

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

**For the three-month periods ended**  
**31 March 2015 and 2014**

**With Independent Auditors' Review Report**

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

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

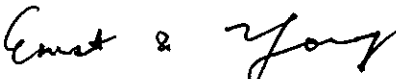
The Board of Directors and Shareholders  
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) and its subsidiaries as of 31 March 2015 and 2014, and the related consolidated statements of comprehensive income for the three-month periods ended 31 March 2015 and 2014, and the related consolidated statement of changes in equity and cash flows for the three-month periods ended 31 March 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 (“R.O.C.”). A review consists principally of inquiries, comparison and analytical procedures. A review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three-month periods ended 31 March 2015 and 2014 in order for them to be in conformity with “Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises”, and have adopted the IAS No.34 “Interim Financial Reporting”.

As described in Note 3 to consolidated financial statements, the Company and Subsidiaries prepare financial report that applies International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended (IFRS 9 excluded) which are recognized by Financial Supervisory Commission and become effective for annual periods beginning on or after 1 January 2015 for the first time. Consolidated financial statements for the three-month period ended 31 March 2014 and consolidated balance sheets as of 1 January 2014 and 31 December 2014 have been adjusted for the retrospective application of the accounting principle.

  
Ernst & Young  
Taipei, Taiwan  
The Republic of China

29 April 2015

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 31 March 2015, 31 December 2014, 31 March 2014 and 1 January 2014

(31 March 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)  
(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 March 2015	31 December 2014 (Adjusted)	31 March 2014 (Adjusted)	1 January 2014 (Adjusted)
Cash and cash equivalents	4,6(1)	\$8,077,748	\$8,023,111	\$8,965,027	\$8,194,772
Receivables	4,6(2)	2,442,763	3,649,736	3,087,664	3,725,513
Financial assets at fair value through profit or loss	4,6(3)	1,776,750	1,514,144	607,671	1,312,025
Available-for-sale financial assets	4,6(4)	8,138,418	8,256,604	8,101,196	7,234,902
Derivative financial assets for hedging		3,809	3,747	9,136	10,022
Investments accounted for using the equity method		-	-	825	829
Debt instrument investments for which no active market exists	4,6(5)	3,405,684	3,359,314	2,541,800	2,053,740
Held-to-maturity financial assets	4,6(6)	3,115,336	2,647,264	1,803,056	1,955,937
Secured Loans	4,6(7)	363,379	397,313	420,452	422,521
Reinsurance contracts assets	4,6(8)	5,749,546	6,089,372	5,581,022	5,057,226
Property and equipment		241,501	258,732	284,365	303,365
Intangible assets		19,005	26,155	21,627	29,031
Deferred income tax assets		85,142	93,146	82,562	92,369
Other assets		1,711,680	1,544,267	1,351,086	1,332,211
Total assets		\$35,130,761	\$35,862,905	\$32,857,489	\$31,724,463

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

Consolidated balance sheets(continued)

As of 31 March 2015, 31 December 2014, 31 March 2014 and 1 January 2014

(31 March 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	31 March 2015	31 December 2014 (Adjusted)	31 March 2014 (Adjusted)	1 January 2014 (Adjusted)
Payables	4,6(9)	\$2,487,407	\$2,892,354	\$2,251,378	\$2,622,538
Financial liabilities at fair value through profit or loss		78,098	176,626	62,424	28,352
Preferred stock liability	4,6(10)	1,000,000	1,000,000	1,000,000	1,000,000
Insurance liabilities	4,6(11)	23,788,950	23,943,870	22,645,147	21,853,590
Provision	4,6(12)	282,888	283,132	324,554	325,367
Deferred income tax liabilities		21,000	58,480	5,853	24,404
Other liabilities		328,193	679,739	421,866	433,062
Total liabilities		27,986,536	29,034,201	26,711,222	26,287,313
Equity attributable to owners of parent					
Capital stock	4,6(13)	2,721,879	2,721,879	2,721,879	2,721,879
Capital surplus					
Capital surplus - others		-	-	1,929	1,929
Retained earnings	4,6(14)				
Legal reserve		1,167,902	1,167,902	1,092,927	1,092,927
Special capital reserve		1,949,825	1,949,825	1,364,645	1,364,645
Undistributed earnings		558,082	247,594	271,891	74,938
Other equity		112,509	36,558	(160,335)	(169,280)
Non-controlling interests	4,6(15)	634,028	704,946	853,331	350,112
Total equity		7,144,225	6,828,704	6,146,267	5,437,150
Total equity and liabilities		\$35,130,761	\$35,862,905	\$32,857,489	\$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 31 March 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	2015.1.1-2015.3.31	2014.1.1-2014.3.31 (Adjusted)
Operating revenues			
Direct premium income	4,6(16)	\$4,432,367	\$4,618,199
Reinsurance premium income	4,6(16)	172,425	108,846
Premiums income		4,604,792	4,727,045
Deduct: Reinsurance premiums ceded	4,6(16)	(1,102,507)	(1,104,365)
Change in unearned premiums reserve - Net	4,6(16)	382,366	104,864
Retained earned premium		3,884,651	3,727,544
Reinsurance commission earned		114,484	163,263
Handling fee earned		3,309	8,698
Investment profit and loss		253,584	148,909
Interest income		137,649	135,316
Gains (losses) from Financial asset or financial liability at fair value through profit or loss		61,516	(71,700)
Realized gains (losses) from available-for-sale financial assets		137,014	38,665
Realized gains (losses) from bond investments with no active market		614	-
Realized gains (losses) from held-to-maturity financial assets		368	1,282
Share of profit (loss) of associates and joint ventures accounted for using the equity method		-	(4)
Gains (losses) on foreign Exchange		(83,577)	45,350
Subtotal		4,256,028	4,048,414
Operating costs			
Insurance claims paid	4,6(17)	(2,639,299)	(2,437,569)
Deduct: Claims recovered from reinsurers	4,6(17)	689,545	523,612
Retained claim paid		(1,949,754)	(1,913,957)
Changes in insurance liabilities - Net	4,6(11)	(338,456)	(343,914)
Commissions expenses		(267,132)	(256,976)
Other operating costs		(5,795)	(9,869)
Subtotal		(2,561,137)	(2,524,716)
Operating expenses			
Business expenses		(1,059,745)	(1,014,974)
General and administrative expenses		(329,541)	(290,655)
Employee training expenses		(653)	(995)
Subtotal		(1,389,939)	(1,306,624)
Operating income		304,952	217,074
Non-operating income and expenses		(4,967)	21,479
Profit before tax from continuing operations		299,985	238,553
Income tax expense	4,6(20)	(58,242)	(29,999)
Profit from continuing operations		241,743	208,554
Net income		241,743	208,554
Other comprehensive income	4,6(18)		
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of a foreign operation		(17,108)	(6,950)
Unrealized gains (losses) from available-for-sale financial assets		89,913	14,257
Effective portion of gains (losses) on hedging instruments in cash flow hedges		62	(886)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		-	-
Income taxes relating to be reclassified to profit or loss in subsequent periods		911	(977)
Other comprehensive income, net of tax		73,778	5,444
Total comprehensive income		\$315,521	\$213,998
Net income attributable to:			
Owners of parent (net income)		\$310,488	\$196,953
Non-controlling interests (net loss)		\$(68,745)	\$11,601
Comprehensive income attributable to:			
Owners of parent (comprehensive income)		\$386,439	\$205,898
Non-controlling interests (comprehensive loss)		\$(70,918)	\$8,100
Earning per share (In dollars)			
Net income from continuing operations	4,6(21)	\$1.14	\$0.72

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

Consolidated statements of changes in equity

For the three-month periods ended 31 March 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											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	Non-controlling interests	
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
Effects on retrospective application and restatement	-	-	-	-	(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
Net income for the three-month period ended 31 March 2014 (Adjusted)	-	-	-	-	196,953	-	-	-	-	196,953	11,601	208,554
Other comprehensive income for the three-month period ended 31 March 2014 (Adjusted)	-	-	-	-	-	525	9,306	(886)	-	8,945	(3,501)	5,444
Total comprehensive income for the three-month period ended 31 March 2014 (Adjusted)	-	-	-	-	196,953	525	9,306	(886)	-	205,898	8,100	213,998
Other	-	-	-	-	-	-	-	-	-	-	495,119	495,119
Balance on 31 March 2014 (Adjusted)	\$2,721,879	\$1,929	\$1,092,927	\$1,364,645	\$271,891	\$(36,034)	\$(59,524)	\$9,135	\$(73,912)	\$5,292,936	\$853,331	\$6,146,267
Balance on 1 January 2015 (Adjusted)	\$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
Net income for the three-month period ended 31 March 2015	-	-	-	-	310,488	-	-	-	-	310,488	(68,745)	241,743
Other comprehensive income for the three-month period ended 31 March 2015	-	-	-	-	-	(11,408)	87,297	62	-	75,951	(2,173)	73,778
Total comprehensive income for the three-month period ended 31 March 2015	-	-	-	-	310,488	(11,408)	87,297	62	-	386,439	(70,918)	315,521
Balance on 31 March 2015	\$2,721,879	\$-	\$1,167,902	\$1,949,825	\$558,082	\$(10,346)	\$159,276	\$3,809	\$(40,230)	\$6,510,197	\$634,028	\$7,144,225

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 three-month periods ended 31 March 2015 and 2014

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

(Expressed in thousands of New Taiwan Dollars)

