Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the Years Ended December 31, 2012 and 2011
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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English Translation of Independent Auditors' Report Originally Issued in Chinese

Independent Auditors' Report

Board of Directors
Cathay Century Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. 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 and "Guidelines for Certified Public Accountants' Examination and Reports on Financial Statements". Those 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cathay Century Insurance Co., Ltd. and Subsidiary as of December 31, 2012 and 2011, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective from January 1, 2011, the Company and Subsidiaries have adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement", the newly issued SFAS No.40 "Insurance Accounting" and Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises.

ERNST & YOUNG
Taipei, Taiwan
The republic of China
March 15, 2013

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of December 31, 2012 and 2011

(Expressed in thousands of dollars)

		December 31, 2012		December 31, 2011	
Assets	Notes	NT$	US$	NT$	US$
Cash and cash equivalents	2,4	$5,827,862	$200,615	$6,998,255	$231,194
Receivables					
Notes receivable		277,728	9,560	254,593	8,411
Premiums receivable	2,5	2,869,353	98,773	2,541,899	83,974
Claims recoverable from reinsurers		513,592	17,680	268,251	8,862
Due from reinsurers and ceding companies		444,688	15,308	497,874	16,448
Other accounts receivable		144,530	4,975	112,904	3,730
Subtotal		4,249,891	146,296	3,675,521	121,425
Investment					
Financial assets at fair value through profit or loss	2,6	437,273	15,053	619,455	20,464
Available-for-sale financial assets	2,7	8,404,492	289,311	5,897,618	194,834
Derivative financial assets for hedging	2,8	17,134	590	28,521	942
Investments under equity method	2,10	1,490	51	5,465	181
Investments in debt securities with no active market	2,11	1,172,459	40,360	1,120,809	37,027
Held-to-maturity financial assets	2,12	2,512,011	86,472	2,408,714	79,574
Secured Loans	2,13	522,080	17,972	551,965	18,235
Subtotal		13,066,939	449,809	10,632,547	351,257
Reinsurance Reserve Assets - Net					
Ceded unearned premiums reserve		2,547,036	87,678	2,254,873	74,492
Ceded claims reserve		2,014,316	69,339	2,175,269	71,862
Ceded premiums deficiency reserve		(5,055)	(174)	6,136	203
Subtotal		4,556,297	156,843	4,436,278	146,557
Property and equipment - Net	2,14				
Other equipment		440,965	15,179	496,640	16,407
Leasehold improvements		53,497	1,842	44,598	1,473
Subtotal		494,462	17,021	541,238	17,880
Less: Accumulated depreciation		(310,320)	(10,682)	(319,739)	(10,562)
Prepayments for equipments		248	8	4,302	142
Subtotal		184,390	6,347	225,801	7,460
Intangible assets					
Computer software cost	2,15	35,755	1,231	37,323	1,233
Deferred pension cost		3,481	120	4,061	134
Subtotal		39,236	1,351	41,384	1,367
Other assets					
Prepayments		7,319	252	9,187	304
Guarantee deposits paid	2	1,139,563	39,228	940,947	31,085
Deferred income tax assets		20,294	698	40,092	1,324
Other assets - others		39,248	1,351	40,966	1,353
Subtotal		1,206,424	41,529	1,031,192	34,066
Total assets		$29,131,039	$1,002,790	$27,040,978	$893,326

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2012 and 2011 were NT$29.05 and NT$30.27 to US$1.00)

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets - (Continued)

As of December 31, 2012 and 2011

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$	December 31, 2011 US$
Payables					
Claims outstanding		$21,009	$723	$16,970	$561
Commissions payable		112,371	3,868	135,923	4,490
Due to reinsurers and ceding companies		1,205,101	41,484	1,261,437	41,673
Other payables		881,846	30,356	686,932	22,693
Subtotal		2,220,327	76,431	2,101,262	69,417
Financail Liabilities					
Financial liabilities at fair value through profit or loss	16	-	-	45,000	1,487
Preferred stock liability	17	1,000,000	34,424	1,000,000	33,036
Subtotal		1,000,000	34,424	1,045,000	34,523
Reserve for operating and liability	2,18				
Unearned premiums reserve		10,100,374	347,689	8,925,059	294,848
Claim reserve		5,807,437	199,912	5,364,787	177,231
Special reserve		4,455,638	153,378	4,761,102	157,288
Premiums deficiency reserve		77,149	2,656	25,025	827
Subtotal		20,440,598	703,635	19,075,973	630,194
Other liabilities					
Guarantee deposits received		30	1	30	1
Accrued pension liabilities		144,832	4,986	123,232	4,071
Other liabilities - others		440,793	15,173	259,787	8,582
Subtotal		585,655	20,160	383,049	12,654
Total liabilities		24,246,580	834,650	22,605,284	746,788
Capital stock					
Common stock	19	2,522,950	86,849	2,317,006	76,545
Capital surplus					
Capital surplus - others		1,929	66	1,929	64
Retained earnings	20				
Legal reserve		954,800	32,867	834,443	27,567
Special capital reserve		923,897	31,804	462,480	15,278
Unappropriated retained earnings		283,137	9,747	380,220	12,561
Equity adjustment					
Unrealized gains or losses on financial instruments		88,665	3,052	(53,919)	(1,781)
Cumulative translation adjustments		(52,536)	(1,808)	(22,377)	(740)
Net loss not recognized as net pension cost		(138,673)	(4,774)	(113,158)	(3,738)
Minority interest		300,290	10,337	629,070	20,782
Total stockholders' equity		4,884,459	168,140	4,435,694	146,538
Total liabilities and stockholders' equity		$29,131,039	$1,002,790	$27,040,978	$893,326

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2012 and 2011 were NT$29.05 and NT$30.27 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of income

