

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the six-month periods ended
30 June 2014 and 2013
With Independent Auditors' 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.

Address: 1F, No.296, Sec. 4, Jen Ai Road, Taipei, Taiwan, ROC
Telephone: 886-2-2755-1299

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

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

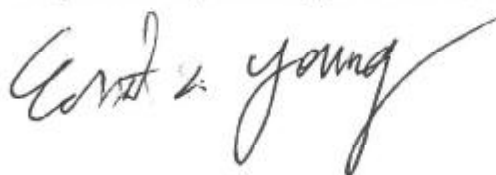
We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries as of 30 June 2014, 31 December 2013, 30 June 2013, and the related consolidated statements of comprehensive income for the three-month periods ended 30 June 2014 and 2013, and for the six-month periods ended 30 June 2014 and 2013, changes in equity and cash flows for the six-month periods ended 30 June 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China ("ROC") and "Guidelines for Certified Public Accountants' Examination and Reports on Financial Statements". Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Company and its subsidiaries as of 30 June 2014, 31 December 2013 and 30 June 2013, the consolidated results of its operations for the three-month periods ended 30 June 2014 and 2013, and for the six-month periods ended 30 June 2014 and 2013, and its cash flows for the six-month periods ended 30 June 2014 and 2013 in conformity with "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises" and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission.

The Company has prepared its separate financial statements for the six-month periods ended 30 June 2014 and 2013. We express an unqualified opinion on these financial statements based on our audits.

Ernst & Young
Taipei, Taiwan
The Republic of China



26 August 2014

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 30 June 2014, 31 December 2013 and 30 June 2013

(Expressed in thousands of dollars)

Assets	Notes	30 June 2014		31 December 2013		30 June 2013	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6(1)	\$8,194,074	\$274,325	\$8,194,772	\$274,716	\$6,948,978	\$231,942
Receivables	4,6(2)	3,691,926	123,600	3,725,513	124,891	3,804,790	126,996
Financial assets at fair value through profit or loss	4,6(3)	1,150,747	38,525	1,312,025	43,983	222,453	7,425
Available-for-sale financial assets	4,6(4)	8,349,394	279,524	7,234,902	242,538	8,718,279	290,997
Derivative financial assets for hedging		4,562	153	10,022	336	11,546	385
Investments accounted for using the equity method		-	-	829	28	907	30
Bond investments with no active market	4,6(5)	2,974,086	99,568	2,053,740	68,848	1,785,447	59,595
Held-to-maturity financial assets	4,6(6)	1,641,108	54,942	1,955,937	65,570	2,175,814	72,624
Secured Loans	4,6(7)	414,989	13,893	422,521	14,164	486,196	16,228
Reinsurance contracts assets	4,6(8)	5,979,659	200,189	5,057,226	169,535	5,249,486	175,217
Property and equipment		263,816	8,832	303,365	10,170	178,484	5,957
Intangible assets		36,165	1,211	29,031	973	21,960	733
Deferred income tax assets	4,6(20)	73,816	2,471	77,223	2,589	98,443	3,286
Other assets		1,713,345	57,360	1,332,211	44,660	1,627,943	54,337
Total assets		<u>\$34,487,687</u>	<u>\$1,154,593</u>	<u>\$31,709,317</u>	<u>\$1,063,001</u>	<u>\$31,330,726</u>	<u>\$1,045,752</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2014, 31 December 2013 and 30 June 2013 were NT\$29.87, NT\$29.83 and NT\$29.96 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 30 June 2014, 31 December 2013 and 30 June 2013

(Expressed in thousands of dollars)

Liabilities & equity	Notes	30 June 2014		31 December 2013		30 June 2013	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	4,6(9)	\$2,812,854	\$94,170	\$2,622,538	\$87,917	\$3,431,959	\$114,551
Financial liabilities at fair value through profit or loss		4,876	163	28,352	950	108,987	3,638
Preferred stock liability	4,6(10)	1,000,000	33,479	1,000,000	33,523	1,000,000	33,378
Insurance liabilities	4,6(11)	23,781,994	796,183	21,853,590	732,604	21,204,540	707,762
Provision	4,6(12)	235,740	7,892	236,272	7,921	248,378	8,290
Deferred income tax liabilities		4,690	157	24,404	818	24,586	821
Other liabilities		398,755	13,350	433,062	14,518	375,358	12,528
Total liabilities		28,238,909	945,394	26,198,218	878,251	26,393,808	880,968
Equity attributable to owners of parent							
Capital stock	4,6(13)	2,721,879	91,124	2,721,879	91,246	2,721,879	90,850
Capital surplus							
Capital surplus - others		-	-	1,929	65	1,929	64
Retained earnings	4,6(14)						
Legal reserve		1,167,902	39,100	1,092,927	36,639	1,092,927	36,480
Special capital reserve		1,364,645	45,686	1,364,645	45,747	869,978	29,038
Undistributed earnings		313,198	10,485	74,975	2,513	182,016	6,075
Other equity		(140,633)	(4,708)	(95,368)	(3,197)	(68,921)	(2,300)
Non-controlling interests	4,6(15)	821,787	27,512	350,112	11,737	137,110	4,577
Total equity		6,248,778	209,199	5,511,099	184,750	4,936,918	164,784
Total equity and liabilities		\$34,487,687	\$1,154,593	\$31,709,317	\$1,063,001	\$31,330,726	\$1,045,752

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2014, 31 December 2013 and 30 June 2013 were NT\$29.87, NT\$29.83 and NT\$29.96 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income

For the three-month periods ended 30 June 2014 and 2013, and six-month periods ended 30 June 2014 and 2013

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

Items	Notes	2014.4.1~2014.6.30		2013.4.1~2013.6.30		2014.1.1~2014.6.30		2013.1.1~2013.6.30	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues									
Direct premium income	4,6(16)	\$5,475,841	\$183,323	\$5,093,565	\$170,012	\$10,094,040	\$337,932	\$9,405,180	\$313,925
Reinsurance premium income	4,6(16)	142,155	4,759	114,208	3,812	251,001	8,403	230,219	7,684
Premiums income		5,617,996	188,082	5,207,773	173,824	10,345,041	346,335	9,635,399	321,609
Deduct: Reinsurance premiums ceded	4,6(16)	(1,488,895)	(49,846)	(1,405,979)	(46,929)	(2,593,260)	(86,818)	(2,363,877)	(78,901)
Change in unearned premiums reserve - Net	4,6(16)	(219,700)	(7,355)	(309,340)	(10,325)	(114,836)	(3,844)	(667,528)	(22,281)
Retained earned premium		3,909,401	130,881	3,492,454	116,570	7,636,945	255,673	6,603,994	220,427
Reinsurance commission earned		184,502	6,177	131,964	4,405	347,765	11,642	259,256	8,654
Handling fee earned		12,154	407	9,999	334	20,852	698	16,964	566
Investment profit and loss		228,547	7,651	193,742	6,467	377,456	12,637	312,252	10,422
Interest income		129,968	4,351	100,978	3,371	255,270	8,546	193,622	6,463
Gains (losses) from financial asset or financial liability at fair value through profit or loss		50,426	1,688	(33,275)	(1,111)	(21,274)	(712)	(192,159)	(6,414)
Realized gains (losses) from available-for-sale financial assets		167,206	5,598	73,550	2,455	215,885	7,228	168,702	5,631
Realized gains (losses) from held-to-maturity financial assets		1,573	52	(888)	(30)	2,855	95	(416)	(14)
Share of profit (loss) of associates and joint ventures accounted for using the equity method		1,730	58	(580)	(19)	1,726	58	(583)	(20)
Gains (losses) on foreign exchange		(122,356)	(4,096)	53,957	1,801	(77,006)	(2,578)	143,086	4,776
Subtotal		4,334,604	145,116	3,828,159	127,776	8,383,018	280,650	7,192,466	240,069
Operating costs									
Insurance claims paid	4,6(17)	(2,459,756)	(82,349)	(2,193,799)	(73,224)	(4,897,325)	(163,955)	(4,540,052)	(151,537)
Deduct: Claims recovered from reinsurers	4,6(17)	462,713	15,491	371,471	12,399	986,325	33,021	910,589	30,393
Retained claim paid		(1,997,043)	(66,858)	(1,822,328)	(60,825)	(3,911,000)	(130,934)	(3,629,463)	(121,144)
Changes in insurance liabilities-Net	4,6(11)	(396,427)	(13,272)	(292,330)	(9,757)	(740,341)	(24,785)	(245,483)	(8,194)
Commissions expenses		(284,442)	(9,523)	(270,753)	(9,037)	(541,418)	(18,126)	(488,224)	(16,296)
Other operating costs		(13,577)	(454)	(4,175)	(140)	(23,446)	(785)	(16,107)	(537)
Subtotal		(2,691,489)	(90,107)	(2,389,586)	(79,759)	(5,216,205)	(174,630)	(4,379,277)	(146,171)

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2014 and 2013 were NT\$29.87 and NT\$29.96 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income

For the three-month periods ended 30 June 2014 and 2013, and six-month periods ended 30 June 2014 and 2013

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

Items	Notes	2014.4.1~2014.6.30		2013.4.1~2013.6.30		2014.1.1~2014.6.30		2013.1.1~2013.6.30	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating expenses									
Marketing expenses		(1,200,670)	(40,196)	(991,749)	(33,103)	(2,215,841)	(74,183)	(1,901,261)	(63,460)
General and administrative expenses		(341,221)	(11,424)	(320,241)	(10,689)	(631,960)	(21,157)	(591,805)	(19,753)
Employee training expenses		(2,629)	(88)	(2,128)	(71)	(3,624)	(121)	(5,149)	(172)
Subtotal		(1,544,520)	(51,708)	(1,314,118)	(43,863)	(2,851,425)	(95,461)	(2,498,215)	(83,385)
Operating income		98,595	3,301	124,455	4,154	315,388	10,559	314,974	10,513
Non-operating income and expenses		10,369	347	1,980	66	31,848	1,066	10,748	359
Profit before tax from continuing operations		108,964	3,648	126,435	4,220	347,236	11,625	325,722	10,872
Income tax expense	4,6(20)	(14,873)	(498)	(61,161)	(2,041)	(44,824)	(1,501)	(104,696)	(3,495)
Profit from continuing operations		94,091	3,150	65,274	2,179	302,412	10,124	221,026	7,377
Net income		94,091	3,150	65,274	2,179	302,412	10,124	221,026	7,377
Other comprehensive income	4,6(18)								
Exchange differences resulting from translating the financial statements of a foreign operation		(39,755)	(1,331)	3,234	108	(46,705)	(1,563)	27,741	926
Unrealized gains (losses) from available-for-sale financial assets		(18,225)	(610)	(146,642)	(4,895)	(3,968)	(133)	(132,580)	(4,425)
Gains (losses) on cash flow hedges		(4,574)	(153)	(4,737)	(158)	(5,460)	(183)	(5,588)	(186)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(2)	-	-	-	(2)	-	-	-
Income tax relating to components of other comprehensive income		(811)	(27)	17,101	571	(1,788)	(60)	8,986	300
Other comprehensive income, net of tax		(63,367)	(2,121)	(131,044)	(4,374)	(57,923)	(1,939)	(101,441)	(3,385)
Total comprehensive income		\$30,724	\$1,029	\$(65,770)	\$(2,195)	\$244,489	\$8,185	\$119,585	\$3,992
Net income attributable to :									
Owners of parent (net income)		\$116,478	\$3,899	\$185,301	\$6,185	\$313,198	\$10,485	\$387,815	\$12,944
Non-controlling interests (net loss)		\$(22,387)	\$(749)	\$(120,027)	\$(4,006)	\$(10,786)	\$(361)	\$(166,789)	\$(5,567)
Comprehensive income attributable to :									
Owners of parent (comprehensive income)		\$62,268	\$2,085	\$60,525	\$2,020	\$267,933	\$8,970	\$282,765	\$9,438
Non-controlling interests (comprehensive loss)		\$(31,544)	\$(1,056)	\$(126,295)	\$(4,215)	\$(23,444)	\$(785)	\$(163,180)	\$(5,446)
Earning per share (In dollars)									
Net income from continuing operations	4,6(21)	\$0.43	\$0.01	\$0.68	\$0.02	\$1.15	\$0.04	\$1.42	\$0.05

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2014 and 2013 were NT\$29.87 and NT\$29.96 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the six-month periods ended 30 June 2014 and 2013

(Expressed in thousands of dollars)

Items	Retained earnings										Other equity						Total	Non-controlling interests		Total equity		
	Common stock		Capital surplus		Legal reserve		Special capital reserve		Undistributed earnings		Exchange differences resulting from translating the financial statements of a foreign operation		Unrealized gains (losses) from available-for-sale financial assets		Gains (losses) on cash flow hedges							
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$						
Balance on 1 January 2013	\$2,522,950	\$84,211	\$1,929	\$64	\$954,800	\$31,869	\$923,897	\$30,838	\$77,338	\$2,581	\$(52,535)	\$(1,754)	\$71,530	\$2,388	\$17,134	\$572	\$4,517,043	\$150,769	\$300,290	\$10,023	\$4,817,333	\$160,792
Appropriations and distributions for 2012 (Note 1)																						
Legal reserve	-	-	-	-	138,127	4,611	-	-	(138,127)	(4,611)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	(53,919)	(1,800)	53,919	1,800	-	-	-	-	-	-	-	-	-	-	-	-
Stock dividends	198,929	6,639	-	-	-	-	-	-	(198,929)	(6,639)	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the six months ended 30 June 2013	-	-	-	-	-	-	-	-	387,815	12,944	-	-	-	-	-	-	387,815	12,944	(166,789)	(5,567)	221,026	7,377
Other comprehensive income for the six months ended 30 June 2013	-	-	-	-	-	-	-	-	-	-	17,381	580	(116,843)	(3,900)	(5,588)	(186)	(105,050)	(3,506)	3,609	121	(101,441)	(3,385)
Total comprehensive income	-	-	-	-	-	-	-	-	387,815	12,944	17,381	580	(116,843)	(3,900)	(5,588)	(186)	282,765	9,438	(163,180)	(5,446)	119,585	3,992
Balance on 30 June 2013	<u>\$2,721,879</u>	<u>\$90,850</u>	<u>\$1,929</u>	<u>\$64</u>	<u>\$1,092,927</u>	<u>\$36,480</u>	<u>\$869,978</u>	<u>\$29,038</u>	<u>\$182,016</u>	<u>\$6,075</u>	<u>\$(35,154)</u>	<u>\$(1,174)</u>	<u>\$(45,313)</u>	<u>\$(1,512)</u>	<u>\$11,546</u>	<u>\$386</u>	<u>\$4,799,808</u>	<u>\$160,207</u>	<u>\$137,110</u>	<u>\$4,577</u>	<u>\$4,936,918</u>	<u>\$164,784</u>
Balance on 1 January 2014	\$2,721,879	\$91,124	\$1,929	\$65	\$1,092,927	\$36,590	\$1,364,645	\$45,686	\$74,975	\$2,510	\$(36,559)	\$(1,224)	\$(68,830)	\$(2,305)	\$10,021	\$336	\$5,160,987	\$172,782	\$350,112	\$11,721	\$5,511,099	\$184,503
Appropriations and distributions for 2013																						
Legal reserve	-	-	-	-	113,928	3,814	-	-	(113,928)	(3,814)	-	-	-	-	-	-	-	-	-	-	-	-
Cover the deficit for legal reserve	-	-	-	-	(38,953)	(1,304)	-	-	38,953	1,304	-	-	-	-	-	-	-	-	-	-	-	-
Changes in amount of associates and joint ventures accounted for using the equity method																						
	-	-	(1,929)	(65)	-	-	-	-	-	-	-	-	-	-	-	-	(1,929)	(65)	-	-	(1,929)	(65)
Net income for the six months ended 30 June 2014	-	-	-	-	-	-	-	-	313,198	10,485	-	-	-	-	-	-	313,198	10,485	(10,786)	(361)	302,412	10,124
Other comprehensive income for the six months ended 30 June 2014	-	-	-	-	-	-	-	-	-	-	(24,830)	(831)	(14,975)	(501)	(5,460)	(183)	(45,265)	(1,515)	(12,658)	(424)	(57,923)	(1,939)
Total comprehensive income	-	-	-	-	-	-	-	-	313,198	10,485	(24,830)	(831)	(14,975)	(501)	(5,460)	(183)	267,933	8,970	(23,444)	(785)	244,489	8,185
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	495,119	16,576	495,119	16,576
Balance on 30 June 2014	<u>\$2,721,879</u>	<u>\$91,124</u>	<u>\$-</u>	<u>\$-</u>	<u>\$1,167,902</u>	<u>\$39,100</u>	<u>\$1,364,645</u>	<u>\$45,686</u>	<u>\$313,198</u>	<u>\$10,485</u>	<u>\$(61,389)</u>	<u>\$(2,055)</u>	<u>\$(83,805)</u>	<u>\$(2,806)</u>	<u>\$4,561</u>	<u>\$153</u>	<u>\$5,426,991</u>	<u>\$181,687</u>	<u>\$821,787</u>	<u>\$27,512</u>	<u>\$6,248,778</u>	<u>\$209,199</u>

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

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2014 and 2013 were NT\$29.87 and NT\$29.96 to US\$1.00)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the six-month periods ended 30 June 2014 and 2013

(Expressed in thousands of dollars)

Items	2014.1.1~2014.6.30		2013.1.1~2013.6.30	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities :				
Profit before tax	\$347,236	\$11,625	\$325,722	\$10,872
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	50,543	1,692	39,585	1,321
Amortization	16,830	563	13,534	452
Provision for bad debt expense	12,406	415	1,738	58
Net losses (gains) on financial asset or financial liability at fair value through profit or loss	21,274	712	192,159	6,414
Net losses (gains) on available-for-sale financial assets	(215,885)	(7,228)	(168,702)	(5,631)
Net losses (gains) from held-to-maturity financial assets	(2,855)	(95)	416	14
Interest income	(255,270)	(8,546)	(193,622)	(6,463)
Net changes of insurance liabilities	1,999,550	66,942	684,679	22,853
Share of profit (loss) of associates and joint ventures accounted for using the equity method	(1,726)	(58)	583	20
Loss on disposal of property and equipment	1	-	-	-
Changes in assets and liabilities from operating activities :				
Decrease in financial assets at fair value through profit or loss	111,075	3,719	133,896	4,469
Increase in available-for-sale financial assets	(936,534)	(31,354)	(245,852)	(8,206)
Increase in bond investments with no active market	(932,237)	(31,210)	(457,176)	(15,260)
Decrease in held-to-maturity financial assets	315,588	10,565	335,782	11,208
Decrease in notes receivable	31,683	1,061	28,459	950
Increase in premiums receivable	(308,897)	(10,341)	(249,602)	(8,331)
Decrease (Increase) in other accounts receivable	304,404	10,191	(263,243)	(8,786)
(Increase) Decrease in reinsurance contracts assets	(941,049)	(31,505)	284,589	9,499
Decrease in other assets	(382,495)	(12,805)	(438,028)	(14,621)
Decrease in claims outstanding	(2,224)	(74)	(9,904)	(331)
Increase in due to reinsurers and ceding companies	100,447	3,363	354,642	11,837
Increase in commissions payable	64,087	2,146	63,388	2,116
(Decrease) Increase in other payables	(25,483)	(853)	722,038	24,100
(Decrease) Increase in provision	(533)	(18)	428	14
Decrease in other liabilities	(34,307)	(1,149)	(65,465)	(2,185)
Cash flows (used in) from operating activities	(664,371)	(22,242)	1,090,044	36,383
Interest paid	(893)	(30)	(18,600)	(621)
Income taxes paid	(8,538)	(286)	(5,866)	(196)
Net cash flows (used in) from used in operating activities	(673,802)	(22,558)	1,065,578	35,566
Cash flows from investing activities :				
Capital reduction in investments for using the equity method	535	18	-	-
Acquisition of property and equipment	(12,882)	(431)	(35,242)	(1,176)
Disposal of property and equipment	-	-	497	17
Increase in secured loans	(36,277)	(1,215)	(23,800)	(794)
Decrease in secured loans	43,810	1,467	59,684	1,992
Acquisition of intangible assets	(23,729)	(795)	(2,662)	(89)
Interest received	256,609	8,591	156,588	5,226
Dividends received	1,696	57	10,034	335
Net cash flows from investing activities	229,762	7,692	165,099	5,511
Cash flows from financing activities:				
Issuance of common stock for cash	495,119	16,576	-	-
Net cash flows from financing activities	495,119	16,576	-	-
Effects of exchange rate changes on cash and cash equivalents	(51,777)	(1,733)	41,250	1,377
(Decrease)Increase in cash and cash equivalents	(698)	(23)	1,271,927	42,454
Cash and cash equivalents at the beginning of periods	8,194,772	274,348	5,677,051	189,488
Cash and cash equivalents at the end of periods	\$8,194,074	\$274,325	\$6,948,978	\$231,942

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2014 and 2013 were NT\$29.87 and NT\$29.96 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of dollars unless otherwise stated)

30 June 2014 and 2013

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 six-month periods ended 30 June 2014 and 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 26 August 2014.

3. Newly issued or revised standards and interpretations

- (1) International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”) and would be applicable for annual periods beginning on or after 1 January 2015, but not yet adopted by the Consolidated Company at the date of issuance of the Consolidated Company’s financial statements are listed below.

