

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

For the six-month periods ended
30 June 2013 and 2012
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.

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

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

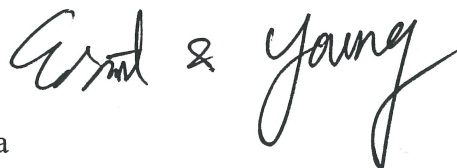
We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries as of 30 June 2013, 31 December 2012, 30 June 2012, and 1 January 2012, and the related consolidated statements of comprehensive income for the three-month periods ended 30 June 2013 and 2012, and for the six-month periods ended 30 June 2013 and 2012, changes in equity and cash flows for the six-month periods ended 30 June 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 2013 and 2012, the consolidated results of its operations for the three-month periods ended 30 June 2013 and 2012, and for the six-month periods ended 30 June 2013 and 2012, and its cash flows for the six-month periods ended 30 June 2013 and 2012 in conformity with "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises", IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards" as recognized by Financial Supervisory Commission.

The Company has prepared financial statements for the six-month periods ended 30 June 2013 and 2012. We express an unqualified opinion on these financial statements based on our audits.

Ernst & Young
Taipei, Taiwan
The Republic of China



22 August, 2013

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012

(Expressed in thousands of dollars)

Assets	Notes	2013.6.30		2012.12.31		2012.6.30		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6(1)	\$6,948,978	\$231,942	\$5,677,051	\$195,423	\$6,320,903	\$212,111	\$6,926,067	\$228,809
Receivables	4,6(2)	3,804,790	126,996	3,291,611	113,308	3,454,482	115,922	2,909,396	96,115
Financial assets at fair value through profit or loss	4,6(3)	222,453	7,425	437,273	15,053	123,139	4,132	619,455	20,464
Available-for-sale financial assets	4,6(4)	8,718,279	290,997	8,404,492	289,311	7,438,311	249,608	5,897,618	194,834
Derivative financial assets for hedging		11,546	385	17,134	590	22,172	744	28,521	942
Investments accounted for using the equity method		907	30	1,490	51	3,388	114	5,465	181
Bond investments with no active market	4,6(5)	1,785,447	59,595	1,323,270	45,552	1,250,843	41,975	1,192,997	39,412
Held-to-maturity financial assets	4,6(6)	2,175,814	72,624	2,512,011	86,472	2,337,828	78,450	2,408,714	79,574
Secured Loans	4,6(7)	486,196	16,228	522,080	17,972	519,265	17,425	551,965	18,235
Reinsurance contracts assets		5,249,486	175,217	5,514,577	189,831	5,340,255	179,203	5,202,403	171,867
Property and equipment		178,484	5,957	184,390	6,347	192,329	6,454	225,801	7,460
Intangible assets	4,6(19)	21,960	733	35,755	1,231	35,153	1,180	37,323	1,233
Deferred income tax assets		98,443	3,286	80,750	2,779	67,723	2,273	105,494	3,485
Other assets		1,627,943	54,337	1,186,130	40,831	1,300,426	43,638	991,100	32,742
Total assets		\$31,330,726	\$1,045,752	\$29,188,014	\$1,004,751	\$28,406,217	\$953,229	\$27,102,319	\$895,353

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012 were NT\$29.96 、 NT\$29.05 、 NT\$29.80 and NT\$30.27 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 2013, 31 December 2012, 30 June 2012 and 1 January 2012

(Expressed in thousands of dollars)

Liabilities & equity	Notes	2013.6.30		2012.12.31		2012.6.30		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	4,6(8)	\$3,431,959	\$114,551	\$2,223,005	\$76,523	\$2,250,022	\$75,504	\$2,101,262	\$69,417
Financial liabilities at fair value through profit or loss		108,987	3,638	-	-	43,217	1,450	45,000	1,487
Preferred stock liability	4,6(9)	1,000,000	33,378	1,000,000	34,424	1,000,000	33,557	1,000,000	33,036
Insurance liabilities	4,6(10)	21,204,540	707,762	20,440,598	703,635	19,945,489	669,312	19,075,973	630,194
Provision	4,6(11)	248,378	8,290	247,950	8,536	256,153	8,596	259,488	8,573
Deferred income tax liabilities	4,6(19)	24,586	821	18,305	630	2,480	83	22,311	737
Other liabilities		375,358	12,528	440,823	15,174	360,258	12,089	259,817	8,583
Total liabilities		26,393,808	880,968	24,370,681	838,922	23,857,619	800,591	22,763,851	752,027
Equity attributable to owners of parent									
Capital stock	4,6(12)	2,721,879	90,850	2,522,950	86,849	2,522,950	84,663	2,317,006	76,545
Capital surplus									
Capital surplus - others		1,929	64	1,929	66	1,929	64	1,929	64
Retained earnings	4,6(13)								
Legal reserve		1,092,927	36,480	954,800	32,867	954,800	32,040	834,443	27,567
Special capital reserve		869,978	29,038	923,897	31,804	516,399	17,329	462,480	15,278
Undistributed earnings		182,016	6,075	77,338	2,663	161,577	5,423	169,836	5,611
Other equity		(68,921)	(2,300)	36,129	1,243	(137,577)	(4,617)	(76,296)	(2,521)
Non-controlling interests	4,6(14)	137,110	4,577	300,290	10,337	528,520	17,736	629,070	20,782
Total equity		4,936,918	164,784	4,817,333	165,829	4,548,598	152,638	4,338,468	143,326
Total equity and liabilities		\$31,330,726	\$1,045,752	\$29,188,014	\$1,004,751	\$28,406,217	\$953,229	\$27,102,319	\$895,353

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012 were NT\$29.96 、 NT\$29.05 、 NT\$29.80 and NT\$30.27 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 comprehensive income

For the three-month periods ended 30 June 2013 and 2012, and six-month periods ended 30 June 2013 and 2012

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

Items	Notes	2013.4.1~2013.6.30		2012.4.1~2012.6.30		2013.1.1~2013.6.30		2012.1.1~2012.6.30	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues									
Direct premium income		\$5,093,565	\$170,012	\$4,515,272	\$151,519	\$9,405,180	\$313,925	\$8,161,790	\$273,886
Reinsurance premium income		114,208	3,812	125,317	4,205	230,219	7,684	217,944	7,313
Premiums income		5,207,773	173,824	4,640,589	155,724	9,635,399	321,609	8,379,734	281,199
Deduct: Reinsurance premiums ceded		(1,405,979)	(46,929)	(1,364,009)	(45,772)	(2,363,877)	(78,901)	(2,305,431)	(77,363)
Change in unearned premiums reserve - Net	4,6(11)	(309,340)	(10,325)	(459,806)	(15,430)	(667,528)	(22,281)	(619,834)	(20,800)
Retained earned premium	4,6(15)	3,492,454	116,570	2,816,774	94,522	6,603,994	220,427	5,454,469	183,036
Reinsurance commission earned		131,964	4,405	111,474	3,741	259,256	8,654	227,516	7,634
Handling fee earned		9,999	334	8,790	295	16,964	566	15,940	535
Investment profit and loss		193,742	6,467	116,238	3,901	312,252	10,422	300,234	10,075
Interest income		100,978	3,371	102,810	3,450	193,622	6,463	194,081	6,513
Gains (losses) from financial asset or financial liability at fair value through profit or loss		(33,275)	(1,111)	(53,400)	(1,792)	(192,159)	(6,414)	13,691	459
Realized gains from available-for-sale financial assets		73,550	2,455	18,579	624	168,702	5,631	126,072	4,231
Realized losses from held-to-maturity financial assets		(888)	(30)	(279)	(9)	(416)	(14)	(446)	(15)
Share of profit (loss) of associates and joint ventures accounted for using the equity method		(580)	(19)	13	-	(583)	(20)	11	-
Gains (losses) on foreign Exchange		53,957	1,801	48,515	1,628	143,086	4,776	(33,175)	(1,113)
Subtotal		3,828,159	127,776	3,053,276	102,459	7,192,466	240,069	5,998,159	201,280
Operating costs									
Insurance claims paid		(2,193,799)	(73,224)	(2,092,634)	(70,223)	(4,540,052)	(151,537)	(3,889,681)	(130,526)
Deduct: Claims recovered from reinsurers		371,471	12,399	462,309	15,514	910,589	30,393	804,429	26,994
Retained claim paid	4,6(16)	(1,822,328)	(60,825)	(1,630,325)	(54,709)	(3,629,463)	(121,144)	(3,085,252)	(103,532)
Changes in insurance liabilities-Net	4,6(11)	(292,330)	(9,757)	(85,426)	(2,867)	(245,483)	(8,194)	(166,619)	(5,591)
Commissions expenses		(270,753)	(9,037)	(172,696)	(5,795)	(488,224)	(16,296)	(324,719)	(10,897)
Other operating costs		(4,175)	(140)	(14,694)	(493)	(16,107)	(537)	(25,638)	(860)
Subtotal		(2,389,586)	(79,759)	(1,903,141)	(63,864)	(4,379,277)	(146,171)	(3,602,228)	(120,880)

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NT\$29.96 and NT\$29.80 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 comprehensive income

For the three-month periods ended 30 June 2013 and 2012, and six-month periods ended 30 June 2013 and 2012

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

Items	Notes	2013.4.1~2013.6.30		2012.4.1~2012.6.30		2013.1.1~2013.6.30		2012.1.1~2012.6.30	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating expenses									
Marketing expenses		(991,749)	(33,103)	(809,224)	(27,155)	(1,901,261)	(63,460)	(1,572,494)	(52,768)
General and administrative expenses		(320,241)	(10,689)	(259,873)	(8,721)	(591,805)	(19,753)	(465,890)	(15,634)
Employee training expenses		(2,128)	(71)	(1,545)	(52)	(5,149)	(172)	(1,990)	(67)
Subtotal		(1,314,118)	(43,863)	(1,070,642)	(35,928)	(2,498,215)	(83,385)	(2,040,374)	(68,469)
Operating income		124,455	4,154	79,493	2,667	314,974	10,513	355,557	11,931
Non-operating income and expenses		1,980	66	(5,196)	(174)	10,748	359	(4,871)	(163)
Profit before tax from continuing operations		126,435	4,220	74,297	2,493	325,722	10,872	350,686	11,768
Income tax expense	4,6(19)	(61,161)	(2,041)	(30,029)	(1,007)	(104,696)	(3,495)	(75,182)	(2,523)
Profit from continuing operations		65,274	2,179	44,268	1,486	221,026	7,377	275,504	9,245
Net income		65,274	2,179	44,268	1,486	221,026	7,377	275,504	9,245
Other comprehensive income	4,6(17)								
Exchange differences resulting from translating the financial statements of a foreign operation		3,234	108	6,908	232	27,741	926	(31,889)	(1,070)
Unrealized gains (losses) from available-for-sale financial assets		(146,642)	(4,895)	(52,796)	(1,772)	(132,580)	(4,425)	(27,139)	(911)
Gains (losses) on cash flow hedges		(4,737)	(158)	(3,839)	(129)	(5,588)	(186)	(6,349)	(213)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		-	-	2	-	-	-	3	-
Income tax relating to components of other comprehensive income		17,101	571	-	-	8,986	300	-	-
Other comprehensive income, net of tax		(131,044)	(4,374)	(49,725)	(1,669)	(101,441)	(3,385)	(65,374)	(2,194)
Total comprehensive income		\$(65,770)	\$(2,195)	\$(5,457)	\$(183)	\$119,585	\$3,992	\$210,130	\$7,051
Net income attributable to :									
Owners of parent (net income)		\$185,301	\$6,185	\$99,411	\$3,336	\$387,815	\$12,944	\$371,961	\$12,482
Non-controlling interests (net loss)		\$(120,027)	\$(4,006)	\$(55,143)	\$(1,850)	\$(166,789)	\$(5,567)	\$(96,457)	\$(3,237)
Comprehensive income attributable to :									
Owners of parent (comprehensive income)		\$60,525	\$2,020	\$41,834	\$1,404	\$282,765	\$9,438	\$310,680	\$10,425
Non-controlling interests (comprehensive loss)		\$(126,295)	\$(4,215)	\$(47,291)	\$(1,587)	\$(163,180)	\$(5,446)	\$(100,550)	\$(3,374)
Earning per share (In dollars)									
Net income from continuing operations	4,6(20)	\$0.68	\$0.02	\$0.37	\$0.01	\$1.42	\$0.05	\$1.37	\$0.05

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NT\$29.96 and NT\$29.80 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 2013 and 2012

(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			NTS	US\$	NTS	US\$	NTS	US\$
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$							
Balance on 1 January 2012	\$2,317,006	\$77,752	\$1,929	\$64	\$834,443	\$28,001	\$462,480	\$15,520	\$169,836	\$5,700	\$(22,377)	\$(751)	\$(82,440)	\$(2,766)	\$28,521	\$957	\$3,709,398	\$124,477	\$629,070	\$21,110	\$4,338,468	\$145,587	
Appropriations and distributions for 2011 (Note 1)																							
Legal reserve	-	-	-	-	120,357	4,039	-	-	(120,357)	(4,039)	-	-	-	-	-	-	-	-	-	-	-	-	
Special capital reserve	-	-	-	-	-	-	53,919	1,809	(53,919)	(1,809)	-	-	-	-	-	-	-	-	-	-	-	-	
Stock dividends	205,944	6,911	-	-	-	-	-	-	(205,944)	(6,911)	-	-	-	-	-	-	-	-	-	-	-	-	
Net income for the six months ended 30 June 2012	-	-	-	-	-	-	-	-	371,961	12,482	-	-	-	-	-	-	371,961	12,482	(96,457)	(3,237)	\$275,504	\$9,245	
Other comprehensive income for the six months ended 30 June 2012	-	-	-	-	-	-	-	-	-	-	(17,483)	(587)	(37,449)	(1,257)	(6,349)	(213)	(61,281)	(2,057)	(4,093)	(137)	(\$65,374)	(\$2,194)	
Total comprehensive income	-	-	-	-	-	-	-	-	371,961	12,482	(17,483)	(587)	(37,449)	(1,257)	(6,349)	(213)	310,680	10,425	(100,550)	(3,374)	210,130	7,051	
Balance on 30 June 2012	<u>\$2,522,950</u>	<u>\$84,663</u>	<u>\$1,929</u>	<u>\$64</u>	<u>\$954,800</u>	<u>\$32,040</u>	<u>\$516,399</u>	<u>\$17,329</u>	<u>\$161,577</u>	<u>\$5,423</u>	<u>\$(39,860)</u>	<u>\$(1,338)</u>	<u>\$(119,889)</u>	<u>\$(4,023)</u>	<u>\$22,172</u>	<u>\$744</u>	<u>\$4,020,078</u>	<u>\$134,902</u>	<u>\$528,520</u>	<u>\$17,736</u>	<u>\$4,548,598</u>	<u>\$152,638</u>	
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 2)																							
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>	

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

Note 2: 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 2013 and 2012 were NT\$29.96 and NT\$29.80 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 2013 and 2012

(Expressed in thousands of dollars)

Items	2013.1.1~2013.6.30		2012.1.1~2012.6.30	
	NTS	US\$	NTS	US\$
Cash flows from operating activities :				
Profit before tax	\$325,722	\$10,872	\$350,686	\$11,768
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	39,585	1,321	42,666	1,432
Amortization	13,534	452	10,029	337
Net (gains) loss on financial asset or financial liability at fair value through profit or loss	192,159	6,414	(13,691)	(459)
Net (gains) on available-for-sale financial assets	(168,702)	(5,631)	(126,072)	(4,231)
Net (gains) loss from held-to-maturity financial assets	416	14	446	15
Interest income	(193,622)	(6,463)	(194,081)	(6,513)
Net changes of insurance liabilities	684,679	22,853	882,868	29,626
Share of profit (loss) of associates and joint ventures accounted for using the equity method	583	20	(11)	-
Loss on disposal of property and equipment	-	-	428	14
Changes in assets and liabilities from operating activities :				
Decrease in financial assets at fair value through profit or loss	133,896	4,469	508,224	17,054
Decrease in notes receivable	28,459	950	4,608	155
Increase in premiums receivable	(247,864)	(8,273)	(542,302)	(18,198)
(Increase) Decrease in other accounts receivable	(263,243)	(8,786)	24,395	819
Decrease (Increase) in reinsurance contracts assets	284,589	9,499	(143,704)	(4,822)
Increase in other current assets	(437,538)	(14,604)	(311,078)	(10,439)
Decrease in claims outstanding	(9,904)	(331)	(11,328)	(380)
Increase in due to reinsurers and ceding companies	354,642	11,837	366,817	12,309
Increase (Decrease) in commissions payable	63,388	2,116	(4,753)	(159)
Increase (Decrease) in other payables	703,438	23,479	(253,328)	(8,501)
Increase (Decrease) in provision	428	14	(3,335)	(112)
(Decrease) Increase in other liabilities	(65,465)	(2,185)	100,442	3,370
Cash flows from operating activities	1,439,180	48,037	687,926	23,085
Income taxes paid	(5,866)	(196)	(5,875)	(197)
Net cash flows from operating activities	1,433,314	47,841	682,051	22,888
Cash flows from investing activities :				
Acquisition of available-for-sale financial assets	(2,968,442)	(99,080)	(2,418,635)	(81,162)
Disposal of available-for-sale financial assets	2,722,590	90,874	963,010	32,316
Acquisition of bond investments with no active market	(657,176)	(21,935)	(59,450)	(1,995)
Disposal of bond investments with no active market	200,000	6,675	-	-
Acquisition of held-to-maturity financial assets	(153)	(5)	(221,609)	(7,436)
Disposal of held-to-maturity financial assets	335,935	11,213	292,049	9,800
Disposal of property and equipment	497	17	7	-
Increase in secured loans	(23,800)	(794)	(26,200)	(879)
Decrease in secured loans	59,684	1,992	58,901	1,976
Acquisition of property and equipment	(35,645)	(1,190)	(14,075)	(472)
Acquisition of intangible assets	(2,662)	(89)	(4,174)	(140)
Interest received	156,588	5,226	164,384	5,516
Dividends received	10,034	335	766	26
Net cash flows used in investing activities	(202,550)	(6,761)	(1,265,026)	(42,450)
Effects of exchange rate changes on cash and cash equivalents	41,163	1,374	(22,189)	(745)
Increase (Decrease) in cash and cash equivalents	1,271,927	42,454	(605,164)	(20,307)
Cash and cash equivalents at the beginning of periods	5,677,051	189,488	6,926,067	232,418
Cash and cash equivalents at the end of periods	\$6,948,978	\$231,942	\$6,320,903	\$212,111

(The exchange rates provided by the Federal Reserve Bank of New York on 30 June 2013 and 2012 were NT\$29.96 and NT\$29.80 to US\$1.00)

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

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of dollars unless otherwise stated)

30 June 2013 and 2012

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.

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the total numbers of employees were 2,508, 2,344, 2,128 and 1,937 respectively.

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

The consolidated financial statements of the Company and its subsidiaries the (“Consolidated Company”) for the six-month periods ended 30 June 2013 and 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 22 August 2013.

3. Newly issued or revised standards and interpretations

- (1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Consolidated Company at the date of issuance of the Consolidated Company’s financial statements are listed below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments which is divided in three distinct phases is designed by the International Accounting Standards Board (“IASB”) to eventually replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The first phase relates to the classification and measurement of financial assets and liabilities that must be applied for annual periods beginning on or after 1 January 2015. The IASB will work on the remaining phases relate to impairment methodology and hedge accounting. However companies adopting International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “TIFRS”) may not early adopt IFRS 9. Adopting the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets. The impact of adopting the remaining two phases of IFRS 9 on the Consolidated Company could not be determined at this stage.

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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 issued by IASB but not yet recognized by FSC at the date of issuance of the Consolidated Company's financial statements are listed below.

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

Amended Standards and Interpretations	Effective Date
Amendments to IFRSs from 2009 to 2011 :	
IFRS 1 “First-time Adoption of International Financial Reporting Standards”	1 January 2013
IAS 1 “Presentation of Financial Statements”	1 January 2013
IAS 16 “Property, Plant and Equipment”	1 January 2013
IAS 32 “Financial Instruments: Presentation”	1 January 2013
IAS 34 “Interim Financial Reporting”	1 January 2013
Amendment to IFRS 10 “Consolidated Financial Statements”	1 January 2014
Amendment to IAS 36 “Impairment of Assets”	1 January 2014
IFRIC 21 “Levies”	1 January 2014
Novation of derivatives and continuation of hedge accounting	1 January 2014

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

(1) Amendments to IFRSs in 2010

IFRS 7 “Financial Instruments: Disclosures”

It requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms.

(2) Amendments to IFRS 7 “Financial Instruments: Disclosures”

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

(3) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

IFRS 12 applies to annual periods beginning on or after 1 January 2013.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(4) IFRS 13 “Fair Value Measurement”

IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

(5) Presentation of Items of Other Comprehensive Income (Amendment to IAS 1 “Presentation of Financial Statement”

It require each component of other comprehensive income classified by nature to be excluded from profit or loss and instead to be included in other comprehensive income.