For the years ended December 31, 2012 and 2011

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

Items	Notes	January 1-December 31, 2012 NT$	January 1-December 31, 2012 US$	January 1-December 31, 2011 NT$	January 1-December 31, 2011 US$
Operating revenues	2				
Direct premium income		$16,545,315	$569,546	$14,475,292	$478,206
Reinsurance premium income		494,931	17,037	480,147	15,862
Premiums income		17,040,246	586,583	14,955,439	494,068
Deduct: Reinsurance premiums ceded		(4,426,479)	(152,374)	(4,044,709)	(133,621)
Change in unearned premiums reserve - Net		(890,021)	(30,638)	(915,403)	(30,241)
Retained earned premium		11,723,746	403,571	9,995,327	330,206
Reinsurance commission earned		463,969	15,971	406,349	13,424
Handling fee earned		33,345	1,148	31,556	1,042
Investment profit and loss		595,257	20,491	477,403	15,772
Interest income		413,175	14,223	376,977	12,454
Gains on valuation of financial assets		105,865	3,644	2,255	74
Losses on valuation of financial liabilities		-	-	(225,808)	(7,460)
Losses on investments recognized under the equity method	2,16	(1,879)	(65)	(259)	(8)
(Losses) Gains on foreign Exchange		(128,974)	(4,439)	152,216	5,029
Gains on disposal of investments		207,070	7,128	172,022	5,683
Other operating revenues		73	3	-	-
Subtotal		12,816,390	441,184	10,910,635	360,444
Operating costs	2				
Insurance claims paid		(8,595,725)	(295,894)	(7,803,479)	(257,796)
Deduct: Claims recovered from reinsurers		1,926,425	66,314	1,969,237	65,056
Retained claim paid		(6,669,300)	(229,580)	(5,834,242)	(192,740)
Changes in liability reserves		(369,079)	(12,705)	66,428	2,195
Change in claims reserve - Net		(610,892)	(21,029)	(328,077)	(10,838)
Change in special reserve - Net		305,464	10,515	402,146	13,285
Change in premiums deficiency reserve - Net		(63,651)	(2,191)	(7,641)	(252)
Commissions expenses		(722,989)	(24,888)	(587,006)	(19,393)
Other operating costs		(51,324)	(1,767)	(67,898)	(2,243)
Subtotal		(7,812,692)	(268,940)	(6,422,718)	(212,181)
Operating expenses	2				
Marketing expenses		(3,412,703)	(117,477)	(2,994,796)	(98,936)
General and administrative expenses		(1,010,387)	(34,781)	(882,222)	(29,145)
Employee training expenses		(9,792)	(337)	(9,949)	(329)
Subtotal		(4,432,882)	(152,595)	(3,886,967)	(128,410)
Operating income		570,816	19,649	600,950	19,853
Non-operating revenues and gains					
Gains on disposal of property and equipment		-	-	303	10
Other non-operating revenues and gains		18,829	648	25,354	837
Subtotal		18,829	648	25,657	847
Non-operating expenses and losses					
Losses on disposal of property and equipment		(11)	-	(1)	-
Dividends on preferred stock liabilities		(18,600)	(640)	(2,599)	(86)
Losses on retirement of property and equipment		(434)	(15)	(490)	(16)
Other non-operating expenses and losses		(9,003)	(310)	(212)	(7)
Subtotal		(28,048)	(965)	(3,302)	(109)
Consolidated income before income taxes		561,597	19,332	623,305	20,591
Income taxes	2,23	(195,458)	(6,728)	(132,624)	(4,381)
Consolidated net income		$366,139	$12,604	$490,681	$16,210
Include:					
Parent company		$690,635	$23,774	$601,782	$19,880
Minority interest		(324,496)	(11,170)	(111,101)	(3,670)
Consolidated net income		$366,139	$12,604	$490,681	$16,210
Earning per share (In dollars)	24				
Income before income taxes		$2.23	$0.08	$2.47	$0.08
Net income		$1.45	$0.05	$1.94	$0.06

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2012 and 2011 were NT$29.05 and NT$30.27 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings						Equity adjustment									
	Common stock		Capital surplus		Legal reserve		Special capital reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative translation adjustments		Net loss not recognized as net pension cost		Minority interest		Total	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2011	$2,317,006	$76,545	$1,929	$64	$774,213	$25,577	$-	$-	$301,148	$9,949	$187,787	$6,204	$(63,039)	$(2,083)	$(47,368)	$(1,565)	$699,186	$23,098	$4,170,862	$137,789
Appropriations and distributions for 2010																				
Legal reserve	-	-	-	-	60,230	1,990	-	-	(60,230)	(1,990)	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(241,706)	(7,985)	-	-	-	-	(14,928)	(493)	(256,634)	(8,478)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	40,662	1,343	-	-	55,913	1,847	96,575	3,190
Net loss not recognized as net pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(65,790)	(2,173)	-	-	(65,790)	(2,173)
Provision for special reserve (Note)	-	-	-	-	-	-	462,480	15,278	(462,480)	(15,278)	-	-	-	-	-	-	-	-	-	-
Net Income for the years ended December 31, 2011	-	-	-	-	-	-	-	-	601,782	19,880	-	-	-	-	-	-	(111,101)	(3,670)	490,681	16,210
Balance on December 31, 2011	$2,317,006	$76,545	$1,929	$64	$834,443	$27,567	$462,480	$15,278	$380,220	$12,561	$(53,919)	$(1,781)	$(22,377)	$(740)	$(113,158)	$(3,738)	$629,070	$20,782	$4,435,694	$146,538
Balance on January 1, 2012	$2,317,006	$79,760	$1,929	$66	$834,443	$28,724	$462,480	$15,921	$380,220	$13,088	$(53,919)	$(1,856)	$(22,377)	$(770)	$(113,158)	$(3,895)	$629,070	$21,655	$4,435,694	$152,693
Appropriations and distributions for 2011																				
Legal reserve	-	-	-	-	120,357	4,143	-	-	(120,357)	(4,143)	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	53,919	1,856	(53,919)	(1,856)	-	-	-	-	-	-	-	-	-	-
Stock dividends	205,944	7,089	-	-	-	-	-	-	(205,944)	(7,089)	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	142,584	4,908	-	-	-	-	12,802	440	155,386	5,348
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(30,159)	(1,038)	-	-	(17,086)	(588)	(47,245)	(1,626)
Net loss not recognized as net pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,515)	(879)	-	-	(25,515)	(879)
Provision for special reserve (Note)	-	-	-	-	-	-	407,498	14,027	(407,498)	(14,027)	-	-	-	-	-	-	-	-	-	-
Net Income for the years ended December 31, 2012	-	-	-	-	-	-	-	-	690,635	23,774	-	-	-	-	-	-	(324,496)	(11,170)	366,139	12,604
Balance on December 31, 2012	$2,522,950	$86,849	$1,929	$66	$954,800	$32,867	$923,897	$31,804	$283,137	$9,747	$88,665	$3,052	$(52,536)	$(1,808)	$(138,673)	$(4,774)	$300,290	$10,337	$4,884,459	$168,140

Note：The special reserve was set aside in accordance with article 18 of "Regulation of the Management of Various Reserves by Insurance Enterprises".

