,486	14,460	12,976
	Time deposits	125,478	104,195	130,356
Total		<u>\$1,275,425</u>	<u>\$1,498,963</u>	<u>\$1,293,843</u>

Name	Type	Interest Rate		
		2015.9.30	2014.12.31	2014.9.30
Other related parties				
Cathay United Bank Co., Ltd.	Cash in banks	0.001-0.45%	0.01%-0.45%	0.01%-0.45%
	Time deposits	0.17-1.345%	0.17%-3.50%	0.17%-3.50%
Indovina Bank Ltd.	Cash in banks	0.10%-1.00%	0.10%-1.00%	0.10%-1.00%
	Time deposits	0.25%-7.50%	5.00%-7.70%	0.25%-10.00%

Name	Type	Interest Revenue	
		2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$146	\$130
	Time deposits	2,085	2,085
Indovina Bank Ltd.	Time deposits	2,147	3,064
Total		<u>\$4,378</u>	<u>\$5,279</u>

Name	Type	Interest Revenue	
		2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$379	\$569
	Time deposits	6,194	6,819
Indovina Bank Ltd.	Time deposits	3,335	8,823
Total		<u>\$9,908</u>	<u>\$16,211</u>

As of 30 September 2015, 31 December 2014, and 30 September 2014, time deposit pledged were \$28,598 thousands, \$23,720 thousands, and \$33,476 thousands, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5) Secured Loans

Name	2015.1.1 ~ 2015.9.30			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$37,051	\$33,099	1.81%-1.84%	\$479

Name	2014.1.1 ~ 2014.9.30			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$40,894	\$38,047	1.84%-1.88%	\$520

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

Name	Type	2015.9.30	2014.12.31	2014.9.30
Other related parties				
Cathay Securities	Beneficiary			
Investment Trust Co., Ltd.	certificates	\$100,523	\$100,136	\$-

(7) Available-for-sale financial assets

Name	Type	2015.9.30	2014.12.31	2014.9.30
Other related parties				
Cathay Securities	Beneficiary			
Investment Trust Co., Ltd.	certificates	\$291,607	\$292,579	\$305,083

(8) Discretionary account management balance

Name	2015.9.30	2014.12.31	2014.9.30
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	\$420,792	\$422,222	\$422,877

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(9) Guarantee deposits paid

Name	2015.9.30	%	2014.12.31	%	2014.9.30	%
Other related parties						
Cathay Life Insurance Co., Ltd.	\$23,975	1.61	\$22,465	1.55	\$24,157	1.47
Cathay Futures Co., Ltd.	6,809	0.46	9,964	0.69	9,961	0.61
Cathay United Bank	22,383	1.51	17,383	1.20	27,383	1.67
Lin Yuan (Shanghai) Real Estate	5,572	0.38	5,466	0.38	5,300	0.32
Total	<u>\$58,739</u>		<u>\$55,278</u>		<u>\$66,801</u>	

(10) Other payable

Name	2015.9.30	%	2014.12.31	%	2014.9.30	%
Parent company						
Cathay Financial Holdings Co., Ltd.	\$229,194	25.75	\$171,856	13.65	\$121,829	12.23
Other related parties						
Cathay Life Insurance Co., Ltd.	165,135	18.56	264,638	21.02	232,087	23.29
Symphox Information Co., Ltd.	4,624	0.52	3,945	0.31	8,830	0.89
Total	<u>\$398,953</u>		<u>\$440,439</u>		<u>\$362,746</u>	

(11) Preferred stock liability

Name	2015.9.30	%	2014.12.31	%	2014.9.30	%
Parent company						
Cathay Financial Holdings Co., Ltd.	<u>\$1,000,000</u>	100.00	<u>\$1,000,000</u>	100.00	<u>\$1,000,000</u>	100.00

(12) Operating costs

Name	Type	2015.7.1 ~ 2015.9.30	2014.7.1 ~ 2014.9.30
Other related parties			
Cathay United Bank Co., Ltd.	Handling fees	<u>\$5,438</u>	<u>\$5,364</u>

Name	Type	2015.1.1 ~ 2015.9.30	2014.1.1 ~ 2014.9.30
Other related parties			
Cathay United Bank Co., Ltd.	Handling fees	<u>\$16,183</u>	<u>\$15,649</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(13) Operating expenses

Name	Type	2015.7.1 ~ 2015.9.30	2014.7.1 ~ 2014.9.30
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	\$25,178	\$26,177
	Marketing expenses	342,409	407,108
	Party premium expenses	4,561	4,450
	Administrative expenses	1,275	1,222
Cathay United Bank Co., Ltd.	Marketing expenses	20,285	17,409
	Rental expenses	2,221	2,221
Lin Yuan (Shanghai) Real Estate	Rental expenses	5,216	4,915
Total		<u>\$401,145</u>	<u>\$463,502</u>