- (a) Improvements to International Financial Reporting Standards (issued in 2010):

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

The annual improvements to International Financial Reporting Standards (“IFRS”) issued in 2010 made the following amendments to IFRS 1: If a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS in accordance with paragraph 23 of IFRS 1.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Furthermore, the amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. The amendment also expands the scope of ‘deemed cost’ for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These amendments became effective for annual periods beginning on or after 1 January 2011.

IFRS 3 “Business Combinations”

Under the amendment, IFRS 3 (as revised in 2008) do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Furthermore, the amendment limits the scope of the measurement choices for non-controlling interest. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation could be measured at either fair value or at the present ownership instruments’ proportionate share of the acquirer’s identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value.

The amendment also requires an entity in a business combination to account for the replacement of the acquirer’s share-based payment transactions (when the acquirer is not obliged to do so) as new share-based payment awards in the post-combination financial statements.

Outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions: if vested — they are part of non-controlling interest; if unvested — they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

These amendments became effective for annual periods beginning on or after 1 July 2010.

IFRS 7 “Financial Instruments: Disclosures”

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment became effective for annual periods beginning on or after 1 January 2011.

IAS 1 “Presentation of Financial Statements”

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment became effective for annual periods beginning on or after 1 January 2011.

IAS 34 “Interim Financial Reporting”

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore the amendment adds disclosure requirements around disclosures of financial instruments and contingent liabilities/assets. The amendment is effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 “Customer Loyalty Programmes”

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is effective for annual periods beginning on or after 1 January 2011.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- (b) IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

IFRS 1 has been amended to allow first-time adopters to utilize the transitional provisions of IFRS 7 Financial Instruments: Disclosures. These provisions give relief from providing comparative information in the disclosures required by

amendments to IFRS 1 in the first year of application. The amendment is effective for annual periods beginning on or after 1 July 2010.

- (c) IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. The amended standard has these dates coinciding with the date of transition to IFRS. The amendment is effective for annual periods beginning on or after 1 July 2011.

- (d) IFRS 7 “Financial Instruments: Disclosures” (Amendment)

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognised in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognised in their entirety. The amendment is effective for annual periods beginning on or after 1 July 2011.

- (e) IAS 12 “Income Taxes” — Deferred Taxes: Recovery of Underlying Assets

The amendment to IAS 12 introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets has been withdrawn. The amendment is effective for annual periods beginning on or after 1 January 2012.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(f) IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated. The standard is effective for annual periods beginning on or after 1 January 2013.

(g) IFRS 11 “Joint Arrangements”

IFRS 11 replaces IAS 31 and SIC-13. The changes introduced by IFRS 11 primarily relate to increase comparability within IFRS by removing the choice for jointly controlled entities to use proportionate consolidation, so that the structure of the arrangement is no longer the most important factor when determining the classification as a joint operation or a joint venture, which then determines the accounting. The standard is effective for annual periods beginning on or after 1 January 2013.

(h) IFRS 12 “Disclosures of Interests in Other Entities”

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS. The standard is effective for annual periods beginning on or after 1 January 2013.

(i) IFRS 13 “Fair Value Measurement”

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosure is required. The standard is effective for annual periods beginning on or after 1 January 2013.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- (j) IAS 1 “Presentation of Financial Statements” — Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified. The amendment is effective for annual periods beginning on or after 1 July 2012.

- (k) IAS 19 “Employee Benefits” (Revised)

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, etc.. The revised standard is effective for annual periods beginning on or after 1 January 2013.

- (l) IFRS 1 “First-time Adoption of International Financial Reporting Standards” — Government Loans

The IASB has added an exception to the retrospective application of IFRS 9 (or IAS 39) and IAS 20. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. The amendment is effective for annual periods beginning on or after 1 January 2013.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- (m) IFRS 7 “Financial Instruments: Disclosures” — Disclosures — Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’. The amendment is effective for annual periods beginning on or after 1 January 2013.

- (n) IAS 32 “Financial Instruments: Presentation” — Offsetting Financial Assets and Financial Liabilities

The amendment clarifies the meaning of “currently has a legally enforceable right to set-off” in IAS 32. The amendment is effective for annual periods beginning on or after 1 January 2014.

- (o) IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”

This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset (“stripping activity asset”), only if certain criteria are met. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. The interpretation is effective for annual periods beginning on or after 1 January 2013.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(p) Improvements to International Financial Reporting Standards (2009-2011 cycle)

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

The amendment clarifies that an entity that has stopped applying IFRS may choose to either: Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period; or Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 1 “Presentation of Financial Statements”

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 16 “Property, Plant and Equipment” (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 32 “Financial Instruments: Presentation” (Amendment)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 34 “Interim Financial Reporting” (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Besides, total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment. The amendment is effective for annual periods beginning on or after 1 January 2013.

(q) IFRS 10 “Consolidated Financial Statements” (Amendment)

The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendment is effective for annual periods beginning on or after 1 January 2014.

The abovementioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2015. As the Consolidated Company is still currently determining the potential impact of the standards and interpretations.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(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.

(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.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(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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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

IFRS 13 “Fair Value Measurement”

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

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(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.

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.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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.

(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.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- (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 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. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. 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.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(I) 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.

The abovementioned 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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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the six-month periods ended 30 June 2014 and 2013 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 “Interim Financial Reporting” as recognized by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

If the Company loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest			Notes
			2014.6.30	2013.12.31	2013.6.30	
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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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(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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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Group: 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 jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

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

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed term deposit that contract period within one year).

(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.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

Measurements of financial instruments are classified as follows:

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

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

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

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

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Available-for-sale financial assets

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

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.

C. Derivative financial assets or liabilities for hedging

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

D. Held-to-maturity financial assets

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

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Notes to consolidated financial statements (continued)

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E. Secured loans and receivables

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

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

F. Financial liabilities

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

Fair values of financial instruments

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

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

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

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

Derecognizing of financial assets and liabilities

A. Financial assets

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

B. Financial liabilities

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

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

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Reclassification of financial assets

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

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

Offsetting a financial asset and a financial liability

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

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

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Impairment of financial assets

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

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

Other loss events include:

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

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 is recognized in other rather than profit or loss.

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

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

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

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

Derivative financial instruments

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

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

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

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

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

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

A. Fair value hedges

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

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

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

B. Cash flow hedges

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

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

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

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C. Hedges of a net investment in a foreign operation

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

(8) Assessment of impairment for loans and receivables

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: 0.5 percent of the ending balance of the first category of loan assets excluding life insurance loans, automatic premium loans and government debts holdings to be reserved within three years starting on 1 January 2011, 2 percent of the ending balance of the second category of loan assets, 10 percent of the ending balance of the third category of loan assets, as well as 50 and 100 percent of the ending balance of the fourth and fifth category of loan assets, respectively.

(9) Investments 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 Company has significant influence.

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

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

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

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

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

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

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

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

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(10) Property and equipment

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

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

All other repair and maintenance costs are recognized in profit or loss as incurred.

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

Transportation equipment	5 years
Office equipment	5 years
Leased assets	5~50 years
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.

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(11) Leases

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

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

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

(12) Intangible assets

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

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

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

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

Computer software

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

(13) Impairment of non-financial assets

The Consolidated Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, 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.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(14) Separation requirement for specific assets

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

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

A. Government bonds, not including exchangeable government bonds.

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

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

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.

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

A. Treasury bills.

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

C. Government bonds in a repo transaction.

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

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

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.

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

(15) Insurance contract categories

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

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

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

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(16) Reinsurance contracts assets

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

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

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

(17) Insurance liabilities

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

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.

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B. Claims reserve

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

C. Special reserve

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

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

a. Special reserve for major incident

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

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

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

b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

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(18) Insurance premium revenues and the acquisition costs

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

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

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

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

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

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

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

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(19) Insurance claim costs

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

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

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

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

Claim reserve is not discounted to its present value.

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

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

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

(20) Liability adequacy test

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

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(21) Reinsurance ceded

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

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

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

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

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

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

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

(23) Contribution to the stabilization funds

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

(24) Post-employment benefits plan

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee’s name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the 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 and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations. Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The Company specifies that if the accumulated unrecognized actuarial gains and losses exceed 10% of the greater of the defined benefit obligation or the fair value of plan assets, a portion of that net gain or loss is required to be recognized immediately as income or expense. The portion recognized is the excess divided by the expected average remaining working lives of the participating employees.

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

(25) Income taxes

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

Current income tax

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

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

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Deferred tax

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

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

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

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

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

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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 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 it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), other receivables and other payable among the Company and its parent company.

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

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

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

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

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

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

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

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

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

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

(2) Estimates and assumptions

A. Post-employment benefit

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

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 Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Consolidated Company's domicile.

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

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6. Contents of significant accounts

(1) Cash and cash equivalents

Item	2014.6.30	
	NT\$	US\$
Petty cash and cash on hand	\$15,151	\$507
Cash in banks	1,243,259	41,623
Time deposits	5,906,661	197,746
Cash equivalents	1,029,003	34,449
Total	<u>\$8,194,074</u>	<u>\$274,325</u>

Item	2013.12.31	
	NT\$	US\$
Petty cash and cash on hand	\$8,951	\$300
Cash in banks	2,041,944	68,453
Time deposits	4,892,070	163,998
Cash equivalents	1,251,807	41,965
Total	<u>\$8,194,772</u>	<u>\$274,716</u>

Item	2013.6.30	
	NT\$	US\$
Petty cash and cash on hand	\$14,999	\$500
Cash in banks	2,849,192	95,100
Time deposits	3,654,929	121,994
Cash equivalents	429,858	14,348
Total	<u>\$6,948,978</u>	<u>\$231,942</u>

(2) Receivable

Item	2014.06.30	
	NT\$	US\$
Notes receivable	\$255,779	\$8,563
Premiums receivable	3,168,146	106,065
Other receivable	268,001	8,972
Total	<u>\$3,691,926</u>	<u>\$123,600</u>

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Item	2013.12.31	
	NT\$	US\$
Notes receivable	\$287,463	\$9,637
Premiums receivable	2,871,655	96,267
Other receivable	566,395	18,987
Total	<u>\$3,725,513</u>	<u>\$124,891</u>

Item	2013.6.30	
	NT\$	US\$
Notes receivable	\$249,269	\$8,320
Premiums receivable	3,117,218	104,046
Other receivable	438,303	14,630
Total	<u>\$3,804,790</u>	<u>\$126,996</u>

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

Item	2014.6.30	
	NT\$	US\$
Beneficiary certificates	<u>\$1,150,747</u>	<u>\$38,525</u>

Item	2013.12.31	
	NT\$	US\$
Beneficiary certificates	<u>\$1,312,025</u>	<u>\$43,983</u>

Item	2013.6.30	
	NT\$	US\$
Beneficiary certificates	<u>\$222,453</u>	<u>\$7,425</u>

Financial assets held for trading were not pledged.

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(4) Available-for-sale financial assets

Item	2014.6.30	
	NT\$	US\$
Listed stocks	\$3,091,854	\$103,510
Beneficiary certificates	1,611,791	53,960
Corporate bonds	1,251,554	41,900
Financial debentures	1,208,898	40,472
Government bonds	770,185	25,785
Overseas bonds	415,112	13,897
Total	<u>\$8,349,394</u>	<u>\$279,524</u>

Item	2013.12.31	
	NT\$	US\$
Listed stocks	\$2,285,699	\$76,624
Beneficiary certificates	1,478,818	49,575
Corporate bonds	1,091,843	36,602
Financial debentures	1,207,363	40,475
Government bonds	762,639	25,566
Overseas bonds	408,540	13,696
Total	<u>\$7,234,902</u>	<u>\$242,538</u>

Item	2013.6.30	
	NT\$	US\$
Listed stocks	\$1,944,411	\$64,900
Overseas stocks	13,568	453
Beneficiary certificates	3,322,942	110,912
Corporate bonds	1,025,044	34,214
Financial debentures	1,207,129	40,291
Government bonds	796,940	26,600
Overseas bonds	408,245	13,627
Total	<u>\$8,718,279</u>	<u>\$290,997</u>

Available-for-sale financial assets were not pledged.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5) Bond investments with no active market

Item	2014.6.30	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,391
Company bonds	450,000	15,065
Overseas bonds	1,498,262	20,952
Time deposits	625,824	50,160
Total	<u>\$2,974,086</u>	<u>\$99,568</u>

Item	2013.12.31	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,409
Company bonds	450,000	15,086
Overseas bonds	1,047,332	35,110
Time deposits	156,408	5,243
Total	<u>\$2,053,740</u>	<u>\$68,848</u>

Item	2013.6.30	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,351
Company bonds	323,246	10,790
Overseas bonds	906,388	30,253
Time deposits	155,813	5,201
Total	<u>\$1,785,447</u>	<u>\$59,595</u>

Bond investments for which no active market were not pledged.

(6) Held-to-maturity financial assets

Item	2014.6.30	
	NT\$	US\$
Overseas bonds	<u>\$1,641,108</u>	<u>\$54,942</u>

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(Expressed in thousands of dollars unless otherwise stated)

Item	2013.12.31	
	NT\$	US\$
Overseas bonds	\$1,955,937	\$65,570

Item	2013.6.30	
	NT\$	US\$
Overseas bonds	\$2,175,814	\$72,624

Held-to-maturity financial assets were not pledged.

(7) Secured loans

Item	2014.6.30	
	NT\$	US\$
Secured loans	\$497,416	16,653
Less: Allowance for bad debts	(82,427)	(2,760)
Net	\$414,989	\$13,893

Item	2013.12.31	
	NT\$	US\$
Secured loans	\$505,145	\$16,934
Less: Allowance for bad debts	(82,624)	(2,770)
Net	\$422,521	\$14,164

Item	2013.6.30	
	NT\$	US\$
Secured loans	\$569,274	\$19,001
Less: Allowance for bad debts	(83,078)	(2,773)
Net	\$486,196	\$16,228

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(8) Reinsurance assets

	NT\$		
	2014.6.30	2013.12.31	2013.6.30
Claims recoverable from reinsurers	\$230,535	\$332,711	\$242,581
Due from reinsurers and ceding companies	459,128	561,540	662,559
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	2,755,721	2,495,090	2,585,240
Ceded claims reserve	2,508,625	1,663,767	1,768,925
Ceded premiums deficiency reserve	25,650	4,118	(9,819)
Subtotal	5,289,996	4,162,975	4,344,346
Total	\$5,979,659	\$5,057,226	\$5,249,486

	US\$		
	2014.6.30	2013.12.31	2013.6.30
Claims recoverable from reinsurers	\$7,718	\$11,153	\$8,097
Due from reinsurers and ceding companies	15,370	18,825	22,115
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	92,257	83,644	86,290
Ceded claims reserve	83,985	55,775	59,043
Ceded premiums deficiency reserve	859	138	(328)
Subtotal	177,101	139,577	145,005
Total	\$200,189	\$169,535	\$175,217

(9) Payables

	2014.6.30	
Item	NT\$	US\$
Claims outstanding	\$11,453	\$384
Commissions payable	212,383	7,110
Due to reinsurers and ceding companies	1,463,693	49,002
Other payables	1,125,325	37,674
Total	\$2,812,854	\$94,170

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2013.12.31	
	NT\$	US\$
Claims outstanding	\$13,677	\$459
Commissions payable	148,296	4,971
Due to reinsurers and ceding companies	1,363,246	45,701
Other payables	1,097,319	36,786
Total	\$2,622,538	\$87,917

Item	2013.6.30	
	NT\$	US\$
Claims outstanding	\$11,105	\$371
Commissions payable	175,759	5,866
Due to reinsurers and ceding companies	1,559,744	52,061
Other payables	1,685,351	56,253
Total	\$3,431,959	\$114,551

(10) Preferred stock liability

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

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

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

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

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

According to the 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	2014.6.30	
	NT\$	US\$
Unearned premiums reserve	\$11,566,417	\$387,225
Claims reserve	8,372,353	280,293
Special reserve	3,649,217	122,170
Premiums deficiency reserve	194,007	6,495
Total	<u>\$23,781,994</u>	<u>\$796,183</u>
Item	2013.12.31	
	NT\$	US\$
Unearned premiums reserve	\$11,213,469	\$375,912
Claims reserve	6,041,523	202,532
Special reserve	4,354,992	145,994
Premiums deficiency reserve	243,606	8,166
Total	<u>\$21,853,590</u>	<u>\$732,604</u>

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

Item	2013.6.30	
	NT\$	US\$
Unearned premiums reserve	\$10,833,689	\$361,605
Claims reserve	5,885,072	196,431
Special reserve	4,370,495	145,878
Premiums deficiency reserve	115,284	3,848
Total	\$21,204,540	\$707,762

A. Unearned premiums reserve

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

Item	2014.6.30							
	Unearned premium reserve				Ceded unearned premium reserve			
			Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,191,509	\$73,368	\$70,877	\$2,373	\$1,068,398	\$35,768	\$1,193,988	\$39,973
Marine insurance	160,856	5,385	17,902	599	124,196	4,158	54,562	1,826
Land and air insurance	3,751,971	125,610	5,859	196	172,645	5,780	3,585,185	120,026
Liability insurance	519,683	17,398	351	12	147,053	4,923	372,981	12,487
Bonding insurance	46,860	1,569	700	24	27,473	920	20,087	673
Other property insurance	1,382,918	46,298	29,255	979	594,635	19,907	817,538	27,370
Accident insurance	1,574,082	52,698	2,871	96	92,676	3,103	1,484,277	49,691
Health insurance	43,908	1,470	-	-	312	10	43,596	1,460
Compulsory automobile liability insurance	1,572,719	52,652	194,096	6,498	528,333	17,688	1,238,482	41,462
Total	\$11,244,506	\$376,448	\$321,911	\$10,777	\$2,755,721	\$92,257	\$8,810,696	\$294,968

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.12.31

Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,026,423	\$67,932	\$54,083	\$1,813	\$964,076	\$32,319	\$1,116,430	\$37,426
Marine insurance	139,775	4,686	14,955	501	104,044	3,488	50,686	1,699
Land and air insurance	3,590,802	120,375	8,625	289	178,898	5,997	3,420,529	114,667
Liability insurance	538,568	18,055	597	20	166,651	5,587	372,514	12,488
Bonding insurance	35,730	1,197	722	24	18,958	635	17,494	586
Other property insurance	1,477,530	49,532	30,213	1,013	475,846	15,952	1,031,897	34,593
Accident insurance	1,510,910	50,651	2,591	87	71,337	2,392	1,442,164	48,346
Health insurance	48,879	1,639	-	-	156	5	48,723	1,634
Compulsory automobile liability insurance	1,544,803	51,787	188,263	6,311	515,124	17,269	1,217,942	40,829
Total	<u>\$10,913,420</u>	<u>\$365,854</u>	<u>\$300,049</u>	<u>\$10,058</u>	<u>\$2,495,090</u>	<u>\$83,644</u>	<u>\$8,718,379</u>	<u>\$292,268</u>

2013.6.30

Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,050,860	\$68,453	\$60,949	\$2,035	\$944,449	\$31,524	\$1,167,360	\$38,964
Marine insurance	227,493	7,593	14,679	490	182,550	6,093	59,622	1,990
Land and air insurance	3,349,413	111,796	8,169	273	145,577	4,859	3,212,005	107,210
Liability insurance	543,978	18,157	140	5	171,431	5,722	372,687	12,440
Bonding insurance	31,915	1,065	581	19	16,861	563	15,635	521
Other property insurance	1,320,703	44,082	10,509	351	539,457	18,006	791,755	26,427
Accident insurance	1,553,368	51,848	3,160	105	86,064	2,873	1,470,464	49,080
Health insurance	94,849	3,166	-	-	572	19	94,277	3,147
Compulsory automobile liability insurance	1,375,088	45,898	187,835	6,269	498,279	16,631	1,064,644	35,536
Total	<u>\$10,547,667</u>	<u>\$352,058</u>	<u>\$286,022</u>	<u>\$9,547</u>	<u>\$2,585,240</u>	<u>\$86,290</u>	<u>\$8,248,449</u>	<u>\$275,315</u>

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(Expressed in thousands of dollars unless otherwise stated)

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

Item	2014.1.1 ~ 2014.6.30			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$11,213,469	\$375,409	\$2,495,090	\$83,532
Reserve	11,588,561	387,966	2,760,728	92,425
Recover	(11,207,978)	(375,225)	(2,494,981)	(83,528)
Effects of exchange rate changes	(27,635)	(925)	(5,116)	(172)
Ending balance	<u>\$11,566,417</u>	<u>\$387,255</u>	<u>\$2,755,721</u>	<u>\$92,257</u>

Item	2013.1.1 ~ 2013.6.30			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$10,100,374	\$337,129	\$2,547,036	\$85,015
Reserve	10,802,146	360,552	2,572,817	85,875
Recover	(10,101,151)	(337,154)	(2,539,350)	(84,758)
Effects of exchange rate changes	32,320	1,078	4,737	158
Ending balance	<u>\$10,833,689</u>	<u>\$361,605</u>	<u>\$2,585,240</u>	<u>\$86,290</u>