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2012 and 2011 were NT$29.05 and NT$30.27 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

Items	January 1-December 31, 2012 NT$	January 1-December 31, 2012 US$	January 1-December 31, 2011 NT$	January 1-December 31, 2011 US$
Cash flows from operating activities				
Net income	$366,139	$12,604	$490,681	$16,210
Adjustments to reconcile net income to net cash provided by (used in)				
Operating activities:				
Depreciation	84,386	2,905	77,518	2,561
Amortization	23,004	792	17,227	569
Insurance claims payment	1,243	43	-	-
Provision bad debt	-	-	11,524	381
Gains from valuation on financial assets	(105,865)	(3,644)	(2,255)	(74)
Losses from valuation on financial liabilities	-	-	225,808	7,460
Change in unearned premiums reserve-net	890,021	30,638	915,403	30,241
Change in claims reserve-net	610,892	21,029	328,077	10,838
Change in special reserve-net	(305,464)	(10,515)	(402,146)	(13,285)
Change in premiums deficiency reserve-net	63,651	2,191	7,641	252
Investment loss recognized under equity method	1,879	65	259	8
Gains on disposal of investments	(207,070)	(7,128)	(172,022)	(5,683)
Gains on disposal of property and equipment	-	-	(303)	(10)
Loss on disposal of property and equipment	11	-	1	-
Loss of property and equipment scrapped	434	15	490	16
Increase in notes receivable	(23,135)	(796)	(34,763)	(1,148)
Increase in premiums receivable	(327,454)	(11,272)	(475,118)	(15,696)
Increase in claims recoverable from reinsurers	(245,341)	(8,445)	(74,688)	(2,467)
Increase in other receivable	(31,626)	(1,089)	(31,955)	(1,056)
Decrease (Increase) in financial assets at fair value through profit or loss	299,975	10,326	(466,786)	(15,421)
Decrease in financial liabilities at fair value through profit or loss	(45,000)	(1,549)	-	-
Decrease (Increase) in due from reinsurers and ceding companies	53,186	1,831	(121,608)	(4,017)
Decrease (Increase) in prepayments	1,868	64	(4,137)	(137)
(Increase) Decrease in guarantee deposits paid	(199,080)	(6,853)	42,843	1,415
Decrease in deferred income tax assets	19,799	681	12,207	403
Decrease in other assets - others	626	21	12,657	418
Increase (Decrease) in claims outstanding	4,039	139	(14,626)	(483)
(Decrease) Increase in commissions payable	(23,552)	(811)	122,168	4,036
(Decrease) Increase in due to reinsurers and ceding companies	(56,336)	(1,939)	83,367	2,754
Increase (Decrease) in other payables	194,914	6,709	(81,889)	(2,705)
Decrease in guarantee deposits received	-	-	(320)	(10)
(Decrease) Increase in pension liabilities	(3,335)	(115)	475	16
Increase in other liabilities - others	181,006	6,231	53,796	1,777
Net cash provided by operating activities	1,223,815	42,128	519,526	17,163
Cash flows from investing activities				
Acquisition of financial assets	(2,299,435)	(79,154)	(2,343,629)	(77,424)
Decrease in secured loans	29,885	1,029	153,249	5,063
Acquisition of property and equipment	(53,279)	(1,834)	(110,132)	(3,639)
Proceeds from disposal of property and equipment	7	-	303	10
Acquisition of intangible assets	(14,661)	(505)	(11,750)	(388)
Disinvestment of investment under the equity method	2,090	72	-	-
Net cash used in investing activities	(2,335,393)	(80,392)	(2,311,959)	(76,378)
Cash flows from financing activities				
Increase in preferred stock liability	-	-	1,000,000	33,036
Net cash provided by financing activities	-	-	1,000,000	33,036
Effects of exchange rate changes	(58,815)	(2,025)	119,036	3,932
Decrease in cash and cash equivalents	(1,170,393)	(40,289)	(673,397)	(22,247)
Cash and cash equivalents at the beginning of periods	6,998,255	240,904	7,671,652	253,441
Cash and cash equivalents at the end of periods	$5,827,862	$200,615	$6,998,255	$231,194
Supplemental disclosure of cash flows information				
Income tax paid	$13,618	$469	$16,702	$552

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2012 and 2011 were NT$29.05 and NT$30.27 to US$1.00)

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

(Expressed in thousands of dollars unless otherwise stated)

1. Organization and business scope

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

As of December 31, 2012 and 2011, the total numbers of employees were 2,344 and 1,937 respectively.

2. Summary of significant accounting policies

The company prepared the consolidated financial statement, in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies is as follows:

(1) Principles of consolidation financial statements

A. According to the Statements of Financial Accounting Standards of the R.O.C. ("R.O.C. SFAS") No. 7 "Consolidated Financial Statements", the consolidated financial statements include the Company and its subsidiaries ("Subsidiaries") over which the Company holds more than 50% of the Subsidiaries' voting rights or has a controlling interest. As of December 31, 2012 and 2011, the consolidated financial statements include the following entities:

Investor	Investee	Business	Ownership interest 2012.12.31	Ownership interest 2011.12.31	Notes
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00%	50.00%	Cathay Insurance (China) acquired the operation license on August 26, 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China) . As of December 31, 2012 and 2011, the total numbers of employees were 557 and 319, respectively.

(Expressed in thousands of dollars unless otherwise stated)

Investor	Investee	Business	Ownership interest		Notes
			2012.12.31	2011.12.31	
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00%	100.00%	Cathay Insurance (Vietnam) acquired the operation license on November 2, 2010. The Company owns 100% interest of Cathay Insurance(Vietnam). As of December 31, 2012 and 2011, the total numbers of employees were 97 and 69, respectively.

B. All material inter-company transactions were eliminated in the consolidated financial statements.

(2) Cash and cash equivalents

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

A. Readily convertible to known amounts of cash; and

B. Near maturity and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

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

(3) Assessment of impairment for loans and receivables

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is recognized and measured as the difference between the loan or receivable's carrying amount and the present value of estimated future cash flows discounted at its original effective interest rates (excluding future credit losses that have not been incurred). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

(4) Financial assets and financial liabilities

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

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

A. Financial assets at fair value through profit or loss

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

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

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

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

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

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Financial assets carried at cost

Financial assets measured at initial cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss will be recognized. The impairment loss can not be reversed.

F. Derivative financial assets for hedging

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

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

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

(5) Investments under equity method

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

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the investment under the equity method. If the adjustment stated above is to debit the additional paid-in capital account and the amount of additional paid-in capital from investments is not enough to be offset, the difference shall be debited to the retained earnings account.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and its subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

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

(6) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

(7) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(8) Derivative financial instruments

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

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

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(9) Property and equipment

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

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

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

Property and equipment of Cathy Insurance (China) are assets with useful life over a year and value per unit exceeds $2,000 RMB such as houses, buildings, machines, equipments and vehicles. These assets are recorded at cost and depreciated using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of those fixed assets are 100% of their costs estimated based on their nature and conditions of usage.

(10) Intangible assets

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

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

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

The "intangible assets" of the Company and the subsidiaries are computer software and are amortized over the estimated useful lives of 1~3 years using the straight-line method.

(11) Accounting for asset impairment

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

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

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

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

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

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

(12) Separation requirement for specific assets

The Company provides compulsory automobile liability insurance ("this insurance") and establishes independent accounting to record the operational and financial status of this insurance incompliance with Compulsory Automobile Liability Insurance Act.