Name	Type	2015.1.1 ~ 2015.9.30	2014.1.1 ~ 2014.9.30
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	\$75,563	\$77,665
	Marketing expenses	1,058,863	1,164,470
	Party premium expenses	12,319	11,721
	Administrative expenses	5,240	5,066
Cathay United Bank Co., Ltd.	Marketing expenses	55,907	50,153
	Rental expenses	6,662	6,730
Lin Yuan (Shanghai) Real Estate	Rental expenses	15,499	14,767
Total		<u>\$1,230,053</u>	<u>\$1,330,572</u>

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

(14) Other expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related parties				
Symphox Information Co., Ltd.	\$10,173	\$9,539	\$29,010	\$27,171
Seaward Card Co., Ltd.	1,296	841	3,427	2,311
Total	<u>\$11,469</u>	<u>\$10,380</u>	<u>\$32,437</u>	<u>\$29,482</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(15) Non-operating expenses and losses

Name	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Parent company				
Cathay Financial Holdings Co., Ltd.	\$4,688	\$4,688	\$13,912	\$13,912

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

(16) Other

As of 30 September 2015, 31 December 2014 and 30 September 2014 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below (in thousands):

Name	Item	2015.9.30	2014.12.31	2014.9.30
Other related parties				
Cathay United Bank Co., Ltd.	CS contracts	US\$69,200 EUR\$3,350	US\$58,200 EUR\$1,350	US\$47,200 EUR\$750
	IRS	NT\$-	NT\$200,000	NT\$200,000

(17) Key management personnel compensation in total

Name	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Short-term employee benefits	\$9,669	\$5,707	\$39,059	\$30,966
Post-employment benefits	610	618	1,831	1,854
Termination benefits	-	-	4,128	-
Total	\$10,279	\$6,325	\$45,018	\$32,820

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

9. Pledged assets

(1) The Company

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Government deposits paid government bonds	\$540,148	\$514,324	\$514,528
Guarantee deposits paid-time deposits	20,000	15,000	25,000
Total	<u>\$560,148</u>	<u>\$529,324</u>	<u>\$539,528</u>

As of 30 September 2015, 31 December 2014, and 30 September 2014 the Company provided government bonds amounting to \$540,148 thousands, \$514,324 thousands, and \$514,528 thousands as the “Guaranteed Depository Insurance” in accordance with the Insurance Act, respectively. The pledged assets are stated at book value.

(2) Cathay Insurance (China)

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Government deposits paid-times deposits	<u>\$833,792</u>	<u>\$818,000</u>	<u>\$1,006,687</u>

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

(3) Cathay Insurance (Vietnam)

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Government deposits paid-times deposits	<u>\$8,598</u>	<u>\$8,720</u>	<u>\$8,476</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

10. Contingent liabilities and unrecognized contractual commitments

Operating lease commitments - The Consolidated Company as a lessee

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

According to the noncancelable operating lease contracts, the future minimum lease payments at 30 September 2015, 31 December 2014, and 30 September 2014 are as follows:

(1) Significant lease contracts of the Company

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Not later than 1 year	\$132,533	\$126,387	\$126,193
Later than 1 year but not later than 5 years	530,131	505,547	504,772
Later than 5 years	-	-	-
Total	<u>\$662,664</u>	<u>\$631,934</u>	<u>\$630,965</u>

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

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Not later than 1 year	\$63,308	\$62,570	\$65,337
Later than 1 year but not later than 5 years	128,974	107,750	111,403
Later than 5 years	-	-	-
Total	<u>\$192,282</u>	<u>\$170,320</u>	<u>\$176,740</u>

11. Significant disaster losses: None.

12. Subsequent events: None.

13. Others

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.9.30		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,168,539	\$-	\$8,168,539
Receivables	2,406,556	-	2,406,556
Investments	7,879,679	10,135,148	18,014,827
Reinsurance assets	5,759,865	21,853	5,781,718
Property and equipment	-	230,844	230,844
Intangible assets	-	48,174	48,174
Other assets	-	1,675,306	1,675,306
Total assets			<u>\$36,325,964</u>
Payables	\$2,646,409	\$8,561	\$2,654,970
Financial Liabilities	269,928	1,007,539	1,277,467
Insurance liabilities	-	24,453,394	24,453,394
Provision	-	282,891	282,891
Other liabilities	-	477,207	477,207
Total liabilities			<u>\$29,145,929</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2014.12.31		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,023,111	\$-	\$8,023,111
Receivables	3,649,736	-	3,649,736
Investments	7,814,542	8,363,844	16,178,386
Reinsurance assets	6,069,884	19,488	6,089,372
Property and equipment	-	258,732	258,732
Intangible assets	-	26,155	26,155
Other assets	-	1,637,413	1,637,413
Total assets			<u>\$35,862,905</u>
Payables	\$2,886,222	\$6,132	\$2,892,354
Financial Liabilities	171,505	1,005,121	1,176,626
Insurance liabilities	-	23,943,870	23,943,870
Provision	-	283,132	283,132
Other liabilities	-	738,219	738,219
Total liabilities			<u>\$29,034,201</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2014.9.30		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,777,638	\$-	\$8,777,638
Receivables	3,537,316	-	3,537,316
Investments	7,463,341	7,315,676	14,779,017
Reinsurance assets	5,739,170	53,396	5,792,566
Property and equipment	-	251,066	251,066
Intangible assets	-	30,194	30,194
Other assets	-	1,862,120	1,862,120
Total assets			<u>\$35,029,917</u>
Payables	\$2,510,249	\$7,317	\$2,517,566
Financial Liabilities	55,051	1,000,000	1,055,051
Insurance liabilities	-	23,870,845	23,870,845
Provision	-	323,992	323,992
Other liabilities	-	645,078	645,078
Total liabilities			<u>\$28,412,532</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(2) Hedged accounting disclosures