Items	2015.1.1~2015.3.31	2014.1.1~2014.3.31 (Adjusted)
Cash flows from operating activities:		
Profit before tax	\$299,985	\$238,553
Adjustments:		
Non-cash revenue and expense items		
Depreciation	26,457	25,286
Amortization	7,786	7,968
Provision for bad debt expense	5,364	2,576
Net losses (gains) on financial asset or financial liability at fair value through profit or loss	(61,516)	71,700
Net losses (gains) on available-for-sale financial assets	(137,014)	(38,665)
Net losses (gains) on debt instrument bond investments with no active market exists	(614)	-
Net losses (gains) from held-to-maturity financial assets	(368)	(1,282)
Interest income	(137,649)	(135,316)
Net changes of insurance liabilities	(121,376)	807,994
Share of loss (profit) of associates and joint ventures accounted for using the equity method	-	4
Loss on disposal of property and equipment	3	1
Changes in assets and liabilities from operating activities:		
(Increase) decrease in financial assets at fair value through profit or loss	(303,653)	666,083
Decrease (increase) in available-for-sale financial assets	337,223	(827,205)
Increase in debt instrument investments for which no active market exists	(52,493)	(489,805)
(Increase) decrease in held-to-maturity financial assets	(471,895)	159,402
(Increase) decrease in notes receivable	(27,396)	41,414
Decrease in premiums receivable	1,376,078	305,788
(Increase) decrease in other accounts receivable	(147,928)	272,099
Decrease (increase) in reinsurance contracts assets	325,750	(524,386)
Increase in other current assets	(166,579)	(19,128)
(Decrease) increase in claims outstanding	(5,165)	2,771
Decrease in due to reinsurers and ceding companies	(140,851)	(112,317)
(Decrease) increase in commissions payable	(25,493)	11,997
Decrease in other payables	(313,868)	(309,570)
Decrease in provision	(244)	(814)
Decrease in other liabilities	(351,546)	(11,196)
Cash flows (used in) from operating activities	<u>(87,002)</u>	<u>143,952</u>
Interest received	138,505	158,224
Dividends received	1,695	346
Interest paid	(278)	(470)
Income taxes paid	(6,099)	(3,291)
Net cash flows from operating activities	<u>46,821</u>	<u>298,761</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(10,095)	(6,410)
Acquisition of intangible assets	(295)	(201)
Increase in secured loans	(10,550)	(15,400)
Decrease in secured loans	44,484	17,470
Net cash flows from (used in) investing activities	<u>23,544</u>	<u>(4,541)</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	(15,728)	(19,084)
Increase in cash and cash equivalents	54,637	770,255
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>\$8,077,748</u>	<u>\$8,965,027</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 Financial Statements**

**For the three-month periods ended 31 March 2015 and 2014**

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

Cathay Financial Holding 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 three-month periods ended 31 March 2015 and 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 29 April 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 is 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:

	three-month period ended 31 March 2015	three-month period ended 31 March 2014
Operating expense:		
Business expense	\$5	\$(197)
Administrative expense	2	(84)
Total operating expense	7	(281)
Profit or loss before tax	(7)	281
Income tax expense	1	(48)
Net income	<u>\$(6)</u>	<u>\$233</u>
Profit or loss during the period attributable to:		
Owners of parent	\$(6)	\$233
Non-controlling interest	-	-
Earnings per share (In dollars)		
Basic earnings per share	\$-	\$-

Impact on the balance sheet:

	2015.3.31	2014.12.31	2014.3.31	2014.1.1
Other non-current liabilities	\$47,392	\$47,392	\$88,814	\$89,095
Deferred tax assets	8,057	8,057	15,098	15,146
Retained earnings				
Undistributed earnings	895	(37)	(37)	(37)
Net income for the periods	(6)	932	233	-
Other comprehensive income				
Remeasurement of defined benefit plans	(40,230)	(40,230)	(73,912)	(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 adds 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.

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IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 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.

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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.



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**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

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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 2017.

**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.

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**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 Associate 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.

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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.

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**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.

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**4. Summary of significant accounting policies**

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the three-month periods ended 31 March 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 (“\$”) 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

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

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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 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 parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest			Notes
			2015.3.31	2014.12.31	2014.3.31	
The Company and Cathay Life Insurance Co., Ltd.	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).

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(4) Foreign currency transactions

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

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

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

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

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



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(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.

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 comprises 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 (including fixed term deposits that contract period within one year).

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(7) Financial assets and financial liabilities

Recognition and Measurement

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

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

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

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

Measurements of financial instruments are classified as follows:

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

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

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

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

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

**B. Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, Secured loans and receivables, and held-to maturity financial assets.

Available-for-sale financial assets are measured at fair value in the balance sheet. Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

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

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C. Derivative financial assets or liabilities for hedging

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

D. Held-to-maturity financial assets

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

E. Secured loans and receivables

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

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

F. Financial liabilities

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

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**Derecognizing of financial assets and liabilities**

**A. Financial assets**

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

**B. Financial liabilities**

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

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

**Reclassification of financial assets**

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

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

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

**Offsetting a financial asset and a financial liability**

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Impairment of financial assets**

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

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

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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;
- D. the disappearance of an active market for that financial asset because of financial difficulties.

The impaired ways of different financial assets are as follows:

A. Available-for-sale financial assets

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

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.

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B. Financial assets carried at amortized cost (Debt instrument investments for which no active market exists)

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

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

Derivative financial instruments

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

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

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

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



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

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

**A. Fair value hedges**

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

For fair value hedge relating to item carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

**B. Cash flow hedges**

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

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

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

**C. Hedges of a net investment in a foreign operation**

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

**(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.

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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.

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) Assessment of impairment for loans and receivables**

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

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

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

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

- 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.
- D. In the case of the minimum amounts of allowance of uncollectible accounts according to guidelines about-mentioned are less than the assessed amounts according to Generally Accepted Accounting Principles, the amounts should be assessed by Generally Accepted Accounting Principles.

Before 1 January 2014, the minimum amounts for allowance of uncollectible accounts should be the higher amount between the amounts assessed by Generally Accepted Accounting Principles and the total amounts of 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.

(10) Investments in the accounted for using the equity method

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

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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.

When an associate or joint venture issues new stock and the Consolidated Company's interest in the associate or 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 additional paid-in capital and investment accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the 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 Company. Where necessary, adjustments are made to bring the accounting policies in line with those of 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 an investment in an 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:

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- (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 is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in “IAS 36 Impairment of Assets”.

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

**(11) 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.

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

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

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

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

(12)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.

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(13) Intangible assets

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

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

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

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.

Computer software

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



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(14) Impairment of non-financial assets

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

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

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

(15) 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.

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

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

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

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

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

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

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

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

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

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

(16) Insurance contract categories

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

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

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

(17) Reinsurance contracts assets

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

The Company holds the right over re-insurers for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered.

For the Classification of reinsurance contracts, the Company assess whether the transfer of significant insurance risk to the re-insurers has occurred. If the transfer of significant insurance risk was not apparent, then the contract is recognized and evaluated with deposit accounting.

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(18) 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.

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.

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

a. Special reserve for major incident

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

Upon occurrence of the catastrophic events, actual retained claims in excess of \$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.

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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.

(19) 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.

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**Notes to unaudited consolidated financial statements (continued)**

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(20) 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”.

(21) 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 it’s recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under IFRS 4. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.



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(22) Reinsurance ceded

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

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

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

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

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(23) 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.

(24) Contribution to the stabilization funds

From 1 January 2014 to 30 June 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-Corporate” 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.

(25) 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.

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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.

**(26) Income taxes**

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

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Current income tax

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

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

Deferred tax

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

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

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint 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.

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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 Holding 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.

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

The risk ratio of insurance policy =  $(\text{amount to insurance company's payment when insurance accident occur} / \text{amount to insurance company's payment when insurance accident do not occur} - 1) \times 100\%$

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

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

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

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

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

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. Post-employment benefit

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

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

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

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C. Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The 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.

**6. Contents of significant accounts**

(1) Cash and cash equivalents

Item	2015.3.31	2014.12.31	2014.3.31
Petty cash and cash on hand	\$15,705	\$10,184	\$15,500
Cash in banks	1,298,836	1,187,967	2,382,588
Time deposits	5,079,864	6,069,785	6,001,777
Cash equivalents	1,683,343	755,175	565,162
Total	<u>\$8,077,748</u>	<u>\$8,023,111</u>	<u>\$8,965,027</u>



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(2) Receivable

<u>Item</u>	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Notes receivable	\$261,043	\$233,647	\$246,049
Premiums receivable	1,646,197	3,027,639	2,563,292
Other receivable	535,523	388,450	278,323
Total	<u>\$2,442,763</u>	<u>\$3,649,736</u>	<u>\$3,087,664</u>

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

<u>Item</u>	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Held for trading:			
Beneficiary certificates	<u>\$1,776,750</u>	<u>\$1,514,144</u>	<u>\$607,671</u>

Financial assets held for trading were not pledged.

(4) Available-for-sale financial assets

<u>Item</u>	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Stocks	\$3,611,689	\$3,775,366	\$3,107,887
Overseas stocks	135,290	26,064	-
Beneficiary certificates	1,887,499	1,694,710	1,553,798
Corporate bonds	613,636	808,030	1,044,375
Real estate investment trusts	-	34,725	-
Financial debentures	854,210	854,183	1,206,509
Government bonds	701,852	698,603	773,339
Overseas bonds	334,242	364,923	415,288
Total	<u>\$8,138,418</u>	<u>\$8,256,604</u>	<u>\$8,101,196</u>

Available-for-sale financial assets were not pledged.

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

Item	2015.3.31	2014.12.31	2014.3.31
Preferred stocks	\$400,000	\$400,000	\$400,000
Company bonds	650,000	650,000	450,000
Overseas bonds	1,693,671	1,711,546	1,161,726
Time deposits	662,013	597,768	530,074
Total	<u>\$3,405,684</u>	<u>\$3,359,314</u>	<u>\$2,541,800</u>

Debt instrument investments for which no active market exists were not pledged.

(6) Held-to-maturity financial assets

Item	2015.3.31	2014.12.31	2014.3.31
Overseas bonds	<u>\$3,115,336</u>	<u>\$2,647,264</u>	<u>\$1,803,056</u>

Held-to-maturity financial assets were not pledged.

(7) Secured loans

Item	2015.3.31	2014.12.31	2014.3.31
Secured loans	\$424,612	\$464,489	\$503,096
Less: Allowance for bad debts	(61,233)	(67,176)	(82,644)
Total	<u>\$363,379</u>	<u>\$397,313</u>	<u>\$420,452</u>

(8) Reinsurance assets

	2015.3.31	2014.12.31	2014.3.31
Claims recoverable from reinsurers	\$180,283	\$321,809	\$307,114
Due from reinsurers and ceding companies	618,633	727,993	542,382
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	2,560,193	2,750,419	2,447,220
Ceded claims reserve	2,364,035	2,249,673	2,269,564
Ceded premiums deficiency reserve	26,402	39,478	14,742
Subtotal	<u>4,950,630</u>	<u>5,039,570</u>	<u>4,731,526</u>
Total	<u>\$5,749,546</u>	<u>\$6,089,372</u>	<u>\$5,581,022</u>

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(9) Payables

Item	2015.3.31	2014.12.31	2014.3.31
Claims outstanding	\$10,415	\$15,580	\$16,448
Commissions payable	199,580	225,073	160,293
Due to reinsurers and ceding companies	1,251,781	1,392,632	1,250,928
Other payables	1,025,631	1,259,069	823,709
Total	<u>\$2,487,407</u>	<u>\$2,892,354</u>	<u>\$2,251,378</u>

(10) Preferred stock liability

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 thousand shares of Class A preferred stocks at par value of \$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.