B. Claims reserve

(a) Claims reserve and ceded claims reserve

Item	2014.6.30							
	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,216,036	\$141,146	\$251,184	\$8,409	\$1,392,374	\$46,615	\$3,074,846	\$102,940
Unreported claims	3,496,531	117,058	408,602	13,680	1,116,251	37,370	2,788,882	93,368
Total	<u>\$7,712,567</u>	<u>\$258,204</u>	<u>\$659,786</u>	<u>\$22,089</u>	<u>\$2,508,625</u>	<u>\$83,985</u>	<u>\$5,863,728</u>	<u>\$196,308</u>

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(Expressed in thousands of dollars unless otherwise stated)

2013.12.31								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,886,032	\$130,273	\$307,234	\$10,299	\$1,350,564	\$45,275	\$2,842,702	\$95,297
Unreported claims	1,789,128	59,977	59,129	1,983	313,203	10,500	1,535,054	51,460
Total	<u>\$5,675,160</u>	<u>\$190,250</u>	<u>\$366,363</u>	<u>\$12,282</u>	<u>\$1,663,767</u>	<u>\$55,775</u>	<u>\$4,377,756</u>	<u>\$146,757</u>

2013.6.30								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,880,540	\$129,524	\$254,888	\$8,508	\$1,442,204	\$48,138	\$2,693,224	\$89,894
Unreported claims	1,687,803	56,335	61,841	2,064	326,721	10,905	1,422,923	47,494
Total	<u>\$5,568,343</u>	<u>\$185,859</u>	<u>\$316,729</u>	<u>\$10,572</u>	<u>\$1,768,925</u>	<u>\$59,043</u>	<u>\$4,116,147</u>	<u>\$137,388</u>

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

2014.1.1 ~ 2014.6.30								
	NT\$							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$4,238,605	\$3,883,229	\$251,184	\$307,234	\$299,326	\$1,401,685	\$1,350,833	\$50,852
Unreported claims	3,507,279	1,787,047	408,616	59,085	2,069,763	1,118,415	312,798	805,617
Total	<u>\$7,745,884</u>	<u>\$5,670,276</u>	<u>\$659,800</u>	<u>\$366,319</u>	<u>\$2,369,089</u>	<u>\$2,520,100</u>	<u>\$1,663,631</u>	<u>\$856,469</u>

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2014.1.1 ~ 2014.6.30								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$141,902	\$130,004	\$8,409	\$10,286	\$10,021	\$46,926	\$45,224	\$1,702
Unreported claims	117,418	59,828	13,680	1,978	69,292	37,443	10,472	26,971
Total	<u>\$259,320</u>	<u>\$189,832</u>	<u>\$22,089</u>	<u>\$12,264</u>	<u>\$79,313</u>	<u>\$84,369</u>	<u>\$55,696</u>	<u>\$28,673</u>

2013.1.1 ~ 2013.6.30								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$3,863,510	\$4,122,119	\$254,889	\$293,677	\$(297,397)	\$1,437,853	\$1,727,461	\$(289,608)
Unreported claims	1,678,381	1,368,134	61,774	39,582	332,439	324,577	291,745	32,832
Total	<u>\$5,541,891</u>	<u>\$5,490,253</u>	<u>\$316,663</u>	<u>\$333,259</u>	<u>\$35,042</u>	<u>\$1,762,430</u>	<u>\$2,019,206</u>	<u>\$(256,776)</u>

2013.1.1 ~ 2013.6.30								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	(8)=(6)-(7)
Claims reported but not paid off	\$128,955	\$137,588	\$8,508	\$9,802	\$(9,927)	\$47,992	\$57,658	\$(9,666)
Unreported claims	56,021	45,665	2,062	1,321	11,097	10,834	9,738	1,096
Total	<u>\$184,976</u>	<u>\$183,253</u>	<u>\$10,570</u>	<u>\$11,123</u>	<u>\$1,170</u>	<u>\$58,826</u>	<u>\$67,396</u>	<u>\$(8,570)</u>

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

2014.6.30						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,469,715	\$49,204	\$72,812	\$2,437	\$1,542,527	\$51,641
Marine insurance	474,211	15,876	197,508	6,612	671,719	22,488
Land and air insurance	863,890	28,921	1,009,506	33,797	1,873,396	62,718
Liability insurance	248,096	8,306	401,354	13,437	649,450	21,743
Bonding insurance	20,289	679	3,787	127	24,076	806
Other property insurance	688,172	23,039	259,611	8,691	947,783	31,730
Accident insurance	99,309	3,325	353,596	11,838	452,905	15,163
Health insurance	3,049	102	37,156	1,244	40,205	1,346
Compulsory automobile liability insurance	600,489	20,103	1,569,803	52,555	2,170,292	72,658
Total	<u>\$4,467,220</u>	<u>\$149,555</u>	<u>\$3,905,133</u>	<u>\$130,738</u>	<u>\$8,372,353</u>	<u>\$280,293</u>

2013.12.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$859,480	\$28,813	\$134,727	\$4,516	\$994,207	\$33,329
Marine insurance	621,182	20,824	176,133	5,905	797,315	26,729
Land and air insurance	820,143	27,494	620,039	20,786	1,440,182	48,280
Liability insurance	259,018	8,683	281,177	9,426	540,195	18,109
Bonding insurance	19,789	663	1,837	62	21,626	725
Other property insurance	654,657	21,946	189,141	6,341	843,798	28,287
Accident insurance	67,805	2,273	350,047	11,735	417,852	14,008
Health insurance	6,149	206	44,518	1,492	50,667	1,698
Compulsory automobile liability insurance	885,043	29,670	50,638	1,697	935,681	31,367
Total	<u>\$4,193,266</u>	<u>\$140,572</u>	<u>\$1,848,257</u>	<u>\$61,960</u>	<u>\$6,041,523</u>	<u>\$202,532</u>

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2013.6.30						
Item	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$893,194	\$29,813	\$35,830	\$1,196	\$929,024	\$31,009
Marine insurance	694,064	23,166	206,714	6,900	900,778	30,066
Land and air insurance	725,951	24,231	643,442	21,476	1,369,393	45,707
Liability insurance	253,333	8,456	310,369	10,359	563,702	18,815
Bonding insurance	19,885	664	2,097	70	21,982	734
Other property insurance	527,258	17,599	166,536	5,558	693,794	23,157
Accident insurance	99,205	3,311	311,628	10,402	410,833	13,713
Health insurance	4,742	158	43,959	1,468	48,701	1,626
Compulsory automobile liability insurance	917,796	30,634	29,069	970	946,865	31,604
Total	<u>\$4,135,428</u>	<u>\$138,032</u>	<u>\$1,749,644</u>	<u>\$58,399</u>	<u>\$5,885,072</u>	<u>\$196,431</u>

(d) Reinsurance asset- ceded claims reserve for policyholder

2014.6.30						
Item	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$553,323	\$18,524	\$21,347	\$715	\$574,670	\$19,239
Marine insurance	319,876	10,709	135,633	4,541	455,509	15,250
Land and air insurance	48,765	1,633	235,559	7,886	284,324	9,519
Liability insurance	63,793	2,136	110,114	3,686	173,907	5,822
Bonding insurance	18,230	610	2,873	96	21,103	706
Other property insurance	234,164	7,840	49,797	1,667	283,961	9,507
Accident insurance	8,399	281	24,702	827	33,101	1,108
Health insurance	-	-	(68)	(2)	(68)	(2)
Compulsory automobile liability insurance	145,824	4,882	536,294	17,954	682,118	22,836
Total	<u>\$1,392,374</u>	<u>\$46,615</u>	<u>\$1,116,251</u>	<u>\$37,370</u>	<u>\$2,508,625</u>	<u>\$83,985</u>

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2013.12.31						
Item	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$286,597	\$9,608	\$32,707	\$1,097	\$319,304	\$10,705
Marine insurance	439,425	14,731	121,983	4,089	561,408	18,820
Land and air insurance	61,353	2,057	17,045	571	78,398	2,628
Liability insurance	71,041	2,381	89,780	3,010	160,821	5,391
Bonding insurance	18,180	609	695	24	18,875	633
Other property insurance	181,717	6,092	13,811	463	195,528	6,555
Accident insurance	5,034	169	28,494	955	33,528	1,124
Health insurance	-	-	692	23	692	23
Compulsory automobile liability insurance	287,217	9,628	7,996	268	295,213	9,896
Total	<u>\$1,350,564</u>	<u>\$45,275</u>	<u>\$313,203</u>	<u>\$10,500</u>	<u>\$1,663,767</u>	<u>\$55,775</u>

2013.6.30						
Item	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$315,861	\$10,543	\$9,407	\$314	\$325,268	\$10,857
Marine insurance	516,380	17,236	158,021	5,274	674,401	22,510
Land and air insurance	63,120	2,107	17,825	595	80,945	2,702
Liability insurance	69,088	2,306	90,675	3,027	159,763	5,333
Bonding insurance	18,276	610	1,196	40	19,472	650
Other property insurance	126,004	4,206	16,219	541	142,223	4,747
Accident insurance	8,645	288	15,120	505	23,765	793
Health insurance	-	-	10,492	350	10,492	350
Compulsory automobile liability insurance	324,830	10,842	7,766	259	332,596	11,101
Total	<u>\$1,442,204</u>	<u>\$48,138</u>	<u>\$326,721</u>	<u>\$10,905</u>	<u>\$1,768,925</u>	<u>\$59,043</u>

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

Item	2014.1.1 ~ 2014.6.30			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$6,041,523	\$202,261	\$1,663,767	\$55,700
Reserve	8,405,684	281,409	2,520,100	84,369
Recover	(6,036,595)	(202,096)	(1,663,631)	(55,696)
Effects of exchange rate changes	(38,259)	(1,281)	(11,611)	(388)
Ending balance	<u>\$8,372,353</u>	<u>\$280,293</u>	<u>\$2,508,625</u>	<u>\$83,985</u>

Item	2013.1.1 ~ 2013.6.30			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,807,437	\$193,840	\$2,014,316	\$67,233
Reserve	5,858,554	195,546	1,762,430	58,826
Recover	(5,823,512)	(194,376)	(2,019,206)	(67,396)
Effects of exchange rate changes	42,593	1,421	11,385	380
Ending balance	<u>\$5,885,072</u>	<u>\$196,431</u>	<u>\$1,768,925</u>	<u>\$59,043</u>

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

Item	2014.1.1 ~ 2014.6.30	
	NT\$	US\$
Beginning balance	\$2,225,672	\$74,512
Reserve	-	-
Recover	(705,775)	(23,628)
Ending balance	<u>\$1,519,897</u>	<u>\$50,884</u>

Item	2013.1.1 ~ 2013.6.30	
	NT\$	US\$
Beginning balance	\$2,307,591	\$77,023
Reserve	117,772	3,931
Recover	(202,915)	(6,773)
Ending balance	<u>\$2,222,448</u>	<u>\$74,181</u>

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2014.1.1 ~ 2014.6.30						
Item	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$543,080	\$18,181	\$1,586,240	\$53,105	\$2,129,320	\$71,286
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	<u>\$543,080</u>	<u>\$18,181</u>	<u>\$1,586,240</u>	<u>\$53,105</u>	<u>\$2,129,320</u>	<u>\$71,286</u>

2013.1.1 ~ 2013.6.30						
Item	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,113,068	\$37,152	\$1,034,979	\$34,545	\$2,148,047	\$71,697
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	<u>\$1,113,068</u>	<u>\$37,152</u>	<u>\$1,034,979</u>	<u>\$34,545</u>	<u>\$2,148,047</u>	<u>\$71,697</u>

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 NT\$1,277,740 (US\$42,777) thousands, special capital reserve under equity decrease NT\$483,402 (US\$16,184) thousands.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

D. Premiums deficiency reserve

(a) Premiums deficiency reserve and ceded premium deficiency reserve

	2014.6.30							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,192	\$40	\$14	\$1	\$-	\$-	\$1,206	\$41
Marine insurance	201	7	-	-	(3,342)	(111)	3,543	118
Land and air insurance	-	-	393	13	(350)	(12)	743	25
Liability insurance	17,886	599	13	-	3,469	116	14,430	483
Bonding insurance	49	1	-	-	6	-	43	1
Other property insurance	128,017	4,286	64	2	25,867	866	102,214	3,422
Accident insurance	-	-	46	2	-	-	46	2
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	46,132	1,544	-	-	-	-	46,132	1,544
Total	\$193,477	\$6,477	\$530	\$18	\$25,650	\$859	\$168,357	\$5,636

	2013.12.31							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$4,237	\$142	\$92	\$3	\$-	\$-	\$4,329	\$145
Marine insurance	160	5	2	-	(8,736)	(293)	8,898	298
Land and air insurance	-	-	377	12	(329)	(11)	706	23
Liability insurance	27,518	923	12	-	3,485	117	24,045	806
Bonding insurance	10,288	345	-	-	9,698	325	590	20
Other property insurance	161,090	5,400	424	15	-	-	161,514	5,415
Accident insurance	-	-	97	3	-	-	97	3
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	39,309	1,318	-	-	-	-	39,309	1,318
Total	\$242,602	\$8,133	\$1,004	\$33	\$4,118	\$138	\$239,488	\$8,028

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2013.6.30							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,733	\$125	\$63	\$2	\$57	\$2	\$3,739	\$125
Marine insurance	347	12	13	-	(19,486)	(651)	19,846	663
Land and air insurance	-	-	214	7	-	-	214	7
Liability insurance	17,931	598	21	1	203	7	17,749	592
Bonding insurance	8,857	296	-	-	8,750	292	107	4
Other property insurance	62,436	2,084	338	11	657	22	62,117	2,073
Accident insurance	-	-	146	5	-	-	146	5
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	21,185	707	-	-	-	-	21,185	707
Total	\$114,489	\$3,822	\$795	\$26	\$(9,819)	\$(328)	\$125,103	\$4,176

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

2014.1.1 ~ 2014.6.30									
NT\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$1,216	\$4,213	\$14	\$91	\$(3,074)	\$-	\$-	\$-	\$(3,074)
Marine insurance	205	159	-	2	44	(3,341)	(8,736)	5,395	(5,351)
Land and air insurance	-	-	393	377	16	(350)	(329)	(21)	37
Liability insurance	18,255	27,369	13	12	(9,113)	3,541	3,466	75	(9,188)
Bonding insurance	49	10,288	-	-	(10,239)	5	9,698	(9,693)	(546)
Other property insurance	130,654	160,218	66	422	(29,920)	26,400	-	26,400	(56,320)
Accident insurance	-	-	48	97	(49)	-	-	-	(49)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	47,083	39,096	-	-	7,987	-	-	-	7,987
Total	<u>\$197,462</u>	<u>\$241,343</u>	<u>\$534</u>	<u>\$1,001</u>	<u>\$(44,348)</u>	<u>\$26,255</u>	<u>\$4,099</u>	<u>\$22,156</u>	<u>\$(66,504)</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.1.1 ~ 2014.6.30

US\$

Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$41	\$142	\$1	\$3	\$(103)	\$-	\$-	\$-	\$(103)
Marine insurance	7	5	-	-	2	(112)	(293)	181	(179)
Land and air insurance	-	-	13	13	-	(12)	(11)	(1)	1
Liability insurance	611	916	-	-	(305)	119	116	3	(308)
Bonding insurance	1	344	-	-	(343)	-	325	(325)	(18)
Other property insurance	4,374	5,364	2	14	(1,002)	884	-	884	(1,886)
Accident insurance	-	-	2	3	(1)	-	-	-	(1)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	1,576	1,309	-	-	267	-	-	-	267
Total	\$6,610	\$8,080	\$18	\$33	\$(1,485)	\$879	\$137	\$742	\$(2,227)

2013.1.1 ~ 2013.6.30

NT\$

Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$3,629	\$6,303	\$61	\$24	\$(2,637)	\$56	\$-	\$56	\$(2,693)
Marine insurance	338	9,327	13	726	(9,702)	(19,488)	(7,183)	(12,305)	2,603
Land and air insurance	-	-	214	9,319	(9,105)	-	-	-	(9,105)
Liability insurance	17,432	13,330	20	10	4,112	197	-	197	3,915
Bonding insurance	8,853	2,206	-	-	6,647	8,750	2,096	6,654	(7)
Other property insurance	60,695	36,418	329	444	24,162	639	34	605	23,557
Accident insurance	-	-	142	198	(56)	-	-	-	(56)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	20,594	-	-	-	20,594	-	-	-	20,594
Total	\$111,541	\$67,584	\$779	\$10,721	\$34,015	\$(9,846)	\$(5,053)	\$(4,793)	\$38,808

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.6.30

Item	US\$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$121	\$210	\$2	\$1	\$(88)	\$2	\$-	\$2	\$(90)
Marine insurance	11	311	-	24	(324)	(651)	(240)	(411)	87
Land and air insurance	-	-	7	311	(304)	-	-	-	(304)
Liability insurance	582	445	1	-	138	7	-	7	131
Bonding insurance	296	74	-	-	222	292	70	222	-
Other property insurance	2,026	1,215	11	15	807	21	1	20	787
Accident insurance	-	-	5	7	(2)	-	-	-	(2)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	687	-	-	-	687	-	-	-	687
Total	\$3,723	\$2,255	\$26	\$358	\$1,136	\$(329)	\$(169)	\$(160)	\$1,296

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

2014.1.1 ~ 2014.6.30

Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$243,606	\$8,156	\$4,118	\$138
Reserve	197,996	6,628	26,255	879
Recover	(242,344)	(8,113)	(4,099)	(137)
Effects of exchange rate changes	(5,251)	(176)	(624)	(21)
Ending balance	\$194,007	\$6,495	\$25,650	\$859

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2013.1.1 ~ 2013.6.30			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$77,149	\$2,575	\$(5,055)	\$(169)
Reserve	112,320	3,749	(9,846)	(329)
Recover	(78,305)	(2,613)	5,053	169
Effects of exchange rate changes	4,120	137	29	1
Ending balance	\$115,284	\$3,848	\$(9,819)	\$(328)

(d) Effects for the change of estimation and assumption

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

(12) Post-employment benefits

Defined contribution plan

Expense under the defined contribution plan for the three-month period ended 30 June 2014 and 2013 are NT\$16,136 (US\$540) and NT\$13,869 (US\$463), respectively. Expense under the defined contribution plan for the six-month periods ended 30 June 2014 and 2013 are NT\$31,624 (US\$1,059) and NT\$27,064 (US\$903), respectively.

Defined benefits plan

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

	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Marketing expenses	\$5,402	\$181	\$6,522	\$218
General and administrative expenses	2,315	77	2,795	93
Total	\$7,717	\$258	\$9,317	\$311

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(Expressed in thousands of dollars unless otherwise stated)

	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Marketing expenses	\$10,804	\$362	\$13,043	\$435
General and administrative expenses	4,630	155	5,590	187
Total	<u>\$15,434</u>	<u>\$517</u>	<u>\$18,633</u>	<u>\$622</u>

(13) Common stock

As of 30 June 2014, 31 December 2013 and 30 June 2013, the authorized and issued shares were 272,188 thousand shares with par value of NT\$10 each. Each share has one voting right and a right to receive dividends.

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

(14) Retained earnings

A. Legal reserve

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

B. Special capital reserve

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

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

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(Expressed in thousands of dollars unless otherwise stated)

Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special capital reserve under equity at the end of the year. For the six-month periods 30 June 2014, the reserves amounted to NT\$1,364,645 (US\$45,686) thousands.

C. Retained earnings

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

The Company accrued profit sharing to employees based on certain percentage of net income seated in the article of corporation after considering the legal reserve, which amount to \$0 (US\$0) For the six-month periods ended 30 June 2014 and 2013, 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 2013 and 2012 earnings distribution and dividends per share as approved by the company's Board of directors on 21 April 2014 and 30 April 2013, respectively, are as follows:

	<u>Appropriation of Earnings (NT\$)</u>		<u>Dividend Per Share (NT\$)</u>	
	2013	2012	2013	2012
Legal reserve	\$113,928	\$138,127	\$-	\$-
Legal reserve make up losses	(38,953)	-	-	-
Special capital reserve	-	(53,919)	-	-
Common stock-stock dividend	-	198,929	-	0.79
Directors' remuneration	-	72	-	-
Employee bonus – Cash	-	1,485	-	-

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	Appropriation of Earnings (US\$)		Dividend Per Share (US\$)	
	2013	2012	2013	2012
Legal reserve	\$3,819	\$4,611	\$-	\$-
Legal reserve make up losses	(1,306)	-	-	-
Special capital reserve	-	(1,800)	-	-
Common stock-stock dividend	-	6,639	-	0.03
Directors' remuneration	-	2	-	-
Employee bonus – Cash	-	50	-	-

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.