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

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

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

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

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

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

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

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

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

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

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

(13) Operating and liabilities reserves

I. The Company

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

A. Unearned premium reserve

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

B. Claims reserve

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

C. Special reserve

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

a. Special reserve for major incident

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

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

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

b. Special reserve for fluctuation of risks

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

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

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

C. 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.

II. Cathay Insurance (China)

The insurance contract liabilities comprise mainly unearned premium reserves and claim reserves in accordance with the requirements of the PRC Insurance Law, the PRC GAAP and No. 2 Interpretation of the Accounting Standard for Enterprise.

A. Unearned premium reserves

The unearned premium reserves represent premiums received for risks that have not yet expired.

Unearned premium reserves are measured by using unearned premium approach. At inception of the contract, unearned premium reserves are measured based on premiums received minus relevant acquisition cost, such as commission expenses underwriting personal expenses, business tax and surcharges, insurance protection expense and other incremental costs.

Subsequent to the initial recognition, the unearned premium reserves are released over the term of the contract and are primarily earned on a 365-day basis.

B. Claim reserves

The claim reserves include incurred and reported claim reserves, incurred but not reported ("IBNR") claim reserves and claim expense reserves.

Incurred and reported claim reserves represent insurance contract provisions for the claims incurred and reported to Cathay Insurance (China). Cathay Insurance (China) uses case-by-case estimate method to measure incurred and reported claim reserves based on reasonable estimate of ultimate claim amount.

IBNR claim reserves represent insurance contract provisions for the claims incurred but not reported to Cathy Insurance (China). Since Cathay Insurance (China) got approved to start business on August 2008, the historical claim data has not yet been sufficient. Consider of that, Cathay Insurance (China) calculates the IBNR reserves by using the loss rate method based on the average loss rate of the top 6 property insurance companies in China, together with considering the time value discount and residual margin adjustment.

Claim expense reserves represent insurance contract provisions for related claims handling costs. Cathay Insurance (China) measures claim expense reserves based on reasonable estimate of necessary claim expenses in the future, Cathay Insurance (China) uses case-by-case estimate method and ratio allocation method to measure claim expense reserves.

III. Cathay Insurance (Vietnam)

The insurance contract liabilities of Cathay Insurance (Vietnam) are set aside in accordance with Insurance Law in Vietnam, which comprise mainly unearned premium reserves and claim reserves.

A. Unearned premium reserves

The unearned premium reserves represent premiums received for risks that have not yet expired, which shall be set aside based on each unexpired underlying risk.

B. Claim reserves

The claim reserves include incurred and reported claim reserves and incurred but not reported ("IBNR") claim reserves. Incurred and reported claim reserves represent insurance contract provisions for the claims incurred and reported to Cathay Insurance (Vietnam). Cathay Insurance (Vietnam) uses case-by-case estimate method to measure incurred and reported claim reserves.

IBNR claim reserves are calculated as a rate of 5% of annual retained premiums in accordance with the suggestions from Vietnamese Ministry of Finance 2842/BTC/QCBH.

(14) Insurance premium revenues and the acquisition costs

A. The Company

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

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

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

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

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

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

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

B. Cathay Insurance (China)

In accordance with "The General Accounting Systems for Insurance Companies " issued by the Finance Ministry of the People's Republic of China, Cathay Insurance (China) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis

(15) 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-insurees according to reinsurance contracts. For those reported but unpaid claims and IBNR claims, are recognized as the gross change of claims reserve.

Claim reserve is not discounted to its present value.

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

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

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

(16) Liability adequacy test

In alignment with Article 24-1 of Regulations for the Various Reserves of Insurance Industry, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under SFAS 40. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(17) Reinsurance ceded

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

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

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

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

(18) Contribution to the stabilization funds

A. The Company

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.

B. Cathay Insurance (China)

According to the Insurance Act of the People’s Republic of China, the insurance company which operated over one year in the previous year should deposit one-forth of the previous year’s contribution to the stabilization funds as current quarter’s prepayment to the account. The fund will be deposited each season until the amount of the fund is up to 6% of the amount of total assets.

(19) Pension plan

A. The Company

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

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

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

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

B. Cathay Insurance (China)

According to the PRC's endowment insurance system, the employing entity shall pay certain percentage of its payroll as pension premium. The percentage varies from 8-11% based on each employee's domiciliary register. The pension fund is organized and executed by governments independently. Cathay Insurance (China) has no further obligations except for contributing to the pension fund monthly.

C. Cathay Insurance (Vietnam)

According to the regulation of Ministry of Labour of Vietnam, the employing entity shall pay 17% of its payroll as pension premium. The pension fund is organized and executed by governments independently, Cathay Insurance (Vietnam) has no further obligations except for contributing to the pension fund monthly.

(20) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

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

(21) Income Taxes

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

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

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

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

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

(22) Capital expenditure expenses

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

(23) Employee bonus and remuneration of directors

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

(24) Operating Segment Information

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

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

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

C. For which discrete financial information is available.

(25) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$29.05 and NT$30.27 provided by Federal Reserve Bank of New York of as of December 31, 2012 and 2011 are used for the conversion.

3. Changes in accounting and their effects

(1) Effective from January 1, 2011, the Company and Subsidiaries have adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement". This change in accounting principles has no significant impact on consolidated net income and earnings per share for the year ended December 31, 2011.

(2) Started from January 1, 2011, the Company and Subsidiaries have applied SFAS No.40 "Insurance Contracts" and "Regulation Governing the Preparation of Financial Reports by Insurance Enterprises" issued on December 30, 2009 according to FSC Insurance Interpretation No. 09802506492. Based on SFAS, preparing guidance and related interpretation, this change in accounting principles has no significant impact on consolidated net income and earnings per share for the year ended December 31,2011

(Expressed in thousands of dollars unless otherwise stated)

In addition, special reserve for major incidents and special reserve for fluctuation of risks that have been set aside should be accounted for special reserve under retained earnings at year end. Until December 31, 2011, the amount set aside was NT$462,480 (US$15,920) thousands (after tax).

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

4. Cash and cash equivalents

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Petty cash and cash on hand	$7,792	$268	$7,040	$233
Cash in banks	1,555,534	53,547	1,444,523	47,721
Time deposits	4,118,996	141,790	5,006,034	165,379
Cash equivalents	145,540	5,010	540,658	17,861
Total	$5,827,862	$200,615	$6,998,255	$231,194

5. Premiums receivable

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Premiums receivable	$2,938,103	$101,140	$2,620,651	$86,576
Less: Allowance for bad debts	(68,750)	(2,367)	(78,752)	(2,602)
Net	$2,869,353	$98,773	$2,541,899	$83,974

6. Financial assets at fair value through profit or loss

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Beneficiary certificates	$376,408	$12,958	$617,200	$20,390
Add: Valuation adjustment	60,865	2,095	2,255	74
Total	$437,273	$15,053	$619,455	$20,464

(Expressed in thousands of dollars unless otherwise stated)