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

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

(11) Insurance liabilities

Item	2015.3.31	2014.12.31	2014.3.31
Unearned premiums reserve	\$11,368,467	\$11,950,213	\$11,053,962
Claims reserve	8,291,979	8,154,755	7,996,937
Special reserve	3,881,818	3,639,138	3,375,983
Premiums deficiency reserve	246,686	199,764	218,265
Total	<u>\$23,788,950</u>	<u>\$23,943,870</u>	<u>\$22,645,147</u>

A. Unearned premiums reserve

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

Item	2015.3.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
		Direct business	Ceded reinsurance business	
Fire insurance	\$1,849,082	\$67,881	\$907,925	\$1,009,038
Marine insurance	144,818	13,989	106,729	52,078
Land and air insurance	3,924,152	9,191	262,336	3,671,007
Liability insurance	536,352	579	166,803	370,128
Bonding insurance	69,951	749	43,920	26,780
Other property insurance	1,347,425	24,332	431,083	940,674
Accident insurance	1,516,735	2,346	84,459	1,434,622
Health insurance	44,443	-	-	44,443
Compulsory automobile liability insurance	1,588,722	227,720	556,938	1,259,504
Total	<u>\$11,021,680</u>	<u>\$346,787</u>	<u>\$2,560,193</u>	<u>\$8,808,274</u>

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Item	2014.12.31			
	Unearned premium reserve	Ceded unearned premium reserve		
		Assumed reinsurance	Ceded reinsurance	Retained business
	Direct business	Business	business	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
<b>Total</b>	<b>\$11,632,653</b>	<b>\$317,560</b>	<b>\$2,750,419</b>	<b>\$9,199,794</b>

Item	2014.3.31			
	Unearned premium reserve	Ceded unearned premium reserve		
		Assumed reinsurance	Ceded reinsurance	Retained business
	Direct business	business	business	business
Fire insurance	\$1,760,155	\$49,946	\$794,412	\$1,015,689
Marine insurance	126,907	13,099	105,840	34,166
Land and air insurance	3,694,220	5,221	173,426	3,526,015
Liability insurance	543,175	461	159,170	384,466
Bonding insurance	50,799	645	30,771	20,673
Other property insurance	1,454,811	27,408	580,034	902,185
Accident insurance	1,548,570	2,639	86,679	1,464,530
Health insurance	42,359	-	134	42,225
Compulsory automobile liability insurance	1,543,028	190,519	516,754	1,216,793
<b>Total</b>	<b>\$10,764,024</b>	<b>\$289,938</b>	<b>\$2,447,220</b>	<b>\$8,606,742</b>

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

Item	2015.1.1 ~ 2015.3.31		2014.1.1 ~ 2014.3.31	
	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	11,382,210	2,563,175	11,063,711	2,448,590
Recover	(11,952,334)	(2,750,933)	(11,215,616)	(2,495,631)
Effects of exchange rate changes	(11,622)	(2,468)	(7,602)	(829)
Ending balance	<u>\$11,368,467</u>	<u>\$2,560,193</u>	<u>\$11,053,962</u>	<u>\$2,447,220</u>

B. Claims reserve

(a) Claims reserve and ceded claims reserve

Item	2015.3.31			
	Claims reserve		Ceded claims reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$4,177,363	\$256,529	\$1,277,551	\$3,156,341
Unreported claims	3,671,319	186,768	1,086,484	2,771,603
Total	<u>\$7,848,682</u>	<u>\$443,297</u>	<u>\$2,364,035</u>	<u>\$5,927,944</u>

Item	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)
Claims reported but not paid off	\$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>

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

Item	2014.3.31			
	Claims reserve		Ceded claims reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Claims reported but not paid off	\$3,767,041	\$308,448	\$1,218,879	\$2,856,610
Unreported claims	3,702,259	219,189	1,050,685	2,870,763
<b>Total</b>	<b>\$7,469,300</b>	<b>\$527,637</b>	<b>\$2,269,564</b>	<b>\$5,727,373</b>

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

Item	2015.1.1 ~ 2015.3.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$4,192,148	\$4,074,369	\$256,530	\$223,378	\$150,931	\$1,284,568	\$1,328,572	\$(44,004)
Unreported claims	3,677,690	3,647,520	186,785	211,057	5,898	1,087,819	920,669	167,150
<b>Total</b>	<b>\$7,869,838</b>	<b>\$7,721,889</b>	<b>\$443,315</b>	<b>\$434,435</b>	<b>\$156,829</b>	<b>\$2,372,387</b>	<b>\$2,249,241</b>	<b>\$123,146</b>

Item	2014.1.1 ~ 2014.3.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$3,772,149	\$3,888,670	\$308,448	\$307,234	\$(115,307)	\$1,218,755	\$1,352,266	\$(133,511)
Unreported claims	3,707,376	1,789,669	219,214	59,139	2,077,782	1,052,032	313,333	738,699
<b>Total</b>	<b>\$7,479,525</b>	<b>\$5,678,339</b>	<b>\$527,662</b>	<b>\$366,373</b>	<b>\$1,962,475</b>	<b>\$2,270,787</b>	<b>\$1,665,599</b>	<b>\$605,188</b>

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

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

Item	2015.3.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,152,846	\$74,195	\$1,227,041
Marine insurance	373,395	60,826	434,221
Land and air insurance	1,011,993	881,778	1,893,771
Liability insurance	279,919	542,879	822,798
Bonding insurance	20,919	18,374	39,293
Other property insurance	727,776	260,730	988,506
Accident insurance	101,880	484,440	586,320
Health insurance	11,553	47,810	59,363
Compulsory automobile liability insurance	753,611	1,487,055	2,240,666
Total	<u>\$4,433,892</u>	<u>\$3,858,087</u>	<u>\$8,291,979</u>

Item	2014.12.31		
	Claims reserve		
	Claim reported but not paid off	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	<u>\$4,297,265</u>	<u>\$3,857,490</u>	<u>\$8,154,755</u>



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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

Item	2014.3.31		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$816,750	\$165,934	\$982,684
Marine insurance	612,965	197,854	810,819
Land and air insurance	944,866	696,229	1,641,095
Liability insurance	283,646	348,547	632,193
Bonding insurance	20,615	3,481	24,096
Other property insurance	653,664	238,493	892,157
Accident insurance	99,791	380,430	480,221
Health insurance	4,841	39,969	44,810
Compulsory automobile liability insurance	638,351	1,850,511	2,488,862
Total	<u>\$4,075,489</u>	<u>\$3,921,448</u>	<u>\$7,996,937</u>

(d) Reinsurance asset- ceded claims reserve for policyholder

Item	2015.3.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$465,984	\$22,420	\$488,404
Marine insurance	229,884	31,994	261,878
Land and air insurance	62,696	24,422	87,118
Liability insurance	78,348	145,478	223,826
Bonding insurance	18,148	14,337	32,485
Other property insurance	253,108	46,907	300,015
Accident insurance	8,733	60,210	68,943
Health insurance	-	(834)	(834)
Compulsory automobile liability insurance	160,650	741,550	902,200
Total	<u>\$1,277,551</u>	<u>\$1,086,484</u>	<u>\$2,364,035</u>

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

Item	2014.12.31		
	Ceded claims reserve		
	Claim reported but not paid off	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	\$1,329,214	\$920,459	\$2,249,673

Item	2014.3.31		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$276,448	\$73,807	\$350,255
Marine insurance	420,599	145,043	565,642
Land and air insurance	55,495	17,005	72,500
Liability insurance	74,785	96,612	171,397
Bonding insurance	18,392	1,747	20,139
Other property insurance	194,253	23,951	218,204
Accident insurance	7,399	32,010	39,409
Health insurance	-	596	596
Compulsory automobile liability insurance	171,508	659,914	831,422
Total	\$1,218,879	\$1,050,685	\$2,269,564

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

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**(Expressed in thousands of dollars unless otherwise stated)**

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

Item	2015.1.1 ~ 2015.3.31		2014.1.1 ~ 2014.3.31	
	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	8,313,153	2,372,387	8,007,187	2,270,787
Recover	(8,156,324)	(2,249,241)	(6,044,712)	(1,665,599)
Effects of exchange rate changes	(19,605)	(8,784)	(7,061)	609
Ending balance	<u>\$8,291,979</u>	<u>\$2,364,035</u>	<u>\$7,996,937</u>	<u>\$2,269,564</u>

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

Item	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Beginning balance	\$1,528,545	\$2,225,672
Reserve	242,680	-
Recover	-	(979,009)
Ending balance	<u>\$1,771,225</u>	<u>\$1,246,663</u>

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

Item	Liability		
	2015.1.1 ~ 2015.3.31		
	Major incidents	Fluctuation of risks	Total
Beginning balance	\$524,353	\$1,586,240	\$2,110,593
Reserve	-	-	-
Recover	-	-	-
Ending balance	<u>\$524,353</u>	<u>\$1,586,240</u>	<u>\$2,110,593</u>

Item	Liability		
	2014.1.1 ~ 2014.3.31		
	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>

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Not applicable to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserve are not material impact on the Company's profit and earnings per share. The special reserve under liabilities increase \$1,245,726 thousands, special capital reserve under equity are decrease \$408,853 thousands.

D. Premiums deficiency reserve

(a) Premiums deficiency reserve and ceded premium deficiency reserve

Item	2015.3.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct	Assumed	Ceded	Retained
	business	reinsurance business	reinsurance business	business
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	-	-	23	(23)
Land and air insurance	-	8,489	(222)	8,711
Liability insurance	13,792	(6)	4,543	9,243
Bonding insurance	299	-	37	262
Other property insurance	175,788	-	22,021	153,767
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	48,324	-	-	48,324
Total	\$238,203	\$8,483	\$26,402	\$220,284

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

Item	2014.12.31			
	Premiums deficiency reserve		Ceded premiums 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	<u>\$198,656</u>	<u>\$1,108</u>	<u>\$39,478</u>	<u>\$160,286</u>

Item	2014.3.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct	Assumed	Ceded	Retained
	business	reinsurance business	reinsurance business	business
Fire insurance	\$1,593	\$33	\$-	\$1,626
Marine insurance	57	-	(3,960)	4,017
Land and air insurance	-	1,288	-	1,288
Liability insurance	21,830	17	3,458	18,389
Bonding insurance	89	-	19	70
Other property insurance	149,448	251	15,225	134,474
Accident insurance	-	74	-	74
Health insurance	-	-	-	-
Compulsory automobile liability insurance	43,585	-	-	43,585
Total	<u>\$216,602</u>	<u>\$1,663</u>	<u>\$14,742</u>	<u>\$203,523</u>

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**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