Cash flow hedges

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by \$0 thousand, \$3,747 thousand, and \$3,639 thousand as of 30 September 2015, 31 December 2014, and 30 September 2014, respectively.

(3) Offsetting of financial assets and financial liabilities

The Consolidated Company deals with derivative instrument transactions, such as, forward contracts and SWAPs. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

30 September 2015

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Cash collateral received	
Derivative financial instrument	\$159	\$-	\$159	\$-	\$-	\$159

30 September 2015

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments	Cash collateral pledged	
Derivative financial instrument	\$277,467	\$-	\$277,467	\$-	\$-	\$277,467

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Eliminated inter-company transactions

Transactions	2015.1.1~2015.9.30		
	Company name and debit (credit) amounts		
	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
①Eliminate subsidiaries investment profit and loss	\$(269,722)	\$(260,756)	\$(8,966)
②Eliminate subsidiaries equity	(1,031,367)	891,759	585,488

Transactions	2014.1.1~2014.9.30		
	Company name and debit (credit) amounts		
	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
①Eliminate subsidiaries investment profit and loss	\$158,355	\$(80,292)	\$(78,063)
②Eliminate subsidiaries equity	(1,178,863)	1,554,832	401,447

Note: The eliminated difference of inter-company result in non-controlling equity \$445,880 thousands and \$777,416 thousands for the nine-month periods ended 30 September 2015 and 2014, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.9.30		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
Monetary Items			
USD	\$201,363	33.1280	\$6,670,762
RMB	327,160	5.2110	1,704,842
DKK	623	4.9394	3,076
Non-Monetary Items			
USD	161,100	33.1280	-
EUR	6,850	40.6812	-
	(Nominal Amount)		(Note)
	2014.12.31		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
Monetary Items			
USD	\$155,361	31.7180	\$4,927,753
RMB	534,397	5.1161	2,734,037
EUR	440	38.5501	16,952
DKK	607	6.1469	3,732
Non-Monetary Items			
USD	137,600	31.7180	-
EUR	2,350	38.5501	-
	(Nominal Amount)		(Note)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2014.9.30		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
Monetary Items			
USD	\$105,027	30.4360	\$3,196,601
RMB	711,970	4.9550	3,517,795
Non-Monetary Items			
USD	104,500	30.4360	-
EUR	750	38.6050	-
	(Nominal Amount)		(Note)
Investment under equity method			
RMB	156,819	4.9574	777,416
VND	289,853,486	0.001385	401,447

The abovementioned information is disclosed by book value of foreign currencies (already translated to functional currencies)

Note: The Consolidated Company conducted FXSWAPs for hedging. Financial liabilities at fair value through profit and loss were recognized by \$277,467 thousands, \$176,626 thousands, and \$55,051 thousands at 30 September 2015, 31 December 2014, and 30 September 2014. Financial assets at fair value through profit and loss were recognized by \$159 thousands, \$0 thousands, and \$0 thousands at 30 September 2015, 31 December 2014, and 30 September 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(6) Interests in unconsolidated structured entities

A. Unconsolidated structured entities

The Company does not provide financial support or other support to the unconsolidated structured entities. The Company's maximum exposure to loss from its interests in the unconsolidated structured entities is limited to the carrying amount of assets the Company recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Types of structured entity</u>	<u>Nature and purpose</u>	<u>Interests owned</u>
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

B. As of 30 September 2015, the carrying amount of assets recognized by Company relating to its interests in unconsolidated structured entities is disclosed as follows:

Held-to-maturity financial assets	<u>Asset Securitization commodity</u>
	<u>\$1,121,652</u>

(7) Capital management

A. Objective

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

B. Policy

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

C. Procedures

a. Periodically

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

b. Aperiodically

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

D. Capital adequacy ratio

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

(8) Operation segments information

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

(9) Significant contract

The Company agreed the subsidiary Cathay Insurance (China) to increase capital and the offering was agreed on 14 September, 2015. Zhejiang Ant Financial Service Group Co., Ltd. (Ant Financial) acquired all the newly issued shares as strategic investor.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28.96 million to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. And, the joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized the Company to RMB\$200 million to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was RMB\$100,000 thousands and was authorized by CIRC. As of 30 September 2015, the Company has totally remitted US\$60.56 million.