7. Available-for-sale financial assets

Item	December 31, 2012 NT$	2012 US$	2011 NT$	2011 US$
Listed stocks	$1,459,575	$50,243	$1,677,823	$55,429
Overseas stocks	84,653	2,914	29,801	984
Beneficiary certificates	2,903,801	99,959	980,445	32,390
Real Estate Investment Trust	328,197	11,298	427,486	14,122
Corporate bonds	1,144,257	39,389	1,215,934	40,170
Financial debentures	1,200,111	41,312	900,016	29,733
Government bonds	791,431	27,244	756,959	25,007
Overseas bonds	396,100	13,635	-	-
Subtotal	8,308,125	285,994	5,988,464	197,835
Add: Valuation adjustment	96,367	3,317	(90,846)	(3,001)
Total	$8,404,492	$289,311	$5,897,618	$194,834

8. Derivative financial assets for hedging

Item	December 31, 2012 NT$	2012 US$	2011 NT$	2011 US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	17,134	590	28,521	942
Total	$17,134	$590	$28,521	$942

9. Investments under equity method

Investee	December 31, 2012 NT$	2012 US$	2011 NT$	2011 US$
Vista Technology Venture Capital Corp.	$1,490	$51	$5,465	$181

(Expressed in thousands of dollars unless otherwise stated)

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

	For the years ended December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Balance on January 1	$5,465	$188	$5,720	$189
Add (less):				
Investment loss recognized under the equity method	(1,879)	(65)	(259)	(8)
Unrealized gains or losses on financial instruments recognized under the equity investment	(6)	-	4	-
Disinvestment of investment under the equity method	(2,090)	(72)	-	-
Balance on December 31	$1,490	$51	$5,465	$181

B. The investment gains recognized under equity method for the years ended December 31, 2012 and 2011 are listed below:

	For the years ended December 31,			
	2012		2011	
Investee	NT$	US$	NT$	US$
Vista Technology Venture Capital Corp.	$(1,879)	$(65)	$(259)	$(8)

C. Equity method was applied for Vista Technology Venture Capital Corp. due to the ownership of more than 20% jointly holding by the Company and its related parties for the years ended December 31, 2012 and 2011.

10. Investments in debt securities with no active market

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Preferred stocks	$400,000	$13,769	$400,000	$13,214
Company bonds	500,000	17,212	500,000	16,518
Overseas bonds	272,459	9,379	220,809	7,295
Total	$1,172,459	$40,360	$1,120,809	$37,027

(Expressed in thousands of dollars unless otherwise stated)

11. Held-to-maturity financial assets

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Overseas bonds	$2,512,011	$86,472	$2,408,714	$79,574

12. Secured loans

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Secured loans	$595,243	$20,490	$569,737	$18,822
Less: Allowance for bad debts	(73,163)	(2,518)	(17,772)	(587)
Net	$522,080	17,972	$551,965	$18,235

Secured loans are secured by real estate.

13. Property and equipment

	December 31, 2012					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Other equipments	$440,965	$15,179	$(274,583)	$(9,452)	$166,382	$5,727
Leasehold improvements	53,497	1,842	(35,737)	(1,230)	17,760	612
Subtotal	494,462	17,021	(310,320)	(10,682)	184,142	6,339
Prepayments for equipments	248	8	-	-	248	8
Total	$494,710	$17,029	$(310,320)	(10,682)	$184,390	$6,347

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Other equipments	$496,640	$16,407	$(290,841)	$(9,608)	$205,799	$6,799
Prepayments for equipments	44,598	1,473	(28,898)	(954)	15,700	519
Subtotal	541,238	17,880	(319,739)	(10,562)	221,499	7,318
Prepayments for equipments	4,302	142	-	-	4,302	142
Total	$545,540	$18,022	$(319,739)	$(10,562)	$225,801	$7,460

No equipments of the Company were pledged as collaterals as of December 31, 2012 and 2011.

14. Intangible assets - Computer software cost

	January 1,2012		Increase		Decrease		December 31, 2012	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$115,852	$3,988	$20,146	$693	$-	$-	$135,998	$4,681
Amortization and impairment								
Amortization	(78,529)	(2,703)	(21,714)	(747)	-	-	(100,243)	(3,450)
Book value	$37,323	$1,285					$35,755	$1,231

	January 1,2011		Increase		Decrease		December 31, 2011	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$96,948	$3,203	$18,904	$620	$-	$-	$115,852	$3,823
Amortization and impairment								
Amortization	(61,712)	(2,039)	(16,817)	(551)	-	-	(78,529)	(2,590)
Book value	$35,236	$1,164					$37,323	$1,233

The intangible assets of the Company and its subsidiaries are computer software and are calculated using the straight-line method over the estimated useful lives within 1-3 years.

(Expressed in thousands of dollars unless otherwise stated)

15. Financial liabilities at fair value through profit or loss

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	-	-	45,000	1,487
Total	$-	$-	$45,000	$1,487

16. Preferred stock liability

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

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

A. Issuance period covers from November 11, 2011, the issue date, to November 11, 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.

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.

(Expressed in thousands of dollars unless otherwise stated)

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

17. Reserve for operating and liability

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Unearned premiums reserve	$10,100,374	$347,689	$8,925,059	$294,848
Claims reserve	5,807,437	199,912	5,364,787	177,231
Special reserve	4,455,638	153,378	4,761,102	157,288
Premiums deficiency reserve	77,149	2,656	25,025	827
Total	$20,440,598	$703,635	$19,075,973	$630,194

(1) Unearned premiums reserve

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

	December 31, 2012							
	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
Item	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

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011							
	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
Item	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	$36,719
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

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

	December 31, 2012			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$8,925,059	$307,231	$2,254,873	$77,621
Reserve	10,103,403	347,794	2,547,943	87,709
Recover	(8,917,903)	(306,985)	(2,252,464)	(77,538)
Effects of exchange rate changes	(10,185)	(351)	(3,316)	(114)
Ending balance	$10,100,374	$347,689	$2,547,036	$87,678

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$7,563,045	$249,853	$1,820,466	$60,141
Reserve	8,909,980	294,350	2,249,882	74,327
Recover	(7,566,651)	(249,972)	(1,821,956)	(60,190)
Effects of exchange rate changes	18,685	617	6,481	214
Ending balance	$8,925,059	$294,848	$2,254,873	$74,492

(2) Claims reserve

A. Claims reserve and ceded claims reserve

	December 31, 2012							
	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
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	$5,474,182	$188,440	$333,255	$11,472	$2,014,316	$69,339	$3,793,121	$130,573

	December 31, 2011							
	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
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	$5,120,540	$169,162	$244,247	$8,069	$2,175,269	$71,862	$3,189,518	$105,369

(Expressed in thousands of dollars unless otherwise stated)