(6) The amendment of IAS 19 “Employee Benefits”

The main amendments include: (1)For the actuarial gain or loss arising from defined benefits plan, eliminate the use of the 'corridor' approach and instead mandate all remeasurement impacts be recognized in the items of OCI. (2)Only current service cost, prior service cost, gains or losses from retirement and net interest expenses (benefits) arising from defined benefits liability (assets) are allowed to be recognized in the items of gains and losses. (3)The disclosure for defined benefits plan includes quantitative information for sensitivity analysis of actuarial assumption. (4)When offers of benefits are irrevocable and come within range of the recognition of provision, contingent assets or liabilities stated in IAS 37, the recognition of resignation benefits is determined by the earlier of the irrevocable offers or the replacement cost of resignation benefits.

(7) Amendments to IFRSs from 2009 to 2011

IAS 1 “Presentation of Financial Statements”

The amendment clarified the requirements listed following: (1)Disclose the difference between additional comparative information and mandatory comparative information. (2)When the enterprises additionally provide comparative information beyond the minimum requirement of comparative period, such information should be included in notes of financial statements, but it is unnecessary to provide whole financial statements of additional comparative period. (3)When the enterprises conduct the retrospective application of an accounting policy, restatement of items in financial statements or reclassification of items having material impact on the information in prior statements of financial position, they should prepare the statements of financial position of the earliest comparative period, except for the notes.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(8) Novation of derivatives and continuation of hedge accounting

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

The abovementioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Group'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, it is not practicable to estimate their impact on the Consolidated Company at this point in time.

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 2013 and 2012 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards" as recognized by the FSC.

(2) Basis of preparation

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

(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.

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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)

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

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

If the Company loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest				Notes
			2013.6.30	2012.12.31	2012.6.30	2012.1.1	
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00%	50.00%	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China). As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the total numbers of employees were 609, 557, 415 and 319, respectively.
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00%	100.00%	100.00%	100.00%	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on 2 November 2010. The Company owns 100% interest of Cathay Insurance (Vietnam). As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the total numbers of employees were 112, 97, 98 and 69, respectively.

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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) 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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Cathay Century Insurance Co., Ltd. and Subsidiaries

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.

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.

(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, investments in debt securities with no active market, held-to-maturity financial assets, and secured loans and receivables. Financial liabilities are categorized as financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging and financial liabilities carried at cost.

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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 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. 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)

(Expressed in thousands of dollars unless otherwise stated)

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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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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 income statement.

Reclassification of financial assets

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- 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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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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 are recognized in other rather than profit or loss.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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.

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.

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(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.

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.

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(9) Investments in the associates

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

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

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.

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.

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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.

(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.

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

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

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

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

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

(11) Leases

Finance leases which transfer to the 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.

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(12) Intangible assets

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

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

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

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

(13) Impairment of non-financial assets

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

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

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

(14) Separation requirement for specific assets

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 amount 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.

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

According to article 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.

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

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

(15) Insurance contract categories

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

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

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

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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.

B. Claims reserve

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

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C. Special reserve

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

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

a. Special reserve for major incident

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

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

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

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b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

(18) Insurance premium revenues and the acquisition costs

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

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

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

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

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

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

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

(19) Insurance claim costs

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

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

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

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

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Claim reserve is not discounted to its present value.

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

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

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

(20) Liability adequacy test

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

(21) Reinsurance ceded

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

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

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

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

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

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

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

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(23) Contribution to the stabilization funds

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

(24) Post-employment benefits plan

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

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations. Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The 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.

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(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.

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:

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- 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.

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

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

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

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

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

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

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5. Significant accounting judgments, estimates and assumptions

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

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

(2) Estimates and assumptions

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

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6, for more detail on the unrecognized deferred tax assets.

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6. Contents of significant accounts

(1) Cash and cash equivalents

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$14,999	\$500	\$7,792	\$268
Cash in banks	2,849,192	95,100	1,555,534	53,547
Time deposits	3,654,929	121,994	3,968,185	136,598
Cash equivalents	429,858	14,348	145,540	5,010
Total	<u>\$6,948,978</u>	<u>\$231,942</u>	<u>\$5,677,051</u>	<u>\$195,423</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$12,354	\$415	\$7,040	\$233
Cash in banks	1,455,361	48,837	1,444,523	47,721
Time deposits	4,663,242	156,485	4,933,846	162,994
Cash equivalents	189,946	6,374	540,658	17,861
Total	<u>\$6,230,903</u>	<u>\$212,111</u>	<u>\$6,926,067</u>	<u>\$228,809</u>

The above-mentioned time deposit is to include to expire in 6 months and can convert at any time settle the risk of sum cash and value fluctuation very small of time deposit.

(2) Receivable

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$249,269	\$8,320	\$277,728	\$9,560
Premiums receivable	3,117,218	104,046	2,869,353	98,773
Other receivable	438,303	14,630	144,530	4,975
Total	<u>\$3,804,790</u>	<u>\$126,996</u>	<u>\$3,291,611</u>	<u>\$113,308</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$249,985	\$8,389	\$254,593	\$8,411
Premiums receivable	3,084,201	103,496	2,541,899	83,974
Other receivable	120,296	4,037	112,904	3,730
Total	<u>\$3,454,482</u>	<u>\$115,922</u>	<u>\$2,909,396</u>	<u>\$96,115</u>

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

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Beneficiary certificates	\$222,453	\$7,425	\$376,694	\$12,967
Derivative financial instruments	-	-	60,579	2,086
Total	\$222,453	\$7,425	\$437,273	\$15,053

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Beneficiary certificates	\$123,139	\$4,132	\$619,455	\$20,464
Derivative financial instruments	-	-	-	-
Total	\$123,139	\$4,132	\$619,455	\$20,464

(4) Available-for-sale financial assets

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,944,411	\$64,900	\$1,423,602	\$49,005
Overseas stocks	13,568	453	83,307	2,868
Beneficiary certificates	3,322,942	110,912	2,895,043	99,657
Corporate bonds	1,025,044	34,214	1,178,127	40,555
Real Estate Investment Trust	-	-	393,138	13,533
Financial debentures	1,207,129	40,291	1,203,348	41,423
Government bonds	796,940	26,600	813,488	28,003
Overseas bonds	408,245	13,627	414,439	14,267
Total	\$8,718,279	\$290,997	\$8,404,492	\$289,311

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,787,723	\$59,991	\$1,594,312	\$52,670
Overseas stocks	24,743	830	25,163	831
Beneficiary certificates	1,642,911	55,132	880,895	29,101
Corporate bonds	1,488,841	49,961	1,249,973	41,294
Real Estate Investment Trust	184,964	6,207	483,916	15,987
Financial debentures	1,200,865	40,297	900,138	29,737
Government bonds	798,083	26,781	763,221	25,214
Overseas bonds	310,181	10,409	-	-
Total	\$7,438,311	\$249,608	\$5,897,618	\$194,834

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(5) Bond investments with no active market

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Preferred stocks	\$400,000	\$13,351	\$400,000	\$13,769
Company bonds	323,246	10,790	500,000	17,212
Overseas bonds	906,388	30,253	272,459	9,379
Time deposits	155,813	5,201	150,811	5,192
Total	<u>\$1,785,447</u>	<u>\$59,595</u>	<u>\$1,323,270</u>	<u>\$45,552</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Preferred stocks	\$400,000	\$13,423	\$400,000	\$13,214
Company bonds	500,000	16,778	500,000	16,518
Overseas bonds	280,259	9,405	220,809	7,295
Time deposits	70,584	2,369	72,188	2,385
Total	<u>\$1,250,843</u>	<u>\$41,975</u>	<u>\$1,192,997</u>	<u>\$39,412</u>

(6) Held-to-maturity financial assets

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Overseas bonds	<u>\$2,175,814</u>	<u>\$72,624</u>	<u>\$2,512,011</u>	<u>\$86,472</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Overseas bonds	<u>\$2,337,828</u>	<u>\$78,450</u>	<u>\$2,408,714</u>	<u>\$79,574</u>

(7) Secured loans

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Secured loans	\$569,274	\$19,001	\$595,243	\$20,490
Less: Allowance for bad debts	(83,078)	(2,773)	(73,163)	(2,518)
Net	<u>\$486,196</u>	<u>\$16,228</u>	<u>\$522,080</u>	<u>\$17,972</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Secured loans	\$566,240	\$19,001	\$569,737	\$18,822
Less: Allowance for bad debts	(46,975)	(1,576)	(17,772)	(587)
Net	<u>\$519,265</u>	<u>\$17,425</u>	<u>\$551,965</u>	<u>\$18,235</u>

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(8) Payables

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Claims outstanding	\$11,105	\$371	\$21,009	\$723
Commissions payable	175,759	5,866	112,371	3,868
Due to reinsurers and ceding companies	1,559,744	52,061	1,205,101	41,484
Other payables	1,685,351	56,253	884,524	30,448
Total	<u>\$3,431,959</u>	<u>\$114,551</u>	<u>\$2,223,005</u>	<u>\$76,523</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Claims outstanding	\$5,642	\$189	\$16,970	\$561
Commissions payable	131,171	4,402	135,923	4,490
Due to reinsurers and ceding companies	1,628,255	54,639	1,261,437	41,673
Other payables	484,954	16,274	686,932	22,693
Total	<u>\$2,250,022</u>	<u>\$75,504</u>	<u>\$2,101,262</u>	<u>\$69,417</u>

(9) 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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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.

(10) Insurance liabilities

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$10,833,689	\$361,605	\$10,100,374	\$347,689
Claims reserve	5,885,072	196,431	5,807,437	199,912
Special reserve	4,370,495	145,878	4,455,638	153,378
Premiums deficiency reserve	115,284	3,848	77,149	2,656
Total	<u>\$21,204,540</u>	<u>\$707,762</u>	<u>\$20,440,598</u>	<u>\$703,635</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$9,868,970	\$331,173	\$8,925,059	\$294,848
Claims reserve	5,248,426	176,122	5,364,787	177,231
Special reserve	4,800,385	161,087	4,761,102	157,288
Premiums deficiency reserve	27,708	930	25,025	827
Total	<u>\$19,945,489</u>	<u>\$669,312</u>	<u>\$19,075,973</u>	<u>\$630,194</u>

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A. Unearned premiums reserve

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

Item	2013.6.30							
	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	\$10,547,667	\$352,058	\$286,022	\$9,547	\$2,585,240	\$86,290	\$8,248,449	\$275,315

Item	2012.12.31							
	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	\$2,100,879	\$72,319	\$56,882	\$1,958	\$916,559	\$31,551	\$1,241,202	\$42,726
Marine insurance	241,010	8,296	17,432	600	209,087	7,197	49,355	1,699
Land and air insurance	2,955,101	101,725	13,196	454	161,337	5,554	2,806,960	96,625
Liability insurance	514,215	17,701	173	6	171,208	5,894	343,180	11,813
Bonding insurance	26,491	912	537	18	9,156	315	17,872	615
Other property insurance	1,152,073	39,658	15,942	549	514,617	17,715	653,398	22,492
Accident insurance	1,529,451	52,649	3,976	137	84,690	2,915	1,448,737	49,871
Health insurance	88,102	3,033	-	-	1,154	40	86,948	2,993
Compulsory automobile liability insurance	1,198,010	41,240	186,904	6,434	479,228	16,497	905,686	31,177
Total	\$9,805,332	\$337,533	\$295,042	\$10,156	\$2,547,036	\$87,678	\$7,553,338	\$260,011

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2012.6.30

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	\$2,213,171	\$74,267	\$46,800	\$1,570	\$993,099	\$33,325	\$1,266,872
Marine insurance	270,344	9,072	8,836	297	239,853	8,049	39,327	1,320
Land and air insurance	2,741,449	91,995	4,839	162	118,934	3,991	2,627,354	88,166
Liability insurance	489,017	16,410	195	7	161,349	5,414	327,863	11,003
Bonding insurance	33,438	1,122	549	18	15,109	507	18,878	633
Other property insurance	1,026,083	34,432	12,719	427	514,848	17,277	523,954	17,582
Accident insurance	1,539,855	51,673	4,823	162	69,121	2,319	1,475,557	49,516
Health insurance	121,011	4,061	-	-	1,486	50	119,525	4,011
Compulsory automobile liability insurance	1,172,991	39,362	182,850	6,136	469,305	15,749	886,536	29,749
Total	\$9,607,359	\$322,394	\$261,611	\$8,779	\$2,583,104	\$86,681	\$7,285,866	\$244,492

2012.1.1

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	\$1,800,538	\$59,483	\$40,517	\$1,338	\$729,560	\$24,102	\$1,111,495
Marine insurance	257,526	8,508	1,423	47	218,534	7,219	40,415	1,336
Land and air insurance	2,474,556	81,749	5,322	176	149,756	4,947	2,330,122	76,978
Liability insurance	397,266	13,124	119	4	118,700	3,921	278,685	9,207
Bonding insurance	24,722	817	397	13	6,733	223	18,386	607
Other property insurance	894,846	29,562	15,099	499	496,357	16,398	413,588	13,663
Accident insurance	1,510,001	49,884	25,875	855	73,958	2,443	1,461,918	48,296
Health insurance	147,642	4,877	-	-	2,417	80	145,225	4,797
Compulsory automobile liability insurance	1,147,140	37,897	182,070	6,015	458,858	15,159	870,352	28,753
Total	\$8,654,237	\$285,901	\$270,822	\$8,947	\$2,254,873	\$74,492	\$6,670,186	\$220,356

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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	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>

Item	2012.1.1~2012.6.30			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$8,925,059	\$299,499	\$2,254,873	\$75,667
Reserve	9,868,424	331,155	2,582,882	86,674
Recover	(8,918,317)	(299,272)	(2,252,609)	(75,591)
Effects of exchange rate changes	(6,196)	(209)	(2,042)	(69)
Ending balance	<u>\$9,868,970</u>	<u>\$331,173</u>	<u>\$2,583,104</u>	<u>\$86,681</u>

B. Claims reserve

(a) Claims reserve and ceded claims reserve

Item	2013.6.30							
	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	\$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>

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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)

2012.12.31

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	\$4,111,890	\$141,545	\$293,676	\$10,109	\$1,723,922	\$59,343	\$2,681,644	\$92,311
Unreported claims	1,362,292	46,895	39,579	1,363	290,394	9,996	1,111,477	38,262
Total	<u>\$5,474,182</u>	<u>\$188,440</u>	<u>\$333,255</u>	<u>\$11,472</u>	<u>\$2,014,316</u>	<u>\$69,339</u>	<u>\$3,793,121</u>	<u>\$130,573</u>

2012.6.30

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	\$3,787,753	\$127,106	\$216,600	\$7,269	\$1,671,746	\$56,099	\$2,332,607	\$78,276
Unreported claims	1,214,240	40,746	29,833	1,001	264,934	8,890	979,139	32,857
Total	<u>\$5,001,993</u>	<u>\$167,852</u>	<u>\$246,433</u>	<u>\$8,270</u>	<u>\$1,936,680</u>	<u>\$64,989</u>	<u>\$3,311,746</u>	<u>\$111,133</u>

2012.1.1

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	\$4,061,939	\$134,190	\$196,679	\$6,498	\$1,896,762	\$62,661	\$2,361,856	\$78,027
Unreported claims	1,058,601	34,972	47,568	1,571	278,507	9,201	827,662	27,342
Total	<u>\$5,120,540</u>	<u>\$169,162</u>	<u>\$244,247</u>	<u>\$8,069</u>	<u>\$2,175,269</u>	<u>\$71,862</u>	<u>\$3,189,518</u>	<u>\$105,369</u>

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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) Net changes for claims reserve and ceded claims reserve

2013.1.1~2013.6.30								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	
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 (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	
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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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1~2012.6.30

NT\$								
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)		Reserve (6)	Recover (7)	
Claims reported but not paid off	\$3,787,573	\$4,058,046	\$216,600	\$196,679	\$(250,552)	\$1,671,698	\$1,895,491	\$(223,793)
Unreported claims	1,214,004	1,055,060	29,829	47,496	141,277	264,825	276,762	(11,937)
Total	\$5,001,577	\$5,113,106	\$246,429	\$244,175	\$(109,275)	\$1,936,523	\$2,172,253	\$(235,730)

2012.1.1~2012.6.30

US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)		Reserve (6)	Recover (7)	
Claims reported but not paid off	\$127,100	\$136,176	\$7,269	\$6,600	\$(8,407)	\$56,097	\$63,607	\$(7,510)
Unreported claims	40,738	35,405	1,001	1,594	4,740	8,887	9,287	(400)
Total	\$167,838	\$171,581	\$8,270	\$8,194	\$(3,667)	\$64,984	\$72,894	\$(7,910)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

2013.6.30						
Claims reserve						
Item	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>
2012.12.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,338,560	\$46,078	\$19,362	\$666	\$1,357,922	\$46,744
Marine insurance	794,556	27,351	159,313	5,484	953,869	32,835
Land and air insurance	690,396	23,766	491,381	16,915	1,181,777	40,681
Liability insurance	249,023	8,572	226,183	7,786	475,206	16,358
Bonding insurance	19,834	683	14,294	492	34,128	1,175
Other property insurance	487,486	16,781	145,645	5,014	633,131	21,795
Accident insurance	68,515	2,358	284,938	9,809	353,453	12,167
Health insurance	6,816	235	39,229	1,350	46,045	1,585
Compulsory automobile liability insurance	750,380	25,831	21,526	741	771,906	26,572
Total	<u>\$4,405,566</u>	<u>\$151,655</u>	<u>\$1,401,871</u>	<u>\$48,257</u>	<u>\$5,807,437</u>	<u>\$199,912</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.6.30						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,769,336	\$59,374	\$171,003	\$5,738	\$1,940,339	\$65,112
Marine insurance	628,130	21,078	92,039	3,088	720,169	24,166
Land and air insurance	577,938	19,394	445,150	14,938	1,023,088	34,332
Liability insurance	170,242	5,713	152,179	5,107	322,421	10,820
Bonding insurance	20,622	692	7,708	259	28,330	951
Other property insurance	319,086	10,708	75,579	2,536	394,665	13,244
Accident insurance	130,145	4,367	244,632	8,209	374,777	12,576
Health insurance	4,965	167	34,782	1,167	39,747	1,334
Compulsory automobile liability insurance	383,889	12,882	21,001	705	404,890	13,587
Total	<u>\$4,004,353</u>	<u>\$134,375</u>	<u>\$1,244,073</u>	<u>\$41,747</u>	<u>\$5,248,426</u>	<u>\$176,122</u>

2012.1.1						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,055,544	\$67,907	\$162,754	\$5,377	\$2,218,298	\$73,284
Marine insurance	614,939	20,315	189,501	6,260	804,440	26,575
Land and air insurance	506,703	16,739	456,465	15,080	963,168	31,819
Liability insurance	234,807	7,757	53,728	1,775	288,535	9,532
Bonding insurance	23,232	768	4,660	154	27,892	922
Other property insurance	297,847	9,840	55,435	1,831	353,282	11,671
Accident insurance	128,888	4,258	160,770	5,311	289,658	9,569
Health insurance	9,821	324	2,213	73	12,034	397
Compulsory automobile liability insurance	386,837	12,780	20,643	682	407,480	13,462
Total	<u>\$4,258,618</u>	<u>\$140,688</u>	<u>\$1,106,169</u>	<u>\$36,543</u>	<u>\$5,364,787</u>	<u>\$177,231</u>

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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) Reinsurance asset- ceded claims reserve for policyholder

2013.6.30						
Ceded claims reserve						
Item	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	\$1,442,204	\$48,138	\$326,721	\$10,905	\$1,768,925	\$59,043

2012.12.31						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$556,200	\$19,146	\$3,430	\$118	\$559,630	\$19,264
Marine insurance	614,236	21,144	133,937	4,610	748,173	25,754
Land and air insurance	42,156	1,451	11,765	405	53,921	1,856
Liability insurance	68,341	2,353	76,629	2,638	144,970	4,991
Bonding insurance	18,225	627	5,719	197	23,944	824
Other property insurance	152,278	5,242	18,356	632	170,634	5,874
Accident insurance	6,829	235	31,650	1,089	38,479	1,324
Health insurance	75	3	1,398	48	1,473	51
Compulsory automobile liability insurance	265,582	9,142	7,510	259	273,092	9,401
Total	\$1,723,922	\$59,343	\$290,394	\$9,996	\$2,014,316	\$69,339

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2012.6.30						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$883,239	\$29,639	\$88,000	\$2,953	\$971,239	\$32,592
Marine insurance	454,542	15,253	66,783	2,241	521,325	17,494
Land and air insurance	24,404	819	10,948	367	35,352	1,186
Liability insurance	51,576	1,731	45,649	1,532	97,225	3,263
Bonding insurance	18,904	634	846	28	19,750	662
Other property insurance	106,853	3,586	11,158	374	118,011	3,960
Accident insurance	11,805	396	32,347	1,086	44,152	1,482
Health insurance	-	-	1,876	63	1,876	63
Compulsory automobile liability insurance	120,423	4,041	7,327	246	127,750	4,287
Total	<u>\$1,671,746</u>	<u>\$56,099</u>	<u>\$264,934</u>	<u>\$8,890</u>	<u>\$1,936,680</u>	<u>\$64,989</u>