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

	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$350,112	11,721	\$300,290	\$10,023
Loss attributable to non-controlling interests	(10,786)	(361)	(166,789)	(5,567)
Other comprehensive income, attributable to non-controlling interests, net of tax:				
Exchange differences resulting from translating the financial statements of a foreign operation	(21,875)	(732)	10,360	346
Unrealized gains from available-for-sale financial assets	9,217	308	(6,751)	(225)
Other	495,119	16,576	-	-
Ending balance	<u>\$821,787</u>	<u>\$27,512</u>	<u>\$137,110</u>	<u>\$4,577</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(16) Retained earned premium

2014.4.1 ~ 2014.6.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$1,229,776	\$44,697	\$751,347	\$523,126	\$179,274	\$343,852
Marine insurance	165,343	3,183	105,873	62,653	20,451	42,202
Land and air insurance	1,633,693	4,904	86,635	1,551,962	59,703	1,492,259
Liability insurance	227,798	128	64,148	163,778	(10,651)	174,429
Bonding insurance	18,658	241	10,175	8,724	(578)	9,302
Other property insurance	516,917	8,727	191,188	334,456	(75,882)	410,338
Accident insurance	685,600	1,459	55,337	631,722	19,815	611,907
Health insurance	49,974	-	807	49,167	1,370	47,797
Compulsory automobile liability insurance	948,082	78,816	223,385	803,513	26,198	777,315
Total	<u>\$5,475,841</u>	<u>\$142,155</u>	<u>\$1,488,895</u>	<u>\$4,129,101</u>	<u>\$219,700</u>	<u>\$3,909,401</u>

2014.4.1 ~ 2014.6.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$41,171	\$1,496	\$25,154	\$17,513	\$6,002	\$11,511
Marine insurance	5,536	107	3,544	2,099	685	1,414
Land and air insurance	54,693	164	2,900	51,957	1,998	49,959
Liability insurance	7,626	4	2,147	5,483	(356)	5,839
Bonding insurance	625	8	341	292	(20)	312
Other property insurance	17,306	292	6,401	11,197	(2,541)	13,738
Accident insurance	22,953	49	1,853	21,149	663	20,486
Health insurance	1,673	-	27	1,646	46	1,600
Compulsory automobile liability insurance	31,740	2,639	7,479	26,900	878	26,022
Total	<u>\$183,323</u>	<u>\$4,759</u>	<u>\$49,846</u>	<u>\$138,236</u>	<u>\$7,355</u>	<u>\$130,881</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.4.1 ~ 2013.6.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$1,086,237	\$18,798	\$663,208	\$441,827	\$70,270	\$371,557
Marine insurance	207,313	8,183	164,104	51,392	6,695	44,697
Land and air insurance	1,385,047	4,005	56,731	1,332,321	23,636	1,308,685
Liability insurance	272,363	405	91,517	181,251	10,714	170,537
Bonding insurance	13,736	146	7,220	6,662	(1,040)	7,702
Other property insurance	589,633	10,810	170,563	429,880	123,201	306,679
Accident insurance	643,429	1,298	48,654	596,073	(20,026)	616,099
Health insurance	42,346	-	134	42,212	5,600	36,612
Compulsory automobile liability insurance	853,461	70,563	203,848	720,176	90,290	629,886
Total	\$5,093,565	\$114,208	\$1,405,979	\$3,801,794	\$309,340	\$3,492,454

2014.4.1 ~ 2014.6.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$36,256	\$627	\$22,136	\$14,747	\$2,345	\$12,402
Marine insurance	6,920	273	5,477	1,716	223	1,493
Land and air insurance	46,230	134	1,894	44,470	790	43,680
Liability insurance	9,091	14	3,055	6,050	357	5,693
Bonding insurance	458	5	241	222	(35)	257
Other property insurance	19,681	361	5,693	14,349	4,112	10,237
Accident insurance	21,476	43	1,624	19,895	(668)	20,563
Health insurance	1,413	-	5	1,408	187	1,221
Compulsory automobile liability insurance	28,487	2,355	6,804	24,038	3,014	21,024
Total	\$170,012	\$3,812	\$46,929	\$126,895	\$10,325	\$116,570

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.1.1 ~ 2014.6.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$1,711,700	\$67,609	\$1,082,025	\$697,284	\$79,436	\$617,848
Marine insurance	317,065	7,132	231,145	93,052	3,872	89,180
Land and air insurance	3,249,460	5,245	154,910	3,099,795	165,312	2,934,483
Liability insurance	483,489	216	121,278	362,427	668	361,759
Bonding insurance	53,871	766	34,889	19,748	2,605	17,143
Other property insurance	1,051,471	14,990	422,248	644,213	(201,227)	845,440
Accident insurance	1,322,743	3,056	116,420	1,209,379	42,178	1,167,201
Health insurance	85,520	-	1,102	84,418	(5,126)	89,544
Compulsory automobile liability insurance	1,818,721	151,987	429,243	1,541,465	27,118	1,514,347
Total	<u>\$10,094,040</u>	<u>\$251,001</u>	<u>\$2,593,260</u>	<u>\$7,751,781</u>	<u>\$114,836</u>	<u>\$7,636,945</u>

2014.1.1 ~ 2014.6.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$57,305	\$2,263	\$36,225	\$23,343	\$2,659	\$20,684
Marine insurance	10,615	239	7,739	3,115	130	2,985
Land and air insurance	108,787	176	5,186	103,777	5,534	98,243
Liability insurance	16,186	7	4,060	12,133	22	12,111
Bonding insurance	1,803	26	1,168	661	87	574
Other property insurance	35,202	502	14,136	21,568	(6,737)	28,305
Accident insurance	44,283	102	3,897	40,488	1,412	39,076
Health insurance	2,863	-	37	2,826	(171)	2,997
Compulsory automobile liability insurance	60,888	5,088	14,370	51,606	908	50,698
Total	<u>\$337,932</u>	<u>\$8,403</u>	<u>\$86,818</u>	<u>\$259,517</u>	<u>\$3,844</u>	<u>\$255,673</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.6.30						
NT\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$1,588,526	\$42,210	\$1,039,459	\$591,277	\$(76,635)	\$667,912
Marine insurance	374,023	21,062	285,315	109,770	8,986	100,784
Land and air insurance	2,942,885	4,933	114,837	2,832,981	398,863	2,434,118
Liability insurance	521,581	406	167,942	354,045	27,266	326,779
Bonding insurance	36,080	625	21,739	14,966	(2,272)	17,238
Other property insurance	943,353	19,484	240,905	721,932	126,571	595,361
Accident insurance	1,266,085	2,907	84,466	1,184,526	22,061	1,162,465
Health insurance	77,493	-	435	77,058	7,329	69,729
Compulsory automobile liability insurance	1,655,154	138,592	408,779	1,384,967	155,359	1,229,608
Total	\$9,405,180	\$230,219	\$2,363,877	\$7,271,522	\$667,528	\$6,603,994

2013.1.1 ~ 2013.6.30						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$53,022	\$1,409	\$34,695	\$19,736	\$(2,557)	\$22,293
Marine insurance	12,484	703	9,523	3,664	300	3,364
Land and air insurance	98,227	165	3,833	94,559	13,313	81,246
Liability insurance	17,409	13	5,605	11,817	910	10,907
Bonding insurance	1,204	21	726	499	(75)	574
Other property insurance	31,487	650	8,041	24,096	4,224	19,872
Accident insurance	42,259	97	2,819	39,537	736	38,801
Health insurance	2,587	-	15	2,572	245	2,327
Compulsory automobile liability insurance	55,246	4,626	13,644	46,228	5,185	41,043
Total	\$313,925	\$7,684	\$78,901	\$242,708	\$22,281	\$220,427

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(17) Retained claim paid

2014.4.1 ~ 2014.6.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsure (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(125,544)	\$(867)	\$(82,079)	\$(44,332)
Marine insurance	(68,042)	(21,656)	(116,588)	26,890
Land and air insurance	(958,267)	(4,535)	2,675	(965,477)
Liability insurance	(126,603)	(2)	(39,122)	(87,483)
Bonding insurance	(8,243)	1	(224)	(8,018)
Other property insurance	(286,409)	(2,861)	(36,724)	(252,546)
Accident insurance	(247,710)	(2)	(19,565)	(228,147)
Health insurance	(20,760)	-	-	(20,760)
Compulsory automobile liability insurance	(520,638)	(67,618)	(171,086)	(417,170)
Total	\$(2,362,216)	\$(97,540)	\$(462,713)	\$(1,997,043)

2014.4.1 ~ 2014.6.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(4,203)	\$(29)	\$(2,748)	\$(1,484)
Marine insurance	(2,278)	(725)	(3,903)	900
Land and air insurance	(32,081)	(152)	90	(32,323)
Liability insurance	(4,238)	-	(1,310)	(2,928)
Bonding insurance	(276)	-	(8)	(268)
Other property insurance	(9,589)	(96)	(1,229)	(8,456)
Accident insurance	(8,293)	-	(655)	(7,638)
Health insurance	(695)	-	-	(695)
Compulsory automobile liability insurance	(17,430)	(2,264)	(5,728)	(13,966)
Total	\$(79,083)	\$(3,266)	\$(15,491)	\$(66,858)

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

2013.4.1 ~ 2013.6.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(182,662)	\$(1,598)	\$(62,128)	\$(122,132)
Marine insurance	(49,480)	(4,730)	(45,484)	(8,726)
Land and air insurance	(841,369)	(1,405)	(22,362)	(820,412)
Liability insurance	(101,354)	(9)	(22,508)	(78,855)
Bonding insurance	(3,517)	3	(43)	(3,471)
Other property insurance	(181,184)	(6,087)	(13,749)	(173,522)
Accident insurance	(233,623)	(1,680)	(15,696)	(219,607)
Health insurance	(24,629)	-	-	(24,629)
Compulsory automobile liability insurance	(492,750)	(67,725)	(189,501)	(370,974)
Total	\$(2,110,568)	\$(83,231)	\$(371,471)	\$(1,822,328)

2013.4.1 ~ 2013.6.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(6,097)	\$(53)	\$(2,074)	\$(4,076)
Marine insurance	(1,652)	(158)	(1,518)	(292)
Land and air insurance	(28,083)	(47)	(746)	(27,384)
Liability insurance	(3,383)	-	(751)	(2,632)
Bonding insurance	(117)	-	(2)	(115)
Other property insurance	(6,047)	(203)	(459)	(5,791)
Accident insurance	(7,798)	(56)	(524)	(7,330)
Health insurance	(822)	-	-	(822)
Compulsory automobile liability insurance	(16,447)	(2,261)	(6,325)	(12,383)
Total	\$(70,446)	\$(2,778)	\$(12,399)	\$(60,825)

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

2014.1.1 ~ 2014.6.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(208,241)	\$(1,127)	\$(113,482)	\$(95,886)
Marine insurance	(188,388)	(124,464)	(272,571)	(40,281)
Land and air insurance	(1,815,328)	(7,840)	(37,633)	(1,785,535)
Liability insurance	(222,323)	(7)	(83,666)	(138,664)
Bonding insurance	(9,691)	(106)	(369)	(9,428)
Other property insurance	(561,329)	(7,322)	(63,248)	(505,403)
Accident insurance	(456,063)	(44)	(34,674)	(421,433)
Health insurance	(45,147)	-	-	(45,147)
Compulsory automobile liability insurance	(1,102,300)	(147,605)	(380,682)	(869,223)
Total	\$(4,608,810)	\$(288,515)	\$(986,325)	\$(3,911,000)

2014.1.1 ~ 2014.6.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(6,972)	\$(37)	\$(3,799)	\$(3,210)
Marine insurance	(6,307)	(4,167)	(9,125)	(1,349)
Land and air insurance	(60,774)	(263)	(1,260)	(59,777)
Liability insurance	(7,443)	-	(2,801)	(4,642)
Bonding insurance	(325)	(4)	(12)	(317)
Other property insurance	(18,793)	(245)	(2,118)	(16,920)
Accident insurance	(15,268)	(1)	(1,161)	(14,108)
Health insurance	(1,511)	-	-	(1,511)
Compulsory automobile liability insurance	(36,903)	(4,942)	(12,745)	(29,100)
Total	\$(154,296)	\$(9,659)	\$(33,021)	\$(130,934)

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

2013.1.1 ~ 2013.6.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(599,400)	\$(1,711)	\$(208,965)	\$(392,146)
Marine insurance	(155,147)	(49,948)	(171,395)	(33,700)
Land and air insurance	(1,587,824)	(4,580)	(45,122)	(1,547,282)
Liability insurance	(201,879)	(23)	(52,087)	(149,815)
Bonding insurance	(4,754)	(8)	(196)	(4,566)
Other property insurance	(319,339)	(9,073)	(31,084)	(297,328)
Accident insurance	(427,831)	(1,686)	(27,168)	(402,349)
Health insurance	(66,814)	-	(160)	(66,654)
Compulsory automobile liability insurance	(961,910)	(148,125)	(374,412)	(735,623)
Total	\$(4,324,898)	\$(215,154)	\$(910,589)	\$(3,629,463)

2013.1.1 ~ 2013.6.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(20,007)	\$(57)	\$(6,975)	\$(13,089)
Marine insurance	(5,179)	(1,667)	(5,721)	(1,125)
Land and air insurance	(52,998)	(153)	(1,506)	(51,645)
Liability insurance	(6,738)	(1)	(1,738)	(5,001)
Bonding insurance	(159)	-	(7)	(152)
Other property insurance	(10,659)	(303)	(1,037)	(9,925)
Accident insurance	(14,280)	(56)	(907)	(13,429)
Health insurance	(2,230)	-	(5)	(2,225)
Compulsory automobile liability insurance	(32,106)	(4,944)	(12,497)	(24,553)
Total	\$(144,356)	\$(7,181)	\$(30,393)	\$(121,144)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(18) Components of other comprehensive income

2014.4.1 ~ 2014.6.30					
NT\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(39,755)	\$-	\$(39,755)	\$-	\$(39,755)
Unrealized gains (losses) form available-for-sale financial assets	(171,595)	153,370	(18,225)	(811)	(19,036)
Gains (losses) on cash flow hedges	(4,574)	-	(4,574)	-	(4,574)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(2)	-	(2)	-	(2)
Total of other comprehensive income	<u>\$(215,926)</u>	<u>\$153,370</u>	<u>\$(62,556)</u>	<u>\$(811)</u>	<u>\$(63,367)</u>

2014.4.1 ~ 2014.6.30					
US\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(1,331)	\$-	\$(1,331)	\$-	\$(1,331)
Unrealized gains (losses) form available-for-sale financial assets	(5,745)	5,135	(610)	(27)	(637)
Gains (losses) on cash flow hedges	(153)	-	(153)	-	(153)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	<u>\$(7,229)</u>	<u>\$5,135</u>	<u>\$(2,094)</u>	<u>\$(27)</u>	<u>\$(2,121)</u>

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

2013.4.1 ~ 2013.6.30					
NT\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$3,234	\$-	\$3,234	\$-	\$3,234
Unrealized gains (losses) form available-for-sale financial assets	(95,310)	(51,332)	(146,642)	17,101	(129,541)
Gains (losses) on cash flow hedges	(4,737)	-	(4,737)	-	(4,737)
Total of other comprehensive income	<u>\$ (96,813)</u>	<u>\$ (51,332)</u>	<u>\$ (148,145)</u>	<u>\$ 17,101</u>	<u>\$ (131,044)</u>

2013.4.1 ~ 2013.6.30					
US\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$108	\$-	\$108	\$-	\$108
Unrealized gains (losses) form available-for-sale financial assets	(3,182)	(1,713)	(4,895)	571	(4,324)
Gains (losses) on cash flow hedges	(158)	-	(158)	-	(158)
Total of other comprehensive income	<u>\$ (3,232)</u>	<u>\$ (1,713)</u>	<u>\$ (4,945)</u>	<u>\$ 571</u>	<u>\$ (4,374)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.1.1 ~ 2014.6.30					
NT\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(46,705)	\$-	\$(46,705)	\$-	\$(46,705)
Unrealized gains (losses) form available-for-sale financial assets	(195,367)	191,399	(3,968)	(1,788)	(5,756)
Gains (losses) on cash flow hedges	(5,460)	-	(5,460)	-	(5,460)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(2)	-	(2)	-	(2)
Total of other comprehensive income	<u>\$(247,534)</u>	<u>\$191,399</u>	<u>\$(56,135)</u>	<u>\$(1,788)</u>	<u>\$(57,923)</u>

2014.1.1 ~ 2014.6.30					
US\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(1,563)	\$-	\$(1,563)	\$-	\$(1,563)
Unrealized gains (losses) form available-for-sale financial assets	(6,541)	6,408	(133)	(60)	(193)
Gains (losses) on cash flow hedges	(183)	-	(183)	-	(183)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	<u>\$(8,287)</u>	<u>\$6,408</u>	<u>\$(1,879)</u>	<u>\$(60)</u>	<u>\$(1,939)</u>

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

2013.1.1 ~ 2013.6.30					
NT\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$27,741	\$-	\$27,741	\$-	\$27,741
Unrealized gains (losses) form available-for-sale financial assets	13,904	(146,484)	(132,580)	8,986	(123,594)
Gains (losses) on cash flow hedges	(5,588)	-	(5,588)	-	(5,588)
Total of other comprehensive income	\$36,057	\$(146,484)	\$(110,427)	\$8,986	\$(101,441)

2013.1.1 ~ 2013.6.30					
US\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$926	\$-	\$926	\$-	\$926
Unrealized gains (losses) form available-for-sale financial assets	464	(4,889)	(4,425)	300	(4,125)
Gains (losses) on cash flow hedges	(186)	-	(186)	-	(186)
Total of other comprehensive income	\$1,204	\$(4,889)	\$(3,685)	\$300	\$(3,385)

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(19) Personnel, depreciation, depletion and amortization expenses

Item	2014.4.1 ~ 2014.6.30 (NT\$)			2013.4.1 ~ 2013.6.30 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$610,061	\$610,061	\$-	\$538,984	\$538,984
Labor & health insurance expenses	-	55,773	55,773	-	48,687	48,687
Pension expenses	-	23,853	23,853	-	23,186	23,186
Other expenses	-	21,701	21,701	-	14,367	14,367
Depreciation	-	25,257	25,257	-	20,137	20,137
Amortization	-	8,862	8,862	-	6,797	6,797

Item	2014.4.1 ~ 2014.6.30 (US\$)			2013.4.1 ~ 2013.6.30 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$20,424	\$20,424	\$-	\$17,990	\$17,990
Labor & health insurance expenses	-	1,867	1,867	-	1,625	1,625
Pension expenses	-	799	799	-	774	774
Other expenses	-	727	727	-	480	480
Depreciation	-	846	846	-	672	672
Amortization	-	297	297	-	227	227

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2014.1.1 ~ 2014.6.30 (NT\$)			2013.1.1 ~ 2013.6.30 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$1,184,628	\$1,184,628	\$-	\$1,051,456	\$1,051,456
Labor & health insurance expenses	-	99,555	99,555	-	85,166	85,166
Pension expenses	-	47,058	47,058	-	45,697	45,697
Other expenses	-	39,745	39,745	-	30,379	30,379
Depreciation	-	50,543	50,543	-	39,585	39,585
Amortization	-	16,830	16,830	-	13,534	13,534

Item	2014.1.1 ~ 2014.6.30 (US\$)			2013.1.1 ~ 2013.6.30 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$39,659	\$39,659	\$-	\$35,095	\$35,095
Labor & health insurance expenses	-	3,333	3,333	-	2,843	2,843
Pension expenses	-	1,576	1,576	-	1,525	1,525
Other expenses	-	1,331	1,331	-	1,014	1,014
Depreciation	-	1,692	1,692	-	1,321	1,321
Amortization	-	563	563	-	452	452

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(20) Income tax

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

Income tax expense (income) recognized in profit or loss

	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Current income tax expense (income):				
Current income tax charge	\$22,943	\$768	\$56,467	\$1,885
Adjustments in respect of current income tax of prior periods	256	9	2	-
Deferred tax expense (income):				
Deferred tax expense (income) related to origination and reversal of temporary differences	(8,326)	(279)	4,692	156
Total income tax expense	<u>\$14,873</u>	<u>\$498</u>	<u>\$61,161</u>	<u>\$2,041</u>
	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Current income tax expense (income):				
Current income tax charge	\$62,664	\$2,098	\$107,127	\$3,576
Adjustments in respect of current income tax of prior periods	256	9	2	-
Deferred tax expense (income):				
Deferred tax expense (income) related to origination and reversal of temporary differences	(18,096)	(606)	(2,433)	(81)
Total income tax expense	<u>\$44,824</u>	<u>\$1,501</u>	<u>\$104,696</u>	<u>\$3,495</u>

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(Expressed in thousands of dollars unless otherwise stated)

Income tax related to components of other comprehensive income

	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from				
available-for-sale financial assets	\$811	\$27	\$(17,101)	\$(571)
	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from				
available-for-sale financial assets	\$1,788	\$60	\$(8,986)	\$(300)

Imputation credit information

NT\$	2014.6.30	2013.12.31	2013.6.30
Balances of imputation credit amounts	\$-	\$15,411	\$-
US\$	2014.6.30	2013.12.31	2013.6.30
Balances of imputation credit amounts	\$-	\$517	\$-

The expected creditable ratio for 2013 and the actual creditable ratio for 2012 were 3.97% and 0%, respectively.

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

The assessment of income tax returns

As of 30 June 2014, 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 2008 (2007 not yet assessed and approved)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(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.

Item	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Profit attributable to ordinary equity holders of the Company (in thousand)	<u>\$116,478</u>	<u>\$3,899</u>	<u>\$185,301</u>	<u>\$6,185</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>272,188</u>	<u>272,188</u>	<u>272,188</u>	<u>272,188</u>
Basic earnings per share	<u>\$0.43</u>	<u>\$0.01</u>	<u>\$0.68</u>	<u>\$0.02</u>

Item	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Profit attributable to ordinary equity holders of the Company (in thousand)	<u>\$313,198</u>	<u>\$10,485</u>	<u>\$387,815</u>	<u>\$12,944</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	<u>272,188</u>	<u>272,188</u>	<u>272,188</u>	<u>272,188</u>
Basic earnings per share	<u>\$1.15</u>	<u>\$0.04</u>	<u>\$1.42</u>	<u>\$0.05</u>

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

d.To adjust risk category, allotment, and attribution in response to changes in the environment.

e.To coordinate the interaction and communication of risk management function across departments.