B. Net changes for claims reserve and ceded claims reserve

December 31, 2012 — NT$

Item	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for claim reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded claims reserve (8)=(6)-(7)
Claims reported but not paid off	$4,114,351	$4,057,820	$293,676	$196,679	$153,528	$1,724,852	$1,895,417	$(170,565)
Unreported claims	1,363,648	1,054,855	39,580	47,492	300,881	290,744	276,662	14,082
Total	$5,477,999	$5,112,675	$333,256	$244,171	$454,409	$2,015,596	$2,172,079	$(156,483)

December 31, 2012 — US$

Item	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded claims reserve (8)=(6)-(7)
Claims reported but not paid off	$141,630	$139,684	$10,109	$6,770	$5,285	$59,375	$65,247	$(5,872)
Unreported claims	46,941	36,312	1,363	1,635	10,357	10,008	9,523	485
Total	$188,571	$175,996	$11,472	$8,405	$15,642	$69,383	$74,770	$(5,387)

December 31, 2011 — NT$

	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded claims reserve (8)=(6)-(7)
Claims reported but not paid off	$4,053,069	$3,664,924	$196,679	$54,692	$530,132	$1,893,865	$1,586,899	$306,966
Unreported claims	1,050,540	903,141	47,404	2,796	192,007	274,531	187,435	87,096
Total	$5,103,609	$4,568,065	$244,083	$57,488	$722,139	$2,168,396	$1,774,334	$394,062

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011							
	US$							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	$133,897	$121,075	$6,498	$1,807	$17,513	$62,566	$52,425	$10,141
Unreported claims	34,706	29,836	1,565	92	6,343	9,069	6,192	2,877
Total	$168,603	$150,911	$8,063	$1,899	$23,856	$71,635	$58,617	$13,018

C. Reported claims but not yet paid off or unreported claims liabilities for policyholder

	December 31, 2012					
	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
Item	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	$4,405,566	$151,655	$1,401,871	$48,257	$5,807,437	$199,912

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
Item	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	$4,258,618	$140,688	$1,106,169	$36,543	$5,364,787	$177,231

D. Reinsurance asset- ceded claims reserve for policyholder

	December 31, 2012					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
Item	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

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
Item	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	$1,896,762	$62,661	$278,507	$9,201	$2,175,269	$71,862

E. Reconciliation statement of claims reserve and ceded claims reserve

	December 31, 2012			
	Claims reserve		Ceded claims reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$5,364,787	$184,674	$2,175,269	$74,880
Reserve	5,811,255	200,043	2,015,596	69,383
Recover	(5,356,846)	(184,401)	(2,172,079)	(74,770)
Effects of exchange rate changes	(11,759)	(404)	(4,470)	(154)
Ending balance	$5,807,437	$199,912	$2,014,316	$69,339

	December 31, 2011			
	Claims reserve		Ceded claims reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$4,620,275	$152,635	$1,771,478	$58,523
Reserve	5,347,692	176,666	2,168,396	71,635
Recover	(4,625,553)	(152,810)	(1,774,334)	(58,617)
Effects of exchange rate changes	22,373	740	9,729	321
Ending balance	$5,364,787	$177,231	$2,175,269	$71,862

(Expressed in thousands of dollars unless otherwise stated)

(3) Special reserve

A. Special reserve- Compulsory car insurance

	December 31, 2012	
Item	NT$	US$
Beginning balance	$2,434,891	$83,817
Reserve	199,736	6,876
Recover	(327,036)	(11,258)
Ending balance	$2,307,591	$79,435

	December 31, 2011	
Item	NT$	US$
Beginning balance	$2,335,811	$77,166
Reserve	264,722	8,745
Recover	(165,642)	(5,472)
Ending balance	$2,434,891	$80,439

B. Special reserve- Non-compulsory car insurance

	December 31, 2012					
	Liability					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Beginning balance	$1,172,396	$40,358	$1,153,815	$39,718	$2,326,211	$80,076
Reserve	-	-	-	-	-	-
Recover	(59,328)	(2,042)	(118,836)	(4,091)	(178,164)	(6,133)
Ending balance	$1,113,068	$38,316	$1,034,979	$35,627	$2,148,047	$73,943

	December 31, 2011					
	Liability					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Beginning balance	$1,183,609	$39,102	$1,643,828	$54,305	$2,827,437	$93,407
Reserve	-	-	-	-	-	-
Recover	(11,213)	(370)	(490,013)	(16,188)	(501,226)	(16,558)
Ending balance	$1,172,396	$38,732	$1,153,815	$38,117	$2,326,211	$76,849

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2012					
	Special capital reserve					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Beginning balance	$169,987	$5,852	$292,493	$10,069	$462,480	$15,921
Reserve	145,997	5,025	266,768	9,183	412,765	14,208
Recover	-	-	(5,267)	(181)	(5,267)	(181)
Ending balance	$315,984	10,877	$553,994	19,071	$869,978	29,948

	December 31, 2011					
	Special capital reserve					
	Major incidents		Fluctuation of risks		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Beginning balance	$-	$-	$-	$-	$-	$-
Reserve	169,987	5,615	292,493	9,663	462,480	15,278
Recover	-	-	-	-	-	-
Ending balance	$169,987	$5,615	$292,493	$9,663	$462,480	$15,278

(4) Premiums deficiency reserve

A. Premiums deficiency reserve and ceded premium deficiency reserve

	December 31, 2012							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$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

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Fire insurance	$-	$-	$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

B. Net loss recognized for premiums deficiency reserve- Net change for premium deficiency reserve and ceded premiums deficiency reserve

	December 31, 2012								
	NT$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$6,226	$-	$24	$432	$5,818	$-	$(5,485)	$5,485	$333
Marine insurance	9,323	9,806	726	55	188	(7,184)	1,867	(9,051)	9,239
Land and air insurance	-	-	9,319	2	9,317	-	(1,480)	1,480	7,837
Liability insurance	13,118	-	10	49	13,079	-	49	(49)	13,128
Bonding insurance	2,204	11,292	-	6	(9,094)	2,096	11,185	(9,089)	(5)
Other property insurance	35,820	3,235	437	53	32,969	34	-	34	32,935
Accident insurance	-	-	195	11	184	-	-	-	184
Health insurance	-	-	-	-	-	-	-	-	-
Total	$66,691	$24,333	$10,711	$608	$52,461	$(5,054)	$6,136	$(11,190)	$63,651

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2012								
	US$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$214	$-	$1	$15	$200	$-	$(189)	$189	$11
Marine insurance	321	338	25	2	6	(247)	64	(311)	317
Land and air insurance	-	-	321	-	321	-	(51)	51	270
Liability insurance	452	-	-	2	450	-	2	(2)	452
Bonding insurance	76	389	-	-	(313)	72	385	(313)	-
Other property insurance	1,233	111	15	2	1,135	1	-	1	1,134
Accident insurance	-	-	7	-	7	-	-	-	7
Health insurance	-	-	-	-	-	-	-	-	-
Total	$2,296	$838	$369	$21	$1,806	$(174)	$211	$(385)	$2,191