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

Item	2015.1.1 ~ 2015.3.31								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+ (3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	-	-	-	7	(7)	23	(1,182)	1,205	(1,212)
Land and air insurance	-	-	8,488	1,096	7,392	(222)	-	(222)	7,614
Liability insurance	13,949	14,928	(5)	5	(989)	4,595	2,075	2,520	(3,509)
Bonding insurance	303	511	-	-	(208)	38	8	30	(238)
Other property insurance	177,794	137,251	-	-	40,543	22,272	38,659	(16,387)	56,930
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	48,875	46,367	-	-	2,508	-	-	-	2,508
<b>Total</b>	<b>\$240,921</b>	<b>\$199,057</b>	<b>\$8,483</b>	<b>\$1,108</b>	<b>\$49,239</b>	<b>\$26,706</b>	<b>\$39,560</b>	<b>\$(12,854)</b>	<b>\$62,093</b>

Item	2014.1.1 ~ 2014.3.31								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+ (3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net Loss(gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	
Fire insurance	\$1,608	\$4,242	\$34	\$92	\$(2,692)	\$-	\$-	\$-	\$(2,692)
Marine insurance	57	160	-	2	(105)	(3,960)	(8,736)	4,776	(4,881)
Land and air insurance	-	-	1,288	377	911	-	(329)	329	582
Liability insurance	22,036	27,551	17	12	(5,510)	3,491	3,489	2	(5,512)
Bonding insurance	90	10,288	-	-	(10,198)	19	9,698	(9,679)	(519)
Other property insurance	150,861	161,282	253	425	(10,593)	15,369	-	15,369	(25,962)
Accident insurance	-	-	75	97	(22)	-	-	-	(22)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	43,998	39,356	-	-	4,642	-	-	-	4,642
<b>Total</b>	<b>\$218,650</b>	<b>\$242,879</b>	<b>\$1,667</b>	<b>\$1,005</b>	<b>\$(23,567)</b>	<b>\$14,919</b>	<b>\$4,122</b>	<b>\$10,797</b>	<b>\$(34,364)</b>

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

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

Item	2015.1.1 ~ 2015.3.31		2014.1.1 ~ 2014.3.31	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$199,764	\$39,478	\$243,606	\$4,118
Reserve	249,404	26,706	220,317	14,919
Recover	(200,165)	(39,560)	(243,884)	(4,122)
Effects of exchange rate changes	(2,317)	(222)	(1,774)	(173)
Ending balance	<u>\$246,686</u>	<u>\$26,402</u>	<u>\$218,265</u>	<u>\$14,742</u>

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

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

(12) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended 31 March 2015 and 2014 are \$25,649 thousands and \$15,488 thousands, respectively.

Defined benefits plan

Expenses under the defined benefits plan for the three-month periods ended 31 March 2015 and 2014 are \$6,986 thousands and \$7,436 thousands, respectively.

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**(Expressed in thousands of dollars unless otherwise stated)**

(13) Common stock

As of 31 March 2015, 31 December 2014 and 31 March 2014 the authorized and issued shares were 272,188 thousands shares with par value of \$10 each. Each share has one voting right and a right to receive dividends.

(14) Retained earnings

A. Legal reserve

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

B. Special capital reserve

Following the adoption of TIFRS, the “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 three months ended 31 March 2015, the reserves amounted to 1,949,825 thousands.



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C. Retained 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.

The Company accrued profit sharing to employees based on certain percentage of net income seated in the article of corporation after considering the legal reserve, which amount to \$0 thousands for the three-month periods ended 31 March 2015 and 2014, respectively. The employee bonus was recorded as operating cost and expense at current year. The difference between the accrual distribution and the estimated amount will be adjusted in the following fiscal year.

Details of the year ended 2014 and 2013 earnings distribution and dividends per share as approved by the company's Board of directors on 29 April 2015 and 21 April 2014, respectively, are as follows:

	Appropriation of Earnings		Dividend Per Share	
	2014	2013	2014	2013
Legal reserve	\$166,376	\$113,928	\$-	\$-
Legal reserve used to cover accumulated deficits	-	(38,953)	-	-
Special capital reserve-special reserve	585,180	494,667	-	-
Common stock-stock dividend	80,323	-	-	-
Directors' remuneration	68	-	-	-
Employee bonus-Cash	1,294	-	-	-

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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 thousands, 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 can be obtained from the "Market Observation Post System" on the website of the TWSE.

(15) Non-controlling interests

Item	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Beginning balance	\$704,946	\$350,112
Net income (loss) attributable to non-controlling interests	(68,745)	11,601
Other comprehensive income attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	(5,700)	(7,476)
Unrealized gains from available-for-sale financial assets	3,527	3,975
Others	-	495,119
Ending balance	<u>\$634,028</u>	<u>\$853,331</u>

(16) Retained earned premium

Item	2015.1.1 ~ 2015.3.31					
	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$596,801	\$30,861	\$407,606	\$220,056	\$(90,427)	\$310,483
Marine insurance	176,260	3,798	118,005	62,053	10,248	51,805
Land and air insurance	1,400,624	7,588	48,150	1,360,062	(252,514)	1,612,575
Liability insurance	274,868	547	97,603	177,812	6,881	170,931
Bonding insurance	54,686	330	37,153	17,863	5,498	12,365
Other property insurance	560,013	6,300	58,588	507,725	87,602	420,123
Accident insurance	577,062	1,461	97,575	480,948	(108,819)	589,767
Health insurance	47,765	-	-	47,765	335	47,430
Compulsory automobile liability insurance	744,288	121,540	237,827	628,001	(41,171)	669,172
Total	<u>\$4,432,367</u>	<u>\$172,425</u>	<u>\$1,102,507</u>	<u>\$3,502,285</u>	<u>\$(382,366)</u>	<u>\$3,884,651</u>

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**Cathay Century Insurance Co., Ltd. and Subsidiaries**

**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

2014.1.1 ~ 2014.3.31						
Item	Direct premium income	Reinsurance premium income	Reinsurance premiums ceded	Retained premiums	Net change for unearned premiums reserve	Retained earned premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)
Fire insurance	\$481,924	\$22,912	\$330,678	\$174,158	\$(99,838)	\$273,996
Marine insurance	151,722	3,949	125,272	30,399	(16,579)	46,978
Land and air insurance	1,615,767	341	68,275	1,547,833	105,609	1,442,224
Liability insurance	255,691	88	57,130	198,649	11,319	187,330
Bonding insurance	35,213	525	24,714	11,024	3,183	7,841
Other property insurance	534,554	6,263	231,060	309,757	(125,345)	435,102
Accident insurance	637,143	1,597	61,083	577,657	22,363	555,294
Health insurance	35,546	-	295	35,251	(6,496)	41,747
Compulsory automobile liability insurance	870,639	73,171	205,858	737,952	920	737,032
<b>Total</b>	<b>\$4,618,199</b>	<b>\$108,846</b>	<b>\$1,104,365</b>	<b>\$3,622,680</b>	<b>\$(104,864)</b>	<b>\$3,727,544</b>

(17) Retained claim paid

2015.1.1 ~ 2015.3.31				
Item	Insurance claims paid	Reinsurance claims paid	Claims recovered from reinsurers	Retained claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(121,799)	\$(17,563)	\$(68,748)	\$(70,614)
Marine insurance	(56,899)	(1,198)	(46,760)	(11,337)
Land and air insurance	(1,185,139)	(78,708)	(299,921)	(963,926)
Liability insurance	(111,286)	(68)	(39,934)	(71,420)
Bonding insurance	(2,002)	(65)	(1,214)	(853)
Other property insurance	(277,746)	(1,814)	(42,017)	(237,543)
Accident insurance	(212,206)	-	(41,328)	(170,878)
Health insurance	(23,758)	-	-	(23,758)
Compulsory automobile liability insurance	(480,516)	(68,532)	(149,623)	(399,425)
<b>Total</b>	<b>\$(2,471,351)</b>	<b>\$(167,948)</b>	<b>\$(689,545)</b>	<b>\$(1,949,754)</b>

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Item	2014.1.1 ~ 2014.3.31			
	Insurance	Reinsurance	Claims recovered	Retained
	claims paid	claims paid	from reinsurers	claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(82,697)	\$(260)	\$(31,403)	\$(51,554)
Marine insurance	(120,346)	(102,808)	(155,983)	(67,171)
Land and air insurance	(857,061)	(3,305)	(40,308)	(820,058)
Liability insurance	(95,720)	(5)	(44,544)	(51,181)
Bonding insurance	(1,448)	(107)	(145)	(1,410)
Other property insurance	(274,920)	(4,461)	(26,524)	(252,857)
Accident insurance	(208,353)	(42)	(15,109)	(193,286)
Health insurance	(24,387)	-	-	(24,387)
Compulsory automobile liability insurance	(581,662)	(79,987)	(209,596)	(452,053)
<b>Total</b>	<b>\$(2,246,594)</b>	<b>\$(190,975)</b>	<b>\$(523,612)</b>	<b>\$(1,913,957)</b>

(18) Components of other comprehensive income

	2015.1.1 ~ 2015.3.31				
	Reclassification	Other	Income tax relating	Other	
	adjustments	comprehensive	to components of	comprehensive	
Arising during	during the	income, before	other comprehensive	income, net of	
the period	period	tax	income	tax	
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$(17,108)	\$-	\$(17,108)	\$-	\$(17,108)
Unrealized gains (losses) from available-for-sale financial assets	225,232	(135,319)	89,913	911	90,824
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	62	-	62	-	62
<b>Total of other comprehensive income</b>	<b>\$208,186</b>	<b>\$(135,319)</b>	<b>\$72,867</b>	<b>\$911</b>	<b>\$73,778</b>

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	2014.1.1 ~ 2014.3.31				
	Reclassification adjustments	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax	
Arising during the period	during the period				
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (6,950)	\$ -	\$ (6,950)	\$ -	\$ (6,950)
Unrealized gains (losses) from available-for-sale financial assets	52,575	(38,318)	14,257	(977)	13,280
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(886)	-	(886)	-	(886)
<b>Total of other comprehensive income</b>	<b>\$44,739</b>	<b>\$(38,318)</b>	<b>\$6,421</b>	<b>\$(977)</b>	<b>\$5,444</b>

(19) Summary statement of employee benefit, depreciation, and amortization expenses by function during the three-month periods ended 31 march 2015 and 2014:

Item	2015.1.1 ~ 2015.3.31			2014.1.1 ~ 2014.3.31		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expenses						
Payroll expenses	\$-	\$584,789	\$584,789	\$-	\$574,567	\$574,567
Labor & health insurance expenses	-	43,001	43,001	-	43,782	43,782
Pension expenses	-	32,635	32,635	-	22,294	22,294
Other employee benefits expenses	-	20,197	20,197	-	18,044	18,044
Depreciation	-	20,457	20,457	-	25,286	25,286
Amortization	-	7,786	7,786	-	7,968	7,968

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(20) Income tax

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

Income tax expense (income) recognized in profit or loss

	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Current income tax expense:		
Current income tax charge	\$86,807	\$39,721
Deferred tax expense (income):		
Deferred tax expense (income) related to origination and reversal of temporary differences	(28,565)	(9,722)
Total income tax expense	<u>\$58,242</u>	<u>\$29,999</u>

Income tax related to components of other comprehensive income

	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Deferred tax expense (income):		
Unrealized gains from available-for-sale financial assets	<u>\$(911)</u>	<u>\$977</u>

Imputation credit information

	2015.3.31	2014.12.31	2014.3.31
Balances of imputation credit amounts	<u>\$10,273</u>	<u>\$10,273</u>	<u>\$14,839</u>

The expected creditable ratio for 2014 and actual creditable ratio for 2013 were 2.71% and 6.5%, respectively.