(C) Risk management department

a.Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.

b.Responsibility of risk management division :

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

(D) Business unit

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

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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.

(E) Internal audit room

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

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

(A) Risks reporting

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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(Expressed in thousands of dollars unless otherwise stated)

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	2014		2013	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$729,000	\$24,406	\$673,000	\$22,463
Marine insurance	729,000	24,406	673,000	22,463
Engineering insurance	729,000	24,406	673,000	22,463
Other property insurance	729,000	24,406	673,000	22,463
Automobile insurance	729,000	24,406	673,000	22,463
Health and injury insurance	729,000	24,406	673,000	22,463

F. Methods of asset/liability management

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

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(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)		
	NT\$		
	2014.6.30	2013.12.31	2013.6.30
Fire insurance	\$946,671	\$605,859	\$868,624
Marine insurance	259,052	266,869	336,313
Land and air insurance	813,920	852,082	698,453
Liability insurance	147,048	173,230	162,705
Bonding insurance	47,145	27,737	25,548
Other property insurance	384,323	427,980	437,668
Accident insurance	302,844	270,300	331,333
Health insurance	12,756	25,735	23,167
Compulsory automobile liability insurance	324,580	286,025	297,701
Total	3,238,339	2,935,817	3,181,512
Less: Allowance for bad debts	(70,193)	(64,162)	(64,294)
Net	\$3,168,146	\$2,871,655	\$3,117,218

Item	Premiums receivable(Note)		
	US\$		
	2014.6.30	2013.12.31	2013.6.30
Fire insurance	\$31,693	\$20,310	\$28,993
Marine insurance	8,673	8,946	11,225
Land and air insurance	27,249	28,565	23,313
Liability insurance	4,923	5,807	5,431
Bonding insurance	1,578	930	853
Other property insurance	12,867	14,347	14,608
Accident insurance	10,139	9,061	11,059
Health insurance	427	863	773
Compulsory automobile liability insurance	10,866	9,589	9,937
Total	108,415	98,418	106,192
Less: Allowance for bad debts	(2,350)	(2,151)	(2,146)
Net	\$106,065	\$96,267	\$104,046

Note : As of 30 June 2014, 31 December 2013 and 30 June 2013, the receivables included overdue receivables amounted to NT\$516,729 (US\$17,299) thousands, NT\$484,663 (US\$16,248) thousands and NT\$449,447 (US\$15,002) thousands,, the allowance for bad debts amounted to NT\$13,065 (US\$437) thousands, NT\$20,634 (US\$692) thousands and NT\$19,487 (US\$650) thousands.

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)****B. Claims recoverable from reinsurers for policyholder with reported and paid off claims**

Item	Claims reported and paid off		
	NT\$		
	2014.6.30	2013.12.31	2013.6.30
Fire insurance	\$6,813	\$22,767	\$18,017
Marine insurance	28,819	37,647	27,836
Land and air insurance	33,266	25,154	21,037
Liability insurance	17,299	21,545	8,377
Bonding insurance	27	(2)	42
Other property insurance	13,745	31,352	12,180
Accident insurance	18,599	15,040	12,269
Health insurance	-	-	-
Compulsory automobile liability insurance	111,967	179,208	142,823
Total	230,535	332,711	242,581
Less: Allowance for bad debts	-	-	-
Net	<u>\$230,535</u>	<u>\$332,711</u>	<u>\$242,581</u>

Item	Claims reported and paid off		
	US\$		
	2014.6.30	2013.12.31	2013.6.30
Fire insurance	\$228	\$763	\$601
Marine insurance	965	1,262	929
Land and air insurance	1,114	843	702
Liability insurance	579	722	280
Bonding insurance	1	-	1
Other property insurance	460	1,051	407
Accident insurance	623	504	410
Health insurance	-	-	-
Compulsory automobile liability insurance	3,748	6,008	4,767
Total	7,718	11,153	8,097
Less: Allowance for bad debts	-	-	-
Net	<u>\$7,718</u>	<u>\$11,153</u>	<u>\$8,097</u>

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Item	2014.6.30					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$9,979	\$334	\$19,892	\$666	\$29,871	\$1,000
Marine insurance	3,198	107	7,146	239	10,344	346
Land and air insurance	7,692	257	219,062	7,334	226,754	7,591
Liability insurance	6,754	226	9,594	321	16,348	547
Bonding insurance	49	2	257	9	306	11
Other property insurance	33,988	1,138	14,447	484	48,435	1,622
Accident insurance	42	1	97,402	3,261	97,444	3,262
Health insurance	1,434	48	2,758	92	4,192	140
Compulsory automobile liability insurance	149,247	4,997	-	-	149,247	4,997
Total	<u>\$212,383</u>	<u>\$7,110</u>	<u>\$370,558</u>	<u>\$12,406</u>	<u>\$582,941</u>	<u>\$19,516</u>

Item	2013.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,411	\$114	\$7,178	\$241	\$10,589	\$355
Marine insurance	2,394	80	3,529	118	5,923	198
Land and air insurance	5,524	185	91,621	3,071	97,145	3,256
Liability insurance	2,554	86	7,166	240	9,720	326
Bonding insurance	74	2	210	7	284	9
Other property insurance	44,466	1,491	6,082	204	50,548	1,695
Accident insurance	206	7	26,940	903	27,146	910
Health insurance	210	7	5,959	200	6,169	207
Compulsory automobile liability insurance	89,457	2,999	-	-	89,457	2,999
Total	<u>\$148,296</u>	<u>\$4,971</u>	<u>\$148,685</u>	<u>\$4,984</u>	<u>\$296,981</u>	<u>\$9,955</u>

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Item	2013.6.30					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$20,075	\$670	\$7,526	\$251	\$27,601	\$921
Marine insurance	924	31	3,203	107	4,127	138
Land and air insurance	19,325	645	92,652	3,093	111,977	3,738
Liability insurance	2,545	85	5,192	173	7,737	258
Bonding insurance	47	1	89	3	136	4
Other property insurance	33,827	1,129	6,405	214	40,232	1,343
Accident insurance	407	14	32,832	1,096	33,239	1,110
Health insurance	150	5	8,994	300	9,144	305
Compulsory automobile liability insurance	98,459	3,286	-	-	98,459	3,286
Total	<u>\$175,759</u>	<u>\$5,866</u>	<u>\$156,893</u>	<u>\$5,237</u>	<u>\$332,652</u>	<u>\$11,103</u>

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Item	2014.6.30			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$57,270	\$1,918	\$227,390	\$7,613
Munich Re	-	-	85,184	2,852
Central Re	32,683	1,094	96,826	3,242
FP Marine	41,743	1,398	43,883	1,469
Marsh	20,462	685	241,891	8,098
Swiss Re	6,669	223	98,453	3,296
Willis	42,230	1,413	37,367	1,251
Wilson Re	27,295	914	8,735	292
Others	245,788	8,228	623,964	20,889
Total	474,140	15,873	1,463,693	49,002
Less: Allowance for bad debts	(15,012)	(503)	-	-
Net	<u>\$459,128</u>	<u>\$15,370</u>	<u>\$1,463,693</u>	<u>\$49,002</u>

Item	2013.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$56,061	\$1,879	\$211,063	\$7,075
Kann An	35,266	1,182	-	-
Best Re	31,477	1,055	9,269	311
Central Re	20,166	676	80,543	2,700
JLT	698	23	75,250	2,523
Guy Carpenter	-	-	76,301	2,558
Marsh	25,101	842	174,020	5,834
Swiss Re	4,675	157	108,591	3,640
Others	402,720	13,501	628,209	21,060
Total	576,164	19,315	1,363,246	45,701
Less: Allowance for bad debts	(14,624)	(490)	-	-
Net	<u>\$561,540</u>	<u>\$18,825</u>	<u>\$1,363,246</u>	<u>\$45,701</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2013.6.30			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$62,413	\$2,083	\$235,225	\$7,851
Best Re	57,041	1,904	12,020	401
Elite	36,418	1,216	31,291	1,044
Guy Carpenter	41,172	1,374	129,320	4,317
Korean Re	68,230	2,277	81,301	2,714
Marsh	8,566	286	228,851	7,639
Swiss Re	3,225	108	97,516	3,255
Others	390,001	13,018	744,220	24,840
Total	667,066	22,266	1,559,744	52,061
Less: Allowance for bad debts	(4,057)	(151)	-	-
Net	<u>\$662,559</u>	<u>\$22,115</u>	<u>\$1,559,744</u>	<u>\$52,061</u>

Notes: As of 30 June 2014, 31 December 2013 and 30 June 2013, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$50,122 (US\$1,678) thousands, NT\$46,239 (US\$1,550) thousands and NT\$45,074 (US\$1,504) thousands, the allowance for bad debts amounted to NT\$15,012 (US\$503) thousands, NT\$14,624 (US\$490) thousands and NT\$4,507 (US\$151) thousands.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3)Information of management achievements

A. Acquisition cost for insurance contracts

2014.4.1 ~ 2014.6.30 (NT\$)						
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission		Total
				expense	Other cost	
Fire insurance	\$8,094	\$1,329	\$7,479	\$2,617	\$32,183	\$51,702
Marine insurance	3,786	121	767	311	12,606	17,591
Land and air insurance	25,821	321	-	289	273,733	300,164
Liability insurance	8,464	137	4,049	39	21,449	34,138
Bonding insurance	957	-	17	-	428	1,402
Other property insurance	2,503	8	63,841	878	23,588	90,818
Accident insurance	6,396	19	-	-	131,970	138,385
Health insurance	5,102	39	-	-	(1,799)	3,342
Compulsory automobile liability insurance	-	-	141,058	-	946	142,004
Total	<u>\$61,123</u>	<u>\$1,974</u>	<u>\$217,211</u>	<u>\$4,134</u>	<u>\$495,104</u>	<u>\$779,546</u>

2014.4.1 ~ 2014.6.30 (US\$)						
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission		Total
				expense	Other cost	
Fire insurance	\$271	\$44	\$250	\$88	\$1,077	\$1,730
Marine insurance	127	4	26	10	422	589
Land and air insurance	865	11	-	10	9,164	10,050
Liability insurance	283	5	136	1	718	1,143
Bonding insurance	32	-	1	-	14	47
Other property insurance	84	-	2,137	29	790	3,040
Accident insurance	214	1	-	-	4,418	4,633
Health insurance	171	1	-	-	(60)	112
Compulsory automobile liability insurance	-	-	4,722	-	32	4,754
Total	<u>\$2,047</u>	<u>\$66</u>	<u>\$7,272</u>	<u>\$138</u>	<u>\$16,575</u>	<u>\$26,098</u>

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

2013.4.1 ~ 2013.6.30 (NT\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance commission		Total
				expense	Other cost	
Fire insurance	\$23,736	\$2,234	\$6,214	\$1,433	\$23,821	\$57,438
Marine insurance	2,333	492	2,110	556	10,587	16,078
Land and air insurance	25,013	911	-	649	191,206	217,779
Liability insurance	6,939	695	10,756	131	15,673	34,194
Bonding insurance	659	20	41	-	271	991
Other property insurance	4,308	445	49,768	2,061	17,148	73,730
Accident insurance	4,127	368	-	12	85,214	89,721
Health insurance	4,628	280	-	-	7,555	12,463
Compulsory automobile liability insurance	-	-	119,834	-	3,284	123,118
Total	\$71,743	\$5,445	\$188,723	\$4,842	\$354,759	\$625,512

2013.4.1 ~ 2013.6.30 (US\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance commission		Total
				expense	Other cost	
Fire insurance	\$792	\$75	\$207	\$48	\$795	\$1,917
Marine insurance	78	16	71	18	354	537
Land and air insurance	835	30	-	22	6,382	7,269
Liability insurance	232	23	359	4	523	1,141
Bonding insurance	22	1	1	-	9	33
Other property insurance	144	15	1,661	69	572	2,461
Accident insurance	138	12	-	-	2,845	2,995
Health insurance	154	10	-	-	252	416
Compulsory automobile liability insurance	-	-	4,000	-	109	4,109
Total	\$2,395	\$182	\$6,299	\$161	\$11,841	\$20,878

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

2014.1.1 ~ 2014.6.30 (NT\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$16,954	\$2,863	\$14,966	\$3,764	\$54,935	\$93,482
Marine insurance	6,799	648	1,755	677	22,471	32,350
Land and air insurance	44,799	1,557	-	407	493,977	540,740
Liability insurance	14,871	815	8,631	64	37,788	62,169
Bonding insurance	1,920	25	132	1	835	2,913
Other property insurance	6,114	880	128,175	1,868	40,143	177,180
Accident insurance	10,983	584	-	-	216,720	228,287
Health insurance	9,728	485	-	-	3,480	13,693
Compulsory automobile liability insurance	-	-	260,953	-	2,742	263,695
Total	\$112,168	\$7,857	\$414,612	\$6,781	\$873,091	\$1,414,509

2014.1.1 ~ 2014.6.30 (US\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$568	\$96	\$501	\$126	\$1,839	\$3,130
Marine insurance	227	22	59	23	752	1,083
Land and air insurance	1,500	52	-	14	16,538	18,104
Liability insurance	498	27	289	2	1,265	2,081
Bonding insurance	64	1	4	-	28	97
Other property insurance	205	30	4,291	62	1,344	5,932
Accident insurance	368	19	-	-	7,256	7,643
Health insurance	326	16	-	-	116	458
Compulsory automobile liability insurance	-	-	8,736	-	92	8,828
Total	\$3,756	\$263	\$13,880	\$227	\$29,230	\$47,356

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

2013.1.1 ~ 2013.6.30 (NT\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$36,202	\$3,284	\$15,519	\$1,584	\$42,712	\$99,301
Marine insurance	5,622	1,215	3,039	1,574	27,830	39,280
Land and air insurance	30,878	1,609	-	1,007	391,481	424,975
Liability insurance	14,160	1,211	27,780	159	29,732	73,042
Bonding insurance	985	28	148	-	664	1,825
Other property insurance	6,844	810	82,100	3,979	36,765	130,498
Accident insurance	7,620	873	-	18	166,226	174,737
Health insurance	6,944	481	-	-	10,506	17,931
Compulsory automobile liability insurance	-	-	232,551	-	4,944	237,495
Total	\$109,255	\$9,511	\$361,137	\$8,321	\$710,860	\$1,199,084

2013.1.1 ~ 2013.6.30 (US\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$1,208	\$110	\$518	\$53	\$1,425	\$3,314
Marine insurance	188	40	102	52	929	1,311
Land and air insurance	1,030	54	-	34	13,067	14,185
Liability insurance	474	40	927	5	992	2,438
Bonding insurance	33	1	5	-	22	61
Other property insurance	228	27	2,740	133	1,227	4,355
Accident insurance	254	29	-	1	5,549	5,833
Health insurance	232	16	-	-	351	599
Compulsory automobile liability insurance	-	-	7,762	-	165	7,927
Total	\$3,647	\$317	\$12,054	\$278	\$23,727	\$40,023

English Translation of Financial Statements Originally Issued in Chinese**Cathay Century Insurance Co., Ltd. and Subsidiaries****Notes to consolidated financial statements (continued)****(Expressed in thousands of dollars unless otherwise stated)****B. Disclosure for insurance cost benefit analysis****a. Cost benefit analysis for direct underwriting**

2014.4.1 ~ 2014.6.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$1,229,776	\$(433,817)	\$(49,085)	\$(125,544)	\$(538,993)	\$82,337
Marine insurance	165,343	(34,022)	(17,280)	(68,042)	6,179	52,178
Land and air insurance	1,633,693	(58,284)	(299,875)	(958,267)	(17,680)	299,587
Liability insurance	227,798	22,210	(34,099)	(126,603)	(21,489)	67,817
Bonding insurance	18,658	3,929	(1,402)	(8,243)	51	12,993
Other property insurance	516,917	60,829	(89,940)	(286,409)	(54,632)	146,765
Accident insurance	685,600	(25,579)	(138,385)	(247,710)	27,764	301,690
Health insurance	49,974	(1,549)	(3,342)	(20,760)	4,604	28,927
Compulsory automobile liability insurance	948,082	(34,201)	(142,004)	(520,638)	319,774	571,013
Total	<u>\$5,475,841</u>	<u>\$(500,484)</u>	<u>\$ (775,412)</u>	<u>\$ (2,362,216)</u>	<u>\$ (274,422)</u>	<u>\$1,563,307</u>

2014.4.1 ~ 2014.6.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$41,171	\$(14,524)	\$(1,642)	\$(4,203)	\$(18,045)	\$2,757
Marine insurance	5,536	(1,139)	(579)	(2,278)	207	1,747
Land and air insurance	54,693	(1,951)	(10,040)	(32,081)	(591)	10,030
Liability insurance	7,626	744	(1,142)	(4,238)	(720)	2,270
Bonding insurance	625	132	(47)	(276)	2	436
Other property insurance	17,306	2,036	(3,011)	(9,589)	(1,829)	4,913
Accident insurance	22,953	(856)	(4,633)	(8,293)	929	10,100
Health insurance	1,673	(52)	(112)	(695)	154	968
Compulsory automobile liability insurance	31,740	(1,145)	(4,754)	(17,430)	10,706	19,117
Total	<u>\$183,323</u>	<u>\$ (16,755)</u>	<u>\$ (25,960)</u>	<u>\$ (79,083)</u>	<u>\$ (9,187)</u>	<u>\$52,338</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.4.1 ~ 2013.6.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$1,086,237	\$(208,490)	\$(56,005)	\$(182,662)	\$28,346	\$667,426
Marine insurance	207,313	(10,198)	(15,522)	(49,480)	111,390	243,503
Land and air insurance	1,385,047	(20,508)	(217,130)	(841,369)	(55,002)	251,038
Liability insurance	272,363	(21,554)	(34,063)	(101,354)	14,247	129,639
Bonding insurance	13,736	1,162	(991)	(3,517)	(1,683)	8,707
Other property insurance	589,633	(152,595)	(71,669)	(181,184)	(26,423)	157,762
Accident insurance	643,429	12,318	(89,709)	(233,623)	(206,124)	126,291
Health insurance	42,346	(5,416)	(12,463)	(24,629)	(18,680)	(18,842)
Compulsory automobile liability insurance	853,461	(97,764)	(123,118)	(492,750)	(112,011)	27,818
Total	<u>\$5,093,565</u>	<u>\$(503,045)</u>	<u>\$(620,670)</u>	<u>\$(2,110,568)</u>	<u>\$(265,940)</u>	<u>\$1,593,342</u>

2013.4.1 ~ 2013.6.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$36,256	\$(6,959)	\$(1,869)	\$(6,097)	\$946	\$22,277
Marine insurance	6,920	(340)	(518)	(1,652)	3,718	8,128
Land and air insurance	46,230	(685)	(7,247)	(28,083)	(1,836)	8,379
Liability insurance	9,091	(719)	(1,137)	(3,383)	476	4,328
Bonding insurance	458	39	(33)	(117)	(56)	291
Other property insurance	19,681	(5,093)	(2,393)	(6,047)	(882)	5,266
Accident insurance	21,476	411	(2,994)	(7,798)	(6,880)	4,215
Health insurance	1,413	(181)	(416)	(822)	(623)	(629)
Compulsory automobile liability insurance	28,487	(3,263)	(4,110)	(16,447)	(3,739)	928
Total	<u>\$170,012</u>	<u>\$(16,790)</u>	<u>\$(20,717)</u>	<u>\$(70,446)</u>	<u>\$(8,876)</u>	<u>\$53,183</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.1.1 ~ 2014.6.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$1,711,700	\$(168,478)	\$(89,718)	\$(208,241)	\$(521,063)	\$724,200
Marine insurance	317,065	(21,165)	(31,673)	(188,388)	5,668	81,507
Land and air insurance	3,249,460	(161,729)	(540,333)	(1,815,328)	(225,830)	506,24
Liability insurance	483,489	16,968	(62,105)	(222,323)	(115,778)	100,251
Bonding insurance	53,871	(11,148)	(2,912)	(9,691)	(2,426)	27,694
Other property insurance	1,051,471	79,651	(175,312)	(561,329)	(108,838)	285,643
Accident insurance	1,322,743	(63,234)	(228,287)	(456,063)	(35,543)	539,616
Health insurance	85,520	4,970	(13,693)	(45,147)	10,461	42,111
Compulsory automobile liability insurance	1,818,721	(34,494)	(263,695)	(1,102,300)	(1,082,259)	(664,027)
Total	<u>\$10,094,040</u>	<u>\$(358,659)</u>	<u>\$(1,407,728)</u>	<u>\$(4,608,810)</u>	<u>\$(2,075,608)</u>	<u>\$1,643,235</u>