2012.1.1						
Ceded claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,075,347	\$35,525	\$73,921	\$2,442	\$1,149,268	\$37,967
Marine insurance	423,306	13,984	152,655	5,043	575,961	19,027
Land and air insurance	22,205	734	1,412	47	23,617	781
Liability insurance	90,756	2,998	13,225	437	103,981	3,435
Bonding insurance	19,442	642	709	23	20,151	665
Other property insurance	122,459	4,046	10,709	354	133,168	4,400
Accident insurance	14,532	480	18,570	614	33,102	1,094
Health insurance	-	-	132	4	132	4
Compulsory automobile liability insurance	128,715	4,252	7,174	237	135,889	4,489
Total	<u>\$1,896,762</u>	<u>\$62,661</u>	<u>\$278,507</u>	<u>\$9,201</u>	<u>\$2,175,269</u>	<u>\$71,862</u>

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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)

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

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>

Item	2012.1.1~2012.6.30			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,364,787	\$180,027	\$2,175,269	\$72,995
Reserve	5,248,006	176,108	1,936,523	64,984
Recover	(5,357,281)	(179,775)	(2,172,253)	(72,894)
Effects of exchange rate changes	(7,086)	(238)	(2,859)	(96)
Ending balance	<u>\$5,248,426</u>	<u>\$176,122</u>	<u>\$1,936,680</u>	<u>\$64,989</u>

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

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>

Item	2012.1.1~2012.6.30	
	NT\$	US\$
Beginning balance	\$2,434,891	\$81,708
Reserve	114,829	3,853
Recover	(55,798)	(1,872)
Ending balance	<u>\$2,493,922</u>	<u>\$83,689</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

2013.1.1~2013.6.30						
Liability						
Item	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>

2012.1.1~2012.6.30						
Liability						
Item	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,172,396	\$39,342	\$1,153,815	\$38,719	\$2,326,211	\$78,061
Reserve	-	-	-	-	-	-
Recover	-	-	(19,748)	(663)	(19,748)	(663)
Ending balance	<u>\$1,172,396</u>	<u>\$39,342</u>	<u>\$1,134,067</u>	<u>\$38,056</u>	<u>\$2,306,463</u>	<u>\$77,398</u>

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

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(Expressed in thousands of dollars unless otherwise stated)

D. Premiums deficiency reserve

(a) Premiums deficiency reserve and ceded premium deficiency reserve

2013.6.30								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business		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

2012.12.31								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Fire insurance	\$6,198	\$213	\$23	\$1	\$-	\$-	\$6,221	\$214
Marine insurance	9,322	321	726	25	(7,185)	(247)	17,233	593
Land and air insurance	-	-	9,319	321	-	-	9,319	321
Liability insurance	13,059	450	10	-	-	-	13,069	450
Bonding insurance	2,204	76	-	-	2,096	72	108	4
Other property insurance	35,659	1,227	435	15	34	1	36,060	1,241
Accident insurance	-	-	194	7	-	-	194	7
Health insurance	-	-	-	-	-	-	-	-
Total	\$66,442	\$2,287	\$10,707	\$369	\$(5,055)	\$(174)	\$82,204	\$2,830

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.6.30								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	10,422	350	359	12	3,232	109	7,549	253
Land and air insurance	-	-	762	25	-	-	762	25
Liability insurance	551	19	-	-	-	-	551	19
Bonding insurance	4,900	164	-	-	4,777	160	123	4
Other property insurance	10,468	351	78	3	-	-	10,546	354
Accident insurance	-	-	168	6	-	-	168	6
Health insurance	-	-	-	-	-	-	-	-
Total	\$26,341	\$884	\$1,367	\$46	\$8,009	\$269	\$19,699	\$661

2012.1.1								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Fire insurance	\$-	\$-	\$432	\$14	\$(5,485)	\$(181)	\$5,917	\$195
Marine insurance	9,806	324	54	2	1,867	62	7,993	264
Land and air insurance	-	-	2	-	(1,480)	(49)	1,482	49
Liability insurance	-	-	49	2	49	2	-	-
Bonding insurance	11,295	373	6	-	11,185	369	116	4
Other property insurance	3,316	110	54	2	-	-	3,370	112
Accident insurance	-	-	11	-	-	-	11	-
Health insurance	-	-	-	-	-	-	-	-
Total	\$24,417	\$807	\$608	\$20	\$6,136	\$203	\$18,889	\$624

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Notes to consolidated financial statements (continued)

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

2013.1.1~2013.6.30

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	\$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

2013.1.1~2013.6.30

US\$

Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$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

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2012.1.1~2012.6.30

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	\$-	\$-	\$-	\$432	\$(432)	\$-	\$(5,485)	\$5,485	\$(5,917)
Marine insurance	10,422	9,806	359	55	920	3,232	1,867	1,365	(445)
Land and air insurance	-	-	762	2	760	-	(1,480)	1,480	(720)
Liability insurance	550	-	-	49	501	-	49	(49)	550
Bonding insurance	4,900	11,292	-	6	(6,398)	4,777	11,185	(6,408)	10
Other property insurance	10,459	3,239	78	53	7,245	-	-	-	7,245
Accident insurance	-	-	169	11	158	-	-	-	158
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$26,331	\$24,337	\$1,368	\$608	\$2,754	\$8,009	\$6,136	\$1,873	\$881

2012.1.1~2012.6.30

US\$

Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$-	\$-	\$-	\$14	\$(14)	\$-	\$(184)	\$184	\$(198)
Marine insurance	350	329	12	2	31	109	63	46	(15)
Land and air insurance	-	-	25	-	25	-	(50)	50	(25)
Liability insurance	19	-	-	2	17	-	2	(2)	19
Bonding insurance	164	379	-	-	(215)	160	375	(215)	-
Other property insurance	351	109	3	2	243	-	-	-	243
Accident insurance	-	-	6	-	6	-	-	-	6
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$884	\$817	\$46	\$20	\$93	\$269	\$206	\$63	\$30

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

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	<u>\$115,284</u>	<u>\$3,848</u>	<u>\$(9,819)</u>	<u>\$(328)</u>

Item	2012.1.1~2012.6.30			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$25,025	\$840	\$6,136	\$206
Reserve	27,699	930	8,009	269
Recover	(24,945)	(837)	(6,136)	(206)
Effects of exchange rate changes	(71)	(3)	-	-
Ending balance	<u>\$27,708</u>	<u>\$930</u>	<u>\$8,009</u>	<u>\$269</u>

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

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

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(11) Post-employment benefits

Defined contribution plan

The Company adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension benefits for employees of overseas subsidiaries are provided in accordance with the local regulations.

The Consolidated Company recognized expenses for defined contribution plan for the three-month periods ended 30 June 2013 and 2012 are NT\$13,869 (US\$463) and NT\$11,909 (US\$400), respectively. The Consolidated Company recognized expenses for defined contribution plan for the six-month periods ended 30 June 2013 and 2012 are NT\$27,064 (US\$903) and NT\$23,202 (US\$779), respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

The benefit expense under the defined benefit plan for the three-month periods ended 30 June 2013 and 2012 are NT\$9,317 (US\$311) and NT\$8,033 (US\$269), respectively. The benefit expense under the defined benefit plan for the six-month periods ended 30 June 2013 and 2012 are NT\$18,633 (US\$622) and NT\$16,066 (US\$539), respectively.

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

	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Marketing expenses	\$6,522	\$218	\$5,623	\$188
General and administrative expenses	\$2,795	\$93	\$2,410	\$81

	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Marketing expenses	\$13,043	\$435	\$11,246	\$377
General and administrative expenses	\$5,590	\$187	\$4,820	\$162

The benefit expense under the defined benefit plan for the six-month periods ended 30 June 2013 was classified under marketing expenses and general and administrative expenses, which amounted to NT\$13,043 (US\$435) and NT\$5,590 (US\$187), respectively. The benefit expense under the defined benefit plan for the six-month periods ended 30 June 2012 was classified under marketing expenses and general and administrative expenses, which amounted to NT\$11,246 (US\$377) and NT\$4,820 (US\$162), respectively.

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

	2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$
Defined benefit obligation	\$(625,367)	\$(21,527)	\$(572,462)	\$(18,912)
Plan assets at fair value	348,590	11,999	312,974	10,339
Funded status	(276,777)	(9,528)	(259,488)	(8,573)
Unrecognized pension cost	-	-	-	-
Unrecognized past service income	28,827	992	-	-
Accrued pension liabilities recognized on the consolidated balance sheets	\$(247,950)	\$(8,536)	\$(259,488)	\$(8,573)

Changes in present value of the defined benefit obligation are as follows:

	For the year ended 31 December 2012	
	NT\$	US\$
Beginning defined benefit obligation	\$572,462	\$19,706
Current service cost	19,852	683
Interest cost	9,448	325
Benefits paid	(3,864)	(133)
Actuarial losses (gains)	27,469	946
Ending defined benefit obligation.	\$625,367	\$21,527

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(Expressed in thousands of dollars unless otherwise stated)

Changes in fair value of plan assets are as follows:

	For the year ended 31 December 2012	
	NT\$	US\$
Beginning fair value of plan assets	\$312,974	\$10,773
Expected return on plan assets	5,370	185
Contributions by employer	35,467	1,221
Benefits paid	(3,864)	(133)
Actuarial gains (losses)	(1,357)	(47)
Ending fair value of plan assets	<u>\$348,590</u>	<u>\$11,999</u>

The Company expects to contribute NT\$35,386 (US\$1,181) to its defined benefit plan during the 12 months beginning after 30 June 2013.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Pension plan (%) as at	
	31 December 2012	1 January 2012
Cash	23.87%	23.87%
Equity instruments	40.75%	40.75%
Debt instruments	11.58%	11.58%
Others	23.8%	23.8%

For the year ended 31 December 2012, the actual amount of plan assets is NT\$4,012 (US\$138).

Employee pension fund is deposited under a trust administered by the Bank of Taiwan. The overall expected rate of return on assets is determined based on historical trend and analyst's expectation on the asset's return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks are also taken into consideration in determining the expected rate of return on assets.

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(Expressed in thousands of dollars unless otherwise stated)

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	2012.12.31	2012.1.1
Discount rate	1.54%	1.68%
Expected rate of return on plan assets	1.54%	1.68%
Expected rate of salary increases	1.50%	1.50%

A 0.5 percentage point change in discount rate on defined benefit obligation:

	2012.1.1~2012.12.31			
	Increase		Decrease	
	NT\$	US\$	NT\$	US\$
Effect on the aggregate current service cost and interest cost				
Effect on the defined benefit obligation	\$50,762	\$1,747	\$45,904	\$1,580

Other information on the defined benefit plan is as follows:

	2012.1.1~2012.12.31	
	NT\$	US\$
Defined benefit obligation at present value	\$(625,367)	\$(21,527)
Plan assets at fair value	348,590	11,999
Surplus (deficit) in plan	(276,777)	(9,528)
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	-	-

(12) Common stock

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the authorized and issued shares were 272,188, 252,295, 252,295 and 231,701 thousands shares with par value of NT\$10 each.

As recommended and approved by the board meeting of directors on 24 April 2012, the Company issued 20,594 thousands new shares from capitalization of retained earnings. It was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission, and the date of capitalization was 8 June 2012.

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.

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(13) 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).

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 ended 30 June 2013, the reserves amounted to NT\$869,978 (US\$29,038) thousands.

C. Retained earnings

According to the Company's articles 35 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 2013 and 2012, respectively. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2014 and 2013.

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Details of the 2012 and 2011 earnings distribution and dividends per share as approved by the company's Board of directors on 30 April 2013 and 24 April 2012, respectively, are as follows:

	Appropriation of earnings (NT\$)		Dividend per share (NT\$)	
	2012	2011	2012	2011
Legal reserve	\$138,127	\$120,357	\$-	\$-
Special reserve	(53,919)	53,919	-	-
Common stock-stock dividend	198,929	205,944	0.79	0.89
Directors' remuneration	72	92	-	-
Employee bonus – cash	1,485	1,839	-	-
Total	<u>\$284,694</u>	<u>\$382,151</u>		

	Appropriation of earnings (US\$)		Dividend per share (US\$)	
	2012	2011	2012	2011
Legal reserve	\$4,611	\$4,039	\$-	\$-
Special reserve	(1,800)	1,809	-	-
Common stock-stock dividend	6,639	6,911	0.03	0.03
Directors' remuneration	2	3	-	-
Employee bonus – cash	50	61	-	-
Total	<u>\$9,502</u>	<u>\$12,823</u>		

There is estimated difference between the actual employee' bonuses and remuneration to directors and supervisors distributed from the 2012's earnings and the estimated amount in the financial statements for the year ended 2012. Nevertheless, the difference is not significant and recognized in profit or loss in for the six-month periods ended 30 June 2013.

Information regarding 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 TWSE.

(14) Non-controlling interests

	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$300,290	\$10,023	\$629,070	\$21,110
Loss attributable to non-controlling interests	(166,789)	(5,567)	(96,457)	(3,237)
Other comprehensive income, attributable to non-controlling interests, net of tax:				
Exchange differences resulting from translating the financial statements of a foreign operation	10,360	346	(14,406)	(483)
Unrealized gains from available-for-sale financial assets	(6,751)	(225)	10,313	346
Ending balance	<u>\$137,110</u>	<u>\$4,577</u>	<u>\$528,520</u>	<u>\$17,736</u>

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(15) Retained earned premium

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

2013.4.1 ~ 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	\$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

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2012.4.1 ~ 2012.6.30						
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	\$1,172,906	\$25,359	\$720,979	\$477,286	\$203,563	\$273,723
Marine insurance	243,558	16,146	204,004	55,700	6,268	49,432
Land and air insurance	1,170,676	2,781	41,391	1,132,066	78,542	1,053,524
Liability insurance	231,406	22	73,818	157,610	13,999	143,611
Bonding insurance	17,617	346	8,134	9,829	1,050	8,779
Other property insurance	339,743	7,145	93,946	252,942	85,488	167,454
Accident insurance	611,504	2,641	30,154	583,991	60,156	523,835
Health insurance	24,542	-	409	24,133	(3,155)	27,288
Compulsory automobile liability insurance	703,320	70,877	191,174	583,023	13,895	569,128
Total	\$4,515,272	\$125,317	\$1,364,009	\$3,276,580	\$459,806	\$2,816,774

2012.4.1 ~ 2012.6.30						
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	\$39,359	\$851	\$24,194	\$16,016	\$6,831	\$9,185
Marine insurance	8,173	542	6,846	1,869	210	1,659
Land and air insurance	39,285	93	1,389	37,989	2,636	35,353
Liability insurance	7,765	1	2,477	5,289	470	4,819
Bonding insurance	591	11	273	329	35	294
Other property insurance	11,401	240	3,152	8,489	2,869	5,620
Accident insurance	20,520	89	1,012	19,597	2,019	17,578
Health insurance	824	-	14	810	(106)	916
Compulsory automobile liability insurance	23,601	2,378	6,415	19,564	466	19,098
Total	\$151,519	\$4,205	\$45,772	\$109,952	\$15,430	\$94,522

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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)

2013.1.1 ~ 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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.6.30						
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	\$1,686,542	\$41,645	\$1,030,996	\$697,191	\$156,717	\$540,474
Marine insurance	432,778	19,527	362,136	90,169	(1,003)	91,172
Land and air insurance	2,317,891	4,451	61,397	2,260,945	297,245	1,963,700
Liability insurance	488,721	350	168,491	320,580	49,989	270,591
Bonding insurance	38,733	695	20,415	19,013	533	18,480
Other property insurance	608,629	10,121	209,033	409,717	112,222	297,495
Accident insurance	1,168,331	4,899	77,044	1,096,186	13,647	1,082,539
Health insurance	51,464	-	1,363	50,101	(25,700)	75,801
Compulsory automobile liability insurance	1,368,701	136,256	374,556	1,130,401	16,184	1,114,217
Total	\$8,161,790	\$217,944	\$2,305,431	\$6,074,303	\$619,834	\$5,454,469

2012.1.1 ~ 2012.6.30						
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	\$56,595	\$1,398	\$34,597	\$23,396	\$5,259	\$18,137
Marine insurance	14,523	655	12,152	3,026	(33)	3,059
Land and air insurance	77,781	149	2,060	75,870	9,975	65,895
Liability insurance	16,400	12	5,654	10,758	1,677	9,081
Bonding insurance	1,300	23	685	638	18	620
Other property insurance	20,424	340	7,015	13,749	3,766	9,983
Accident insurance	39,206	164	2,585	36,785	458	36,327
Health insurance	1,727	-	46	1,681	(863)	2,544
Compulsory automobile liability insurance	45,930	4,572	12,569	37,933	543	37,390
Total	\$273,886	\$7,313	\$77,363	\$203,836	\$20,800	\$183,036

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(16) Retained claim paid

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	<u>\$ (2,110,568)</u>	<u>\$ (83,231)</u>	<u>\$ (371,471)</u>	<u>\$ (1,822,328)</u>

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	<u>\$ (70,446)</u>	<u>\$ (2,778)</u>	<u>\$ (12,399)</u>	<u>\$ (60,825)</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.4.1 ~ 2012.6.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(289,275)	\$(1,063)	\$(136,736)	\$(153,602)
Marine insurance	(94,094)	(1,460)	(55,335)	(40,219)
Land and air insurance	(708,633)	(3,154)	(18,390)	(693,397)
Liability insurance	(110,465)	(14)	(29,132)	(81,347)
Bonding insurance	(2,161)	(36)	(5,355)	3,158
Other property insurance	(82,016)	(4,375)	(17,559)	(68,832)
Accident insurance	(249,001)	(1,053)	(29,219)	(220,835)
Health insurance	(39,428)	-	(550)	(38,878)
Compulsory automobile liability insurance	(428,605)	(77,801)	(170,033)	(336,373)
Total	\$(2,003,678)	\$(88,956)	\$(462,309)	\$(1,630,325)

2012.4.1 ~ 2012.6.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(9,707)	\$(35)	\$(4,588)	\$(5,154)
Marine insurance	(3,158)	(49)	(1,857)	(1,350)
Land and air insurance	(23,780)	(106)	(617)	(23,269)
Liability insurance	(3,707)	(1)	(978)	(2,730)
Bonding insurance	(72)	(1)	(180)	107
Other property insurance	(2,752)	(147)	(589)	(2,310)
Accident insurance	(8,356)	(35)	(981)	(7,410)
Health insurance	(1,323)	-	(18)	(1,305)
Compulsory automobile liability insurance	(14,383)	(2,611)	(5,706)	(11,288)
Total	\$(67,238)	\$(2,985)	\$(15,514)	\$(54,709)

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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	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)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.6.30				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$ (552,321)	\$ (1,136)	\$ (251,501)	\$ (301,956)
Marine insurance	(162,827)	(5,964)	(79,141)	(89,650)
Land and air insurance	(1,340,863)	(4,319)	(36,615)	(1,308,567)
Liability insurance	(151,919)	(127)	(32,161)	(119,885)
Bonding insurance	(2,849)	(44)	(3,281)	388
Other property insurance	(143,461)	(5,399)	(21,036)	(127,824)
Accident insurance	(467,279)	(3,639)	(46,815)	(424,103)
Health insurance	(81,314)	-	(950)	(80,364)
Compulsory automobile liability insurance	(844,730)	(121,490)	(332,929)	(633,291)
Total	<u><u>\$ (3,747,563)</u></u>	<u><u>\$ (142,118)</u></u>	<u><u>\$ (804,429)</u></u>	<u><u>\$ (3,085,252)</u></u>

2012.1.1 ~ 2012.6.30				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$ (18,534)	\$ (38)	\$ (8,439)	\$ (10,133)
Marine insurance	(5,464)	(200)	(2,656)	(3,008)
Land and air insurance	(44,995)	(145)	(1,229)	(43,911)
Liability insurance	(5,098)	(4)	(1,079)	(4,023)
Bonding insurance	(96)	(2)	(110)	12
Other property insurance	(4,814)	(181)	(706)	(4,289)
Accident insurance	(15,680)	(122)	(1,571)	(14,231)
Health insurance	(2,729)	-	(32)	(2,697)
Compulsory automobile liability insurance	(28,347)	(4,077)	(11,172)	(21,252)
Total	<u><u>\$ (125,757)</u></u>	<u><u>\$ (4,769)</u></u>	<u><u>\$ (26,994)</u></u>	<u><u>\$ (103,532)</u></u>

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(Expressed in thousands of dollars unless otherwise stated)

(17) Components of other comprehensive income

	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	\$(96,813)	\$(51,332)	\$(148,145)	\$17,101	\$(131,044)

	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	\$(3,232)	\$(1,713)	\$(4,945)	\$571	\$(4,374)

	2012.4.1 ~ 2012.6.30				
	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	\$6,908	\$-	\$6,908	\$-	\$6,908
Unrealized gains (losses) form available-for-sale financial assets	(45,402)	(7,394)	(52,796)	-	(52,796)
Gains (losses) on cash flow hedges	(3,839)	-	(3,839)	-	(3,839)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	2	-	2	-	2
Total of other comprehensive income	\$(42,331)	\$(7,394)	\$(49,725)	\$-	\$(49,725)

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	2012.4.1 ~ 2012.6.30				
	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	\$232	\$-	\$232	\$-	\$232
Unrealized gains (losses) form available-for-sale financial assets	(1,524)	(248)	(1,772)	-	(1,772)
Gains (losses) on cash flow hedges	(129)	-	(129)	-	(129)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	\$(1,421)	\$(248)	\$(1,669)	\$-	\$(1,669)