	December 31, 2011								
	NT$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$432	$-	$432	$(5,485)	$-	$(5,485)	$5,917
Marine insurance	9,806	61,815	55	139	(52,093)	1,867	56,168	(54,301)	2,208
Land and air insurance	-	-	2	-	2	(1,480)	(4,220)	2,740	(2,738)
Liability insurance	-	-	49	-	49	49	-	49	-
Bonding insurance	11,289	9,053	6	-	2,242	11,185	9,053	2,132	110
Other property insurance	3,141	1,028	51	31	2,133	-	-	-	2,133
Accident insurance	-	-	11	-	11	-	-	-	11
Health insurance	-	-	-	-	-	-	-	-	-
Total	$24,236	$71,896	$606	$170	$(47,224)	$6,136	$61,001	$(54,865)	$7,641

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011								
	US$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
Item	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$14	$-	$14	$(181)	$-	$(181)	$195
Marine insurance	324	2,042	2	5	(1,721)	62	1,855	(1,793)	72
Land and air insurance	-	-	-	-	-	(49)	(139)	90	(90)
Liability insurance	-	-	2	-	2	2	-	2	-
Bonding insurance	373	299	-	-	74	369	299	70	4
Other property insurance	104	34	2	1	71	-	-	-	71
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Total	$801	$2,375	$20	$6	$(1,560)	$203	$2,015	$(1,812)	$252

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

	December 31, 2012			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$25,025	$862	$6,136	$211
Reserve	77,402	2,665	(5,054)	(174)
Recover	(24,941)	(859)	(6,136)	(211)
Effects of exchange rate changes	(337)	(12)	(1)	-
Ending balance	$77,149	$2,656	$(5,055)	$(174)

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	NT$	US$	NT$	US$
Beginning balance	$72,033	$2,380	$61,000	$2,015
Reserve	24,842	821	6,136	203
Recover	(72,066)	(2,381)	(61,001)	(2,015)
Effects of exchange rate changes	216	7	1	-
Ending balance	$25,025	$827	$6,136	$203

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.

18. Common stock

As of December 31, 2012 and 2011, the authorized and issued shares were 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 April 24, 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 June 8, 2012.

19. Retained earnings

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

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

(3) According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal reserve and special 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.

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

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

(6) The 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 and $1,839 (US$0 and $61) for the years ended December 31, 2012 and 2011, 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 2013 and 2012.

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

(8) Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2011 should be NT$1,839 (US$63) thousands, there was no difference between the accrual and actual amount of the employee bonus and directors' compensation for 2011.

(9) Based on the resolutions passed by the Company's board of directors, the employee bonuses for 2012 should be $0 (US$0) thousands, but the recommendation has not been approved by the stockholders' meeting exercised by the board of directors. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in 2013.

(Expressed in thousands of dollars unless otherwise stated)

(10) 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 years ended December 31, 2012, the reserves amounted to NT$869,978 (US$29,948) thousands.

20. Personnel, depreciation, depletion and amortization expenses

Item	For the year ended December 31, 2012 (NT$)			For the year ended December 31, 2011 (NT$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$1,844,962	$1,844,962	$-	$1,577,524	$1,577,524
Labor & health insurance expenses	-	129,452	129,452	-	102,797	102,797
Pension expenses	-	78,538	78,538	-	70,678	70,678
Other expenses	-	59,330	59,330	-	50,764	50,764
Depreciation	-	84,386	84,386	-	77,518	77,518
Depletion	-	-	-	-	-	-
Amortization	-	23,004	23,004	-	17,227	17,227

Item	For the year ended December 31, 2012 (US$)			For the year ended December 31, 2011 (US$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$63,510	$63,510	$-	$52,115	$52,115
Labor & health insurance expenses	-	4,456	4,456	-	3,396	3,396
Pension expenses	-	2,704	2,704	-	2,335	2,335
Other expenses	-	2,042	2,042	-	1,677	1,677
Depreciation	-	2,905	2,905	-	2,561	2,561
Depletion	-	-	-	-	-	-
Amortization	-	792	792	-	569	569

(Expressed in thousands of dollars unless otherwise stated)

21. Estimated income taxes

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Tax expenses calculated in taxable income	$167,905	$5,780	$121,619	$4,018
Taxed effects under integrated income tax systems	-	-	-	-
Investment tax credit	-	-	(1,200)	(40)
Adjustment of prior year's income tax	(4,312)	(149)	21	1
Deferred income tax (benefits) expenses	19,836	683	12,184	402
Prior year's tax paid	12,029	414	-	-
Total income tax expenses	$195,458	$6,728	$132,624	$4,381

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

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
A. Total deferred income tax assets	$325,265	$11,196	$203,629	$6,272
B. Total deferred income tax liabilities	$(18,305)	$(630)	$(22,311)	$(737)
C. Allowance for tax assets	$(286,666)	$(9,868)	$(141,226)	$(4,666)
D. Temporary differences:				
Bad debts exceeding legal limitation	$109,800	$3,779	$113,936	$3,764
Unrealized gains on foreign exchanges	(1,424)	(49)	(127,019)	(4,196)
Unrealized losses on foreign exchanges	114,570	3,944	-	-
Unrealized losses from valuation on financial assets	(105,579)	(3,634)	-	-
Unrealized gains from valuation on financial liabilities	-	-	225,808	7,460
Others	2,678	92	6,013	198
Total	$120,045	$4,132	$218,738	$7,226

(Expressed in thousands of dollars unless otherwise stated)

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
E. Investment tax credit	-	-	$3,625	$120
F. Loss carry forwards	$1,146,277	$39,459	$564,905	$18,662
G. Deferred income tax assets	$38,599	$1,328	$62,403	$2,061
Deferred income tax liabilities	(18,305)	(630)	(22,311)	(737)
Net balance deferred income tax assets	$20,294	$698	$40,092	$1,324

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

(4) Information related to imputation:

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Balance of imputation credit account	$5,903	$203	$8,203	$271

	December 31, 2012 (actual)	December 31, 2011 (actual)
Imputation creditable ratio	2.08%	2.16%

(5) Information related to undistributed earnings:

	December 31,			
	2012		2011	
Year	NT$	US$	NT$	US$
Prior to 1997	$-	$-	$-	$-
After 1998	690,635	23,774	842,700	27,839
Total	$690,635	23,774	$842,700	$27,839

The special reserve set aside in accordance with the article 18 of "Regulations of the Management of Various Reserves by Insurance Enterprises" was not deducted from the undistributed earnings for the year ended December 31, 2011.