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

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The assessment of income tax returns

As of 31 March 2015, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

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

(21) Earnings per share

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

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

	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousands)	\$310,488	\$196,953
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188
Basic earnings per share (dollars)	\$1.14	\$0.72

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.

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**7. Risk management information of insurance contract and Financial Instruments**

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

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

(A) Board of directors

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

(B) Risk Management Committee

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



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**(C) 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.

**(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.

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- 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) Internal audit room

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

A. 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.

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(B) Scope and nature of risk evaluation system

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

- B. 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.

- C. 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.

- D. 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.

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

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

Item	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

**E. 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.

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F. 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.

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note)		
	2015.3.31	2014.12.31	2014.3.31
Fire insurance	\$409,691	\$694,299	\$385,440
Marine insurance	266,969	253,767	244,293
Land and air insurance	268,230	986,485	767,570
Liability insurance	136,878	153,702	156,059
Bonding insurance	63,575	39,522	44,861
Other property insurance	332,913	352,528	429,286
Accident insurance	176,702	272,721	298,454
Health insurance	14,576	15,934	18,529
Compulsory automobile liability insurance	63,100	338,731	287,113
Total	1,732,634	3,107,689	2,631,605
Less: Allowance for bad debts	(86,437)	(80,050)	(68,313)
Net	\$1,646,197	\$3,027,639	\$2,563,292

Note: As of 31 March 2015, 31 December 2014, and 31 March 2014, the receivables included overdue receivables amounted to \$291,845 thousands, \$227,092 thousands, and \$505,372 thousands, respectively. The allowance for bad debts amounted to \$39,946 thousands, \$24,293 thousands, and \$25,766 thousands, respectively.

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

Item	Claims reported and paid off		
	2015.3.31	2014.12.31	2014.3.31
Fire insurance	\$7,964	\$34,417	\$5,110
Marine insurance	4,075	23,522	88,337
Land and air insurance	29,926	38,387	29,467
Liability insurance	20,830	27,060	10,167
Bonding insurance	82	(6)	143
Other property insurance	8,114	10,043	8,893
Accident insurance	11,447	16,075	15,501
Health insurance	-	-	-
Compulsory automobile liability insurance	97,845	172,311	149,496
Total	180,283	321,809	307,114
Less: Allowance for bad debts	-	-	-
Net	<u>\$180,283</u>	<u>\$321,809</u>	<u>\$307,114</u>

**C. Payables of insurance contract**

Item	2015.3.31		
	Commission payables	Other payables	Total
Fire insurance	\$27,157	\$14,809	\$41,966
Marine insurance	8,529	8,662	17,191
Land and air insurance	20,644	166,213	186,857
Liability insurance	13,576	10,186	23,762
Bonding insurance	6,488	772	7,260
Other property insurance	33,142	10,165	43,307
Accident insurance	5,966	66,582	72,548
Health insurance	3,285	2,760	6,045
Compulsory automobile liability insurance	80,793	-	80,793
Total	<u>\$199,580</u>	<u>\$280,149</u>	<u>\$479,729</u>

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Item	2014.12.31		
	Commission 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	\$225,073	\$307,721	\$532,794

Item	2014.3.31		
	Commission payables	Other payables	Total
Fire insurance	\$8,812	\$9,200	\$18,012
Marine insurance	2,586	3,850	6,436
Land and air insurance	5,237	96,482	101,719
Liability insurance	5,005	6,314	11,319
Bonding insurance	45	174	219
Other property insurance	39,919	5,766	45,685
Accident insurance	28	32,419	32,447
Health insurance	974	8,324	9,298
Compulsory automobile liability insurance	97,687	-	97,687
Total	\$160,293	\$162,529	\$322,822

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

Item	2015.3.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$65,381	\$295,165
Sompo Japan Re	89,605	53,996
Kann An	42,686	7,507
Best Re	42,503	8,875
FP Marine	34,306	31,139
Guy Carpenter	59,310	44,009
Marsh	44,666	55,476
Swiss Re	3,941	93,598
Others	280,379	662,016
Total	662,777	1,251,781
Less: Allowance for bad debts	(44,144)	-
Net	\$618,633	\$1,251,781

Item	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	\$727,993	\$1,392,632



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Item	2014.3.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$55,882	\$209,956
Central Re	51,954	113,878
Guy Carpenter	33,023	118,218
Korean Re	48,018	52,125
Swiss Re	30,786	118,063
Willis	15,271	62,607
Others	321,522	576,081
Total	556,456	1,250,928
Less: Allowance for bad debts	(14,074)	-
Net	\$542,382	\$1,250,928

Note: As of 31 March 2015, 31 December 2014, and 31 March 2014, the due from reinsurers and ceding companies included overdue receivables amounted to \$46,272 thousands, \$47,827 thousands, and \$40,748 thousands, respectively. The allowance for bad debts amounted to \$23,882 thousands, \$19,566 thousands, and \$14,074 thousands, respectively.

(3) Information of management achievements

A. Acquisition cost for insurance contracts

Item	2015.1.1 ~ 2015.3.31				
	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$10,002	\$9,418	\$3,588	\$21,561	\$44,569
Marine insurance	3,008	951	500	8,013	12,472
Land and air insurance	18,330	-	78	209,137	227,545
Liability insurance	7,209	4,945	167	16,016	28,337
Bonding insurance	3,136	265	3	732	4,136
Other property insurance	2,875	90,404	898	12,178	106,355
Accident insurance	6,911	-	-	94,014	100,925
Health insurance	4,002	-	-	5,490	9,492
Compulsory automobile liability insurance	-	100,442	-	-	100,442
Total	\$55,473	\$206,425	\$5,234	\$367,141	\$634,273

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Item	2014.1.1 ~ 2014.3.31				
	Commission		Reinsurance		Total
	expense	Surcharge	commission	Other cost	
Fire insurance	\$10,394	\$7,487	\$1,147	\$22,752	\$41,780
Marine insurance	3,540	988	366	9,865	14,759
Land and air insurance	20,214	-	118	220,244	240,576
Liability insurance	7,085	4,582	25	16,339	28,031
Bonding insurance	988	115	1	407	1,511
Other property insurance	4,483	64,334	990	16,555	86,362
Accident insurance	5,152	-	-	84,750	89,902
Health insurance	5,072	-	-	5,279	10,351
Compulsory automobile liability insurance	-	119,895	-	1,796	121,691
<b>Total</b>	<b>\$56,928</b>	<b>\$197,401</b>	<b>\$2,647</b>	<b>\$377,987</b>	<b>\$634,963</b>

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

Item	2015.1.1 ~ 2015.3.31					
	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
income	reserve	contract	paid	reserve		
Fire insurance	\$596,801	\$174,493	\$(40,981)	\$(121,799)	\$2,933	\$611,447
Marine insurance	176,260	(26,317)	(11,972)	(56,899)	51,428	132,500
Land and air insurance	1,400,624	315,460	(227,467)	(1,185,139)	(176,010)	127,468
Liability insurance	274,868	(19,469)	(28,170)	(111,286)	(42,029)	73,914
Bonding insurance	54,686	(25,050)	(4,133)	(2,002)	27,920	51,421
Other property insurance	560,013	32,702	(105,457)	(277,746)	40,879	250,391
Accident insurance	577,062	98,426	(100,925)	(212,206)	(29,742)	332,615
Health insurance	47,765	(335)	(9,492)	(23,758)	(7,931)	6,249
Compulsory automobile liability insurance	744,288	49,444	(100,442)	(480,516)	(15,397)	197,377
<b>Total</b>	<b>\$4,432,367</b>	<b>\$599,354</b>	<b>\$(629,039)</b>	<b>\$(2,471,351)</b>	<b>\$(147,949)</b>	<b>\$1,783,382</b>

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**Notes to unaudited consolidated financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

2014.1.1 ~ 2014.3.31						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$481,924	\$265,339	\$(40,633)	\$(82,697)	\$17,930	\$641,863
Marine insurance	151,722	12,857	(14,393)	(120,346)	(511)	29,329
Land and air insurance	1,615,767	(103,445)	(240,458)	(857,061)	(208,150)	206,653
Liability insurance	255,691	(5,242)	(28,006)	(95,720)	(94,289)	32,434
Bonding insurance	35,213	(15,077)	(1,510)	(1,448)	(2,477)	14,701
Other property insurance	534,554	18,822	(85,372)	(274,920)	(54,206)	138,878
Accident insurance	637,143	(37,655)	(89,902)	(208,353)	(63,307)	237,926
Health insurance	35,546	6,519	(10,351)	(24,387)	5,857	13,184
Compulsory automobile liability insurance	870,639	(293)	(121,691)	(581,662)	(1,402,033)	(1,235,040)
<b>Total</b>	<b>\$4,618,199</b>	<b>\$141,825</b>	<b>\$(632,316)</b>	<b>\$(2,246,594)</b>	<b>\$(1,801,186)</b>	<b>\$79,928</b>

**b. Cost benefit analysis for assumed reinsurance business**

2015.1.1 ~ 2015.3.31						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	\$30,861	\$3,885	\$(3,588)	\$(17,563)	\$(1,055)	\$12,540
Marine insurance	3,798	(3,921)	(500)	(1,198)	22,414	20,593
Land and air insurance	7,588	(3,937)	(78)	(78,708)	11,402	(63,733)
Liability insurance	547	415	(167)	(68)	(56)	671
Bonding insurance	330	149	(3)	(65)	79	490
Other property insurance	6,300	792	(898)	(1,814)	4,732	9,112
Accident insurance	1,461	32	-	-	15	1,508
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	121,540	(26,645)	-	(68,532)	(46,411)	(20,048)
<b>Total</b>	<b>\$172,425</b>	<b>\$(29,230)</b>	<b>\$(5,234)</b>	<b>\$(167,948)</b>	<b>\$(8,880)</b>	<b>\$(38,867)</b>

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**(Expressed in thousands of dollars unless otherwise stated)**