	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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	2012.1.1 ~ 2012.6.30				
	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	\$ (31,889)	\$ -	\$ (31,889)	\$ -	\$ (31,889)
Unrealized gains (losses) form available-for-sale financial assets	87,748	(114,887)	(27,139)	-	(27,139)
Gains (losses) on cash flow hedges	(6,349)	-	(6,349)	-	(6,349)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	3	-	3	-	3
Total of other comprehensive income	\$49,513	\$(114,887)	\$(65,374)	\$-	\$(65,374)

	2012.1.1 ~ 2012.6.30				
	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	\$ (1,070)	\$ -	\$ (1,070)	\$ -	\$ (1,070)
Unrealized gains (losses) form available-for-sale financial assets	2,944	(3,855)	(911)	-	(911)
Gains (losses) on cash flow hedges	(213)	-	(213)	-	(213)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	-	-	-	-	-
Total of other comprehensive income	\$1,661	\$(3,855)	\$(2,194)	\$-	\$(2,194)

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(18) Personnel, depreciation, depletion and amortization expenses

Item	2013.4.1 ~ 2013.6.30 (NT\$)			2012.4.1 ~ 2012.6.30 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$538,984	\$538,984	\$-	\$444,521	\$444,521
Labor & health insurance expenses	-	48,687	48,687	-	30,540	30,540
Pension expenses	-	23,186	23,186	-	19,942	19,942
Other expenses	-	14,367	14,367	-	13,334	13,334
Depreciation	-	20,137	20,137	-	22,720	22,720
Amortization	-	6,797	6,797	-	5,369	5,369

Item	2013.4.1 ~ 2013.6.30 (US\$)			2012.4.1 ~ 2012.6.30 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$17,990	\$17,990	\$-	\$14,917	\$14,917
Labor & health insurance expenses	-	1,625	1,625	-	1,025	1,025
Pension expenses	-	774	774	-	669	669
Other expenses	-	480	480	-	447	447
Depreciation	-	672	672	-	762	762
Amortization	-	227	227	-	180	180

Item	2013.1.1 ~ 2013.6.30 (NT\$)			2012.1.1 ~ 2012.6.30 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$1,051,456	\$1,051,456	\$-	\$862,203	\$862,203
Labor & health insurance expenses	-	85,166	85,166	-	59,442	59,442
Pension expenses	-	45,697	45,697	-	39,268	39,268
Other expenses	-	30,379	30,379	-	24,252	24,252
Depreciation	-	39,585	39,585	-	42,666	42,666
Amortization	-	13,534	13,534	-	10,029	10,029

Item	2013.1.1 ~ 2013.6.30 (US\$)			2012.1.1 ~ 2012.6.30 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$35,095	\$35,095	\$-	\$28,933	\$28,933
Labor & health insurance expenses	-	2,843	2,843	-	1,995	1,995
Pension expenses	-	1,525	1,525	-	1,318	1,318
Other expenses	-	1,014	1,014	-	814	814
Depreciation	-	1,321	1,321	-	1,432	1,432
Amortization	-	452	452	-	337	337

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(19) Income tax

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

Income tax expense (income) recognized in profit or loss

	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Current income tax expense (income):				
Current income tax charge	\$56,467	\$1,885	\$29,465	\$989
Adjustments in respect of current income tax of prior periods	2	-	(4,313)	(145)
Deferred tax expense (income):				
Deferred tax expense (income) related to origination and reversal of temporary differences	4,692	156	4,877	163
Total income tax expense	<u>\$61,161</u>	<u>\$2,041</u>	<u>\$30,029</u>	<u>\$1,007</u>

	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Current income tax expense (income):				
Current income tax charge	\$107,127	\$3,576	\$61,539	\$2,065
Adjustments in respect of current income tax of prior periods	2	-	(4,313)	(145)
Deferred tax expense (income):				
Deferred tax expense (income) related to origination and reversal of temporary differences	(2,433)	(81)	17,956	603
Total income tax expense	<u>\$104,696</u>	<u>\$3,495</u>	<u>\$75,182</u>	<u>\$2,523</u>

Income tax related to components of other comprehensive income

	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from available-for-sale financial assets	<u>\$(17,101)</u>	<u>\$(571)</u>	<u>\$-</u>	<u>\$-</u>
	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from available-for-sale financial assets	<u>\$(8,986)</u>	<u>\$(300)</u>	<u>\$-</u>	<u>\$-</u>

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

	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Accounting profit before tax from continuing operations	\$126,435	\$4,220	\$74,297	\$2,493
At the Company's statutory income tax rate of 17%	\$41,899	\$1,398	\$22,004	\$738
Tax effect of expenses not deductible for tax purposes	19,164	640	8,591	288
Tax effect of revenues exempt from taxation	96	3	122	4
Tax effect of deferred tax assets/liabilities	-	-	3,625	122
Adjustments in respect of current income tax of prior periods	2	-	(4,313)	(145)
Total income tax expense recognized in profit or loss	\$61,161	\$2,041	\$30,029	\$1,007

	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Accounting profit before tax from continuing operations	\$325,722	\$10,872	\$350,686	\$11,768
At the Company's statutory income tax rate of 17%	\$83,727	\$2,795	\$76,014	\$2,551
Tax effect of expenses not deductible for tax purposes	20,317	678	(358)	(12)
Tax effect of revenues exempt from taxation	195	7	214	7
Tax effect of deferred tax assets/liabilities	455	15	3,625	122
Adjustments in respect of current income tax of prior periods	2	-	(4,313)	(145)
Total income tax expense recognized in profit or loss	\$104,696	\$(3,495)	\$75,182	\$(2,523)

Deferred tax assets (liabilities) relate to the following:

	2013.1.1 ~ 2013.6.30 (NT\$)				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	\$(17,949)	\$17,949	\$-	\$-	\$-
Revaluations of available-for-sale investments to fair value	-	-	8,986	-	8,986
Revaluations of financial liabilities at fair value through profit or loss	-	28,826	-	-	28,826
Provisions for employee benefits liability	42,607	(383)	-	-	42,224
Unrealized exchange (gain)loss	19,121	(43,700)	-	(7)	(24,586)
Bad debt losses	18,666	(259)	-	-	18,407
Deferred tax income expense		\$2,433	\$8,986	\$(7)	
Net deferred tax assets/(liabilities)	\$62,445				\$73,857
Reflected in balance sheet as follows:					
Deferred tax assets	\$80,750				\$98,443
Deferred tax liabilities	\$(18,305)				\$(24,586)

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(Expressed in thousands of dollars unless otherwise stated)

	2013.1.1 ~ 2013.6.30 (US\$)				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	\$ (599)	\$ 599	\$ -	\$ -	\$ -
Revaluations of available-for-sale investments to fair value	-	-	300	-	300
Revaluations of financial liabilities at fair value through profit or loss	-	962	-	-	962
Provisions for employee benefits liability	1,422	(13)	-	-	1,409
Unrealized exchange (gain)loss	638	(1,459)	-	-	(821)
Bad debt losses	623	(8)	-	-	615
Deferred tax income expense		\$ 81	\$ 300	\$ -	
Net deferred tax assets/(liabilities)	\$ 2,084				\$ 2,465
Reflected in balance sheet as follows:					
Deferred tax assets	\$ 2,683				\$ 3,286
Deferred tax liabilities	\$ (599)				\$ (821)

	2012.1.1 ~ 2012.6.30 (NT\$)			
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Exchange differences	Ending balance
Temporary differences				
Revaluations of financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -
Revaluations of financial liabilities at fair value through profit or loss	38,387	(38,690)	-	(303)
Provisions for employee benefits liability	44,113	(567)	-	43,546
Unrealized exchange (gain)loss	(22,311)	25,828	16	3,533
Bad debt losses	19,369	(902)	-	18,467
Unused tax credits	3,625	(3,625)	-	-
Deferred tax income expense		\$ (17,956)	\$ 16	
Net deferred tax assets/(liabilities)	\$ 83,183			\$ 65,243
Reflected in balance sheet as follows:				
Deferred tax assets	\$ 105,494			\$ 67,723
Deferred tax liabilities	\$ (22,311)			\$ (2,480)

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(Expressed in thousands of dollars unless otherwise stated)

	2012.1.1 ~ 2012.6.30 (US\$)			
	Beginning balance	Deferred tax income (expense) recognized in profit or loss		Ending balance
			Exchange differences	
Temporary differences				
Revaluations of financial assets at fair value through profit or loss	\$-	\$-	\$-	\$-
Revaluations of financial liabilities at fair value through profit or loss	1,289	(1,299)	-	(10)
Provisions for employee benefits liability	1,480	(19)	-	1,461
Unrealized exchange (gain)loss	(749)	867	1	119
Bad debt losses	650	(30)	-	620
Unused tax credits	122	(122)	-	-
Deferred tax income expense		<u>\$(603)</u>	<u>\$1</u>	
Net deferred tax assets/(liabilities)	<u>\$2,792</u>			<u>\$2,190</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$3,541</u>			<u>\$2,273</u>
Deferred tax liabilities	<u>\$(749)</u>			<u>\$(83)</u>

Unrecognized deferred tax assets

As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to NT\$153,569 (US\$5,126), NT\$122,863 (US\$4,229), NT\$79,065 (US\$2,653) and NT\$59,705(US\$1,972), respectively.

Imputation credit information

NT\$	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Balances of imputation credit amounts	<u>\$-</u>	<u>\$5,924</u>	<u>\$-</u>	<u>\$8,203</u>
US\$	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Balances of imputation credit amounts	<u>\$-</u>	<u>\$204</u>	<u>\$-</u>	<u>\$271</u>

The actual creditable ratio for 2012 and 2011 were 0% and 2.16%, respectively.

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

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The assessment of income tax returns

As of 30 June 2013, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	<u>The assessment of income tax returns</u>	<u>Notes</u>
The Company	Assessed and approved up to 2006	

(20) 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 company did not issue dilutive potential common stocks; therefore, the basic earnings per share need not be adjusted.

<u>Item</u>	<u>2013.4.1 ~ 2013.6.30</u>		<u>2012.4.1 ~ 2012.6.30</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	<u>\$185,301</u>	<u>\$6,185</u>	<u>\$99,411</u>	<u>\$3,336</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 (NT\$)	<u>\$0.68</u>	<u>\$0.02</u>	<u>\$0.37</u>	<u>\$0.01</u>

<u>Item</u>	<u>2013.1.1 ~ 2013.6.30</u>		<u>2012.1.1 ~ 2012.6.30</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	<u>\$387,815</u>	<u>\$12,944</u>	<u>\$371,961</u>	<u>\$12,482</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 (NT\$)	<u>\$1.42</u>	<u>\$0.05</u>	<u>\$1.37</u>	<u>\$0.05</u>

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(Expressed in thousands of dollars unless otherwise stated)

7. Risk management information of insurance contract and Financial Instruments

(1) The objectives, policies, procedures and methods of risk management:

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

Responsibility:

(A) Board of directors

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

(B) Risk Management Committee

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

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(Expressed in thousands of dollars unless otherwise stated)

(C) Risk management department

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

b. Responsibility of risk management division:

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

(D) Business unit

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

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

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

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

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(Expressed in thousands of dollars unless otherwise stated)

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

(E) Internal audit room

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

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

(A) Risks reporting

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

(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

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Item	2013		2012	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$673,000	\$22,463	\$613,000	\$20,570
Marine insurance	673,000	22,463	613,000	20,570
Engineering insurance	673,000	22,463	613,000	20,570
Other property insurance	673,000	22,463	613,000	20,570
Automobile insurance	673,000	22,463	613,000	20,570
Health and injury insurance	673,000	22,463	613,000	20,570

F. Methods of asset/liability management

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

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

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

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

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

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Notes to consolidated financial statements (continued)

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(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)			
	NT\$			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Fire insurance	\$868,624	\$665,154	\$1,063,083	\$342,994
Marine insurance	336,313	369,048	372,049	477,307
Land and air insurance	698,453	748,157	554,728	638,561
Liability insurance	162,705	217,416	176,485	135,547
Bonding insurance	25,548	13,983	23,898	11,456
Other property insurance	437,668	345,181	410,997	440,887
Accident insurance	331,333	288,526	278,997	235,275
Health insurance	23,167	22,994	6,088	87,566
Compulsory automobile liability insurance	297,701	268,872	266,706	251,058
Total	3,181,512	2,939,331	3,153,031	2,620,651
Less: Allowance for bad debts	(64,294)	(69,978)	(68,830)	(78,752)
Net	<u>\$3,117,218</u>	<u>\$2,869,353</u>	<u>\$3,084,201</u>	<u>\$2,541,899</u>

Item	Premiums receivable(Note)			
	US\$			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Fire insurance	\$28,993	\$22,897	\$35,674	\$11,331
Marine insurance	11,225	12,704	12,485	15,768
Land and air insurance	23,313	25,754	18,615	21,096
Liability insurance	5,431	7,484	5,922	4,478
Bonding insurance	853	481	802	378
Other property insurance	14,608	11,882	13,792	14,565
Accident insurance	11,059	9,932	9,362	7,773
Health insurance	773	792	204	2,893
Compulsory automobile liability insurance	9,937	9,255	8,950	8,294
Total	106,192	101,181	105,806	86,576
Less: Allowance for bad debts	(2,146)	(2,408)	(2,310)	(2,602)
Net	<u>\$104,046</u>	<u>\$98,773</u>	<u>\$103,496</u>	<u>\$83,974</u>

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Note: As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the receivables included overdue receivables amounted to NT\$449,447 (US\$15,002), NT\$497,914 (US\$17,140), NT\$256,978 (US\$8,623) and NT\$281,695 (US\$9,306), the allowance for bad debts amounted to NT\$19,487 (US\$650), NT\$31,767 (US\$1,094), NT\$12,401 (US\$416) and NT\$42,183 (US\$1,394).

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

Item	Claims reported and paid off			
	NT\$			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Fire insurance	\$18,017	\$241,267	\$15,340	\$76,577
Marine insurance	27,836	42,699	59,154	58,775
Land and air insurance	21,037	40,214	22,036	18,463
Liability insurance	8,377	13,506	12,585	14,907
Bonding insurance	42	8	(415)	2,406
Other property insurance	12,180	8,231	9,745	25,509
Accident insurance	12,269	23,435	20,190	17,873
Health insurance	-	-	-	-
Compulsory automobile liability insurance	142,823	144,232	92,815	53,741
Total	242,581	513,592	231,450	268,251
Less: Allowance for bad debts	-	-	-	-
Net	\$242,581	\$513,592	\$231,450	\$268,251

Item	Claims reported and paid off			
	US\$			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Fire insurance	\$601	\$8,305	\$515	\$2,530
Marine insurance	929	1,470	1,985	1,942
Land and air insurance	702	1,385	739	610
Liability insurance	280	465	422	493
Bonding insurance	1	-	(14)	79
Other property insurance	407	283	327	843
Accident insurance	410	807	678	590
Health insurance	-	-	-	-
Compulsory automobile liability insurance	4,767	4,965	3,115	1,775
Total	8,097	17,680	7,767	8,862
Less: Allowance for bad debts	-	-	-	-
Net	\$8,097	\$17,680	\$7,767	\$8,862

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(Expressed in thousands of dollars unless otherwise stated)

C. Payables of insurance contract

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	\$175,759	\$5,866	\$156,893	\$5,237	\$332,652	\$11,103

Item	2012.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$13,092	\$451	\$6,224	\$214	\$19,316	\$665
Marine insurance	3,280	113	8,177	281	11,457	394
Land and air insurance	2,965	102	73,378	2,526	76,343	2,628
Liability insurance	8,472	292	5,488	189	13,960	481
Bonding insurance	485	17	188	7	673	24
Other property insurance	7,917	272	9,154	315	17,071	587
Accident insurance	182	6	23,540	810	23,722	816
Health insurance	39	1	4,118	142	4,157	143
Compulsory automobile liability insurance	75,939	2,614	-	-	75,939	2,614
Total	\$112,371	\$3,868	\$130,267	\$4,484	\$242,638	\$8,352

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Item	2012.6.30					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$19,168	\$643	\$7,140	\$239	\$26,308	\$882
Marine insurance	8,383	282	5,721	192	14,104	474
Land and air insurance	2,028	68	78,935	2,649	80,963	2,717
Liability insurance	5,477	184	4,895	164	10,372	348
Bonding insurance	1,965	66	51	2	2,016	68
Other property insurance	6,206	208	8,076	271	14,282	479
Accident insurance	-	-	31,852	1,069	31,852	1,069
Health insurance	-	-	7,009	235	7,009	235
Compulsory automobile liability insurance	87,944	2,951	-	-	87,944	2,951
Total	<u>\$131,171</u>	<u>\$4,402</u>	<u>\$143,679</u>	<u>\$4,821</u>	<u>\$274,850</u>	<u>\$9,223</u>

Item	2012.1.1					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$15,917	\$526	\$8,061	\$266	\$23,978	\$792
Marine insurance	4,753	157	5,018	166	9,771	323
Land and air insurance	1,500	49	99,623	3,291	101,123	3,340
Liability insurance	7,053	233	5,347	177	12,400	410
Bonding insurance	321	11	41	1	362	12
Other property insurance	8,232	272	8,179	270	16,411	542
Accident insurance	215	7	44,181	1,460	44,396	1,467
Health insurance	8	-	4,175	138	4,183	138
Compulsory automobile liability insurance	97,924	3,235	-	-	97,924	3,235
Total	<u>\$135,923</u>	<u>\$4,490</u>	<u>\$174,625</u>	<u>\$5,769</u>	<u>\$310,548</u>	<u>\$10,259</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)

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

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
Central Re	4,074	136	69,050	2,305
Cosmos	27,472	917	4,743	158
Cubic	21,082	704	67	2
Elite	36,418	1,216	31,291	1,044
FP Marine	30,947	1,033	50,825	1,697
Guy Carpenter	41,172	1,374	129,320	4,317
Hannover Re	21,632	722	70,619	2,357
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
Zurich	-	-	58,161	1,941
Others	284,794	9,506	490,755	16,380
Total	667,066	22,266	1,559,744	52,061
Less: Allowance for bad debts	(4,057)	(151)	-	-
Net	\$662,559	\$22,115	\$1,559,774	\$52,061

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.12.31			
	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	\$54,422	\$1,873	\$197,276	\$6,791
Asia Capital Re	18,264	629	12,428	428
Best Re	14,002	482	11,283	388
Elite	19,346	666	29,007	999
FP Marine	76,332	2,628	68,251	2,349
Guy Carpenter	-	-	44,689	1,538
JLT	-	-	83,049	2,859
Korean Re	9,104	313	53,682	1,848
Marsh	37,557	1,293	90,672	3,121
Swiss Re	531	18	83,848	2,886
Wilson Re	26,994	929	20,931	721
Zurich	2,336	81	70,029	2,411
Others	191,294	6,585	439,956	15,145
Total	450,182	15,497	1,205,101	41,484
Less: Allowance for bad debts	(5,494)	(189)	-	-
Net	<u>\$444,688</u>	<u>\$15,308</u>	<u>\$1,205,101</u>	<u>\$41,484</u>

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(Expressed in thousands of dollars unless otherwise stated)

Item	2012.6.30			
	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	\$75,129	\$2,521	\$210,637	\$7,069
Taian	39,552	1,327	11,988	402
Fubon	57,581	1,932	6,364	214
AON	10,978	368	179,791	6,033
Best Re	27,729	931	26,019	873
Central Re	26,021	873	109,222	3,665
Elite	18,215	611	49,360	1,657
FP Marine	29,005	973	59,752	2,005
Korean Re	46,583	1,563	82,673	2,774
Marsh	1,294	44	231,080	7,754
Swiss Re	2,165	73	67,700	2,272
Willis Re	789	27	77,252	2,592
Zurich	-	-	62,526	2,098
Guy Carpenter	4,639	156	111,224	3,732
Others	287,790	9,657	342,667	11,499
Total	627,470	21,056	1,628,255	54,639
Less: Allowance for bad debts	(46,458)	(1,559)	-	-
Net	\$581,012	\$19,497	\$1,628,255	\$54,639

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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	2012.1.1			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$55,981	\$1,849	\$147,763	\$4,881
Taian	33,319	1,101	5,721	189
Fubon	44,104	1,457	1,851	61
Huanan	31,318	1,035	13,855	458
BEST Re	3,473	115	-	-
Central Re	14,006	463	60,902	2,012
FP Marine	54,730	1,808	126,004	4,163
JLT	3,126	103	72,801	2,405
Marsh	67,883	2,242	97,473	3,220
Miller	39,307	1,298	37,488	1,239
Swiss Re	2,168	72	106,862	3,530
Wilson Re	10,318	341	72,590	2,398
Zurich	17	1	87,163	2,880
Others	190,215	6,284	430,964	14,237
Total	549,965	18,169	1,261,437	41,673
Less: Allowance for bad debts	(52,091)	(1,721)	-	-
Net	\$497,874	\$16,448	\$1,261,437	\$41,673

Notes: As of 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$45,074 (US\$1,504), NT\$54,939 (US\$1,891), NT\$46,458 (US\$1,559) and NT\$52,091 (US\$1,721), the allowance for bad debts amounted to NT\$4,507 (US\$151), NT\$5,494 (US\$189), NT\$46,458 (US\$1,559) and NT\$52,091 (US\$1,721).