2014.1.1 ~ 2014.6.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$57,305	\$(5,640)	\$(3,004)	\$(6,972)	\$(17,444)	\$24,245
Marine insurance	10,615	(709)	(1,060)	(6,307)	190	2,729
Land and air insurance	108,787	(5,414)	(18,090)	(60,774)	(7,561)	16,948
Liability insurance	16,186	568	(2,079)	(7,443)	(3,876)	3,356
Bonding insurance	1,803	(373)	(97)	(325)	(81)	927
Other property insurance	35,202	2,667	(5,870)	(18,793)	(3,644)	9,562
Accident insurance	44,283	(2,117)	(7,643)	(15,268)	(1,190)	18,065
Health insurance	2,863	166	(458)	(1,511)	350	1,410
Compulsory automobile liability insurance	60,888	(1,155)	(8,828)	(36,903)	(36,232)	(22,230)
Total	<u>\$337,932</u>	<u>\$(12,007)</u>	<u>\$(47,129)</u>	<u>\$(154,296)</u>	<u>\$(69,488)</u>	<u>\$55,012</u>

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(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.6.30 (NT\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$1,588,526	\$55,919	\$(97,717)	\$(599,400)	\$438,064	\$1,385,392
Marine insurance	374,023	13,573	(37,706)	(155,147)	32,553	227,296
Land and air insurance	2,942,885	(390,883)	(423,968)	(1,587,824)	(182,797)	357,413
Liability insurance	521,581	(25,204)	(72,883)	(201,879)	(77,483)	144,132
Bonding insurance	36,080	(5,381)	(1,825)	(4,754)	12,243	36,363
Other property insurance	943,353	(153,762)	(126,519)	(319,339)	(40,083)	303,650
Accident insurance	1,266,085	(24,272)	(174,719)	(427,831)	(60,784)	578,479
Health insurance	77,493	(6,747)	(17,931)	(66,814)	(2,657)	(16,656)
Compulsory automobile liability insurance	1,655,154	(173,479)	(237,495)	(961,910)	(170,694)	111,576
Total	<u>\$9,405,180</u>	<u>\$(710,236)</u>	<u>\$(1,190,763)</u>	<u>\$(4,324,898)</u>	<u>\$(51,638)</u>	<u>\$3,127,645</u>

2013.1.1 ~ 2013.6.30 (US\$)						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$53,022	\$1,866	\$(3,261)	\$(20,007)	\$14,621	\$46,241
Marine insurance	12,484	453	(1,259)	(5,179)	1,087	7,586
Land and air insurance	98,227	(13,047)	(14,151)	(52,998)	(6,101)	11,930
Liability insurance	17,409	(841)	(2,433)	(6,738)	(2,586)	4,811
Bonding insurance	1,204	(180)	(61)	(159)	409	1,213
Other property insurance	31,487	(5,132)	(4,222)	(10,659)	(1,338)	10,136
Accident insurance	42,259	(810)	(5,832)	(14,280)	(2,029)	19,308
Health insurance	2,587	(225)	(599)	(2,230)	(89)	(556)
Compulsory automobile liability insurance	55,246	(5,790)	(7,927)	(32,106)	(5,698)	3,725
Total	<u>\$313,925</u>	<u>\$(23,706)</u>	<u>\$(39,745)</u>	<u>\$(144,356)</u>	<u>\$(1,724)</u>	<u>\$104,394</u>

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(Expressed in thousands of dollars unless otherwise stated)

b. Cost benefit analysis for assumed reinsurance business

2014.4.1 ~ 2014.6.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$44,697	\$(20,949)	\$(2,617)	\$(867)	\$(34,803)	\$(14,539)
Marine insurance	3,183	(4,803)	(311)	(21,656)	131,660	108,073
Land and air insurance	4,904	(638)	(289)	(4,535)	(213,236)	(213,794)
Liability insurance	128	109	(39)	(2)	(59)	137
Bonding insurance	241	(56)	-	1	(46)	140
Other property insurance	8,727	(1,858)	(878)	(2,861)	(11,466)	(8,336)
Accident insurance	1,459	(233)	-	(2)	571	1,795
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	78,816	(3,576)	-	(67,618)	(4,813)	2,809
Total	<u>\$142,155</u>	<u>\$(32,004)</u>	<u>\$(4,134)</u>	<u>\$(97,540)</u>	<u>\$(132,192)</u>	<u>\$(123,715)</u>

2014.4.1 ~ 2014.6.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$1,496	\$(701)	\$(88)	\$(29)	\$(1,165)	\$(487)
Marine insurance	107	(161)	(10)	(725)	4,407	3,618
Land and air insurance	164	(21)	(10)	(152)	(7,138)	(7,157)
Liability insurance	4	3	(1)	-	(2)	4
Bonding insurance	8	(2)	-	-	(1)	5
Other property insurance	292	(62)	(29)	(96)	(384)	(279)
Accident insurance	49	(8)	-	-	19	60
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,639	(120)	-	(2,264)	(161)	94
Total	<u>\$4,759</u>	<u>\$(1,072)</u>	<u>\$(138)</u>	<u>\$(3,266)</u>	<u>\$(4,425)</u>	<u>\$(4,142)</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.4.1 ~ 2013.6.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$18,798	\$410	\$(1,433)	\$(1,598)	\$3	\$16,180
Marine insurance	8,183	5,888	(556)	(4,730)	12,399	21,184
Land and air insurance	4,005	1,692	(649)	(1,405)	(1,524)	2,119
Liability insurance	405	(52)	(131)	(9)	84	297
Bonding insurance	146	(56)	-	3	3	96
Other property insurance	10,810	2,399	(2,061)	(6,087)	(2,087)	2,974
Accident insurance	1,298	654	(12)	(1,680)	1,846	2,106
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	70,563	185	-	(67,725)	403	3,426
Total	\$114,208	\$11,120	\$(4,842)	\$(83,231)	\$11,127	\$48,382

2013.4.1 ~ 2013.6.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$627	\$14	\$(48)	\$(53)	\$-	\$540
Marine insurance	273	197	(18)	(158)	414	708
Land and air insurance	134	56	(22)	(47)	(51)	70
Liability insurance	14	(2)	(4)	-	2	10
Bonding insurance	5	(2)	-	-	-	3
Other property insurance	361	80	(69)	(203)	(70)	99
Accident insurance	43	22	-	(56)	62	71
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,355	6	-	(2,261)	14	114
Total	\$3,812	\$371	\$(161)	\$(2,778)	\$371	\$1,615

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.1.1 ~ 2014.6.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$67,609	\$(16,832)	\$(3,764)	\$(1,127)	\$(37,806)	\$8,080
Marine insurance	7,132	(2,947)	(677)	(124,464)	118,725	(2,231)
Land and air insurance	5,245	2,766	(407)	(7,840)	(207,483)	(207,719)
Liability insurance	216	246	(64)	(7)	(100)	291
Bonding insurance	766	22	(1)	(106)	(46)	635
Other property insurance	14,990	937	(1,868)	(7,322)	(9,835)	(3,098)
Accident insurance	3,056	(283)	-	(44)	482	3,211
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	151,987	(5,833)	-	(147,605)	(157,418)	(158,869)
Total	<u>\$251,001</u>	<u>\$(21,924)</u>	<u>\$(6,781)</u>	<u>\$(288,515)</u>	<u>\$(293,481)</u>	<u>\$(359,700)</u>

2014.1.1 ~ 2014.6.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$2,263	\$(564)	\$(126)	\$(37)	\$(1,266)	\$270
Marine insurance	239	(99)	(23)	(4,167)	3,975	(75)
Land and air insurance	176	93	(14)	(263)	(6,946)	(6,954)
Liability insurance	7	8	(2)	-	(3)	10
Bonding insurance	26	1	-	(4)	(2)	21
Other property insurance	502	31	(62)	(245)	(329)	(103)
Accident insurance	102	(9)	-	(1)	16	108
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	5,088	(195)	-	(4,942)	(5,270)	(5,319)
Total	<u>\$8,403</u>	<u>\$(734)</u>	<u>\$(227)</u>	<u>\$(9,659)</u>	<u>\$(9,825)</u>	<u>\$(12,042)</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.6.30 (NT\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$42,210	\$(4,006)	\$(1,584)	\$(1,711)	\$(149)	\$34,760
Marine insurance	21,062	2,755	(1,574)	(49,948)	23,758	(3,947)
Land and air insurance	4,933	5,027	(1,007)	(4,580)	(4,762)	(389)
Liability insurance	406	38	(159)	(23)	55	317
Bonding insurance	625	(44)	-	(8)	23	596
Other property insurance	19,484	5,565	(3,979)	(9,073)	(2,109)	9,888
Accident insurance	2,907	837	(18)	(1,686)	3,416	5,456
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	138,592	(931)	-	(148,125)	(3,636)	(14,100)
Total	\$230,219	\$9,241	\$(8,321)	\$(215,154)	\$16,596	\$32,581

2013.1.1 ~ 2013.6.30 (US\$)						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$1,409	\$(134)	\$(53)	\$(57)	\$(5)	\$1,160
Marine insurance	703	92	(52)	(1,667)	793	(131)
Land and air insurance	165	168	(34)	(153)	(159)	(13)
Liability insurance	13	1	(5)	(1)	2	10
Bonding insurance	21	(2)	-	-	1	20
Other property insurance	650	186	(133)	(303)	(71)	329
Accident insurance	97	28	(1)	(56)	114	182
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	4,626	(31)	-	(4,944)	(121)	(470)
Total	\$7,684	\$308	\$(278)	\$(7,181)	\$554	\$1,087

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

c. Recognized gain (loss) for reinsurance contract purchased

2014.4.1 ~ 2014.6.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$751,347	\$(275,492)	\$(45,970)	\$(82,079)	\$(234,254)	\$113,552
Marine insurance	105,873	(18,374)	(11,697)	(116,588)	109,692	68,906
Land and air insurance	86,635	781	(25,314)	2,675	(211,771)	(146,994)
Liability insurance	64,148	11,668	(15,495)	(39,122)	(3,744)	17,455
Bonding insurance	10,175	3,295	(2,001)	(224)	(970)	10,275
Other property insurance	191,188	(16,911)	(67,157)	(36,724)	(66,509)	3,887
Accident insurance	55,337	(5,997)	(16,570)	(19,565)	6,308	19,513
Health insurance	807	(179)	(298)	-	663	993
Compulsory automobile liability insurance	223,385	(11,579)	-	(171,086)	149,304	190,024
Total	<u>\$1,488,895</u>	<u>\$(312,788)</u>	<u>\$(184,502)</u>	<u>\$(462,713)</u>	<u>\$(251,281)</u>	<u>\$277,611</u>

2014.4.1 ~ 2014.6.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$25,154	\$(9,223)	\$(1,539)	\$(2,748)	\$(7,842)	\$3,802
Marine insurance	3,544	(615)	(392)	(3,903)	3,673	2,307
Land and air insurance	2,900	26	(847)	90	(7,090)	(4,921)
Liability insurance	2,147	391	(519)	(1,310)	(125)	584
Bonding insurance	341	110	(67)	(8)	(32)	344
Other property insurance	6,401	(567)	(2,248)	(1,229)	(2,227)	130
Accident insurance	1,853	(201)	(555)	(655)	211	653
Health insurance	27	(6)	(10)	-	22	33
Compulsory automobile liability insurance	7,479	(387)	-	(5,728)	4,998	6,362
Total	<u>\$49,846</u>	<u>\$(10,472)</u>	<u>\$(6,177)</u>	<u>\$(15,491)</u>	<u>\$(8,412)</u>	<u>\$9,294</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.4.1 ~ 2013.6.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$663,208	\$(137,810)	\$(27,474)	\$(62,128)	\$19,647	\$455,443
Marine insurance	164,104	2,385	(19,611)	(45,484)	98,199	199,593
Land and air insurance	56,731	4,820	(15,547)	(22,362)	(13,477)	10,165
Liability insurance	91,517	(10,892)	(26,055)	(22,508)	(10,438)	21,624
Bonding insurance	7,220	66	(1,412)	(43)	(362)	5,469
Other property insurance	170,563	(26,995)	(27,095)	(13,749)	20,230	122,954
Accident insurance	48,654	(7,054)	(14,706)	(15,696)	(7,976)	3,222
Health insurance	134	184	(64)	-	(10,191)	(9,937)
Compulsory automobile liability insurance	203,848	(7,289)	-	(189,501)	(36,962)	(29,904)
Total	<u>\$1,405,979</u>	<u>\$(182,585)</u>	<u>\$(131,964)</u>	<u>\$(371,471)</u>	<u>\$58,670</u>	<u>\$778,629</u>

2013.4.1 ~ 2013.6.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$22,136	\$(4,600)	\$(917)	\$(2,074)	\$656	\$15,201
Marine insurance	5,477	80	(655)	(1,518)	3,278	6,662
Land and air insurance	1,894	161	(519)	(746)	(450)	340
Liability insurance	3,055	(364)	(870)	(751)	(348)	722
Bonding insurance	241	2	(47)	(2)	(12)	182
Other property insurance	5,693	(901)	(904)	(459)	675	4,104
Accident insurance	1,624	(235)	(491)	(524)	(266)	108
Health insurance	5	6	(2)	-	(341)	(332)
Compulsory automobile liability insurance	6,804	(243)	-	(6,325)	(1,234)	(998)
Total	<u>\$46,929</u>	<u>\$(6,094)</u>	<u>\$(4,405)</u>	<u>\$(12,399)</u>	<u>\$1,958</u>	<u>\$25,989</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2014.1.1 ~ 2014.6.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,082,025	\$(105,874)	\$(79,974)	\$(113,482)	\$(262,298)	\$520,397
Marine insurance	231,145	(20,240)	(26,847)	(272,571)	105,650	17,137
Land and air insurance	154,910	6,349	(47,567)	(37,633)	(205,923)	(129,864)
Liability insurance	121,278	17,882	(30,211)	(83,666)	(15,127)	10,156
Bonding insurance	34,889	(8,521)	(6,248)	(369)	(2,233)	17,518
Other property insurance	422,248	(120,639)	(128,602)	(63,248)	(90,822)	18,937
Accident insurance	116,420	(21,339)	(27,912)	(34,674)	428	32,923
Health insurance	1,102	(156)	(404)	-	760	1,302
Compulsory automobile liability insurance	429,243	(13,209)	-	(380,682)	(386,904)	(351,552)
Total	<u>\$2,593,260</u>	<u>\$(265,747)</u>	<u>\$(347,765)</u>	<u>\$(986,325)</u>	<u>\$(856,469)</u>	<u>\$136,954</u>

2014.1.1 ~ 2014.6.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$36,225	\$(3,545)	\$(2,677)	\$(3,799)	\$(8,782)	\$17,422
Marine insurance	7,739	(678)	(899)	(9,125)	3,537	574
Land and air insurance	5,186	213	(1,593)	(1,260)	(6,894)	(4,348)
Liability insurance	4,060	598	(1,011)	(2,801)	(506)	340
Bonding insurance	1,168	(285)	(209)	(12)	(75)	587
Other property insurance	14,136	(4,039)	(4,305)	(2,118)	(3,040)	634
Accident insurance	3,897	(714)	(934)	(1,161)	14	1,102
Health insurance	37	(5)	(14)	-	26	44
Compulsory automobile liability insurance	14,370	(442)	-	(12,745)	(12,953)	(11,770)
Total	<u>\$86,818</u>	<u>\$(8,897)</u>	<u>\$(11,642)</u>	<u>\$(33,021)</u>	<u>\$(28,673)</u>	<u>\$4,585</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2013.1.1 ~ 2013.6.30 (NT\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,039,459	\$(24,722)	\$(73,801)	\$(208,965)	\$239,510	\$971,481
Marine insurance	285,315	25,314	(38,311)	(171,395)	74,709	175,632
Land and air insurance	114,837	13,007	(32,771)	(45,122)	(27,024)	22,927
Liability insurance	167,942	2,100	(47,255)	(52,087)	(10,750)	59,950
Bonding insurance	21,739	(7,697)	(4,321)	(196)	4,496	14,021
Other property insurance	240,905	(21,626)	(37,620)	(31,084)	29,644	180,219
Accident insurance	84,466	(1,374)	(25,003)	(27,168)	14,715	45,636
Health insurance	435	582	(174)	(160)	(9,019)	(8,336)
Compulsory automobile liability insurance	408,779	(19,051)	-	(374,412)	(59,505)	(44,189)
Total	<u>\$2,363,877</u>	<u>\$(33,467)</u>	<u>\$(259,256)</u>	<u>\$(910,589)</u>	<u>\$256,776</u>	<u>\$1,417,341</u>

2013.1.1 ~ 2013.6.30 (US\$)						
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$34,695	\$(825)	\$(2,463)	\$(6,975)	\$7,994	\$32,426
Marine insurance	9,523	845	(1,279)	(5,721)	2,494	5,862
Land and air insurance	3,833	434	(1,094)	(1,506)	(902)	765
Liability insurance	5,605	70	(1,577)	(1,738)	(359)	2,001
Bonding insurance	726	(257)	(144)	(7)	150	468
Other property insurance	8,041	(722)	(1,256)	(1,037)	989	6,015
Accident insurance	2,819	(46)	(835)	(907)	492	1,523
Health insurance	15	20	(6)	(5)	(302)	(278)
Compulsory automobile liability insurance	13,644	(636)	-	(12,497)	(1,986)	(1,475)
Total	<u>\$78,901</u>	<u>\$(1,117)</u>	<u>\$(8,654)</u>	<u>\$(30,393)</u>	<u>\$8,570</u>	<u>\$47,307</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) Sensitivity of insurance risk

A. The Company

			The impact to profit and loss when the expected loss ratio increases 5%				
			Expected loss ratio	Before reinsurance		After reinsurance	
Insurance type	Premium income NT\$	US\$		NT\$	US\$	NT\$	US\$
Fire insurance	\$1,539,471	\$51,539	63.75	\$76,974	\$2,577	\$44,917	\$1,504
Marine insurance	298,364	9,989	64.03	14,918	499	4,074	136
Land and air insurance	3,233,038	108,237	65.04	161,652	5,412	103,107	3,452
Liability insurance	398,029	13,325	67.94	19,901	666	11,263	377
Bonding insurance	52,926	1,772	68.00	2,646	89	355	12
Other property insurance	297,293	9,953	62.64	14,865	498	7,316	245
Accident insurance	1,319,289	44,168	74.59	65,965	2,208	47,574	1,593
Health insurance	85,520	2,863	62.79	4,276	143	2,674	89
Compulsory automobile liability insurance	1,553,391	52,005	NA	NA	NA	NA	NA

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

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

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B. Cathay Insurance (China)

Insurance type	Premium income		The impact to profit and loss when the expected loss ratio increases 5%			
			Before reinsurance		After reinsurance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$144,562	\$4,840	\$7,228	\$242	\$1,459	\$49
Marine insurance	15,969	535	798	27	497	17
Liability insurance	85,234	2,853	4,262	143	3,399	114
Bonding insurance	943	31	47	2	37	1
Other property insurance	757,745	25,368	37,887	1,268	23,674	792
Compulsory automobile liability insurance	265,330	8,883	13,267	444	13,267	444

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 six month ended 30 June 2014, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

II. Exposure to unanticipated change in trend

For the six month ended 30 June 2014, the loss rate of the rest insurance categories are still within reasonable range.

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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 six-month periods ended 30 June 2014, 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 six-month periods ended 30 June 2014, there is no catastrophe has taken place.

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

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

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

VI. Concentration risks in geographic regions and operating segments

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

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

Insurance type	2014.4.1 ~ 2014.6.30 (NT\$)				2014.4.1 ~ 2014.6.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,708,904	\$79,874	\$298,499	\$2,490,279	\$90,690	\$2,674	\$9,993	\$83,371
Fire insurance	1,151,076	42,891	693,010	500,957	38,536	1,436	23,201	16,771
Marine insurance	163,353	6,930	113,718	56,565	5,469	232	3,807	1,894
Engineering insurance	99,910	6,983	26,073	80,820	3,345	234	873	2,706
Health and injury insurance	416,503	1,357	45,356	372,504	13,944	45	1,518	12,471
Other insurance	263,225	2,065	95,381	169,909	8,812	69	3,193	5,688
Total	\$4,802,971	\$140,100	\$1,272,037	\$3,671,034	\$160,796	\$4,690	\$42,585	\$122,901

Insurance type	2014.1.1 ~ 2014.6.30 (NT\$)				2014.1.1 ~ 2014.6.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$5,327,790	\$153,497	\$570,209	\$4,911,078	\$178,366	\$5,139	\$19,090	\$164,415
Fire insurance	1,551,010	63,707	941,837	672,880	51,925	2,133	31,531	22,527
Marine insurance	305,083	10,768	236,269	79,582	10,214	360	7,910	2,664
Engineering insurance	239,840	9,571	103,649	145,762	8,029	321	3,470	4,880
Health and injury insurance	762,798	2,872	59,415	706,255	25,537	96	1,989	23,644
Other insurance	588,786	5,143	228,003	365,926	19,712	172	7,633	12,251
Total	\$8,775,307	\$245,558	\$2,139,382	\$6,881,483	\$293,783	\$8,221	\$71,623	\$230,381

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

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

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

B. Cathay Insurance (China)

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

I. The exposure of unanticipated change in trend

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

II. The correlation and cross effect between different risks

When significant incidents happened, Cathay Insurance (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 Insurance (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 Insurance (China) and protect the safety of policyholders’ property. No significant incident occurred for the six-month period ended 30 June 2014.