Item	2014.1.1 ~ 2014.3.31					Net (loss) gain for assumed reinsurance
	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	
Fire insurance	\$22,912	\$4,117	\$(1,147)	\$(260)	\$(3,003)	\$22,619
Marine insurance	3,949	1,856	(366)	(102,808)	(12,935)	(110,304)
Land and air insurance	341	3,404	(118)	(3,305)	5,753	6,075
Liability insurance	88	137	(25)	(5)	(41)	154
Bonding insurance	525	78	(1)	(107)	-	495
Other property insurance	6,263	2,795	(990)	(4,461)	1,631	5,238
Accident insurance	1,597	(50)	-	(42)	(89)	1,416
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	73,171	(2,257)	-	(79,987)	(152,605)	(161,678)
<b>Total</b>	<b>\$108,846</b>	<b>\$10,080</b>	<b>\$(2,647)</b>	<b>\$(190,975)</b>	<b>\$(161,289)</b>	<b>\$ (235,985)</b>

c. Recognized gain (loss) for reinsurance contract purchased

Item	2015.1.1 ~ 2015.3.31					Net loss (gain) for reinsurance ceded
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$407,606	\$87,951	\$(30,517)	\$(68,748)	\$12,617	\$408,909
Marine insurance	118,005	(19,990)	(16,441)	(46,760)	42,948	77,762
Land and air insurance	48,150	59,010	(14,277)	(299,921)	(13,540)	(220,578)
Liability insurance	97,603	(12,173)	(12,046)	(39,934)	(5,989)	27,461
Bonding insurance	37,153	(19,403)	(7,339)	(1,214)	18,721	27,918
Other property insurance	58,588	121,096	(13,081)	(42,017)	75,377	199,963
Accident insurance	97,575	(10,361)	(20,783)	(41,328)	(9,305)	15,798
Health insurance	-	-	-	-	519	519
Compulsory automobile liability insurance	237,827	(18,372)	-	(149,623)	(244,494)	(174,662)
<b>Total</b>	<b>\$1,102,507</b>	<b>\$187,758</b>	<b>\$(114,484)</b>	<b>\$(689,545)</b>	<b>\$(123,146)</b>	<b>\$363,090</b>

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Item	2014.1.1 ~ 2014.3.31					
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$330,678	\$169,618	\$(34,004)	\$(31,403)	\$(28,044)	\$406,845
Marine insurance	125,272	(1,866)	(15,150)	(155,983)	(4,042)	(51,769)
Land and air insurance	68,275	5,568	(22,253)	(40,308)	5,848	17,130
Liability insurance	57,130	6,214	(14,716)	(44,544)	(11,383)	(7,299)
Bonding insurance	24,714	(11,816)	(4,247)	(145)	(1,263)	7,243
Other property insurance	231,060	(103,728)	(61,445)	(26,524)	(24,313)	15,050
Accident insurance	61,083	(15,342)	(11,342)	(15,109)	(5,880)	13,410
Health insurance	295	23	(106)	-	97	309
Compulsory automobile liability insurance	205,858	(1,630)	-	(209,596)	(536,208)	(541,576)
<b>Total</b>	<b>\$1,104,365</b>	<b>\$47,041</b>	<b>\$(163,263)</b>	<b>\$(523,612)</b>	<b>\$(605,188)</b>	<b>\$(140,657)</b>

(4) Sensitivity of insurance risk

A. The Company

Insurance type	Premium income	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	\$492,180	72.64	\$24,609	\$17,728
Marine insurance	166,873	64.89	8,344	2,360
Land and air insurance	1,392,493	65.03	69,624	42,863
Liability insurance	228,936	67.30	11,447	5,743
Bonding insurance	52,833	67.38	2,642	270
Other property insurance	126,099	60.76	6,305	2,705
Accident insurance	574,308	69.93	28,715	18,113
Health insurance	47,765	69.50	2,388	1,655
Compulsory automobile liability insurance	568,615	NA	NA	NA

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

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

**B. Cathay Insurance (China)**

Insurance type	Premium income	The impact to profit and loss when the expected loss ratio increases 5%	
		Before reinsurance	After reinsurance
Fire insurance	\$82,029	\$4,101	\$1,279
Marine insurance	8,311	416	226
Liability insurance	45,790	2,289	967
Bonding insurance	1,853	93	47
Other property insurance	439,581	21,979	21,649
Compulsory automobile liability insurance	175,673	8,784	8,784

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

**(5) Concentration Risk**

**A. The Company**

**a. Situations that might cause concentration of insurance risk:**

**I. Single insurance contract or few related contracts**

For the three-month period ended 31 March 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.

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**II. Exposure to unanticipated change in trend**

For the three-month period ended 31 March 2015, the loss rates of the rest insurance categories are still within reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the Company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the three-month period ended 31 March 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 three-month period ended 31 March 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 3<sup>rd</sup> 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.

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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 centralize in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

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

Insurance type	2015.1.1 ~ 2015.3.31			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,157,628	\$121,768	\$282,426	\$1,996,970
Fire insurance	499,652	29,483	333,520	195,615
Marine insurance	166,192	10,265	114,967	61,490
Engineering insurance	116,372	2,100	49,293	69,179
Health and injury insurance	356,251	1,388	30,174	327,465
Other insurance	353,265	4,565	178,351	179,479
Total	\$3,649,360	\$169,569	\$988,731	\$2,830,198

- 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.



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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 three-month period ended 31 March 2015.

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

Insurance type	2015.1.1 ~ 2015.3.31			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$597,811	\$-	\$(922)	\$598,733
Fire insurance	88,523	775	58,740	30,558
Marine insurance	8,311	877	4,659	4,529
Engineering insurance	7,789	38	6,040	1,787
Health and injury insurance	-	2	-	2
Other insurance	50,803	545	27,920	23,428
Total	\$753,237	\$2,237	\$96,437	\$659,037

(6) Claim development table

A. The Company

	2009.4.1- -2009.3.31	2010.4.1- 2010.3.31	2011.4.1- 2011.3.31	2012.4.1- 2012.3.31	2013.4.1- 2013.3.31	2014.4.1- 2014.3.31	2015.4.1- 2015.3.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$6,166,932	\$3,451,224	\$5,047,820	\$4,157,056	\$5,956,442	\$6,035,485	\$7,121,019	
One year later	7,989,809	4,362,499	6,226,914	4,979,753	6,008,210	6,560,065		
Two year later	7,894,152	4,509,300	5,907,031	5,156,606	5,852,365			
Three year later	7,956,476	4,548,580	5,949,328	5,148,452				
Four year later	8,037,121	4,526,435	5,975,244					
Five year later	8,059,424	4,507,486						
Six year later	7,892,966							
Estimate of cumulative claims incurred	7,892,966	4,507,486	5,975,244	5,148,452	5,852,365	6,560,065	7,121,019	\$43,057,597
Cumulative payment to date	7,947,243	4,456,264	5,836,301	5,038,579	5,586,499	5,689,176	4,213,848	38,767,910
Subtotal	\$(54,277)	51,222	138,943	109,873	265,866	870,889	2,907,171	4,289,687
Reconciliation	-	-	-	-	-	-	98,700	98,700
Recorded in balance sheet	\$(54,277)	\$51,222	\$138,943	\$109,873	\$265,866	\$870,889	\$3,005,871	\$4,388,387

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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 \$1,923,909 thousands and assumed reinsurance (except compulsory automobile liability insurance) \$152,900 thousands.

**B. Cathay Insurance (China)**

	2010.4.1- -2010.3.31	2011.4.1- 2011.3.31	2012.4.1- 2012.3.31	2013.4.1- 2013.3.31	2014.4.1- 2014.3.31	2014.4.1- 2015.3.31	Total
Estimated accumulation amount of claim:							
As to 2010/12/31	\$343,970						
As to 2011/12/31	340,728	\$370,202					
As to 2012/12/31	305,994	331,551	\$344,000				
As to 2013/12/31	306,019	348,958	340,728	\$370,202			
As to 2014/12/31	305,166	359,953	305,994	331,551	\$1,029,765		
As to 2015/3/31	305,863	358,041	822,192	1,354,017	1,911,957	557,763	
Estimated accumulation of claim	305,863	358,041	822,192	1,354,017	1,911,957	557,763	\$5,309,833
Accumulated claim paid	305,629	340,968	791,324	1,208,725	1,257,808	110,391	4,014,845
Subtotal	234	17,073	30,868	145,292	654,149	447,372	1,294,988
Indirect claim expense, discount and risk margin							56,731
Recognized amount on balance sheet							<u>\$1,351,719</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 premiums.

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(7) Financial instruments

Financial instruments	2015.3.31	2014.12.31	2014.3.31
<b><u>Financial assets</u></b>			
Financial assets at fair value through profit or loss:			
Held for trading	\$1,776,750	\$1,514,144	\$607,671
Available-for-sale financial assets	8,138,418	8,256,604	8,101,196
Held-to-maturity financial assets	3,115,336	2,647,264	1,803,056
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	8,062,043	8,012,927	8,949,527
Debt instrument investments for which no active market exists	3,405,684	3,359,314	2,541,800
Receivables	2,442,763	3,649,736	3,087,664
Subtotal	<u>13,910,490</u>	<u>15,021,977</u>	<u>14,578,991</u>
Derivative financial assets for hedging	3,809	3,747	9,136
Total	<u><u>\$26,944,803</u></u>	<u><u>\$27,443,736</u></u>	<u><u>\$25,100,050</u></u>
<b><u>Financial liabilities</u></b>			
Financial liabilities measured at amortised cost:			
Payables	\$2,487,407	\$2,892,354	\$2,251,378
Financial liabilities at fair value through profit or loss:			
Held for trading	78,098	176,626	62,424
Preferred stock liabilities	1,000,000	1,000,000	1,000,000
Total	<u><u>\$3,565,505</u></u>	<u><u>\$4,068,980</u></u>	<u><u>\$3,313,802</u></u>

(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 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.

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**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 is 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.

**(B) Interest rate risk**

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

**(C) Equity price risk**

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

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B. Credit risk

(A) Credit risk management policies

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

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

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

- 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 cause 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.