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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

Item	2013.4.1 ~ 2013.6.30 (NT\$)					
	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
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

Item	2013.4.1 ~ 2013.6.30 (US\$)					
	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
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

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(Expressed in thousands of dollars unless otherwise stated)

2012.4.1 ~ 2012.6.30 (NT\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$3,866	\$1,070	\$9,332	\$25	\$22,177	\$36,470
Marine insurance	2,645	945	2,019	1,289	28,144	35,042
Land and air insurance	7,985	457	-	298	158,096	166,836
Liability insurance	5,830	511	8,485	(222)	13,796	28,400
Bonding insurance	128	18	469	-	702	1,317
Other property insurance	3,579	815	24,162	(4,685)	18,913	42,784
Accident insurance	3,944	368	4	411	80,049	84,776
Health insurance	721	44	-	-	4,231	4,996
Compulsory automobile liability insurance	-	-	98,183	-	2,808	100,991
Total	\$28,698	\$4,228	\$142,654	\$(2,884)	\$328,916	\$501,612

2012.4.1 ~ 2012.6.30 (US\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$130	\$36	\$313	\$1	\$744	\$1,224
Marine insurance	89	32	68	43	944	1,176
Land and air insurance	268	16	-	10	5,305	5,599
Liability insurance	196	17	285	(8)	463	953
Bonding insurance	4	1	15	-	24	44
Other property insurance	119	27	811	(157)	635	1,435
Accident insurance	132	12	-	14	2,687	2,845
Health insurance	25	1	-	-	142	168
Compulsory automobile liability insurance	-	-	3,295	-	94	3,389
Total	\$963	\$142	\$4,787	\$(97)	\$11,038	\$16,833

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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 (NT\$)					
	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
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	<u>\$109,255</u>	<u>\$9,511</u>	<u>\$361,137</u>	<u>\$8,321</u>	<u>\$710,860</u>	<u>\$1,199,084</u>

Item	2013.1.1 ~ 2013.6.30 (US\$)					
	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
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	<u>\$3,647</u>	<u>\$317</u>	<u>\$12,054</u>	<u>\$278</u>	<u>\$23,727</u>	<u>\$40,023</u>

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(Expressed in thousands of dollars unless otherwise stated)

2012.1.1 ~ 2012.6.30 (NT\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$4,441	\$2,137	\$19,708	\$486	\$42,827	\$69,599
Marine insurance	4,756	1,169	3,992	1,541	40,824	52,282
Land and air insurance	14,725	849	-	879	327,275	343,728
Liability insurance	7,765	714	14,539	83	26,863	49,964
Bonding insurance	605	10	757	(2)	950	2,320
Other property insurance	13,038	1,990	35,419	(3,971)	37,239	83,715
Accident insurance	6,029	451	6	464	157,463	164,413
Health insurance	1,296	96	-	-	8,327	9,719
Compulsory automobile liability insurance	-	-	190,747	-	4,501	195,248
Total	<u>\$52,655</u>	<u>\$7,416</u>	<u>\$265,168</u>	<u>\$(520)</u>	<u>\$646,269</u>	<u>\$970,988</u>

2012.1.1 ~ 2012.6.30 (US\$)

Item	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$149	\$72	\$661	\$16	\$1,437	\$2,335
Marine insurance	160	39	134	52	1,370	1,755
Land and air insurance	494	29	-	29	10,982	11,534
Liability insurance	261	24	488	3	902	1,678
Bonding insurance	20	-	25	-	32	77
Other property insurance	438	67	1,189	(133)	1,250	2,811
Accident insurance	202	15	-	16	5,284	5,517
Health insurance	43	3	-	-	279	325
Compulsory automobile liability insurance	-	-	6,401	-	151	6,552
Total	<u>\$1,767</u>	<u>\$249</u>	<u>\$8,898</u>	<u>\$(17)</u>	<u>\$21,687</u>	<u>\$32,584</u>

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(Expressed in thousands of dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

Item	2013.4.1 ~ 2013.6.30 (NT\$)					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$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)	(101,355)	14,247	129,638
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	\$5,093,565	\$(503,045)	\$(620,670)	\$(2,110,569)	\$(265,940)	\$1,593,341

Item	2013.4.1 ~ 2013.6.30 (US\$)					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$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	\$170,012	\$(16,790)	\$(20,717)	\$(70,446)	\$(8,876)	\$53,183

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2012.4.1 ~ 2012.6.30 (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	\$1,172,906	\$(540,759)	\$(36,445)	\$(289,275)	\$142,974	\$449,401
Marine insurance	243,558	(34,709)	(33,753)	(94,094)	151,624	232,626
Land and air insurance	1,170,676	(71,825)	(166,538)	(708,633)	(146,491)	77,189
Liability insurance	231,406	(27,798)	(28,622)	(110,465)	(14,820)	49,701
Bonding insurance	17,617	(3,870)	(1,317)	(2,161)	(954)	9,315
Other property insurance	339,743	(92,678)	(47,469)	(82,016)	(8,713)	108,867
Accident insurance	611,504	(53,196)	(84,365)	(249,001)	(10,626)	214,316
Health insurance	24,542	4,018	(4,996)	(39,428)	(135)	(15,999)
Compulsory automobile liability insurance	703,320	(17,255)	(100,991)	(428,605)	10,338	166,807
Total	\$4,515,272	\$(838,072)	\$(504,496)	\$(2,003,678)	\$123,197	\$1,292,223

2012.4.1 ~ 2012.6.30 (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	\$39,359	\$(18,146)	\$(1,223)	\$(9,707)	\$4,798	\$15,081
Marine insurance	8,173	(1,165)	(1,133)	(3,158)	5,088	7,805
Land and air insurance	39,285	(2,410)	(5,589)	(23,780)	(4,916)	2,590
Liability insurance	7,765	(933)	(961)	(3,707)	(497)	1,667
Bonding insurance	591	(130)	(44)	(72)	(32)	313
Other property insurance	11,401	(3,110)	(1,592)	(2,752)	(292)	3,655
Accident insurance	20,520	(1,785)	(2,831)	(8,356)	(357)	7,191
Health insurance	824	135	(168)	(1,323)	(5)	(537)
Compulsory automobile liability insurance	23,601	(579)	(3,389)	(14,383)	347	5,597
Total	\$151,519	\$(28,123)	\$(16,930)	\$(67,238)	\$4,134	\$43,362

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2013.1.1 ~ 2013.6.30 (NT\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	
		reserve	contract			
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	\$9,405,180	\$(710,236)	\$(1,190,763)	\$(4,324,898)	\$(51,638)	\$3,127,645

2013.1.1 ~ 2013.6.30 (US\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	
		reserve	contract			
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	\$313,925	\$(23,706)	\$(39,745)	\$(144,356)	\$(1,724)	\$104,394

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2012.1.1 ~ 2012.6.30 (NT\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	reserve	contract	paid	reserve	
Fire insurance	\$1,686,542	\$(415,160)	\$(69,113)	\$(552,231)	\$274,091	\$924,039
Marine insurance	432,778	(12,953)	(50,741)	(162,827)	62,790	269,047
Land and air insurance	2,317,891	(266,907)	(342,849)	(1,340,863)	(61,058)	306,214
Liability insurance	448,721	(93,116)	(49,881)	(151,919)	(36,061)	157,744
Bonding insurance	38,733	(8,764)	(2,322)	(2,849)	(566)	24,232
Other property insurance	608,629	(133,297)	(87,686)	(143,461)	(43,259)	200,926
Accident insurance	1,168,331	(29,862)	(163,949)	(467,279)	(76,989)	430,252
Health insurance	51,464	26,632	(9,719)	(81,314)	(27,826)	(40,763)
Compulsory automobile liability insurance	1,368,701	(25,851)	(195,248)	(844,730)	20,407	323,279
Total	\$8,161,790	\$(959,278)	\$(971,508)	\$(3,747,563)	\$111,529	\$2,594,970

2012.1.1 ~ 2012.6.30 (US\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	reserve	contract	paid	reserve	
Fire insurance	\$56,595	\$(13,932)	\$(2,319)	\$(18,534)	\$9,198	\$31,008
Marine insurance	14,523	(435)	(1,703)	(5,464)	2,107	9,028
Land and air insurance	77,781	(8,957)	(11,505)	(44,995)	(2,049)	10,275
Liability insurance	16,400	(3,125)	(1,675)	(5,098)	(1,210)	5,292
Bonding insurance	1,300	(294)	(77)	(96)	(19)	814
Other property insurance	20,424	(4,473)	(2,944)	(4,814)	(1,452)	6,741
Accident insurance	39,206	(1,002)	(5,501)	(15,680)	(2,584)	14,439
Health insurance	1,727	894	(325)	(2,729)	(933)	(1,366)
Compulsory automobile liability insurance	45,930	(867)	(6,552)	(28,347)	685	10,849
Total	\$273,886	\$(32,191)	\$(32,601)	\$(125,757)	\$3,743	\$87,080

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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. Recognized gain (loss) for reinsurance contract purchased

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)

2012.4.1 ~ 2012.6.30 (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	\$25,359	\$(6,501)	\$(25)	\$(1,063)	\$20,932	\$38,702
Marine insurance	16,146	(5,695)	(1,289)	(1,460)	25,637	33,339
Land and air insurance	2,781	(790)	(298)	(3,154)	13,997	12,536
Liability insurance	22	55	222	(14)	(117)	168
Bonding insurance	346	(1)	-	(36)	5	314
Other property insurance	7,145	(2,248)	4,685	(4,375)	(96)	5,111
Accident insurance	2,641	6,706	(411)	(1,053)	(1,619)	6,264
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	70,877	(2,804)	-	(77,801)	1,963	(7,765)
Total	\$125,317	\$(11,278)	\$2,884	\$(88,956)	\$60,702	\$88,669

2012.4.1 ~ 2012.6.30 (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	\$851	\$(218)	\$(1)	\$(35)	\$702	\$1,299
Marine insurance	542	(191)	(43)	(49)	860	1,119
Land and air insurance	93	(27)	(10)	(106)	470	420
Liability insurance	1	2	8	(1)	(4)	6
Bonding insurance	11	-	-	(1)	-	10
Other property insurance	240	(76)	157	(147)	(3)	171
Accident insurance	89	225	(14)	(35)	(54)	211
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	2,378	(94)	-	(2,611)	66	(261)
Total	\$4,205	\$(379)	\$97	\$(2,985)	\$2,037	\$2,975

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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)

2013.1.1 ~ 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)

2012.1.1 ~ 2012.6.30 (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	\$41,645	\$(6,290)	\$(486)	\$(1,136)	\$1,118	\$34,851
Marine insurance	19,527	(7,414)	(1,541)	(5,964)	20,430	25,038
Land and air insurance	4,451	484	(879)	(4,319)	1,135	872
Liability insurance	350	(75)	(83)	(127)	1,041	1,106
Bonding insurance	695	(152)	2	(44)	13	514
Other property insurance	10,121	2,346	3,971	(5,399)	(72)	10,967
Accident insurance	4,899	21,052	(464)	(3,639)	(8,215)	13,633
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	136,256	(780)	-	(121,490)	(17,818)	(3,832)
Total	\$217,944	\$9,171	\$520	\$(142,118)	\$(2,254)	\$83,263

2012.1.1 ~ 2012.6.30 (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	\$1,398	\$(211)	\$(16)	\$(38)	\$38	\$1,171
Marine insurance	655	(249)	(52)	(200)	686	840
Land and air insurance	149	16	(29)	(145)	38	29
Liability insurance	12	(2)	(3)	(4)	35	38
Bonding insurance	23	(5)	-	(2)	-	16
Other property insurance	340	79	133	(181)	(3)	368
Accident insurance	164	706	(16)	(122)	(276)	456
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	4,572	(26)	-	(4,077)	(598)	(129)
Total	\$7,313	\$308	\$17	\$(4,769)	\$(76)	\$2,793

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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)

c. Recognized gain (loss) for reinsurance contract purchased

Item	2013.4.1 ~ 2013.6.30 (NT\$)					
	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	\$1,405,979	\$(182,585)	\$(131,964)	\$(371,471)	\$58,670	\$778,629

Item	2013.4.1 ~ 2013.6.30 (US\$)					
	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	\$46,929	\$(6,094)	\$(4,405)	\$(12,399)	\$1,958	\$25,989

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.4.1 ~ 2012.6.30 (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	\$720,979	\$(343,697)	\$(34,768)	\$(136,736)	\$130,506	\$336,284
Marine insurance	204,004	(34,136)	(17,494)	(55,335)	84,402	181,441
Land and air insurance	41,391	5,927	(9,710)	(18,390)	(3,533)	15,685
Liability insurance	73,818	(13,744)	(19,171)	(29,132)	19,170	30,941
Bonding insurance	8,134	(2,821)	(1,578)	(5,355)	(103)	(1,723)
Other property insurance	93,946	(9,438)	(15,700)	(17,559)	12,861	64,110
Accident insurance	30,154	13,666	(12,907)	(29,219)	7,028	8,722
Health insurance	409	863	(146)	(550)	(570)	6
Compulsory automobile liability insurance	191,174	(6,164)	-	(170,033)	4,141	19,118
Total	\$1,364,009	\$(389,544)	\$(111,474)	\$(462,309)	\$253,902	\$654,584

2012.4.1 ~ 2012.6.30 (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	\$24,194	\$(11,533)	\$(1,167)	\$(4,588)	\$4,379	\$11,285
Marine insurance	6,846	(1,146)	(587)	(1,857)	2,832	6,088
Land and air insurance	1,389	199	(326)	(617)	(119)	526
Liability insurance	2,477	(461)	(643)	(978)	643	1,038
Bonding insurance	273	(95)	(53)	(180)	(3)	(58)
Other property insurance	3,152	(317)	(527)	(589)	432	2,151
Accident insurance	1,012	459	(433)	(981)	236	293
Health insurance	14	29	(5)	(18)	(19)	1
Compulsory automobile liability insurance	6,415	(207)	-	(5,706)	139	641
Total	\$45,772	\$(13,072)	\$(3,741)	\$(15,514)	\$8,520	\$21,965

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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 (NT\$)					
	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	\$2,363,877	\$(33,467)	\$(259,256)	\$(910,589)	\$256,776	\$1,417,341

Item	2013.1.1 ~ 2013.6.30 (US\$)					
	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	\$78,901	\$(1,117)	\$(8,654)	\$(30,393)	\$8,570	\$47,307

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.1.1 ~ 2012.6.30 (NT\$)					
	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	\$1,030,996	\$(264,733)	\$(55,630)	\$(251,501)	\$176,248	\$635,380
Marine insurance	362,136	(21,370)	(48,335)	(79,141)	54,294	267,584
Land and air insurance	61,397	30,822	(16,551)	(36,615)	(11,734)	27,319
Liability insurance	168,491	(43,202)	(43,571)	(32,161)	6,299	55,856
Bonding insurance	20,415	(8,383)	(4,094)	(3,281)	378	5,035
Other property insurance	209,033	(18,729)	(36,630)	(21,036)	14,901	147,539
Accident insurance	77,044	4,837	(22,224)	(46,815)	(11,051)	1,791
Health insurance	1,363	932	(481)	(950)	(1,744)	(880)
Compulsory automobile liability insurance	374,556	(10,447)	-	(332,929)	8,139	39,319
Total	\$2,305,431	\$(330,273)	\$(227,516)	\$(804,429)	\$235,730	\$1,178,943

Item	2012.1.1 ~ 2012.6.30 (US\$)					
	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	\$34,597	\$(8,884)	\$(1,867)	\$(8,439)	\$5,914	\$21,321
Marine insurance	12,152	(717)	(1,622)	(2,656)	1,822	8,979
Land and air insurance	2,060	1,034	(555)	(1,229)	(394)	916
Liability insurance	5,654	(1,450)	(1,462)	(1,079)	211	1,874
Bonding insurance	685	(281)	(137)	(110)	13	170
Other property insurance	7,015	(628)	(1,229)	(706)	500	4,952
Accident insurance	2,585	162	(746)	(1,571)	(371)	59
Health insurance	46	31	(16)	(32)	(58)	(29)
Compulsory automobile liability insurance	12,569	(350)	-	(11,172)	273	1,320
Total	\$77,363	\$(11,083)	\$(7,634)	\$(26,994)	\$7,910	\$39,562

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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

Insurance type	Premium income		Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%			
	NT\$	US\$		Before reinsurance		After reinsurance	
				NT\$	US\$	NT\$	US\$
Fire insurance	\$1,418,794	\$47,356	63.79	\$70,940	\$2,368	\$35,659	\$1,190
Marine insurance	352,461	11,764	64.69	17,623	588	3,751	125
Land and air insurance	2,926,747	97,688	65.06	146,337	4,884	91,395	3,051
Liability insurance	366,073	12,219	67.97	18,304	611	9,928	331
Bonding insurance	34,233	1,143	68.43	1,711	57	374	12
Other property insurance	386,199	12,890	62.09	19,310	645	8,536	285
Accident insurance	1,263,156	42,161	72.27	63,158	2,108	41,993	1,402
Health insurance	77,493	2,587	69.8	3,875	129	2,686	90
Compulsory automobile liability insurance	1,484,488	49,549	NA	NA	NA	NA	NA

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

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

B. Cathay Insurance (China)

Insurance type	Premium income		The impact to profit and loss when the expected loss ratio increases 5%			
	NT\$	US\$	Before reinsurance		After reinsurance	
			NT\$	US\$	NT\$	US\$
Fire insurance	\$146,354	\$4,885	\$7,318	\$244	\$3,213	\$107
Marine insurance	19,759	660	988	33	815	27
Liability insurance	155,056	5,175	7,753	259	4,850	162
Bonding insurance	1,847	62	92	3	73	3
Other property insurance	552,454	18,440	27,623	922	27,546	919
Accident insurance	-	-	-	-	1	-
Compulsory automobile liability insurance	170,666	5,696	8,533	285	8,533	285

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(Expressed in thousands of dollars unless otherwise stated)

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 months ended 30 June 2013, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

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

For the six months ended 30 June 2013, the loss rate of Health insurance is high due to several large claim cases. Other than these, the loss rates of the rest insurance categories are still within reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the six-month periods ended 30 June 2013, no material lawsuit or legal risks has taken place.

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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 2013, 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.

VI. Concentration risks in geographic regions and operating segments

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

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

Insurance type	2013.4.1 ~ 2013.6.30 (NT\$)				2013.4.1 ~ 2013.6.30 (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	\$2,359,669	\$72,517	\$247,604	\$2,184,582	\$78,761	\$2,421	\$8,265	\$72,917
Fire insurance	1,019,789	19,599	633,324	406,064	34,038	654	21,139	13,553
Marine insurance	203,145	5,614	171,180	37,579	6,781	187	5,714	1,254
Engineering insurance	204,582	4,167	150,944	57,805	6,828	139	5,038	1,929
Health and injury insurance	399,869	1,234	36,709	364,394	13,347	41	1,225	12,163
Other insurance	273,097	3,216	93,389	182,924	9,115	108	3,117	6,106
Total	\$4,460,151	\$106,347	\$1,333,150	\$3,233,348	\$148,870	\$3,550	\$44,498	\$107,922

Insurance type	2013.1.1 ~ 2013.6.30 (NT\$)				2013.1.1 ~ 2013.6.30 (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	\$4,926,290	\$141,768	\$507,766	\$4,560,292	\$164,429	\$4,732	\$16,948	\$152,213
Fire insurance	1,430,182	42,246	935,779	536,649	47,736	1,410	31,234	17,912
Marine insurance	362,184	16,965	289,891	89,258	12,089	566	9,676	2,979
Engineering insurance	329,072	7,848	200,119	136,801	10,984	262	6,680	4,566
Health and injury insurance	730,368	2,740	64,654	668,454	24,378	92	2,158	22,312
Other insurance	528,968	5,434	179,940	354,462	17,656	181	6,006	11,831
Total	\$8,307,064	\$217,001	\$2,178,149	\$6,345,916	\$277,272	\$7,243	\$72,702	\$211,813

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- c. Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business. The greatest loss rate for such catastrophes for the company in the past would be the 2010 Typhoon Fanatic and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at 342 million.

B. Cathay Insurance (China)

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

I. The exposure of unanticipated change in trend

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

II. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the six-months ended 30 June 2013.