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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	2014.4.1 ~ 2014.6.30 (NT\$)				2014.4.1 ~ 2014.6.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$524,120	\$231	\$140,795	\$383,556	\$17,547	\$8	\$4,714	\$12,841
Fire insurance	66,152	760	45,364	21,548	2,215	25	1,519	721
Marine insurance	8,601	90	3,445	5,246	288	3	115	176
Engineering insurance	1,785	-	1,656	129	59	-	55	4
Health and injury insurance	-	-	-	-	-	-	-	-
Other insurance	44,651	54	11,659	33,046	1,495	2	390	1,107
Total	\$645,309	\$1,135	\$202,919	\$443,525	\$21,604	\$38	\$6,793	\$14,849

Insurance type	2014.1.1 ~ 2014.6.30 (NT\$)				2014.1.1 ~ 2014.6.30 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$1,003,596	\$1,301	\$281,085	\$723,812	\$33,599	\$43	\$9,410	\$24,232
Fire insurance	151,235	2,991	118,699	35,527	5,063	100	3,974	1,189
Marine insurance	15,969	90	6,125	9,934	535	3	205	333
Engineering insurance	7,235	-	4,151	3,084	242	-	139	103
Health and injury insurance	-	-	-	-	-	-	-	-
Other insurance	91,750	141	17,608	74,283	3,071	5	589	2,487
Total	\$1,269,785	\$4,523	\$427,668	\$846,640	\$42,510	\$151	\$14,317	\$28,344

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(6) Claim development table

A. The company

		2008.7.1-	2009.7.1-	2010.7.1-	2011.7.1-	2012.7.1-	2013.7.1-	
Underwriting Year (NT\$)	-2008.6.30	2009.6.30	2010.6.30	2011.6.30	2012.6.30	2013.6.30	2014.6.30	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$3,062,273	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,576,672	\$6,483,154	
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,603,829	5,804,078		
Two year later	4,184,209	4,142,479	4,895,061	5,849,408	5,722,517			
Three year later	4,048,332	4,178,118	4,902,946	5,850,808				
Four year later	4,058,322	4,241,103	4,900,508					
Five year later	4,199,859	4,235,571						
Six year later	4,002,379							
Estimate of cumulative claims incurred	4,002,379	4,235,571	4,900,508	5,850,808	5,722,517	5,804,078	6,483,154	36,999,015
Cumulative payment to date	4,013,745	4,186,346	4,823,657	5,644,508	5,481,685	5,141,664	3,566,433	32,858,038
Subtotal	(11,366)	49,225	76,851	206,300	240,832	662,414	2,916,721	4,140,977
Reconciliation	-	-	-	-	-	-	86,643	86,643
Recorded in balance sheet	\$(11,366)	\$49,225	\$76,851	\$206,300	\$240,832	\$662,414	\$3,003,364	\$4,227,620

		2008.7.1-	2009.7.1-	2010.7.1-	2011.7.1-	2012.7.1-	2013.7.1-	
Underwriting Year (US\$)	-2008.6.30	2009.6.30	2010.6.30	2011.6.30	2012.6.30	2013.6.30	2014.6.30	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$102,520	\$111,242	\$131,625	\$181,060	\$162,419	\$186,698	\$217,046	
One year later	136,620	135,225	163,119	189,747	187,607	194,311		
Two year later	140,081	138,684	163,879	195,829	191,581			
Three year later	135,532	139,877	164,143	195,876				
Four year later	135,866	141,985	164,061					
Five year later	140,605	141,800						
Six year later	133,993							
Estimate of cumulative claims incurred	133,993	141,800	164,061	195,876	191,581	194,311	217,046	1,238,668
Cumulative payment to date	134,374	140,152	161,488	188,969	183,518	172,135	119,399	1,100,035
Subtotal	(381)	1,648	2,573	6,907	8,063	22,176	97,647	138,633
Reconciliation	-	-	-	-	-	-	2,901	2,901
Recorded in balance sheet	\$(381)	\$1,648	\$2,573	\$6,907	\$8,063	\$22,176	\$100,548	\$141,534

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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 NT\$1,952,681 (US\$65,373) thousands and assumed reinsurance (except compulsory automobile liability insurance) NT\$411,702 (US\$13,783) thousands.

B. Cathay Insurance (China)

NT\$	Accident year							Total
	-2008.6.30	2008.7.1- 2009.6.30	2009.7.1- 2010.6.30	2010.7.1- 2011.6.30	2011.7.1- 2012.6.30	2012.7.1- 2013.6.30	2013.7.1- 2014.6.30	
Estimated accumulation amount of claim								
As to 2008/12/31	\$2,639							
As to 2009/12/31	2,515	\$153,112						
As to 2010/12/31	2,510	147,139	\$327,435					
As to 2011/12/31	2,538	144,176	324,320	\$352,375				
As to 2012/12/31	1,318	125,155	291,259	315,586	\$980,178			
As to 2013/12/31	1,318	125,156	291,283	332,154	823,396	\$1,433,253		
As to 2014/12/31	1,318	125,034	290,875	335,512	791,748	1,283,454	\$969,771	
Estimated accumulation of claim	1,318	125,034	290,875	335,512	791,748	1,283,454	969,771	\$3,797,712
Accumulated claim paid	1,318	125,024	290,107	318,253	713,119	882,825	310,233	2,640,879
Subtotal	-	10	768	17,259	78,629	400,629	659,538	1,156,833
Indirect claim expense, discount and risk margin								56,808
Recognized amount on balance sheet								<u>\$1,213,641</u>

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US\$	Accident year							Total
	-2008.6.30	2008.7.1- 2009.6.30	2009.7.1- 2010.6.30	2010.7.1- 2011.6.30	2011.7.1- 2012.6.30	2012.7.1- 2013.6.30	2013.7.1- 2014.6.30	
Estimated accumulation amount of claim								
As to 2008/12/31	\$88							
As to 2009/12/31	84	\$5,126						
As to 2010/12/31	84	4,926	\$10,962					
As to 2011/12/31	85	4,827	10,858	\$11,797				
As to 2012/12/31	44	4,190	9,751	10,565	\$32,815			
As to 2013/12/31	44	4,190	9,752	11,120	27,566	\$47,983		
As to 2014/12/31	44	4,186	9,738	11,233	26,506	42,968	\$32,466	
Estimated accumulation of claim	44	4,186	9,738	11,233	26,506	42,968	32,466	\$127,141
Accumulated claim paid	44	4,186	9,712	10,655	23,874	29,555	10,386	88,412
Subtotal	-	-	26	578	2,632	13,413	22,080	38,729
Indirect claim expense, discount and risk margin								1,902
Recognized amount on balance sheet								\$40,631

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 (NT\$)	2014.6.30	2013.12.31	2013.6.30
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$1,150,747	\$1,312,025	\$222,453
Available-for-sale financial assets	8,349,394	7,234,902	8,718,279
Held-to-maturity investments	1,641,108	1,955,937	2,175,814
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	8,178,923	8,185,821	6,933,979
Bond investments with no active market	2,974,086	2,053,740	1,785,447
Receivables	3,691,926	3,725,513	3,804,790
Subtotal	14,844,935	13,965,074	12,524,216
Derivative financial assets for hedging	4,562	10,022	11,546
Total	<u>\$25,990,746</u>	<u>\$24,477,960</u>	<u>\$23,652,308</u>
<u>Financial liabilities</u>			
Financial liabilities measured at amortised cost:			
Payables	\$2,812,854	\$2,622,538	\$3,431,959
Financial liabilities at fair value through profit or loss:			
Held for trading	4,876	28,352	108,987
Preferred stock liability	1,000,000	1,000,000	1,000,000
Total	<u>\$3,817,730</u>	<u>\$3,650,890</u>	<u>\$4,540,946</u>

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Financial instruments (US\$)	2014.6.30	2013.12.31	2013.6.30
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$38,525	\$43,983	\$7,425
Available-for-sale financial assets	279,524	242,538	290,997
Held-to-maturity investments	54,942	65,570	72,624
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	273,818	274,416	231,442
Bond investments with no active market	99,568	68,848	59,595
Receivables	123,600	124,891	126,996
Subtotal	496,986	468,155	418,033
Derivative financial assets for hedging	153	336	385
Total	<u>\$870,130</u>	<u>\$820,582</u>	<u>\$789,464</u>
<u>Financial liabilities</u>			
Financial liabilities measured at amortised cost:			
Payables	\$94,170	\$87,917	\$114,551
Financial liabilities at fair value through profit or loss:			
Held for trading	163	950	3,638
Preferred stock liability	33,479	33,523	33,378
Total	<u>\$127,812</u>	<u>\$122,390</u>	<u>\$151,567</u>

8. Financial risk management objectives and policies

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

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

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(Expressed in thousands of dollars unless otherwise stated)

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

(1) Market risk

A. Foreign currency risk

The Consolidated Company 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 Consolidated 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 do not engage in hedging in relation to this type of transaction.

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

B. Interest rate risk

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

C. Equity price risk

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(2) Credit risk

A. Credit risk management policies

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

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

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

Financial assets	The amount of credit risk exposure - by area					
	2014.6.30 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,116,103	\$343	\$4,417	\$841,380	\$3,216,680	\$8,178,923
Financial assets at fair value through profit or loss	922,703	-	-	-	228,044	1,150,747
Available-for-sale financial assets	6,751,564	-	58,383	46,883	1,492,564	8,349,394
Derivative financial assets for hedging	4,562	-	-	-	-	4,562
Bond investments with no active market	850,000	-	321,121	496,472	1,306,493	2,974,086
Held-to-maturity investments	-	-	-	1,356,076	285,032	1,641,108
Total	\$12,644,932	\$343	\$383,921	\$2,740,811	\$6,528,813	\$22,298,820
Each area percentage	56.71%	0.00%	1.72%	12.29%	29.28%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2014.6.30 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$137,801	\$12	\$148	\$28,168	\$107,689	\$273,818
Financial assets at fair value through profit or loss	30,891	-	-	-	7,634	38,525
Available-for-sale financial assets	226,031	-	1,954	1,570	49,969	279,524
Derivative financial assets for hedging	153	-	-	-	-	153
Bond investments with no active market	28,456	-	10,751	16,621	43,740	99,568
Held-to-maturity investments	-	-	-	45,399	9,543	54,942
Total	\$423,332	\$12	\$12,853	\$91,758	\$218,575	\$746,530
Each area percentage	56.71%	0.00%	1.72%	12.29%	29.28%	100.00%

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(Expressed in thousands of dollars unless otherwise stated)

Financial assets	The amount of credit risk exposure - by area					
	2013.12.31 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,415,469	\$10	\$7,946	\$990,830	\$2,771,566	\$8,185,821
Financial assets at fair value through profit or loss	1,172,111	-	-	-	139,914	1,312,025
Available-for-sale financial assets	5,927,566	-	-	25,117	1,282,219	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	-	10,022
Bond investments with no active market	850,000	-	321,383	300,039	582,318	2,053,740
Held-to-maturity investments	-	-	-	1,668,787	287,150	1,955,937
Total	\$12,375,168	\$10	\$329,329	\$2,984,773	\$5,063,167	\$20,752,447
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2013.12.31 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$148,021	\$-	\$267	\$33,216	\$92,912	\$274,416
Financial assets at fair value through profit or loss	39,293	-	-	-	4,690	43,983
Available-for-sale financial assets	198,712	-	-	842	42,984	242,538
Derivative financial assets for hedging	336	-	-	-	-	336
Bond investments with no active market	28,495	-	10,774	10,058	19,521	68,848
Held-to-maturity investments	-	-	-	55,943	9,627	65,570
Total	\$414,857	\$-	\$11,041	\$100,059	\$169,734	\$695,691
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Financial assets	The amount of credit risk exposure - by area					
	2013.6.30 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,292,880	\$105	\$18,339	\$178,891	\$2,443,764	\$6,933,979
Financial assets at fair value through profit or loss	180,185	-	-	-	42,268	222,453
Available-for-sale financial assets	5,621,346	-	-	1,268,398	1,828,535	8,718,279
Derivative financial assets for hedging	11,546	-	-	-	-	11,546
Bond investments with no active market	700,000	-	323,092	302,295	460,060	1,785,447
Held-to-maturity investments	-	-	-	2,175,814	-	2,175,814
Total	\$10,805,957	\$105	\$341,431	\$3,925,398	\$4,774,627	\$19,847,518
Each area percentage	54.44%	0.00%	1.72%	19.78%	24.06%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2013.6.30 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$143,287	\$4	\$612	\$5,971	\$81,568	\$231,442
Financial assets at fair value through profit or loss	6,014	-	-	-	1,411	7,425
Available-for-sale financial assets	187,629	-	-	42,336	61,032	290,997
Derivative financial assets for hedging	385	-	-	-	-	385
Bond investments with no active market	23,365	-	10,784	10,090	15,356	59,595
Held-to-maturity investments	-	-	-	72,624	-	72,624
Total	\$360,680	\$4	\$11,396	\$131,021	\$159,367	\$662,468
Each area percentage	54.44%	0.00%	1.72%	19.78%	24.06%	100.00%

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

Financial assets	Credit quality of financial assets				
	2014.6.30 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,178,923	\$-	\$-	\$-	\$8,178,923
Financial assets at fair value through profit or loss	1,150,747	-	-	-	1,150,747
Available-for-sale financial assets	8,349,394	-	-	-	8,349,394
Derivative financial assets for hedging	4,562	-	-	-	4,562
Bond investments with no active market	2,974,086	-	-	-	2,974,086
Held-to-maturity investments	1,641,108	-	-	-	1,641,108
Total	\$22,298,820	\$-	\$-	\$-	\$22,298,820

Financial assets	Credit quality of financial assets				
	2014.6.30 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$273,818	\$-	\$-	\$-	\$273,818
Financial assets at fair value through profit or loss	38,525	-	-	-	38,525
Available-for-sale financial assets	279,524	-	-	-	279,524
Derivative financial assets for hedging	153	-	-	-	153
Bond investments with no active market	99,568	-	-	-	99,568
Held-to-maturity investments	54,942	-	-	-	54,942
Total	\$746,530	\$-	\$-	\$-	\$746,530

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

Financial assets	Credit quality of financial assets				
	2013.12.31 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,185,821	\$-	\$-	\$-	\$8,185,821
Financial assets at fair value through profit or loss	1,312,025	-	-	-	1,312,025
Available-for-sale financial assets	7,234,902	-	-	-	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	10,022
Bond investments with no active market	2,053,740	-	-	-	2,053,740
Held-to-maturity investments	1,955,937	-	-	-	1,955,937
Total	\$20,752,447	\$-	\$-	\$-	\$20,752,447

Financial assets	Credit quality of financial assets				
	2013.12.31 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$274,416	\$-	\$-	\$-	\$274,416
Financial assets at fair value through profit or loss	43,983	-	-	-	43,983
Available-for-sale financial assets	242,538	-	-	-	242,538
Derivative financial assets for hedging	336	-	-	-	336
Bond investments with no active market	68,848	-	-	-	68,848
Held-to-maturity investments	65,570	-	-	-	65,570
Total	\$695,691	\$-	\$-	\$-	\$695,691

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Financial assets	Credit quality of financial assets				
	2013.6.30 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,933,979	\$-	\$-	\$-	\$6,933,979
Financial assets at fair value through profit or loss	222,453	-	-	-	222,453
Available-for-sale financial assets	8,718,279	-	-	-	8,718,279
Derivative financial assets for hedging	11,546	-	-	-	11,546
Bond investments with no active market	1,785,447	-	-	-	1,785,447
Held-to-maturity investments	2,175,814	-	-	-	2,175,814
Total	\$19,847,518	\$-	\$-	\$-	\$19,847,518

Financial assets	Credit quality of financial assets				
	2013.6.30 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$231,442	\$-	\$-	\$-	\$231,442
Financial assets at fair value through profit or loss	7,425	-	-	-	7,425
Available-for-sale financial assets	290,997	-	-	-	290,997
Derivative financial assets for hedging	385	-	-	-	385
Bond investments with no active market	59,595	-	-	-	59,595
Held-to-maturity investments	72,624	-	-	-	72,624
Total	\$662,468	\$-	\$-	\$-	\$662,468

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

II. Secured loans

Secured loans	2014.6.30(NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$145,999	\$-	\$-	\$-	\$125,544	\$271,543	\$1,658	\$269,885
Corporate Finance	60,000	-	-	-	165,873	225,873	80,769	145,104
Total	\$205,999	\$-	\$-	\$-	\$291,417	\$497,416	\$82,427	\$414,989

Secured loans	2014.6.30 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,888	\$-	\$-	\$-	\$4,203	\$9,091	\$56	\$9,035
Corporate Finance	2,009	-	-	-	5,553	7,562	2,704	4,858
Total	\$6,897	\$-	\$-	\$-	\$9,756	\$16,653	\$2,760	\$13,893

Secured loans	2013.12.31 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$124,583	\$-	\$-	\$-	\$127,966	\$252,549	\$1,563	\$250,986
Corporate Finance	60,000	-	-	-	192,596	252,596	81,061	171,535
Total	\$184,583	\$-	\$-	\$-	\$320,562	\$505,145	\$82,624	\$422,521

Secured loans	2013.12.31 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,177	\$-	\$-	\$-	\$4,290	\$8,467	\$53	\$8,414
Corporate Finance	2,011	-	-	-	6,456	8,467	2,717	5,750
Total	\$6,188	\$-	\$-	\$-	\$10,746	\$16,934	\$2,770	\$14,164

Secured loans	2013.6.30 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$134,968	\$-	\$-	\$-	\$128,337	\$263,305	\$1,617	\$261,688
Corporate Finance	60,000	-	-	-	245,969	305,969	81,461	224,508
Total	\$194,968	\$-	\$-	\$-	\$374,306	\$569,274	\$83,078	\$486,196

Secured loans	2013.6.30 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,505	\$-	\$-	\$-	\$4,283	\$8,788	\$54	\$8,734
Corporate Finance	2,003	-	-	-	8,210	10,213	2,719	7,494
Total	\$6,508	\$-	\$-	\$-	\$12,493	\$19,001	\$2,773	\$16,228

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3) Operational Risk

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

(4) Liquidity risk

A. Definition and resource of liquidity risk

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

B. Liquidity risk management

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

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

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess the 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	2014.6.30 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,812,854	\$1,463,693	\$1,433,427	\$13,976	\$14,951	\$1,339	\$-
Financial liabilities at fair value through profit or loss	4,876	4,876	-	4,876	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

Liabilities	2014.6.30 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$94,170	\$49,002	\$47,989	\$468	\$500	\$45	\$-
Financial liabilities at fair value through profit or loss	163	163	-	163	-	-	-
Preferred stock liability	33,479	33,479	-	-	-	33,479	-

Liabilities	2013.12.31 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,622,538	\$1,363,246	\$1,334,100	\$21,223	\$7,181	\$742	\$-
Financial liabilities at fair value through profit or loss	28,352	28,352	-	28,352	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2013.12.31 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$87,917	\$45,701	\$44,723	\$712	\$241	\$25	\$-
Financial liabilities at fair value through profit or loss	950	950	-	950	-	-	-
Preferred stock liability	33,523	33,523	-	-	-	-	33,523

Liabilities	2013.6.30 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$3,431,959	\$1,559,744	\$1,540,107	\$16,610	\$1,411	\$1,616	\$-
Financial liabilities at fair value through profit or loss	108,987	108,987	-	108,987	-	-	-
Preferred stock liability	1,000,000	\$1,000,000	-	-	-	-	1,000,000

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Liabilities	2013.6.30 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$114,551	\$52,061	\$51,406	\$554	\$47	\$54	\$-
Financial liabilities at fair value through profit or loss	3,638	3,638	-	3,638	-	-	-
Preferred stock liability	33,378	33,378	-	-	-	-	33,378

(5) Market risk analysis

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

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

A. Value-at-risk

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

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

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.