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**(B) Credit concentration risk analysis**

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

Financial assets	The amount of credit risk exposure - by area					
	2015.3.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,115,809	\$374	\$109,121	\$637,025	\$2,199,714	\$8,062,043
Financial assets at fair value through profit or loss	1,385,944	-	-	-	390,806	1,776,750
Available-for-sale financial assets	6,788,239	-	121,905	164,850	1,063,424	8,138,418
Derivative financial assets for hedging	3,809	-	-	-	-	3,809
Debt instrument investments for which no active market exists	1,050,000	-	337,253	1,076,863	941,568	3,405,684
Held-to-maturity financial assets	190,636	-	708,490	1,191,783	1,024,427	3,115,336
Total	\$14,534,437	\$374	\$1,276,769	\$3,070,521	\$5,619,939	\$24,502,040
Each area percentage	59.32%	0.00%	5.21%	12.53%	22.94%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	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
Each area percentage	56.43%	0.00%	2.78%	14.25%	26.54%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2014.3.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$3,625,638	\$11	\$4,456	\$786,747	\$4,532,675	\$8,949,527
Financial assets at fair value through profit or loss	521,931	-	-	-	85,740	607,671
Available-for-sale financial assets	6,782,845	-	-	99,195	1,219,156	8,101,196
Derivative financial assets for hedging	9,136	-	-	-	-	9,136
Debt instrument investments for which no active market exists	850,000	-	327,450	305,370	1,058,980	2,541,800
Held-to-maturity financial assets	-	-	-	1,510,678	292,378	1,803,056
<b>Total</b>	<b>\$11,789,550</b>	<b>\$11</b>	<b>\$331,906</b>	<b>\$2,701,990</b>	<b>\$7,188,929</b>	<b>\$22,012,386</b>
Each area percentage	53.56%	0.00%	1.51%	12.27%	32.66%	100.00%

(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				
	2015.3.31				
	Normal assets		Past due but not impaired	Impaired	Total
Investment level	Non-investm ent level				
Cash and cash equivalents	\$8,062,043	\$-	\$-	\$-	\$8,062,043
Financial assets at fair value through profit or loss	1,776,750	-	-	-	1,776,750
Available-for-sale financial assets	8,138,418	-	-	-	8,138,418
Derivative financial assets for hedging	3,809	-	-	-	3,809
Debt instrument investments for which no active market exists	3,405,684	-	-	-	3,405,684
Held-to-maturity financial assets	3,115,336	-	-	-	3,115,336
<b>Total</b>	<b>\$24,502,040</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$24,502,040</b>



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Financial assets	Credit quality of financial assets				
	2014.12.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
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
<b>Total</b>	<b>\$23,794,000</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$23,794,000</b>

Financial assets	Credit quality of financial assets				
	2014.3.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,949,527	\$-	\$-	\$-	\$8,949,527
Financial assets at fair value through profit or loss	607,671	-	-	-	607,671
Available-for-sale financial assets	8,101,196	-	-	-	8,101,196
Derivative financial assets for hedging	9,136	-	-	-	9,136
Debt instrument investments for which no active market exists	2,541,800	-	-	-	2,541,800
Held-to-maturity financial assets	1,803,056	-	-	-	1,803,056
<b>Total</b>	<b>\$22,012,386</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$22,012,386</b>

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

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**II. Secured loans**

Secured loans	2015.3.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$153,721	\$-	\$-	\$-	\$123,118	\$276,839	\$1,384	\$275,455
Corporate Finance	60,000	-	-	-	87,773	147,773	59,849	87,924
<b>Total</b>	<b>\$213,721</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$210,891</b>	<b>\$424,612</b>	<b>\$61,233</b>	<b>\$363,379</b>

Secured 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
<b>Total</b>	<b>\$214,569</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$249,920</b>	<b>\$464,489</b>	<b>\$67,176</b>	<b>\$397,313</b>

Secured loans	2014.3.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$131,166	\$-	\$-	\$-	\$125,477	\$256,643	\$1,583	\$255,060
Corporate Finance	60,000	-	-	-	186,453	246,453	81,061	165,392
<b>Total</b>	<b>\$191,166</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$311,930</b>	<b>\$503,096</b>	<b>\$82,644</b>	<b>\$420,452</b>

**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".

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D. Liquidity risk

(A) Source of liquidity risk

Liquidity risk includes ‘Funding liquidity risk’ and ‘Market liquidity risk’. The ‘Funding liquidity risk’ is the risk of insufficient funding or inability to realize the assets to meet the Company’s commitment when due. ‘Market liquidity risk’ occurs when drastic change of market price is triggered by market turmoil or lack of market depth to dispose of or offset the holding positions.

(B) Liquidity risk management

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

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

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

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

Liabilities	2015.3.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,487,407	\$1,251,781	\$1,223,221	\$21,462	\$3,060	\$4,038	\$-
Financial liabilities at fair value through profit or loss	78,098	78,098	57,600	15,842	4,656	-	-
Preferred stock liability	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 liability	1,000,000	1,000,000	-	-	-	1,000,000	-

Liabilities	2014.3.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,251,378	\$1,250,928	\$1,219,527	\$22,583	\$7,558	\$1,260	\$-
Financial liabilities at fair value through profit or loss	62,424	62,424	48,995	13,429	-	-	-
Preferred stock liability	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.

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(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.

(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:

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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.

2015.3.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(416,468)
Interest rate risk (Yield curve)	20bp	(104,624)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(110,219)

2015.3.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$307	\$120
	RMB appreciate 1 %	18,747	335
	HKD appreciate 1 %	96	-
	NTD appreciate 1 %	(32,637)	(2,228)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(3,305)	(130)
	Yield curve (RMB) flat rises 1bp	(42)	(73)
	Yield curve (NTD) flat rises 1bp	(344)	(1,337)
Equity securities price sensitivity	Increase 1% in equity price	-	41,647

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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

2014.3.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(238,881)
Interest rate risk (Yield curve)	20bp	(65,838)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(121,082)
Merchandise risk (merchandise price)	-10%	-

2014.3.31		Profit and loss	Equity
Foreign currency risk sensitivity	RMB appreciate 1 %	\$18,691	\$2,328
	HKD appreciate 1 %	-	160
	NTD appreciate 1 %	(13,962)	(1,866)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,562)	(137)
	Yield curve (RMB) flat rises 1bp	(63)	(78)
	Yield curve (NTD) flat rises 1bp	(150)	(1,301)
Equity securities price sensitivity	Increase 1% in equity price	-	(23,888)

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(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.
- 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.)



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- 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.

**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 as at			Fair value as at		
	2015.3.31	2014.12.31	2014.3.31	2015.3.31	2014.12.31	2014.3.31
Held-to-maturity financial assets						
Bonds	\$3,115,336	\$2,647,264	\$1,803,056	\$3,280,590	\$2,767,723	\$1,837,004
Debt instrument investments for which						
no active market exists	3,405,684	3,359,314	2,541,800	3,485,852	3,399,085	2,552,807

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(10) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset 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.

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 31 March 2015:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$1,776,750	\$-	\$-	\$1,776,750
Available-for-sale financial assets				
Stock	2,781,279	-	965,700	3,746,979
Bonds	592,418	1,911,522	-	2,503,940
Others	1,639,692	247,807	-	1,887,499
Derivative financial assets for hedging				
SWAP	-	3,809	-	3,809

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	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value:				
Financial liabilities at fair value through profit or loss				
Forward	\$-	\$78,098	\$-	\$78,098

As at 31 December 2014:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$1,514,144	\$-	\$-	\$1,514,144
Available-for-sale financial assets				
Stock	2,849,230	-	952,200	3,801,430
Bonds	1,032,630	1,693,109	-	2,725,739
Others	1,508,276	221,159	-	1,729,435
Derivative financial assets for hedging				
SWAP	-	3,747	-	3,747
Financial liabilities at fair value:				
Financial liabilities at fair value through profit or loss				
Forward	\$-	\$176,626	\$-	\$176,626

As at 31 March 2014:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value:				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$607,671	\$-	\$-	\$607,671
Available-for-sale financial assets				
Stock	2,207,887	-	900,000	3,107,887
Bonds	1,115,415	2,324,096	-	3,439,511
Others	1,553,798	-	-	1,553,798
Derivative financial assets for hedging				
SWAP	-	9,136	-	9,136

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	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value:				
Financial liabilities at fair value through profit or loss				
Forward	\$-	\$62,424	\$-	\$62,424

**Transfers between Level 1 and Level 2 during the periods**

During the three-month periods ended 31 March 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

**Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the periods**

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

Available-for-sale financial assets	Stocks	Subtotal
Beginning balances as at 1 January 2015	\$952,200	\$952,200
Total gains (losses) recognized for the three-month period ended 31 March 2015:		
Amount recognized in OCI (presented in "Unrealized gains (losses) from available-for-sale financial assets)	13,500	13,500
Ending balances as at 31 March 2015	<u>\$965,700</u>	<u>\$965,700</u>
Beginning balances as at 1 January 2014	\$-	\$-
Total gains (losses) recognized for the three-month period ended 31 March 2014		
Amount recognized in OCI (presented in "Unrealized gains (losses) from available-for-sale financial assets)	-	-
Acquisition/issues for the three-month period ended 31 March 2014	900,000	900,000
Ending balances as at 31 March 2014	<u>\$900,000</u>	<u>\$900,000</u>

Total gains (losses) recognized for the three-month periods ended 31 March 2015 and 2014 in the table above contain gains (losses) related to assets on hand as at 31 March 2015 and 2014 in the amount of \$13,500 thousands and \$0 thousands, respectively.

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**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 31 March 2015

	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Quantitative information</u>	<u>Relationship between inputs and fair value</u>
Financial assets:				
Available-for-sale				
Stocks	Market comparison 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 31 December 2014

	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Quantitative information</u>	<u>Relationship between inputs and fair value</u>
Financial assets:				
Available-for-sale				
Stocks	Market comparison 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 31 March 2014

	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>	<u>Quantitative information</u>	<u>Relationship between inputs and fair value</u>
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

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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.

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 31 March 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value for which only the fair value is disclosed:				
Financial assets held to maturity		\$- 3,280,590	\$-	\$3,280,590
Debt instrument investments for which no active market exists	484,718	3,001,134	-	3,485,852

As at 31 December 2014

Not applicable

As at 31 March 2014

Not applicable

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**8. Related party transactions**

(1) Premiums income

Name	2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related parties		
Cathay Life Insurance Co., Ltd.	\$98,182	\$5,929
Cathay United Bank Co., Ltd.	31,702	12,415
Total	<u>\$129,884</u>	<u>\$18,344</u>

The premium income is according to general rate calculation.

(2) Premiums receivable

Name	2015.3.31	%	2014.12.31	%	2014.3.31	%
Other related parties						
Cathay Life Insurance Co., Ltd.	\$4,211	0.26	\$3,084	0.10	\$6,514	0.25
Cathay United Bank Co., Ltd.	15,000	0.91	338	0.01	17,906	0.70
Total	<u>\$19,211</u>		<u>\$3,422</u>		<u>\$24,420</u>	

Premium receivables generated by the principal business activities of premium income, for the period of one month.