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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	2013.4.1 ~ 2013.6.30 (NT\$)				2013.4.1 ~ 2013.6.30 (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	\$453,864	\$3,521	\$346	\$457,039	\$15,149	\$118	\$12	\$15,255
Fire insurance	61,781	3,109	22,801	42,089	2,062	104	761	1,405
Marine insurance	12,323	4,621	4,842	12,102	411	154	161	404
Engineering insurance	3,037	124	(110)	3,271	101	4	(4)	109
Health and injury insurance	-	-	-	-	-	-	-	-
Other insurance	72,964	397	31,686	41,675	2,436	13	1,058	1,391
Total	\$603,969	\$11,772	\$59,565	\$556,176	\$20,159	\$393	\$1,988	\$18,564

Insurance type	2013.1.1 ~ 2013.6.30 (NT\$)				2013.1.1 ~ 2013.6.30 (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	\$702,447	\$6,856	\$1,205	\$708,098	\$23,446	\$229	\$40	\$23,635
Fire insurance	150,861	3,832	88,781	65,912	5,035	128	2,963	2,200
Marine insurance	19,759	5,856	9,308	16,307	660	195	311	544
Engineering insurance	9,560	124	4,253	5,431	319	4	142	181
Health and injury insurance	-	23	-	23	-	1	-	1
Other insurance	163,509	397	59,052	104,854	5,458	13	1,971	3,500
Total	\$1,046,136	\$17,088	\$162,599	\$900,625	\$34,918	\$570	\$5,427	\$30,061

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(6) Claim development table

A. The company

	2008.4.1- 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	Total
Underwriting Year (NT\$)							
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	\$5,581,533	
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,606,250		
Two year later	4,184,209	4,142,479	4,895,061	5,851,146			
Three year later	4,048,332	4,178,118	4,903,626				
Four year later	4,058,322	4,241,307					
Five year later	4,189,671						
Estimate of cumulative claims incurred	4,189,671	4,241,307	4,903,626	5,851,146	5,606,250	5,581,533	\$30,373,533
Cumulative payment to date	4,007,384	4,179,414	4,770,665	5,481,319	4,981,456	3,275,606	26,695,844
Subtotal	182,287	61,893	132,961	369,827	624,794	2,305,927	3,677,689
Reconciliation	-	-	-	-	-	60,579	60,579
Recorded in balance sheet	\$182,287	\$61,893	\$132,961	\$369,827	\$624,794	\$2,366,506	\$3,738,268
Underwriting Year (US\$)							
Estimate of cumulative claims incurred:							
At end of underwriting year	\$102,212	\$110,908	\$131,230	\$180,517	\$161,931	\$186,300	
One year later	136,210	134,819	162,629	189,177	187,124		
Two year later	139,660	138,267	163,387	195,299			
Three year later	135,125	139,457	163,672				
Four year later	135,458	141,566					
Five year later	139,842						
Estimate of cumulative claims incurred	139,842	141,566	163,672	195,299	187,124	186,300	\$1,013,803
Cumulative payment to date	133,758	139,500	159,234	182,955	166,270	109,333	891,050
Subtotal	6,084	2,066	4,438	12,344	20,854	76,967	122,753
Reconciliation	-	-	-	-	-	2,022	2,022
Recorded in balance sheet	\$6,084	\$2,066	\$4,438	\$12,344	\$20,854	\$78,989	\$124,775

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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. It's excluded claim reserve of compulsory automobile liability insurance NT\$924,304 (US\$30,851) and assumed reinsurance from the upper table (except compulsory automobile liability insurance) NT\$221,510 (US\$7,393).

B. Cathay Insurance (China)

NT\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.6.30	
Estimated accumulation amount of claim							
As to 2008/12/31	\$2,686						
As to 2009/12/31	2,560	\$155,855					
As to 2010/12/31	2,555	149,776	\$333,303				
As to 2011/12/31	2,583	146,760	330,133	\$358,690			
As to 2012/12/31	1,342	127,398	296,479	321,241	\$997,744		
As to 2013/6/30	1,342	127,399	296,704	330,426	812,939	\$681,744	
Estimated accumulation of claim	1,342	127,399	296,704	330,426	812,939	681,744	\$2,250,554
Accumulated claim paid	1,342	127,264	293,812	289,047	502,927	126,519	1,340,911
Subtotal	-	135	2,892	41,379	310,012	555,225	909,643
Indirect claim expense, discount and risk margin							41,647
Recognized amount on balance sheet							<u>\$951,290</u>

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US\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.6.30	
Estimated accumulation amount of claim							
As to 2008/12/31	\$90						
As to 2009/12/31	85	\$5,202					
As to 2010/12/31	85	4,999	\$11,125				
As to 2011/12/31	86	4,899	11,019	\$11,972			
As to 2012/12/31	45	4,252	9,896	10,722	\$33,303		
As to 2013/6/30	45	4,252	9,904	11,029	27,134	\$22,755	
Estimated accumulation of claim	45	4,252	9,904	11,029	27,134	22,755	\$75,119
Accumulated claim paid	45	4,248	9,807	9,648	16,786	4,223	44,757
Subtotal	-	4	97	1,381	10,348	18,532	30,362
Indirect claim expense, discount and risk margin							1,390
Recognized amount on balance sheet							\$31,752

C. Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) has only been operated for less than one year, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QCBH 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\$)	2013.6.30	2012.12.31	2012.6.30	2012.1.1
<u>Financial assets</u>				
Financial assets at fair value through profit or loss:				
Held for trading	\$222,453	\$437,273	\$123,139	\$619,455
Available-for-sale financial assets	8,718,279	8,404,492	7,438,311	5,897,618
Held-to-maturity investments	2,175,814	2,512,011	2,337,828	2,408,714
Loans and receivables:				
Cash and cash equivalents (exclude cash on hand)	6,933,979	5,669,259	6,308,549	6,919,027
Bond investments with no active market	1,785,447	1,323,270	1,250,843	1,192,997
Trade receivables	3,804,790	3,291,611	3,454,482	2,909,396
Subtotal	<u>12,524,216</u>	<u>10,284,140</u>	<u>11,013,874</u>	<u>11,021,420</u>
Derivative financial assets for hedging	<u>11,546</u>	<u>17,134</u>	<u>22,172</u>	<u>28,521</u>
Total	<u><u>\$23,652,308</u></u>	<u><u>\$21,655,050</u></u>	<u><u>\$20,935,324</u></u>	<u><u>\$19,975,728</u></u>
<u>Financial liabilities</u>				
Financial liabilities measured at amortised cost:				
Payables	\$3,431,959	\$2,223,005	\$2,250,022	\$2,101,262
Financial liabilities at fair value through profit or loss:				
Held for trading	108,987	-	43,217	45,000
Preferred stock liability	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u><u>\$4,540,946</u></u>	<u><u>\$3,223,005</u></u>	<u><u>\$3,293,239</u></u>	<u><u>\$3,146,262</u></u>

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Financial instruments (US\$)	2013.6.30	2012.12.31	2012.6.30	2012.1.1
<u>Financial assets</u>				
Financial assets at fair value through profit or loss:				
Held for trading	\$7,425	\$15,053	\$4,132	\$20,464
Available-for-sale financial assets	290,997	289,311	249,608	194,834
Held-to-maturity investments	72,624	86,472	78,450	79,574
Loans and receivables:				
Cash and cash equivalents (exclude cash on hand)	231,442	195,155	211,696	228,576
Bond investments with no active market	59,595	45,552	41,975	39,412
Trade receivables	126,996	113,308	115,922	96,115
Subtotal	418,033	354,015	369,593	364,103
Derivative financial assets for hedging	385	590	744	942
Total	<u>\$789,464</u>	<u>\$745,441</u>	<u>\$702,527</u>	<u>\$659,917</u>
 <u>Financial liabilities</u>				
Financial liabilities measured at amortised cost:				
Payables	\$114,551	\$76,523	\$75,504	\$69,417
Financial liabilities at fair value through profit or loss:				
Held for trading	3,638	-	1,450	1,487
Preferred stock liability	33,378	34,424	33,557	33,036
Total	<u>\$151,567</u>	<u>\$110,947</u>	<u>\$110,511</u>	<u>\$103,940</u>

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8. Financial risk management objectives and policies

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

In addition, The 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.

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 are 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, Cathay Century and its subsidiaries 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.

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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.

(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 including: issuer risk, counterparty risk and the credit risk of underlying assets.

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

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B. Credit concentration risk analysis

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

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 exists	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 exists	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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Financial assets	The amount of credit risk exposure - by area					
	2012.12.31 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,843,007	\$54	\$14,840	\$110,172	\$701,186	\$5,669,259
Financial assets at fair value through profit or loss	385,460	-	-	-	51,813	437,273
Available-for-sale financial assets	4,863,917	-	-	284,143	3,256,432	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	-	17,134
Bond investments with no active market exists	900,000	-	-	-	423,270	1,323,270
Held-to-maturity investments	-	-	-	2,512,011	-	2,512,011
Total	\$11,009,518	\$54	\$14,840	\$2,906,326	\$4,432,701	\$18,363,439
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2012.12.31 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$166,713	\$2	\$511	\$3,792	\$24,137	\$195,155
Financial assets at fair value through profit or loss	13,269	-	-	-	1,784	15,053
Available-for-sale financial assets	167,432	-	-	9,781	112,098	289,311
Derivative financial assets for hedging	590	-	-	-	-	590
Bond investments with no active market exists	30,981	-	-	-	14,571	45,552
Held-to-maturity investments	-	-	-	86,472	-	86,472
Total	\$378,985	\$2	\$511	\$100,045	\$152,590	\$632,133
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2012.6.30 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,444,560	\$-	\$9	\$584,745	\$279,235	\$6,308,549
Financial assets at fair value through profit or loss	-	-	-	-	123,139	123,139
Available-for-sale financial assets	5,531,502	-	-	333,296	1,573,513	7,438,311
Derivative financial assets for hedging	22,172	-	-	-	-	22,172
Bond investments with no active market exists	900,000	-	-	-	350,843	1,250,843
Held-to-maturity investments	-	-	-	2,337,828	-	2,337,828
Total	\$11,898,234	\$-	\$9	\$3,255,869	\$2,326,730	\$17,480,842
Each area percentage	68.06%	0.00%	0.00%	18.63%	13.31%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2012.6.30 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$182,703	\$-	\$-	\$19,622	\$9,371	\$211,696
Financial assets at fair value through profit or loss	-	-	-	-	4,132	4,132
Available-for-sale financial assets	185,621	-	-	11,185	52,802	249,608
Derivative financial assets for hedging	744	-	-	-	-	744
Bond investments with no active market exists	30,201	-	-	-	11,774	41,975
Held-to-maturity investments	-	-	-	78,450	-	78,450
Total	\$399,269	\$-	\$-	\$109,257	\$78,079	\$586,605
Each area percentage	68.06%	0.00%	0.00%	18.63%	13.31%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2012.1.1 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,943,885	\$-	\$9	\$310,066	\$665,067	\$6,919,027
Financial assets at fair value through profit or loss	454,959	-	-	-	164,496	619,455
Available-for-sale financial assets	4,999,742	-	-	25,163	872,713	5,897,618
Derivative financial assets for hedging	28,521	-	-	-	-	28,521
Bond investments with no active market exists	900,000	-	-	-	292,997	1,192,997
Held-to-maturity investments	-	-	-	2,408,714	-	2,408,714
Total	\$12,327,107	\$-	\$9	\$2,743,943	\$1,995,273	\$17,066,332
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2012.1.1 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$196,362	\$-	\$-	\$10,243	\$21,971	\$228,576
Financial assets at fair value through profit or loss	15,030	-	-	-	5,434	20,464
Available-for-sale financial assets	165,172	-	-	831	28,831	194,834
Derivative financial assets for hedging	942	-	-	-	-	942
Bond investments with no active market exists	29,732	-	-	-	9,680	39,412
Held-to-maturity investments	-	-	-	79,574	-	79,574
Total	\$407,238	\$-	\$-	\$90,648	\$65,916	\$563,802
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

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C. Credit risk quality analysis

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

Financial assets	Credit quality of financial assets				
	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 exists	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 exists	59,595	-	-	-	59,595
Held-to-maturity investments	72,624	-	-	-	72,624
Total	\$662,468	\$-	\$-	\$-	\$662,468

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Financial assets	Credit quality of financial assets				
	2012.12.31 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,669,259	\$-	\$-	\$-	\$5,669,259
Financial assets at fair value through profit or loss	437,273	-	-	-	437,273
Available-for-sale financial assets	8,404,492	-	-	-	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	17,134
Bond investments with no active market exists	1,323,270	-	-	-	1,323,270
Held-to-maturity investments	2,512,011	-	-	-	2,512,011
Total	\$18,363,439	\$-	\$-	\$-	\$18,363,439

Financial assets	Credit quality of financial assets				
	2012.12.31 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,155	\$-	\$-	\$-	\$195,155
Financial assets at fair value through profit or loss	15,053	-	-	-	15,053
Available-for-sale financial assets	289,311	-	-	-	289,311
Derivative financial assets for hedging	590	-	-	-	590
Bond investments with no active market exists	45,552	-	-	-	45,552
Held-to-maturity investments	86,472	-	-	-	86,472
Total	\$632,133	\$-	\$-	\$-	\$632,133

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Financial assets	Credit quality of financial assets				
	2012.6.30 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,308,549	\$-	\$-	\$-	\$6,308,549
Financial assets at fair value through profit or loss	123,139	-	-	-	123,139
Available-for-sale financial assets	7,438,311	-	-	-	7,438,311
Derivative financial assets for hedging	22,172	-	-	-	22,172
Bond investments with no active market exists	1,250,843	-	-	-	1,250,843
Held-to-maturity investments	2,337,828	-	-	-	2,337,828
Total	\$17,480,842	\$-	\$-	\$-	\$17,480,842

Financial assets	Credit quality of financial assets				
	2012.6.30 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$211,696	\$-	\$-	\$-	\$211,696
Financial assets at fair value through profit or loss	4,132	-	-	-	4,132
Available-for-sale financial assets	249,608	-	-	-	249,608
Derivative financial assets for hedging	744	-	-	-	744
Bond investments with no active market exists	41,975	-	-	-	41,975
Held-to-maturity investments	78,450	-	-	-	78,450
Total	\$586,605	\$-	\$-	\$-	\$586,605

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Financial assets	Credit quality of financial assets				
	2012.1.1 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,919,027	\$-	\$-	\$-	\$6,919,027
Financial assets at fair value through profit or loss	619,455	-	-	-	619,455
Available-for-sale financial assets	5,897,618	-	-	-	5,897,618
Derivative financial assets for hedging	28,521	-	-	-	28,521
Bond investments with no active market exists	1,192,997	-	-	-	1,192,997
Held-to-maturity investments	2,408,714	-	-	-	2,408,714
Total	\$17,066,332	\$-	\$-	\$-	\$17,066,332

Financial assets	Credit quality of financial assets				
	2012.1.1 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$228,576	\$-	\$-	\$-	\$228,576
Financial assets at fair value through profit or loss	20,464	-	-	-	20,464
Available-for-sale financial assets	194,834	-	-	-	194,834
Derivative financial assets for hedging	942	-	-	-	942
Bond investments with no active market exists	39,412	-	-	-	39,412
Held-to-maturity investments	79,574	-	-	-	79,574
Total	\$563,802	\$-	\$-	\$-	\$563,802

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

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II. Secured loans

Secured loans	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

Secured loans	2012.12.31(NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$142,885	\$-	\$-	\$-	\$120,628	\$263,513	\$1,618	\$261,895
Corporate Finance	60,000	-	-	-	271,730	331,730	71,545	260,185
Total	\$202,885	\$-	\$-	\$-	\$392,358	\$595,243	\$73,163	\$522,080

Secured loans	2012.12.31 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,919	\$-	\$-	\$-	\$4,152	\$9,071	\$56	\$9,015
Corporate Finance	2,065	-	-	-	9,354	11,419	2,462	8,957
Total	\$6,984	\$-	\$-	\$-	\$13,506	\$20,490	\$2,518	\$17,972

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Secured loans	2012.6.30 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$147,321	\$-	\$-	\$-	\$126,905	\$274,226	\$1,371	\$272,855
Corporate Finance	-	-	-	-	292,014	292,014	45,604	246,410
Total	\$147,321	\$-	\$-	\$-	\$418,919	\$566,240	\$46,975	\$519,265

Secured loans	2012.6.30 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,944	\$-	\$-	\$-	\$4,258	\$9,202	\$46	\$9,156
Corporate Finance	-	-	-	-	9,799	9,799	1,530	8,269
Total	\$4,944	\$-	\$-	\$-	\$14,057	\$19,001	\$1,576	\$17,425

Secured loans	2012.1.1 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$149,245	\$-	\$-	\$-	\$116,040	\$265,285	\$1,727	\$263,558
Corporate Finance	80,000	-	-	-	224,452	304,452	16,045	288,407
Total	\$229,245	\$-	\$-	\$-	\$340,492	\$569,737	\$17,772	\$551,965

Secured loans	2012.1.1 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,931	\$-	\$-	\$-	\$3,833	\$8,764	\$57	\$8,707
Corporate Finance	2,643	-	-	-	7,415	10,058	530	9,528
Total	\$7,574	\$-	\$-	\$-	\$11,248	\$18,822	\$587	\$18,235

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(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 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	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

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

Liabilities	2012.12.31 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,223,005	\$1,205,101	\$1,182,771	\$16,771	\$3,852	\$1,707	\$-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2012.12.31 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$76,523	\$41,484	\$40,715	\$577	\$133	\$59	\$-
Preferred stock liability	34,424	34,424	-	-	-	-	34,424

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Liabilities	2012.6.30 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,250,022	\$1,628,255	\$1,608,830	\$12,779	\$5,087	\$1,559	\$-
Financial liabilities at fair value through profit or loss	43,217	43,217	-	43,217	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2012.6.30 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$75,504	\$54,639	\$53,987	\$429	\$171	\$52	\$-
Financial liabilities at fair value through profit or loss	1,450	1,450	-	1,450	-	-	-
Preferred stock liability	33,557	33,557	-	-	-	-	33,557

Liabilities	2012.1.1 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,101,262	\$1,261,437	\$1,237,624	\$13,092	\$9,649	\$1,072	\$-
Financial liabilities at fair value through profit or loss	45,000	45,000	-	45,000	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2012.1.1 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$69,417	\$41,673	\$40,886	\$433	\$319	\$35	\$-
Financial liabilities at fair value through profit or loss	1,487	1,487	-	1,487	-	-	-
Preferred stock liability	33,036	33,036	-	-	-	-	33,036

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(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.

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.

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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.

30 June 2013	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)

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30 June 2013		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

30 June 2012	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$(186,212)	\$(6,249)
Interest rate risk (Yield curve)	20bp	(67,030)	(2,249)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(131,400)	(4,409)

30 June 2012		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	NTD appreciate 1 %	\$(2,785)	\$(93)	\$-	\$-
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,037)	(35)	(164)	(6)
	Yield curve (NTD) flat rises 1bp	(153)	(5)	(1,998)	(67)
Equity securities price sensitivity	Increase 1% in equity price	-	-	18,621	624

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(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, accounts receivables, and accounts 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			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Held-to-maturity investments								
Bonds	\$2,175,814	\$2,512,011	\$2,337,828	\$2,408,714	\$2,243,080	\$2,670,313	\$2,544,595	\$2,643,649
Bond investments with no active market								
Bonds	1,785,447	1,323,270	1,250,843	1,192,997	1,762,688	1,349,477	1,264,200	1,191,612
US\$	Carrying amount as at				Fair value as at			
	2013.6.30	2012.12.31	2012.6.30	2012.1.1	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Held-to-maturity investments								
Bonds	\$72,624	\$86,472	\$78,450	\$79,574	\$74,869	\$91,921	\$85,389	\$87,336
Bond investments with no active market								
Bonds	59,595	45,552	41,975	39,412	58,835	46,454	42,423	39,366

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\$)	2013.6.30			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$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	-	-
Derivative financial instruments				
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	
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$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	-	-
Derivative financial instruments				
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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Financial instruments at fair value (NT\$)	2012.12.31			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$376,694	\$376,694	\$-	\$-
Available-for-sale financial assets				
Stock	1,506,909	1,506,909	-	-
Bonds	3,609,402	3,194,963	414,439	-
Others	3,288,181	3,288,181	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	\$60,579	\$60,579	\$-	\$-
Derivative financial assets for hedging				
IRS	17,134	17,134	-	-
Financial instruments at fair value (US\$)	2012.12.31			
Total	Level 1	Level 2	Level 3	
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$12,967	\$12,967	\$-	\$-
Available-for-sale financial assets				
Stock	51,873	51,873	-	-
Bonds	124,248	109,981	14,267	-
Others	113,190	113,190	-	-
Derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	\$2,086	\$2,086	\$-	\$-
Derivative financial assets for hedging				
IRS	590	590	-	-

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Financial instruments at fair value (NT\$)	2012.6.30			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$123,139	\$123,139	\$-	\$-
Available-for-sale financial assets				
Stock	1,812,466	1,812,466	-	-
Bonds	3,797,970	3,487,789	310,181	-
Others	1,827,875	1,827,875	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$22,172	\$22,172	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	43,217	43,217	-	-
Financial instruments at fair value (US\$)	2012.6.30			
Total	Level 1	Level 2	Level 3	
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$4,132	\$4,132	\$-	\$-
Available-for-sale financial assets				
Stock	60,821	60,821	-	-
Bonds	127,448	117,039	10,409	-
Others	61,339	61,339	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$744	\$744	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	1,450	1,450	-	-

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(Expressed in thousands of dollars unless otherwise stated)

Financial instruments at fair value (NT\$)	2012.1.1			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$619,455	\$619,455	\$-	\$-
Available-for-sale financial assets				
Stock	1,619,475	1,619,475	-	-
Bonds	3,397,248	3,397,248	-	-
Others	880,895	880,895	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$28,521	\$28,521	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	45,000	45,000	-	-

Financial instruments at fair value (US\$)	2012.1.1			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$20,464	\$20,464	\$-	\$-
Available-for-sale financial assets				
Stock	53,501	53,501	-	-
Bonds	112,232	112,232	-	-
Others	29,101	29,101	-	-
Derivative financial instruments				
Assets:				
Derivative financial assets for hedging				
IRS	\$942	\$942	\$-	\$-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	1,487	1,487	-	-

During the six-month periods ended 30 June 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

D. During the six-month periods ended 30 June 2013 and 2012, there were no Level 3 fair value measurements.

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9. Related party transactions