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

I. Simple Sensitivity

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

II. Scenario Analysis

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

i. Historical scenarios

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

ii. Hypothetical scenarios

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

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

2014.6.30	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$(227,035)	\$(7,601)
Interest rate risk (Yield curve)	20bp	(70,301)	(2,354)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(111,772)	(3,742)

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(Expressed in thousands of dollars unless otherwise stated)

2014.6.30		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$21,611	\$724	\$7,595	\$254
	HKD appreciate 1 %	-	-	150	5
	NTD appreciate 1 %	(13,623)	(456)	(2,723)	(91)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,839)	(62)	(134)	(4)
	Yield curve (RMB) flat rises 1bp	(57)	(2)	(75)	(3)
	Yield curve (NTD) flat rises 1bp	(141)	(5)	(1,270)	(43)
Equity securities price sensitivity	Increase 1% in equity price	-	-	(22,703)	(760)

2013.6.30	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$(178,639)	\$(5,963)
Interest rate risk (Yield curve)	20bp	(71,941)	(2,401)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(213,037)	(7,111)

2013.6.30		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$10,814	\$361	\$-	\$-
	HKD appreciate 1 %	78	3	-	-
	NTD appreciate 1 %	(9,893)	(330)	-	-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,486)	(50)	(143)	(5)
	Yield curve (RMB) flat rises 1bp	-	-	(95)	(3)
	Yield curve (NTD) flat rises 1bp	(108)	(4)	(1,766)	(59)
Equity securities price sensitivity	Increase 1% in equity price	-	-	17,864	596

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(Expressed in thousands of dollars unless otherwise stated)

(9) Fair values of financial instruments

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

- I. The carrying amount of cash and cash equivalents, receivables, and payable approximate their fair value.
- 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 and bonds) at the reporting date.
- III. The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- IV. The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

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B. Fair value of financial instruments measured at amortized cost

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

NT\$	Carrying amount as at			Fair value as at		
	2014.6.30	2013.12.31	2013.6.30	2014.6.30	2013.12.31	2013.6.30
Held-to-maturity investments						
Bonds	\$1,641,108	\$1,955,937	\$2,175,814	\$1,701,583	\$1,977,270	\$2,243,080
Bond investments with no active market	2,974,086	2,053,740	1,785,447	3,018,737	2,046,926	1,762,688

US\$	Carrying amount as at			Fair value as at		
	2014.6.30	2013.12.31	2013.6.30	2014.6.30	2013.12.31	2013.6.30
Held-to-maturity investments						
Bonds	\$54,942	\$65,570	\$72,624	\$56,966	\$66,285	\$74,869
Bond investments with no active market	99,568	68,848	59,595	101,063	\$68,620	58,835

C. Fair Value of recognized in balance sheet

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

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

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

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

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Financial instruments at fair value (NT\$)	2014.6.30			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	\$1,150,747	\$1,150,747	\$-	\$-
Available-for-sale financial assets				
Stock	3,091,854	3,091,854	-	-
Bonds	3,645,749	3,230,637	415,112	-
Others	1,611,791	1,611,791	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	4,562	-	4,562	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	4,876	-	4,876	-

Financial instruments at fair value (US\$)	2014.6.30			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	\$38,525	\$38,525	\$-	\$-
Available-for-sale financial assets				
Stock	103,510	103,510	-	-
Bonds	122,054	108,157	13,897	-
Others	53,960	53,960	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	153	-	153	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	163	-	163	-

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Financial instruments at fair value (NT\$)	2013.12.31			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	\$1,312,025	\$1,312,025	\$-	\$-
Available-for-sale financial assets				
Stock	2,285,699	2,285,699	-	-
Bonds	3,470,385	3,061,845	408,540	-
Others	1,478,818	1,478,818	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	10,022	-	10,022	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	28,352	-	28,352	-

Financial instruments at fair value (US\$)	2013.12.31			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	\$43,983	\$43,983	\$-	\$-
Available-for-sale financial assets				
Stock	76,624	76,624	-	-
Bonds	116,339	102,643	13,696	-
Others	49,575	49,575	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	336	-	336	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	950	-	950	-

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Financial instruments at fair value (NT\$)	2013.6.30			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	\$222,453	\$222,453	\$-	\$-
Available-for-sale financial assets				
Stock	1,957,979	1,957,979	-	-
Bonds	3,437,358	3,029,113	408,245	-
Others	3,322,942	3,322,942	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	11,546	-	11,546	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	108,987	-	108,987	-

Financial instruments at fair value (US\$)	2013.6.30			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Beneficiary certificates	\$7,425	\$7,425	\$-	\$-
Available-for-sale financial assets				
Stock	65,353	65,353	-	-
Bonds	114,732	101,105	13,627	-
Others	110,912	110,912	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	385	-	385	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	3,638	-	3,638	-

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During the six-month period ended 30 June 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

D. During the six-month period ended 30 June 2014 and 2013, there were no Level 3 fair value measurements.

9. Related party transactions

(1) Significant transactions with related parties

A. Premiums income

Name	2014.4.1~2014.6.30		2013.4.1~2013.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$115,791	\$3,876	\$24,002	\$801
Cathay United Bank Co., Ltd.	34,396	1,152	13,831	462
San ching Engineering Co., Ltd.	4,774	160	12	-
Total	<u>\$154,961</u>	<u>\$5,188</u>	<u>\$37,845</u>	<u>\$1,263</u>

Name	2014.1.1~2014.6.30		2013.1.1~2013.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$121,720	\$4,075	\$99,596	\$3,324
Cathay United Bank Co., Ltd.	46,811	1,567	31,146	1,040
San ching Engineering Co., Ltd.	4,778	160	23	1
Total	<u>\$173,309</u>	<u>\$5,802</u>	<u>\$130,765</u>	<u>\$4,365</u>

The premium income is according to general rate calculation.

B. Premiums receivable

Name	2014.6.30	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$23,837	\$798
Cathay United Bank Co., Ltd.	2,209	74
Total	<u>\$26,046</u>	<u>\$872</u>

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Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$2,390	\$80
Cathay United Bank Co., Ltd.	39,745	1,333
Total	<u>\$42,135</u>	<u>\$1,413</u>

Name	2013.6.30	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$20,451	\$683
Cathay United Bank Co., Ltd.	8,076	269
Total	<u>\$28,527</u>	<u>\$952</u>

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

C. Insurance claims payment

Name	2014.4.1~2014.6.30		2013.4.1~2013.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	<u>\$7,836</u>	<u>\$262</u>	<u>\$29</u>	<u>\$1</u>

Name	2014.1.1~2014.6.30		2013.1.1~2013.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	<u>\$7,836</u>	<u>\$262</u>	<u>\$47</u>	<u>\$2</u>

D. Cash in banks

Name	Type	2014.6.30	
		NT\$	US\$
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	<u>\$611,791</u>	<u>\$20,482</u>
	Time deposits	<u>\$642,700</u>	<u>\$21,516</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Name	Type	2013.12.31	
		NT\$	US\$
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$777,180	\$26,054
	Time deposits	\$693,131	\$23,236

Name	Type	2013.6.30	
		NT\$	US\$
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$797,688	\$26,625
	Time deposits	\$650,200	\$21,702

Name	Type	Interest rate		
		2014.6.30	2013.12.31	2013.6.30
Other related parties				
Cathay United Bank Co., Ltd.	Cash in banks	0.01%-0.45%	0.01%-0.75%	0.01%-0.75%
	Time deposits	0.17%-3.50%	0.17%-3.50%	0.17%-1.345%

Interest Revenue					
Name	Type	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Cash in banks	\$181	\$6	\$134	\$4
	Time deposits	2,237	75	2,270	76
Total		\$2,418	\$81	\$2,404	\$80

Interest Revenue					
Name	Type	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Cash in banks	\$439	\$15	\$249	\$8
	Time deposits	4,734	158	4,488	150
Total		\$5,173	\$173	\$4,737	\$158

As of 30 June 2014, 31 December 2013 and 30 June 2013, time deposit pledged were NT\$25,000 (US\$837) thousands, NT\$25,000 (US\$838) thousands and NT\$20,000 (US\$667) thousands, respectively.

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2014.1.1~2014.6.30(NT\$)				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$39,174	\$36,844	1.84%	\$348

2014.1.1~2014.6.30(US\$)				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,311	\$1,233	1.84%	\$12

2013.1.1~2013.6.30(NT\$)				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$38,291	\$36,110	1.84%	\$353

2013.1.1~2013.6.30(US\$)				
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,278	\$1,205	1.84%	\$12

F. Available-for-sale financial assets

Interest rate(NT\$)			
Name	2014.6.30	2013.12.31	2013.6.30
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	\$220,224	\$146,836	\$21,006

Interest rate(US\$)			
Name	2014.6.30	2013.12.31	2013.6.30
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	\$7,373	\$4,922	\$701

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Name	2014.6.30	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$24,518	\$821
Cathay Futures Co., Ltd.	9,956	333
Cathay United Bank Co., Ltd.	2,383	80
Lin Yuan (Shanghai) Real Estate	5,128	172
Total	<u>\$41,985</u>	<u>\$1,406</u>

Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$24,464	\$820
Cathay Futures Co., Ltd.	9,950	334
Cathay United Bank Co., Ltd.	2,221	75
Lin Yuan (Shanghai) Real Estate	5,262	176
Total	<u>\$41,897</u>	<u>\$1,405</u>

Name	2013.6.30	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$24,013	\$802
Cathay Futures Co., Ltd.	4,946	165
Cathay United Bank Co., Ltd.	2,085	69
Total	<u>\$31,044</u>	<u>\$1,036</u>

H. Other payable

Name	2014.6.30	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$89,221	\$2,987
Other related parties		
Cathay Life Insurance Co., Ltd.	316,470	10,595
Symphox Information Co., Ltd	4,055	136
Total	<u>\$409,746</u>	<u>\$13,718</u>

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Name	2013.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$212,790	\$7,133
Other related parties		
Cathay Life Insurance Co., Ltd.	164,984	5,531
Symphox Information Co., Ltd.	543	18
Total	<u>\$378,317</u>	<u>\$12,682</u>

Name	2013.6.30	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$118,260	\$3,947
Other related parties		
Cathay Life Insurance Co., Ltd.	188,775	6,301
Symphox Information Co., Ltd.	3,667	123
Total	<u>\$310,702</u>	<u>\$10,371</u>

I. Preferred stock liability

Name	2014.6.30	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,479</u>

Name	2013.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,523</u>

Name	2013.6.30	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,378</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

J. Operating costs

Name	Summary	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	\$5,110	\$171	\$4,319	\$144

Name	Summary	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	\$10,285	\$344	\$8,762	\$292

K. Operating expenses

		2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
Name	Summary	NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$25,816	\$864	\$25,549	\$853
	Marketing expenses	419,565	14,046	308,861	10,309
	Party premium expenses	4,344	145	3,996	133
	Administrative expenses	2,568	86	2,508	84
Cathay United Bank Co., Ltd.	Marketing expenses	17,313	580	17,594	587
	Rental expenses	2,346	79	2,098	70
Lin Yuan (Shanghai) Real Estate	Rental expenses	4,894	164	-	-
Total		\$476,846	\$15,964	\$360,606	\$12,036

		2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
Name	Summary	NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$51,488	\$1,724	\$51,443	\$1,717
	Marketing expenses	757,362	25,355	628,783	20,988
	Party premium expenses	7,271	243	6,193	207
	Administrative expenses	3,844	129	3,756	125
Cathay United Bank Co., Ltd.	Marketing expenses	32,744	1,096	30,893	1,031
	Rental expenses	4,509	151	4,196	140
Lin Yuan (Shanghai) Real Estate	Rental expenses	9,852	330	-	-
Total		\$867,070	\$29,028	\$725,264	\$24,208

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

L. Other expenses

Name	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	\$8,996	\$301	\$9,434	\$315

Name	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd..	\$17,632	\$590	\$16,877	\$563

M. Non-operating expenses and losses

Name	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$4,638	\$155	\$4,638	\$155

Name	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$9,224	\$309	\$9,224	\$308

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

N. Other

As of 30 June 2014 and 2013 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Name	Item	2014.6.30	2013.12.31	2013.6.30
Other related parties				
Cathay United Bank Co., Ltd	CS contracts	US\$47,950	US\$57,450	US\$72,250
	IRS	NT\$400,000	NT\$400,000	NT\$400,000
		(US\$13,391)	(US\$13,409)	(US\$13,351)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

O. Key management personnel compensation in total

Item	2014.4.1 ~ 2014.6.30		2013.4.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$5,915	\$198	\$5,465	\$182
Post-employment benefits	618	21	618	21
Termination benefits	-	-	-	-
Total	<u>\$6,533</u>	<u>\$219</u>	<u>\$6,083</u>	<u>\$203</u>

Item	2014.1.1 ~ 2014.6.30		2013.1.1 ~ 2013.6.30	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$25,259	\$846	\$25,537	\$853
Post-employment benefits	1,236	41	1,498	50
Termination benefits	-	-	2,708	90
Total	<u>\$26,495</u>	<u>\$887</u>	<u>\$29,743</u>	<u>\$993</u>

9. Pledged assets

(1) The Company

Item	2014.6.30	
	NT\$	US\$
Government deposits paid-government bonds	\$512,133	\$17,145
Guarantee deposits paid	25,000	837
Total	<u>\$537,133</u>	<u>\$17,982</u>

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-government bonds	\$519,321	\$17,409
Guarantee deposits paid	25,000	838
Total	<u>\$544,321</u>	<u>\$18,247</u>

Item	2013.6.30	
	NT\$	US\$
Government deposits paid-government bonds	\$525,913	\$17,554
Guarantee deposits paid	20,000	667
Total	<u>\$545,913</u>	<u>\$18,221</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of 30 June 2014, 31 December 2013 and 30 June 2013 the Company provided government bonds amounting to NT\$512,133 (US\$17,145) thousand, NT\$519,321 (US\$17,409) thousand and NT\$525,913 (US\$17,554) thousands, respectively, as the “Guaranteed Depository Insurance” in accordance with the Insurance Act. The pledged assets are stated at book value.

(2) Cathay Insurance (China)

Item	2014.6.30	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$979,019</u>	<u>\$32,776</u>
Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$606,914</u>	<u>\$20,346</u>
Item	2013.6.30	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$392,600</u>	<u>\$13,104</u>

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

(3) Cathay Insurance (Vietnam)

Item	2014.6.30	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$8,323</u>	<u>\$279</u>
Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$10,850</u>	<u>\$363</u>
Item	2013.6.30	
	NT\$	US\$
Government deposits paid-time deposits	<u>\$8,384</u>	<u>\$280</u>

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

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

10. Contingent liabilities and Unrecognized contractual commitments

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

According to the noncancelable operating lease contracts, the future minimum lease payments at 30 June 2014, 31 December 2013 and 30 June 2013 are as follows:

(1) Significant lease contracts of the Company

NT\$	2014.6.30	2013.12.31	2013.6.30
Not later than 1 year	\$127,198	\$122,885	\$121,039
Later than 1 year but not later than 5 years	508,794	491,541	484,159
Later than 5 years	-	-	-
	<u>\$635,992</u>	<u>\$614,426</u>	<u>\$605,198</u>
US\$	2014.6.30	2013.12.31	2013.6.30
Not later than 1 year	\$4,258	\$4,120	\$4,040
Later than 1 year but not later than 5 years	17,034	16,478	16,160
Later than 5 years	-	-	-
	<u>\$21,292</u>	<u>\$20,598</u>	<u>\$20,200</u>

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

NT\$	2014.6.30	2013.12.31	2013.6.30
Not later than 1 year	\$68,044	\$65,219	\$62,324
Later than 1 year but not later than 5 years	121,986	115,684	118,386
Later than 5 years	-	-	-
	<u>\$190,030</u>	<u>\$180,903</u>	<u>\$180,710</u>
US\$	2014.6.30	2013.12.31	2013.6.30
Not later than 1 year	\$2,278	\$2,186	\$2,080
Later than 1 year but not later than 5 years	4,084	3,878	3,951
Later than 5 years	-	-	-
	<u>\$6,362</u>	<u>\$6,064</u>	<u>\$6,031</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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	2014.6.30 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,194,074	\$-	\$8,194,074
Receivables	3,691,926	-	3,691,926
Investments	7,103,632	7,431,254	14,534,886
Reinsurance contracts assets	-	5,979,659	5,979,659
Property and equipment	-	263,816	263,816
Intangible assets	-	36,165	36,165
Other assets	-	1,787,161	1,787,161
Total assets			<u>\$34,487,687</u>
Payables	\$2,796,564	\$16,290	\$2,812,854
Financial Liabilities	4,876	1,000,000	1,004,876
Insurance liabilities	-	23,781,994	23,781,994
Provision	-	235,740	235,740
Other liabilities	-	403,445	403,445
Total liabilities			<u>\$28,238,909</u>

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Item	2014.6.30 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$ 274,325	\$-	\$274,325
Receivables	123,600	-	123,600
Investments	237,818	248,787	486,605
Reinsurance contracts assets	-	200,189	200,189
Property and equipment	-	8,832	8,832
Intangible assets	-	1,211	1,211
Other assets	-	59,831	59,831
Total assets			<u>\$ 1,154,593</u>
Payables	\$93,625	\$545	\$94,170
Financial Liabilities	163	33,479	33,642
Insurance liabilities	-	796,183	796,183
Provision	-	7,892	7,892
Other liabilities	-	13,507	13,507
Total liabilities			<u>\$945,394</u>

Item	2013.12.31 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,194,772	\$-	\$8,194,772
Receivables	3,725,513	-	3,725,513
Investments	5,451,436	7,538,540	12,989,976
Reinsurance contracts assets	-	5,057,226	5,057,226
Property and equipment	-	303,365	303,365
Intangible assets	-	29,031	29,031
Other assets	-	1,409,434	1,409,434
Total assets			<u>\$31,709,317</u>
Payables	\$2,614,615	\$7,923	\$2,622,538
Financial Liabilities	28,352	1,000,000	1,028,352
Insurance liabilities	-	21,853,590	21,853,590
Provision	-	236,272	236,272
Other liabilities	-	457,466	457,466
Total liabilities			<u>\$26,198,218</u>

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Item	2013.12.31 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$274,716	\$-	\$274,716
Receivables	124,891	-	124,891
Investments	182,750	252,717	435,467
Reinsurance contracts assets	-	169,535	169,535
Property and equipment	-	10,170	10,170
Intangible assets	-	973	973
Other assets	-	47,249	47,249
Total assets			<u>\$1,063,001</u>
Payables	\$87,651	\$266	\$87,917
Financial Liabilities	950	33,523	34,473
Insurance liabilities	-	732,604	732,604
Provision	-	7,921	7,921
Other liabilities	-	15,336	15,336
Total liabilities			<u>\$878,251</u>

Item	2013.6.30 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,948,978	\$-	\$6,948,978
Receivables	3,804,790	-	3,804,790
Investments	6,646,564	6,754,078	13,400,642
Reinsurance contracts assets	-	5,249,486	5,249,486
Property and equipment	-	178,484	178,484
Intangible assets	-	21,960	21,960
Other assets	-	1,726,386	1,726,386
Total assets			<u>\$31,330,726</u>
Payables	\$3,428,932	\$3,027	\$3,431,959
Financial Liabilities	108,987	1,000,000	1,108,987
Insurance liabilities	-	21,204,540	21,204,540
Provision	-	248,378	248,378
Other liabilities	-	399,944	399,944
Total liabilities			<u>\$26,393,808</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2013.6.30 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$231,942	\$-	\$231,942
Receivables	126,996	-	126,996
Investments	221,848	225,436	447,284
Reinsurance contracts assets	-	175,217	175,217
Property and equipment	-	5,957	5,957
Intangible assets	-	733	733
Other assets	-	57,623	57,623
Total assets			<u>\$1,045,752</u>
Payables	\$114,450	\$101	\$114,551
Financial Liabilities	3,638	33,378	37,016
Insurance liabilities	-	707,762	707,762
Provision	-	8,290	8,290
Other liabilities	-	13,349	13,349
Total liabilities			<u>\$880,968</u>

(2) Hedged of derivative financial instruments related information

Cash flow hedges-IRS

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at 30 June 2014:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	\$6,696	2.65%	Each quarterly	2014.9.30
200,000	6,696	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.

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The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$4,561 (US\$153) thousands, NT\$10,021 (US\$335) thousands and NT\$11,546(US\$386) thousands as of 30 June 2014, 31 December 2013 and 30 June 2013, respectively.

(3) Eliminated inter-company transactions

Transactions	2014.6.30 (NT\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$90,781	\$(10,786)	\$(79,995)
k Eliminate subsidiaries equity	(1,214,248)	1,643,574	392,461

Transactions	2014.6.30 (US\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$3,039	\$(361)	\$(2,678)
k Eliminate subsidiaries equity	(40,651)	55,024	13,139

Transactions	2013.6.30 (NT\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$191,252	\$(166,789)	\$(24,463)
k Eliminate subsidiaries equity	(497,451)	274,220	360,341

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(Expressed in thousands of dollars unless otherwise stated)

Transactions	2013.6.30 (US\$)		
	Company name and debit(credit) amounts		
		Cathay	Cathay
	The Company	Insurance(China)	Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$6,384	\$(5,567)	\$(817)
k Eliminate subsidiaries equity	(16,604)	9,153	12,028

Note: The eliminated difference of inter-company result in non-controlling equity NT\$821,787 (US\$27,512) and NT\$137,110 (US\$4,577) for the six-month period ended 30 June 2014 and 2013.

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

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

	2014.6.30		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	\$128,728	29.9150	\$3,850,898
RMB	708,932	4.8253	3,420,810
Non-Monetary Items			
USD	106,870	29.9150	-
	(Nominal Amount)		(Note)
Investment under equity method			
RMB	170,456	4.8211	821,787
VND	288,574,003	0.00136	392,461

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

	2013.12.31		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$106,807	29.9500	\$3,198,870
RMB	575,799	4.9118	2,828,210
EUR	193	41.1214	7,936
<u>Non-Monetary Items</u>			
USD	115,370	29.9500	-
	(Nominal Amount)		(Note)
<u>Investment under equity method</u>			
RMB	70,770	4.9472	350,112
VND	346,554,936	0.001370	474,780
	2013.6.30		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$160,143	30.12	\$4,823,513
RMB	351,266	4.8794	1,713,967
EUR	468	39.1199	18,308
<u>Non-Monetary Items</u>			
USD	168,920	30.12	-
	(Nominal Amount)		(Note)
<u>Investment under equity method</u>			
RMB	27,939	4.9075	137,110
VND	263,022,659	0.00137	360,341

Note: The Consolidated conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized by NT\$4,876 (US\$163), NT\$28,352 (US\$950), NT\$108,987 (US\$3,638) at 30 June 2014, 31 December 2013 and 30 June 2013.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5)Capital management

A. Objective

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

B. Policy

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

C. Procedures

a. Periodically

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

b. A periodically

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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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

D. Capital adequacy ratio

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

(6) Operation segments information

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

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28.96 million to 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 30 June 2014 the Company has totally remitted US\$60.31 million.