(3) Cash in banks

Name	Type	2015.3.31	2014.12.31	2014.3.31
Other related parties				
Cathay United Bank Co., Ltd.	Cash in banks	\$440,921	\$655,280	\$482,709
	Checking Deposits	111,620	101,828	119,756
	Time deposits	628,200	623,200	693,385
Indovina Bank Ltd.	Cash in banks	7,810	14,460	5,662
	Time deposits	87,278	104,195	220,555
Total		<u>\$1,275,829</u>	<u>\$1,498,963</u>	<u>\$1,522,067</u>

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Name	Type	Interest Rate		
		2015.3.31	2014.12.31	2014.3.31
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	0.56%-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	4.50%-7.50%	5.00%-7.70%	0.25%-9.00%

Name	Type	Interest Revenue	
		2015.1.1~ 2015.3.31	2014.1.1~ 2014.3.31
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$128	\$258
	Time deposits	2,042	2,497
Indovina Bank Ltd.	Time deposits	479	3,009
Total		\$2,649	\$5,764

As of 31 March 2015, 31 December 2014, and 31 March 2014, time deposit pledged were \$28,598 thousands, \$23,720 thousands, and \$33,537 thousands, respectively.

(4) Secured Loans

Name	2015.1.1 ~ 2015.3.31			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$37,051	\$35,031	1.84%-1.88%	\$166

Name	2014.1.1 ~ 2014.3.31			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$39,174	\$37,583	1.84%-1.88%	\$176

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

Name	Type	2015.3.31	2014.12.31	2014.3.31
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	\$100,269	\$100,136	\$-



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(6) Available-for-sale financial assets

Name	Type	2015.3.31	2014.12.31	2014.3.31
Other related parties				
Cathay Securities	Beneficiary			
Investment Trust Co., Ltd.	certificates	<u>\$316,225</u>	<u>\$292,579</u>	<u>\$111,003</u>

(7) Guarantee deposits paid

Name	2015.3.31	%	2014.12.31	%	2014.3.31	%
Other related parties						
Cathay Life Insurance Co., Ltd.	\$23,872	1.47	\$22,465	1.55	\$24,407	1.95
Cathay Futures Co., Ltd.	9,809	0.61	9,964	0.69	9,953	0.79
Cathay United Bank	22,383	1.38	17,383	1.20	27,221	2.17
Lin Yuan (Shanghai) Real Estate	<u>5,415</u>	0.33	<u>5,466</u>	0.38	<u>5,219</u>	0.42
Total	<u>\$61,479</u>		<u>\$55,278</u>		<u>\$66,800</u>	

(8) Other payable

Name	2015.3.31	%	2014.12.31	%	2014.3.31	%
Parent company						
Cathay Financial Holding Co., Ltd.	\$257,151	25.07	\$171,856	13.65	\$253,806	30.81
Other related parties						
Cathay Life Insurance Co., Ltd.	268,688	26.20	264,638	21.02	185,360	22.50
Symphox Information Co., Ltd.	<u>3,088</u>	0.30	<u>3,945</u>	0.31	<u>2,953</u>	0.36
Total	<u>\$528,927</u>		<u>\$440,439</u>		<u>\$442,119</u>	

(9) Preferred stock liability

Name	2015.3.31	%	2014.12.31	%	2014.3.31	%
Parent company						
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	100.00	<u>\$1,000,000</u>	100.00	<u>\$1,000,000</u>	100.00

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(10) Operating costs

Name	Type	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Other related parties			
Cathay United Bank Co., Ltd.	Handing fee paid	\$5,654	\$5,175

(11) Operating expenses

Name	Type	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	\$25,061	\$25,672
	Marketing expenses	333,013	337,797
	Party premium expenses	3,119	2,927
	Administrative expenses	1,286	1,276
Cathay United Bank Co., Ltd.	Marketing expenses	16,925	15,431
	Rental expenses	2,221	2,163
Lin Yuan (Shanghai) Real Estate	Rental expenses	5,171	4,958
Total		\$386,796	\$390,224

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

(12) Other expenses

Name	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Other related parties		
Symphox Information Co., Ltd.	\$8,926	\$8,636

(13) Non-operating expenses and losses

Name	2015.1.1 ~ 2015.3.31	2014.1.1 ~ 2014.3.31
Parent company		
Cathay Financial Holding Co., Ltd.	\$4,586	\$4,586

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

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(14) Other

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

<u>Name</u>	<u>Item</u>	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Other related parties				
Cathay United Bank	CS contracts	US\$69,200	US\$58,200	US\$43,950
Co., Ltd.		EUR\$1,850	EUR\$1,350	-
	IRS	NT\$200,000	NT\$200,000	NT\$400,000

(15) Key management personnel compensation in total

<u>Item</u>	<u>2015.1.1 ~ 2015.3.31</u>	<u>2014.1.1 ~ 2014.3.31</u>
Short-term employee benefits	\$18,368	\$19,344
Post-employment benefits - time deposits	610	618
Termination benefits	-	-
Total	<u>\$18,978</u>	<u>\$19,962</u>

**9. Pledged assets**

(1) The Company

<u>Item</u>	<u>2015.3.31</u>	<u>2014.12.31</u>	<u>2014.3.31</u>
Government deposits paid government bonds	\$691,597	\$514,324	\$516,195
Guarantee deposits paid-time deposits	20,000	15,000	25,000
Total	<u>\$711,597</u>	<u>\$529,324</u>	<u>\$541,195</u>

As of 31 March 2015, 31 December 2014, and 31 March 2014 the Company provided government bonds amounting to \$691,597 thousands, \$514,324 thousands, and \$516,195 thousands as the "Guaranteed Depository Insurance" in accordance with the Insurance Act, respectively. The pledged assets are stated at book value.

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(2) Cathay Insurance (China)

Item	2015.3.31	2014.12.31	2014.3.31
Government deposits paid-times deposits	\$810,400	\$818,000	\$603,842

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

(3) Cathay Insurance (Vietnam)

Item	2015.3.31	2014.12.31	2014.3.31
Government deposits paid-times deposits	\$8,598	\$8,720	\$8,537

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

**10. 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 31 March 2015, 31 December 2014, and 31 March 2014 are as follows:

(1) Significant lease contracts of the Company

	2015.3.31	2014.12.31	2014.3.31
Not later than 1 year	\$132,630	\$126,387	\$126,346
Later than 1 year but not later than 5 years	530,517	505,547	505,384
Later than 5 years	-	-	-
	\$663,147	\$631,934	\$631,730

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

	2015.3.31	2014.12.31	2014.3.31
Not later than 1 year	\$64,866	\$62,570	\$65,328
Later than 1 year but not later than 5 years	127,458	107,750	113,224
Later than 5 years	-	-	-
	<u>\$192,324</u>	<u>\$170,320</u>	<u>\$178,552</u>

**11. Significant disaster losses: None.**

**12. Subsequent events: None.**

**13. Others**

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

Item	2015.3.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
Cash and cash equivalents	\$8,077,748	\$-	\$8,077,748
Receivables	2,442,763	-	2,442,763
Investments	8,040,425	8,762,951	16,803,376
Reinsurance contracts assets - Net	5,733,737	15,809	5,749,546
Property and equipment	-	241,501	241,501
Intangible assets	-	19,005	19,005
Other assets	-	1,796,822	1,796,822
Total assets			<u>\$35,130,761</u>
Payables	\$2,480,309	\$7,098	\$2,487,407
Financial Liabilities	73,442	1,004,656	1,078,098
Insurance liabilities	-	23,788,950	23,788,950
Provision	-	282,888	282,888
Other liabilities	-	349,193	349,193
Total liabilities			<u>\$27,986,536</u>

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Item	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 contracts assets - Net	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>
Item	2014.3.31		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,965,027	\$-	\$8,965,027
Receivables	3,087,664	-	3,087,664
Investments	6,231,716	7,252,420	13,484,136
Reinsurance contracts assets - Net	5,561,668	19,354	5,581,022
Property and equipment	-	284,365	284,365
Intangible assets	-	21,627	21,627
Other assets	-	1,433,648	1,433,648
Total assets			<u>\$32,857,489</u>
Payables	\$2,242,560	\$8,818	\$2,251,378
Financial Liabilities	62,424	1,000,000	1,062,424
Insurance liabilities	-	22,645,147	22,645,147
Provision	-	324,554	324,554
Other liabilities	-	427,719	427,719
Total liabilities			<u>\$26,711,222</u>

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(2) Hedged of derivative financial instruments related information

Cash flow hedges - IRS

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at 31 March 2015:

Par value	Exchange rate	Frequency	Maturity date
\$200,000	2.785%	Each quarterly	2015.4.30

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by \$3,809 thousands, \$3,747 thousands, and \$9,136 thousands as of 31 March 2015, 31 December 2014, and 31 March 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.

(4) Eliminated inter-company transactions

Transactions	2015.1.1~2015.3.31		
	Company name and debit (credit) amounts		
	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
① Eliminate subsidiaries investment profit and loss	\$(68,744)	\$68,745	\$(1)
② Eliminate subsidiaries equity	(1,034,924)	1,268,055	400,897

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Transactions	2014.1.1~2014.3.31		
	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	\$(10,552)	\$11,600	\$(1,048)
②Eliminate subsidiaries equity	(1,335,693)	1,706,662	482,362

Note: The eliminated difference of inter-company result in non-controlling equity \$634,028 thousands and \$853,331 thousands for the three-month periods ended 31 March 2015 and 2014, respectively.

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

Financial Assets	2015.3.31		
	Foreign Currency	Exchange Rate	NTD
Monetary Items			
USD	\$171,986	31.4010	\$5,400,547
RMB	400,725	5.0650	2,029,666
EUR	542	33.7624	18,331
DKK	617	6.9616	4,296
Non-Monetary Items			
USD	148,600	31.4010	-
EUR	3,350	33.7624	-
	(Nominal Amount)		(Note)



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	2014.12.31		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<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)
	2014.3.31		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial Assets</u>			
Monetary Items			
USD	\$96,169	30.5100	\$2,934,116
RMB	765,708	4.9091	3,758,937
EUR	106	41.9787	4,450
Non-Monetary Items			
USD	97,870	30.5100	-
	(Nominal Amount)		(Note)

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

Note: The Consolidated Company conducted forward currency contracts IRSs and FXSWAPs for hedging. Financial liabilities at fair value through profit and loss were recognized by \$78,098 thousands, \$176,626 thousands, and \$62,424 thousands at 31 March 2015, 31 December 2014, and 31 March 2014.

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(6) Capital management

A. Objective

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

B. Policy

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

C. Procedures

a. Periodically

Regularly review the capital adequacy ratios in order to implement the capital adequacy management. The Company provides capital adequacy report every 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.

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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.

(7) 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.

**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 millions to the 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 Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to CNY\$200 million to the establish an insurance subsidiary. As of 31 March 2015, the Company has totally remitted US\$60.56 millions.