(1) Significant transactions with related parties

A. Premiums income

Name	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$24,002	\$801	\$16,169	\$542
Cathay United Bank Co., Ltd.	13,831	462	14,712	494
Total	<u>\$37,833</u>	<u>\$1,263</u>	<u>\$30,881</u>	<u>\$1,036</u>

Name	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$99,596	\$3,324	\$97,863	\$3,284
Cathay United Bank Co., Ltd.	31,146	1,040	30,982	1,040
Total	<u>\$130,742</u>	<u>\$4,364</u>	<u>\$128,845</u>	<u>\$4,324</u>

B. Premiums receivable

Name	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$20,451	\$683	\$5,732	\$197
Cathay United Bank Co., Ltd.	8,076	269	4,855	167
Total	<u>\$28,527</u>	<u>\$952</u>	<u>\$10,587</u>	<u>\$364</u>

Name	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$16,281	\$546	\$-	\$-
Cathay United Bank Co., Ltd.	2,707	91	44,226	1,461
Total	<u>\$18,988</u>	<u>\$637</u>	<u>\$44,226</u>	<u>1,461</u>

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(Expressed in thousands of dollars unless otherwise stated)

C. Cash in banks

Name	Type	2013.6.30		2012.12.31	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$797,688	\$26,625	\$589,915	\$20,307
Co., Ltd.	Time deposits	\$650,200	\$21,702	\$695,800	\$23,952

Name	Type	2012.6.30		2012.1.1	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$503,349	\$16,891	\$420,125	\$13,879
Co., Ltd.	Time deposits	\$830,900	\$27,883	\$915,000	\$30,228

Name	Type	Interest rate			
		2013.6.30	2012.12.31	2012.6.30	2012.1.1
Other related parties					
Cathay United Bank	Cash in banks	0.01%-0.75%	0.01%~0.75%	0.06%-0.17%	0.17%
Co., Ltd.	Time deposits	0.17%-1.345%	0.17~1.7%	0.17%-1.345%	0.17~1.345%

Name	Type	Interest income			
		2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$134	\$4	\$113	\$4
Co., Ltd.	Time deposits	\$2,270	\$76	\$2,811	\$94

Name	Type	Interest income			
		2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$249	\$8	\$216	\$7
Co., Ltd.	Time deposits	\$4,488	\$150	\$5,694	\$191

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(Expressed in thousands of dollars unless otherwise stated)

D. Secured Loans

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

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

Name	2012.1.1 ~ 2012.6.30 (NT\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$42,915	\$39,922	1.88%~2.03%	\$406

Name	2012.1.1 ~ 2012.6.30 (US\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,440	\$1,340	1.88%~2.03%	\$14

E. Available-for-sale financial assets

Name	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	\$21,006	\$701	\$67,557	\$2,326

Name	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	\$551,505	\$18,507	\$50,845	\$1,680

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(Expressed in thousands of dollars unless otherwise stated)

F. Guarantee deposits paid

Name	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$24,013	\$802	\$22,678	\$781
Cathay Futures Co., Ltd.	4,946	165	5,145	177
Total	<u>\$28,959</u>	<u>\$967</u>	<u>\$27,823</u>	<u>\$958</u>

Name	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$22,801	\$765	\$23,234	\$767
Cathay Futures Co., Ltd.	5,748	193	7,528	249
Total	<u>\$28,549</u>	<u>\$958</u>	<u>\$30,762</u>	<u>\$1,016</u>

G. Other payable

Name	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$118,260	\$3,947	\$172,887	\$5,951
Other related parties				
Cathay Life Insurance Co., Ltd.	188,775	6,301	141,412	4,868
Symphox Information Co., Ltd.	3,667	123	655	23
Total	<u>\$310,702</u>	<u>\$10,371</u>	<u>\$314,954</u>	<u>\$10,842</u>

Name	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$64,913	\$2,178	\$103,717	\$3,426
Other related parties				
Cathay Life Insurance Co., Ltd.	171,995	5,772	217,861	7,197
Symphox Information Co., Ltd.	3,915	131	46	2
Total	<u>\$240,823</u>	<u>\$8,081</u>	<u>\$321,624</u>	<u>\$10,625</u>

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H. Preferred stock liability

Name	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,378</u>	<u>\$1,000,000</u>	<u>\$34,424</u>

Name	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$1,000,000</u>	<u>\$33,557</u>	<u>\$1,000,000</u>	<u>\$33,036</u>

I. Operating costs

Name	Summary	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	<u>\$4,319</u>	<u>\$144</u>	<u>\$3,638</u>	<u>\$122</u>

Name	Summary	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	<u>\$8,762</u>	<u>\$292</u>	<u>\$7,404</u>	<u>\$248</u>

J. Operating expenses

Name	Summary	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$25,549	\$853	\$22,602	\$758
	Marketing expenses	308,861	10,309	281,393	9,443
	Party premium expenses	3,996	133	3,672	123
	Administrative expenses	2,508	84	2,549	86
Cathay United Bank Co., Ltd.	Marketing expenses	17,594	587	15,569	522
	Rental expenses	2,098	70	1,815	61
Total		<u>\$360,606</u>	<u>\$12,036</u>	<u>\$327,600</u>	<u>\$10,993</u>

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Name	Summary	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$51,443	\$1,717	\$46,145	\$1,548
	Marketing expenses	628,783	20,988	567,659	19,049
	Party premium expenses	6,193	207	6,116	205
	Administrative expenses	3,756	125	3,830	129
Cathay United Bank Co., Ltd.	Marketing expenses	30,893	1,031	29,946	1,005
	Rental expenses	4,196	140	3,485	117
Total		<u>\$725,264</u>	<u>\$24,208</u>	<u>\$657,181</u>	<u>\$22,053</u>

K. Other expenses

Name	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	<u>\$9,434</u>	<u>\$315</u>	<u>\$6,194</u>	<u>\$208</u>

Name	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	<u>\$16,877</u>	<u>\$563</u>	<u>\$12,485</u>	<u>\$419</u>

L. Other

As of 30 June 2013 and 2012 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Name	Item	2013.6.30	2012.12.31
Other related parties			
Cathay United Bank Co., Ltd.	CS contracts	US\$75,250	US\$75,250
	IRS	NT\$400,000	NT\$400,000
		(US\$13,351)	(US\$13,769)

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Name	Item	2012.6.30	2012.1.1
Other related parties			
Cathay United Bank Co., Ltd.	CS contracts	US\$49,050	US\$41,050
	IRS	NT\$600,000 (US\$20,134)	NT\$600,000 (US\$19,822)

M. Key management personnel compensation in total

Item	2013.4.1 ~ 2013.6.30		2012.4.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$5,465	\$182	\$6,799	\$228
Post-employment benefits	618	21	804	27
Termination benefits	-	-	-	-
	<u>\$6,083</u>	<u>\$203</u>	<u>\$7,603</u>	<u>\$255</u>

Item	2013.1.1 ~ 2013.6.30		2012.1.1 ~ 2012.6.30	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$25,537	\$853	\$23,690	\$795
Post-employment benefits	1,498	50	1,569	53
Termination benefits	2,708	90	-	-
	<u>\$29,743</u>	<u>\$993</u>	<u>\$25,259</u>	<u>\$848</u>

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9. Pledged assets

(1) The Company

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Government deposits paid-government bonds	\$525,913	\$17,554	\$626,639	\$21,571
Guarantee deposits paid	107,155	3,576	20,000	688
Total	<u>\$633,068</u>	<u>\$21,130</u>	<u>\$646,639</u>	<u>\$22,259</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Government deposits paid-government bonds	\$712,974	\$23,925	\$403,738	\$13,338
Guarantee deposits paid	20,000	671	20,000	661
Total	<u>\$732,974</u>	<u>\$24,596</u>	<u>\$423,738</u>	<u>\$13,999</u>

As of 30 June 2013、31 December 2012、30 June 2012、1 January 2012, the Company provided government bonds amounting to NT\$525,913 (US\$17,554) thousand NT\$626,639 (US\$21,571) thousand and NT\$712,974 (US\$23,925) thousand NT\$403,738 (US\$13,338) thousands, respectively, as the “Guaranteed Depository Insurance” in accordance with the Insurance Act. The pledged assets are stated at book value.

(2) Cathay Insurance (China)

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	<u>\$392,600</u>	<u>\$13,104</u>	<u>\$373,928</u>	<u>\$12,872</u>

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	<u>\$376,448</u>	<u>\$12,632</u>	<u>\$385,000</u>	<u>\$12,719</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.

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(3) Cathay Insurance (Vietnam)

Item	2013.6.30		2012.12.31	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	\$8,384	\$280	\$8,231	\$283

Item	2012.6.30		2012.1.1	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid-time deposits	\$8,445	\$283	\$8,506	\$281

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

10. 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 operating lease contracts, the future minimum lease payments at 30 June 2013, 31 December 2012, 30 June 2012 and 1 January 2012 are as follows:

(1) Significant lease contracts of the Company

NT\$	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Not later than 1 year	\$121,039	\$118,857	\$107,055	\$104,074
Later than 1 year but not later than 5 years	484,159	475,428	428,220	419,772
Later than 5 years	-	-	-	-
	<u>\$605,198</u>	<u>\$594,285</u>	<u>\$535,275</u>	<u>\$523,846</u>

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US\$	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Not later than 1 year	\$4,040	\$4,091	\$3,592	\$3,438
Later than 1 year but not later than 5 years	16,160	16,366	14,370	13,868
Later than 5 years	-	-	-	-
	<u>\$20,200</u>	<u>\$20,457</u>	<u>\$17,962</u>	<u>\$17,306</u>

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

NT\$	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Not later than 1 year	\$62,324	\$62,124	\$61,993	\$77,453
Later than 1 year but not later than 5 years	118,386	47,032	48,519	68,137
Later than 5 years	-	-	-	-
	<u>\$180,710</u>	<u>\$109,156</u>	<u>\$110,512</u>	<u>\$145,590</u>

US\$	2013.6.30	2012.12.31	2012.6.30	2012.1.1
Not later than 1 year	\$2,080	\$2,139	\$2,080	\$2,559
Later than 1 year but not later than 5 years	3,951	1,619	1,628	2,251
Later than 5 years	-	-	-	-
	<u>\$6,031</u>	<u>\$3,758</u>	<u>\$3,708</u>	<u>\$4,810</u>

11. Significant disaster losses: None.

12. Subsequent events: None.

13. Others

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

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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>

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>

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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	2012.12.31 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$5,677,051	\$-	\$5,677,051
Receivables	3,291,611	-	3,291,611
Investments	6,642,567	6,575,183	13,217,750
Reinsurance contracts assets	-	5,514,577	5,514,577
Property and equipment	-	184,390	184,390
Intangible assets	-	35,755	35,755
Other assets	-	1,266,880	1,266,880
Total assets			<u>\$29,188,014</u>
Payables	\$2,217,446	\$5,559	\$2,223,005
Financial Liabilities	-	1,000,000	1,000,000
Insurance liabilities	-	20,440,598	20,440,598
Provision	-	247,950	247,950
Other liabilities	-	459,128	459,128
Total liabilities			<u>\$24,370,681</u>

Item	2012.12.31 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$195,423	\$-	\$195,423
Receivables	113,308	-	113,308
Investments	228,660	226,341	455,001
Reinsurance contracts assets	-	189,831	189,831
Property and equipment	-	6,347	6,347
Intangible assets	-	1,231	1,231
Other assets	-	43,610	43,610
Total assets			<u>\$1,004,751</u>
Payables	\$76,331	\$192	\$76,523
Financial Liabilities	-	34,424	34,424
Insurance liabilities	-	703,635	703,635
Provision	-	8,536	8,536
Other liabilities	-	15,804	15,804
Total liabilities			<u>\$838,922</u>

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(Expressed in thousands of dollars unless otherwise stated)

Item	2012.6.30 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,320,903	\$-	\$6,320,903
Receivables	3,454,482	-	3,454,482
Investments	5,274,862	6,420,084	11,694,946
Reinsurance contracts assets	-	5,340,255	5,340,255
Property and equipment	-	192,329	192,329
Intangible assets	-	35,153	35,153
Other assets	-	1,368,149	1,368,149
Total assets			<u>\$28,406,217</u>
Payables	\$2,243,376	\$6,646	\$2,250,022
Financial Liabilities	43,217	1,000,000	1,043,217
Insurance liabilities	-	19,945,489	19,945,489
Provision	-	256,153	256,153
Other liabilities	-	362,738	362,738
Total liabilities			<u>\$23,857,619</u>
Item	2012.6.30 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$212,111	\$-	\$212,111
Receivables	115,922	-	115,922
Investments	177,009	215,439	392,448
Reinsurance contracts assets		179,203	179,203
Property and equipment		6,454	6,454
Intangible assets		1,180	1,180
Other assets		45,911	45,911
Total assets			<u>\$953,229</u>
Payables	\$75,281	\$223	\$75,504
Financial Liabilities	1,450	33,557	35,007
Insurance liabilities		669,312	669,312
Provision		8,596	8,596
Other liabilities		12,172	12,172
Total liabilities			<u>\$800,591</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.1.1 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,926,067	\$-	\$6,926,067
Receivables	2,909,396	-	2,909,396
Investments	4,531,176	6,173,559	10,704,735
Reinsurance contracts assets	-	5,202,403	5,202,403
Property and equipment	-	225,801	225,801
Intangible assets	-	37,323	37,323
Other assets	-	1,096,594	1,096,594
Total assets			<u>\$27,102,319</u>
Payables	\$2,090,541	\$10,721	\$2,101,262
Financial Liabilities	45,000	1,000,000	1,045,000
Insurance liabilities	-	19,075,973	19,075,973
Provision	-	259,488	259,488
Other liabilities	-	282,128	282,128
Total liabilities			<u>\$22,763,851</u>
Item	2012.1.1 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$228,809	\$-	\$228,809
Receivables	96,115	-	96,115
Investments	149,692	203,950	353,642
Reinsurance contracts assets	-	171,867	171,867
Property and equipment	-	7,460	7,460
Intangible assets	-	1,233	1,233
Other assets	-	36,227	36,227
Total assets			<u>\$895,353</u>
Payables	\$69,063	\$354	\$69,417
Financial Liabilities	1,487	33,036	34,523
Insurance liabilities	-	630,194	630,194
Provision	-	8,573	8,573
Other liabilities	-	9,320	9,320
Total liabilities			<u>\$752,027</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(2) Hedged of derivative financial instruments related information

Cash flow hedges-IRS

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at 30 June 2013:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	\$6,676	2.65%	Each quarterly	Sep. 30 2014
200,000	6,676	2.785%	Each quarterly	Apr. 30 2015

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$11,546 (US\$386) and NT\$22,172 (US\$744) as of 30 June 2013 and 2012, respectively.

(3) Eliminated inter-company transactions

Transactions	2013.1.1 ~ 2013.6.30 (NT\$)		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$191,252	\$(166,789)	\$(24,463)
k Eliminate subsidiaries equity	(497,451)	274,220	360,341
Transactions	2013.1.1 ~ 2013.6.30 (US\$)		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$6,384	\$(5,567)	\$(817)
k Eliminate subsidiaries equity	(16,604)	9,153	12,028

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(Expressed in thousands of dollars unless otherwise stated)

Transactions	2012.1.1 ~ 2012.6.30 (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	\$106,713	\$(96,457)	\$(10,256)
k Eliminate subsidiaries equity	(935,710)	1,057,041	407,189

Transactions	2012.1.1 ~ 2012.6.30 (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	\$3,581	\$(3,237)	\$(344)
k Eliminate subsidiaries equity	(31,399)	35,471	13,664

Note: The eliminated difference of inter-company result in non-controlling equity NT\$137,110 (US\$4,577) and NT\$528,521 (US\$17,736) for the six-month periods ended 30 June 2013 and 2012.

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

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

	2013.6.30			2012.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$160,143	30.1200	\$4,823,513	\$174,121	29.1360	\$5,073,189
RMB	351,266	4.8794	1,713,967	127,845	4.6588	595,604
Non-Monetary Items						
USD	168,920	30.1200	-	176,020	29.1360	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)
Investment under equity method						
RMB	27,939	4.9075	137,110	64,246	4.6741	300,290
VND	263,022,659	0.00137	360,341	280,878,487	0.001345	377,782
	2012.6.30			2012.1.1		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$115,267	29.9000	\$3,446,483	\$103,478	30.2900	\$3,134,349
RMB	121,633	4.7033	572,076	-	-	-
Non-Monetary Items						
USD	120,320	29.9000	-	95,320	30.2900	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)
Investment under equity method						
RMB	112,317	4.7056	528,521	130,716	4.8125	629,071
VND	295,064,930	0.00138	407,189	302,534,342	0.00139	420,523

Note: The Consolidated Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized by NT\$108,987 (US\$3,638), NT\$43,217 (US\$1,450) and NT\$45,000 (US\$1,487) at 30 June 2013 and 2012 and 1 January 2012, respectively. Financial assets at fair value through profit and loss were recognized by NT\$60,579 (US\$2,085) at 31 December 2012.

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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 aperiodically in order to understand the situation of capital adequacy in the short-run and mid-term. The Company set business objectives, plan assets allocation based on the ratio and dividend policy.

C. Procedures

a. Periodically

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

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

D. Capital adequacy ratio

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

(6) Operation segments information

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

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28.96 million to the establish a 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. As of 31 December 2012 the Company has totally remitted US\$44.03 million. But the 16.21 million remitted in the current period has not yet approved by the subsidiary temporarily recognized as other assets-Prepayment for investment .

15. First-time adoption of TIFRS

For all periods up to and including the year ended 31 December 2012, the Consolidated Company prepared its financial statements in accordance with generally accepted accounting principles in R.O.C. (R.O.C. GAAP). The consolidated financial statements for the three-month periods ended 31 March 2013 are the first the Consolidated Company has prepared in accordance with TIFRS.

Accordingly, the Consolidated Company has prepared financial statements of consolidated entities which comply with TIFRS and the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises for periods beginning 1 January 2013 as described in the accounting policies under Note 4. Furthermore the first interim financial statements prepared under TIFRS also comply with the requirements under IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The Consolidated Company’s opening balance sheet was prepared as at 1 January 2012, the Consolidated Company’s date of transition to TIFRS.

For the impact of adopting IFRS on the consolidated balance sheets as of 1 January 2012 (the date of transition to TIFRS) and 31 December 2012 and consolidated comprehensive income statement for the year ended 31 December 2012, please refer to the consolidated financial statements for the three-month periods ended 31 March 2013.

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Exemptions applied in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards”

IFRS 1 “First-time Adoption of International Financial Reporting Standards” allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Consolidated Company has applied the following exemptions:

- (1) The Group recognized total accumulated actuarial profit or loss as retained earnings once at the date of transition.
- (2) The present value of defined benefits obligation, fair value of projected assets and projected profit and loss and adjusted information based on experience defined in IAS 19 Employee Benefits should be disclosed at the amount with deferred determination in each accounting period since the date of transition to IFRS.

Impacts of transitioning to TIFRS

The following tables contain reconciliation of balance sheets as at 30 June 2012, and statements of comprehensive income for the three-month periods ended 30 June 2012 and six-month periods ended 30 June 2012:

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(Expressed in thousands of dollars unless otherwise stated)

(1) Reconciliation of consolidated balance sheet items as at 30 June 2012

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and cash equivalents	\$6,391,487		(70,584)	\$6,320,903	Cash and cash equivalents	3
Notes receivable	249,985			249,985	Notes receivable	
Premium receivable	3,084,201			3,084,201	Premium receivable	
Claims recoverable from reinsurers	231,450		(231,450)	-		4
Due from reinsurers and ceding companies	581,012		(581,012)	-		4
Other accounts receivable	120,296			120,296	Other accounts receivable	
Receivables	4,266,944			3,454,482	Receivables	
Financial assets at fair value through profit or loss	123,139			123,139	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	7,438,311			7,438,311	Available-for-sale financial assets	
Derivative financial assets for hedging	22,172			22,172	Derivative financial assets for hedging	
Investments under equity method	3,388			3,388	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,180,259		70,584	1,250,843	Bond investments with no active market	3
Held-to-maturity financial assets	2,337,828			2,337,828	Held-to-maturity financial assets	
Secured Loans	519,265			519,265	Secured Loans	
Investments	11,624,362			11,694,946	Investments	
Reinsurance reserve assets - Net	4,527,793		812,462	5,340,255	Reinsurance contracts assets	4
Other equipment	504,072			504,072	Other equipment	
Leasehold improvements	45,416			45,416	Leasehold improvements	
Subtotal	549,488			549,488		
Less: Accumulated depreciation	(357,821)			(357,821)	Less: Accumulated depreciation	
Prepayments for equipments	662			662	Prepayments for equipments	
Property and equipment - Net	192,329			192,329	Property and equipment	
Intangible assets	39,214	(4,061)		35,153	Intangible assets	1
-	-		67,723	67,723	Deferred income tax assets	2
Prepayments	7,415			7,415	Prepayments	
Guarantee deposits paid	1,239,957			1,239,957	Guarantee deposits paid	
Deferred income tax assets	22,152	45,571	(67,723)	-		1, 2
Other assets - others	53,054			53,054	Other assets - others	
Other assets	1,322,578			1,300,426	Other assets	
Total assets	\$28,364,707			\$28,406,217	Total assets	

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(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$5,642			\$5,642	Claims outstanding	
Commissions payable	131,171			131,171	Commissions payable	
Due to reinsurers and ceding companies	1,628,255			1,628,255	Due to reinsurers and ceding companies	
Other payables	484,954			484,954	Other payables	
Payables	2,250,022			2,250,022	Payables	
Financial liabilities at fair value through profit or loss	43,217			43,217	Financial liabilities at fair value through profit or loss	
Preferred stock liability	1,000,000			1,000,000	Preferred stock liability	
Financial Liabilities	1,043,217			1,043,217	Financial Liabilities	
Unearned premiums reserve	9,868,970			9,868,970	Unearned premiums reserve	
Claim reserve	5,248,426			5,248,426	Claim reserve	
Special reserve	4,800,385			4,800,385	Special reserve	
Premiums deficiency reserve	27,708			27,708	Premiums deficiency reserve	
Reserve for operating and liability	19,945,489			19,945,489	Operating and liability reserves	
-	-		256,153	256,153	Provision	1
-	-		2,480	2,480	Deferred income tax liabilities	2
Guarantee deposits received	30			30	Guarantee deposits received	
Accrued pension liabilities	119,897	136,256	(256,153)	-	-	1
Deferred income tax liabilities	-	2,480	(2,480)	-	-	2
Other liabilities - others	360,228			360,228	Other liabilities - others	
Other liabilities	480,155			360,258	Other liabilities	
Total liabilities	\$23,718,883			\$23,857,619	Total liabilities	
Capital stock					Capital stock	
Common stock	\$2,522,950			\$2,522,950	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	1,929			1,929	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	954,800			954,800	Legal reserve	
Special capital reserve	516,399			516,399	Special capital reserve	
Unappropriated retained earnings	371,961	(210,384)		161,577	Undistributed earnings	1

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R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of	
adjustments	(39,860)			(39,860)	a foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	(119,889)			(119,889)	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	22,172			22,172	hedges	
Net loss not recognized as net						
pension cost	(113,158)	113,158		-		1
Minority interest	528,520			528,520	Non-controlling interests	
Total stockholders' equity	<u>4,645,824</u>			<u>4,548,598</u>	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	<u>\$28,364,707</u>			<u>\$28,406,217</u>	stockholders' equity	

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R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Cash and cash equivalents	214,480		\$(2,369)	212,111	Cash and cash equivalents	3
Notes receivable	8,389			8,389	Notes receivable	
Premium receivable	103,496			103,496	Premium receivable	
Claims recoverable from reinsurers	7,767		(7,767)	-		4
Due from reinsurers and ceding companies	19,497		(19,497)	-		4
Other accounts receivable	4,037			4,037	Other accounts receivable	
Receivables	143,186			115,922	Receivables	
Financial assets at fair value through profit or loss	4,132			4,132	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	249,608			249,608	Available-for-sale financial assets	
Derivative financial assets for hedging	744			744	Derivative financial assets for hedging	
Investments under equity method	114			114	Investments accounted for using the equity method	
Investments in debt securities with no active market	39,606		2,369	41,975	Bond investments with no active market	3
Held-to-maturity financial assets	78,450			78,450	Held-to-maturity financial assets	
Secured Loans	17,425			17,425	Secured Loans	
Investments	390,079			392,448	Investments	
Reinsurance reserve assets - Net	151,939		27,264	179,203	Reinsurance contracts assets	4
Other equipment	16,915			16,915	Other equipment	
Leasehold improvements	1,524			1,524	Leasehold improvements	
Subtotal	18,439			18,439		
Less: Accumulated depreciation	(12,007)			(12,007)	Less: Accumulated depreciation	
Prepayments for equipments	22			22	Prepayments for equipments	
Property and equipment - Net	6,454			6,454	Property and equipment	
Intangible assets	1,316		(136)	1,180	Intangible assets	1
-	-		2,273	2,273	Deferred income tax assets	2
Prepayments	249			249	Prepayments	
Guarantee deposits paid	41,609			41,609	Guarantee deposits paid	
Deferred income tax assets	744	\$1,529	(2,273)	-		1、2
Other assets - others	1,780			1,780	Other assets - others	
Other assets	44,382			43,638	Other assets	
Total assets	951,836			953,229	Total assets	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Claims outstanding	\$189			\$189	Claims outstanding	
Commissions payable	4,402			4,402	Commissions payable	
Due to reinsurers and ceding companies	54,639			54,639	Due to reinsurers and ceding companies	
Other payables	16,274			16,274	Other payables	
Payables	75,504			75,504	Payables	
Financial liabilities at fair value through profit or loss	1,450			1,450	Financial liabilities at fair value through profit or loss	
Preferred stock liability	33,557			33,557	Preferred stock liability	
Financial Liabilities	35,007			35,007	Financial Liabilities	
Unearned premiums reserve	331,173			331,173	Unearned premiums reserve	
Claim reserve	176,122			176,122	Claim reserve	
Special reserve	161,087			161,087	Special reserve	
Premiums deficiency reserve	930			930	Premiums deficiency reserve	
Reserve for operating and liability	669,312			669,312	Operating and liability reserves	
-	-		8,596	8,596	Provision	1
-	-		83	83	Deferred income tax liabilities	2
Guarantee deposits received	1			1	Guarantee deposits received	
Accrued pension liabilities	4,024	4,572	(8,596)	-	-	1
Deferred income tax liabilities	-	83	(83)	-	-	2
Other liabilities - others	12,088			12,088	Other liabilities - others	
Other liabilities	16,113			12,089	Other liabilities	
Total liabilities	\$795,936			\$800,591	Total liabilities	
Capital stock					Capital stock	
Common stock	\$84,663			\$84,663	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	64			64	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	32,040			32,040	Legal reserve	
Special capital reserve	17,329			17,329	Special capital reserve	
Unappropriated retained earnings	12,482		(7,059)	5,423	Undistributed earnings	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)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of	
adjustments	(1,338)			(1,338)	a foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	(4,023)			(4,023)	financial assets	
Unrealized gains or losses on					Gains (losses) on cash	
financial instruments	744			744	flow hedges	
Net loss not recognized as net						
pension cost	(3,797)	3,797		-		1
					Non-controlling	
Minority interest	17,736			17,736	interests	
Total stockholders' equity	155,900			152,638	Total equity	
Total liabilities and stockholders'					Total liabilities and	
equity	\$951,836			\$953,229	stockholders' equity	

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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) Reconciliation of comprehensive income statement items for the three-month periods ended 30 June 2013.

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$4,515,272			\$4,515,272	Direct premium income	
Reinsurance premium income	125,317			125,317	Reinsurance premium income	
Premiums income	4,640,589			4,640,589	Premiums income	
Deduct: Reinsurance premiums ceded	(1,364,009)			(1,364,009)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(459,806)			(459,806)	Change in unearned premiums reserve - Net	
Retained earned premium	2,816,774			2,816,774	Retained earned premium	
Reinsurance commission earned	111,474			111,474	Reinsurance commission earned	
Handling fee earned	8,790			8,790	Handling fee earned	
Investment profit and loss	116,238			116,238	Investment profit and loss	
Interest income	116,538		\$(13,728)	102,810	Interest income	
Losses on valuation of financial assets	(46,525)		46,525	-	Losses from Financial asset or financial liability at fair value through profit or loss	5
-			(53,400)	(53,400)	Realized gains from available-for-sale financial assets	5
-			18,579	18,579	Realized gains from held-to-maturity financial assets	5
-			(279)	(279)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			13	13		
Losses on investments recognized under the equity method	13		(13)	-		5
Losses on foreign Exchange	48,515		-	48,515	Losses on foreign Exchange	
Gains on disposal of investments	(2,303)		2,303	-		5
Total	3,053,276			3,053,276	Total	

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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)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating costs					Operating costs	
Insurance claims paid	(2,092,634)			(2,092,634)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	<u>462,309</u>			<u>462,309</u>	Deduct: Claims recovered from reinsurers	
Retained claim paid	(1,630,325)			(1,630,325)	Retained claim paid	
Changes in liability reserves					Changes in insurance liabilities-Net	
Change in claims reserve - Net	(70,003)			(70,003)		-
Change in special reserve - Net	(12,948)			(12,948)		-
Change in premiums deficiency reserve - Net	(2,475)			(2,475)		-
Commissions expenses	(172,696)			(172,696)	Commissions expenses	
Other operating costs	<u>(14,694)</u>			<u>(14,694)</u>	Other operating costs	
Total	<u>(1,903,141)</u>			<u>(1,903,141)</u>	Total	
Operating expenses	<u>(1,070,642)</u>			<u>(1,070,642)</u>	Operating expenses	
Operating income	<u>79,493</u>			<u>79,493</u>	Operating income	
-			(5,196)	(5,196)	Non-operating income and expenses	5
Non-operating revenues and gains	<u>(17)</u>		17	<u>-</u>		- 5
Non-operating expenses and losses	<u>(5,179)</u>		5,179	<u>-</u>		- 5
Consolidated income before income taxes	74,297			74,297	Profit before tax from continuing operations	
Income taxes expense	<u>(30,029)</u>			<u>(30,029)</u>	Income tax expense	
Consolidated net income	<u>\$44,268</u>			44,268	Profit from continuing operations	
				44,268	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				6,908	Unrealized gains from available-for-sale financial assets	
				52,796	Losses on cash flow hedges	
				(3,839)	Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				<u>2</u>	Other comprehensive income, net of tax	
				<u>(49,725)</u>	Total comprehensive income	
				<u>\$ (5,457)</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)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$151,519			\$151,519	Direct premium income	
Reinsurance premium income	4,205			4,205	Reinsurance premium income	
Premiums income	155,724			155,724	Premiums income	
Deduct: Reinsurance premiums					Deduct: Reinsurance	
ceded	(45,772)			(45,772)	premiums ceded	
Change in unearned premiums					Change in unearned	
reserve - Net	(15,430)			(15,430)	premiums reserve - Net	
Retained earned premium	94,522			94,522	Retained earned premium	
					Reinsurance commission	
Reinsurance commission earned	3,741			3,741	earned	
Handling fee earned	295			295	Handling fee earned	
Investment profit and loss	3,901			3,901	Investment profit and loss	
Interest income	3,911		(461)	3,450	Interest income	
Gains (losses) on valuation of						
financial assets	(1,561)		1,561	-		5
					Gains from Financial asset	
					or financial liability at fair	
					value through profit or loss	5
					Realized gains from	
					available-for-sale financial	
					assets	5
					Realized gains from	
					held-to-maturity financial	
					assets	5
					Share of loss of associates	
					and joint ventures	
					accounted for using the	
					equity method	5
Gains on investments recognized						
under the equity method	-		-	-		5
Gains on foreign Exchange	1,628			1,628	Gains on foreign Exchange	
Gains on disposal of investments	(77)		77	-		5
Total	102,459			102,459	Total	

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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)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claims paid	(70,223)			(70,223)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	15,514			15,514	Deduct: Claims recovered from reinsurers	
Retained claim paid	(54,709)			(54,709)	Retained claim paid	
Changes in liability reserves	(2,867)			(2,867)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(2,349)			(2,349)		-
Change in special reserve - Net	(435)			(435)		-
Change in premiums deficiency reserve - Net	(83)			(83)		-
Commissions expenses	(5,795)			(5,795)	Commissions expenses	
Other operating costs	(493)			(493)	Other operating costs	
Total	<u>(63,864)</u>			<u>(63,864)</u>	Total	
Operating expenses	<u>(35,928)</u>			<u>(35,928)</u>	Operating expenses	
Operating income	<u>2,667</u>			<u>2,667</u>	Operating income	
-			(174)	(174)	Non-operating income and expenses	5
Non-operating revenues and gains	<u>(1)</u>		1	-		5
Non-operating expenses and losses	<u>(173)</u>		173	-		5
Consolidated income before income taxes	2,493			2,493	Profit before tax from continuing operations	
Income taxes expense	<u>(1,007)</u>			<u>(1,007)</u>	Income tax expense	
Consolidated net income	<u>\$1,486</u>			<u>1,486</u>	Profit from continuing operations	
				1,486	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				232	Unrealized gains from available-for-sale financial assets	
				(1,772)	Losses on cash flow hedges	
				(129)	Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				-	Other comprehensive income, net of tax	
				<u>(1,669)</u>	Total comprehensive income	
				<u>\$ (183)</u>		

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3) Reconciliation of comprehensive income statement items for the six-month periods ended 30 June 2012.

R.O.C. GAAP (NT\$)		Impact of transitioning to		TIFRS (NT\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$8,161,790			\$8,161,790	Direct premium income	
Reinsurance premium income	217,944			217,944	Reinsurance premium income	
Premiums income	8,379,734			8,379,734	Premiums income	
Deduct: Reinsurance premiums ceded	(2,305,431)			(2,305,431)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(619,834)			(619,834)	Change in unearned premiums reserve - Net	
Retained earned premium	5,454,469			5,454,469	Retained earned premium	
Reinsurance commission earned	227,516			227,516	Reinsurance commission earned	
Handling fee earned	15,940			15,940	Handling fee earned	
Investment profit and loss	300,234			300,234	Investment profit and loss	
Interest income	207,809		(13,728)	194,081	Interest income	
Gains on valuation of financial assets	1,347		(1,347)	-	Gains from Financial asset or financial liability at fair value through profit or loss	5
-			13,691	13,691	Realized gains from available-for-sale financial assets	5
-			126,072	126,072	Realized gains from held-to-maturity financial assets	5
-			(446)	(446)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			11	11		5
Losses on investments recognized under the equity method	11		(11)	-		5
Losses on foreign Exchange	(33,175)			(33,175)	Losses on foreign Exchange	
Gains on disposal of investments	124,242		(124,242)	-		5
Total	5,998,159			5,998,159	Total	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating costs					Operating costs	
Insurance claims paid	(3,889,681)			(3,889,681)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	804,429			804,429	Deduct: Claims recovered from reinsurers	
Retained claim paid	(3,085,252)			(3,085,252)	Retained claim paid	
Changes in liability reserves					Changes in insurance liabilities-Net	
Change in claims reserve - Net	(126,455)			(126,455)		-
Change in special reserve - Net	(39,283)			(39,283)		-
Change in premiums deficiency reserve - Net	(881)			(881)		-
Commissions expenses	(324,719)			(324,719)	Commissions expenses	
Other operating costs	(25,638)			(25,638)	Other operating costs	
Total	<u>(3,602,228)</u>			<u>(3,602,228)</u>	Total	
Operating expenses	<u>(2,040,374)</u>			<u>(2,040,374)</u>	Operating expenses	
Operating income	<u>355,557</u>			<u>355,557</u>	Operating income	
-				(4,871)	Non-operating income and expenses	5
Non-operating revenues and gains	5,030		(5,030)	-		- 5
Non-operating expenses and losses	(9,901)		9,901	-		- 5
Consolidated income before income taxes	350,686			350,686	Profit before tax from continuing operations	
Income taxes expense	(75,182)			(75,182)	Income tax expense	
Consolidated net income	<u>\$275,504</u>			<u>275,504</u>	Profit from continuing operations	
				275,504	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(31,889)		
				(27,139)	Unrealized gains from available-for-sale financial assets	
				(6,349)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				3		
				<u>(65,374)</u>	Other comprehensive income, net of tax	
				<u>\$210,130</u>	Total comprehensive income	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$273,886			\$273,886	Direct premium income	
					Reinsurance premium	
Reinsurance premium income	7,313			7,313	income	
Premiums income	281,199			281,199	Premiums income	
Deduct: Reinsurance premiums					Deduct: Reinsurance	
ceded	(77,363)			(77,363)	premiums ceded	
Change in unearned premiums					Change in unearned	
reserve - Net	(20,800)			(20,800)	premiums reserve - Net	
Retained earned premium	183,036			183,036	Retained earned premium	
					Reinsurance commission	
Reinsurance commission earned	7,634			7,634	earned	
Handling fee earned	535			535	Handling fee earned	
Investment profit and loss	10,075			10,075	Investment profit and loss	
Interest income	6,974		(461)	6,513	Interest income	
Gains (losses) on valuation of						
financial assets	45		(45)	-		5
					Gains from Financial asset or	
					financial liability at fair	
			459	459	value through profit or loss	5
					Realized gains from	
					available-for-sale financial	
			4231	4,231	assets	5
					Realized gains from	
					held-to-maturity financial	
			(15)	(15)	assets	5
					Share of loss of associates	
					and joint ventures	
					accounted for using the	
					equity method	5
Gains on investments recognized						
under the equity method	-			-		5
Losses on foreign Exchange	(1,113)		-	(1,113)	Losses on foreign Exchange	
Gains on disposal of investments	4,169		(4,169)	-		5
Total	201,280			201,280	Total	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to		TIFRS (US\$)		Notes
		TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating costs					Operating costs	
Insurance claims paid	(130,526)			(130,526)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	26,994			26,994	Deduct: Claims recovered from reinsurers	
Retained claim paid	(103,532)			(103,532)	Retained claim paid	
Changes in liability reserves	(5,591)			(5,591)	Changes in insurance liabilities-Net	
Change in claims reserve - Net	(4,243)			(4,243)		-
Change in special reserve - Net	(1,318)			(1,318)		-
Change in premiums deficiency reserve - Net	(30)			(30)		-
Commissions expenses	(10,897)			(10,897)	Commissions expenses	
Other operating costs	(860)			(860)	Other operating costs	
Total	(120,880)			(120,880)	Total	
Operating expenses	(68,469)			(68,469)	Operating expenses	
Operating income	11,931			11,931	Operating income	
-				(163)	Non-operating income and expenses	5
Non-operating revenues and gains	169		(169)	-		- 5
Non-operating expenses and losses	(332)		332	-		- 5
Consolidated income before income taxes	11,768			11,768	Profit before tax from continuing operations	
Income taxes expense	(2,523)			(2,523)	Income tax expense	
Consolidated net income	\$9,245			9,245	Profit from continuing operations	
				9,245	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(1,070)		
				(911)	Unrealized gains from available-for-sale financial assets	
				(213)	Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				-		
				(2,194)	Other comprehensive income, net of tax	
				\$7,051	Total comprehensive income	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Material adjustments to the consolidated statement of cash flows for the six-month periods ended 30 June 2012 and the year ended 31 December 2012

The transition from R.O.C. GAAP to TIFRS has not had a material impact on the statement of cash flows. The statement of cash flow prepared under R.O.C. GAAP was reported using the indirect method. Furthermore, cash flows from interest and dividends received and interest paid were classified as cash flows from operating activities and interest and dividends received were not disclosed separately. However, in accordance with the requirements under IAS 7 “Statement of Cash Flows”, the interest and dividends received receipt for the six-month period 30 June 2012 and the year ended 31 December 2012, are separately disclosed in the statement of cash flow. For the six-month period ended 30 June 2012 and for the year ended 31 December 2012, the interest and dividends received were recognized by NT\$164,384 (US\$5,516) and NT\$766 (US\$26), respectively.

Apart from the aforementioned differences, there were no material differences between the statements of cash flows prepared under R.O.C. GAAP and TIFRS.

1. Employee benefits

According to requirements of previous GAAP, the Consolidated Company conducted actuarial valuation on defined benefit obligation and recognized pension cost and accrued pension liabilities. After adopting IFRS, the actuarial valuation was performed in accordance with IAS 19 “Employee Benefits”. The Consolidated Company reperformed actuarial valuation on defined benefit obligation, zeroed accumulated actuarial profit or loss at the date of transition according to the adoption of exemptions stated in IFRS 1 “First-time Adoption of International Financial Reporting Standards” and recognized unrecognized transitional net benefit obligation at one time.

AS of 31 December 2011, the IFRSs adjustment resulted in decrease of accrual pension liability by NT\$ 117,219 (US\$3,872), deferred pension cost by NT\$4,061 (US\$134), net loss not recognized as pension cost by NT\$113,158 (US\$3,738).

After that, in accordance with actuarial pension report to adjust pension, as of 30 June 2012, accrued pension liabilities increase by NT\$253,475 (US\$8,505), deferred income tax assets increase by NT\$43,091 (US\$1,446), retained earnings decrease by NT\$210,384 (US\$7,059).

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2. Deferred income tax

Classification and valuation of deferred tax

According to IAS 12 , an entity can only offset deferred tax assets and deferred tax liabilities under the circumstances that the entity has a legally enforceable right to set off current tax asset against current tax liabilities; deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on the same taxable entity, which resulted in an increase of both deferred income tax assets and liabilities by NT\$2,480 (US\$83) on 30 June 2012, respectively.

3. According to IAS 7 “Statement of cash flows”, the long-term time deposits should not be classified as cash and cash equivalents but other appropriate subject. As of 30 June 2012, the time deposits amounted to NT\$70,584 (US\$2,369) thousands, should be reclassified to investments in debt securities with no active market, respectively.
4. In accordance with the presentation of financial statement of IFRSs, as of 30 June 2012, the adjustment resulted in a decrease of receivables and an increase of reinsurance contracts assets by NT\$812,462 (US\$27,264).
5. The Consolidated Company compiled consolidated statements of comprehensive income under R.O.C. GAAP and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises before amendments. After transition to IFRS, certain accounts had been reclassified properly in order to meet the presentation of IFRS and amended Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, certain items have been reclassified. The other adjustments related to the transition to IFRS are mentioned above.