22. Earnings per share

	For the year ended December 31, 2012		For the year ended December 31, 2011	
	NT$	US$	NT$	US$
Consolidated net income (A)	$366,139	$12,604	$490,681	$16,210
Outstanding number of shares (in thousands shares) (B)	252,295	252,295	252,295	252,295
Weighted average outstanding number of shares (in thousands shares) (C)	252,295	252,295	252,295	252,295
Earnings per shares (in dollars)(A)/(C)	$1.45	$0.05	$1.94	$0.06

23. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Conning Asset Management Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Vista Technology Venture Capital Corp.	An equity method investee
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance Co., Ltd. (China)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co, Ltd.
Indovina Bank Limited.	Subsidiary of Cathay United Bank Co, Ltd.
Singapore Banking Corporation Limited	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
San Ching Engineering Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Seaward Leasing Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6 (merged with Cathay Real Estate Development Co., Ltd on July 28, 2011)
Cathay General Hospital	Related Party disclosed according to Accounting Standard No. 6
Other related parties	The directors, supervisors, mangers, and their spouses, as well as their second immediate families

(Expressed in thousands of dollars unless otherwise stated)

(2) Significant transactions with related parties

A. Premiums income

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$111,560	$3,840	$103,736	$3,427
Cathay United Bank Co., Ltd.	98,341	3,385	101,622	3,357
Seaward Leasing Co., Ltd.	-	-	3,701	122
Cathay General Hospital	8,413	290	-	-
Cathay Real Estate Development Co., Ltd.	8,324	287	4,503	149
San Ching Engineering Co., Ltd.	6,054	208	3,374	112
Total	$232,692	$8,010	$216,936	$7,167

B. Premiums receivable

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$5,732	$197	$-	$-
Cathay United Bank Co., Ltd.	4,855	167	44,226	1,461
Total	$10,587	$364	$44,226	$1,461

C. Insurance claims payment

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$3,107	$107	$1,186	$39

(Expressed in thousands of dollars unless otherwise stated)

D. Cash in banks

		For the year ended December 31, 2012		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$589,915	0.01%~0.75%	$447
Co., Ltd.	Time deposits	$695,800	0.17~1.7%	$10,644

		For the year ended December 31, 2012		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$20,307	0.01%~0.75%	$15
Co., Ltd.	Time deposits	$23,952	0.17~1.7%	366

		For the year ended December 31, 2011		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$420,125	0.17%	$556
Co., Ltd.	Time deposits	$915,000	0.1%~1.345%	$7,107

		For the year ended December 31, 2011		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$10,095	0.17%	$18
Co., Ltd.	Time deposits	$34,012	0.1%~1.345%	$235

(Expressed in thousands of dollars unless otherwise stated)

E. Secured Loans

	For the year ended December 31, 2012			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Other related parties	$42,258	$38,291	1.88%~2.03%	$768

	For the year ended December 31, 2012			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Other related parties	$1,455	$1,318	1.88%~2.03%	$26

	For the year ended December 31, 2011			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Other related parties	$32,638	$30,737	2.03%	$526

	For the year ended December 31, 2011			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Other related parties	$1,078	$1,015	2.03%	$17

F. Available-for-sale financial assets

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$67,557	$2,326	$50,845	$1,680

G. Guarantee deposits paid

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$22,678	$781	$23,234	$767
Cathay Futures Corp.	5,145	177	7,528	249
Total	$27,823	$958	$30,762	$1,016

(Expressed in thousands of dollars unless otherwise stated)

H. Other payable

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd. (Note)	$172,887	$5,951	$103,717	$3,427
Cathay Life Insurance Co., Ltd.	141,412	4,868	217,861	7,197
Total	$314,299	$10,819	$321,578	$10,624

Note: Other payable as of December 31, 2012 are consisted of interest payable of preferred stock liability and tax payable under the consolidated income tax system.

I. Preferred stock liability

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$1,000,000	$34,423	$1,000,000	$33,036

J. Operating costs

		For the years ended December 31,			
		2012		2011	
Name	Summary	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Handing fee paid	$15,560	$536	$13,829	$457

(Expressed in thousands of dollars unless otherwise stated)

K. Operating expenses

		For the years ended December 31,			
		2012		2011	
Name	Summary	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Rental expenses	$92,860	$3,197	$91,056	$3,008
	Marketing expenses	1,168,633	40,229	1,156,687	38,212
	Party premium expenses	13,545	466	11,668	386
	Administrative expenses	7,617	262	7,207	238
Cathay United Bank Co., Ltd.	Marketing expenses	62,642	2,156	63,005	2,081
	Rental expenses	7,681	265	6,559	217
Seaward Leasing Co., Ltd.	Rental expenses	-	-	2,906	96
Total		$1,353,008	$46,575	$1,339,088	$44,238

L. Other expenses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$30,140	$1,038	$23,034	$761

M. Non-operating expenses and losses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$18,600	$640	$2,599	$86

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

(Expressed in thousands of dollars unless otherwise stated)

N. Other

(A) As of December 31, 2012 and 2011 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	December 31, 2012	December 31, 2011
CS contracts	US$75,250	US$41,050
IRS	NT$400,000 (US$13,769)	NT$600,000 (US$19,822)

O. Key management personnel compensation in total

Item	For the year ended December 31, 2012 NT$	For the year ended December 31, 2012 US$	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$
Remunerations including wages, awards, bonus, and etc.	$28,290	$974	$27,139	$897

24. Pledged assets

(1) The Company

Item	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$	December 31, 2011 US$
Government deposits paid-government bonds	$626,639	$21,571	$403,738	$13,338
Guarantee deposits paid	20,000	688	20,000	661
Total	$646,639	$22,259	$423,738	$13,999

As of December 31, 2012 and 2011, the Company provided government bonds amounting to NT$626,639 (US$21,571) thousand and 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.

(Expressed in thousands of dollars unless otherwise stated)

(2) Cathay Insurance (China)

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid-time deposits	$373,928	$12,872	$385,000	$12,719

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

(3) Cathay Insurance (Vietnam)

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid-time deposits	$8,231	$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.

(Expressed in thousands of dollars unless otherwise stated)

25. 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.

	December 31, 2012 NT$		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$5,827,862	$-	$5,827,862
Receivables	4,249,891	-	4,249,891
Investments	6,642,486	6,424,453	13,066,939
Reinsurance reserve assets	-	4,556,297	4,556,297
Property and equipment	-	184,390	184,390
Intangible assets	-	35,755	35,755
Deferred pension cost	-	3,481	3,481
Other assets	-	1,206,424	1,206,424
Total assets			$29,131,039
Payables	$2,220,327	$-	$2,220,327
Financial Liabilities	-	1,000,000	1,000,000
Operating and liability reserves	-	20,440,598	20,440,598
Other liabilities	-	585,655	585,655
Total liabilities			$24,246,580

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2012 US$		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$200,615	$-	$200,615
Receivables	146,296	-	146,296
Investments	228,657	221,152	449,809
Reinsurance reserve assets	-	156,843	156,843
Property and equipment	-	6,347	6,347
Intangible assets	-	1,231	1,231
Deferred pension cost	-	120	120
Other assets	-	41,529	41,529
Total assets			$1,002,790
Payables	$76,431	$-	$76,431
Financial Liabilities	-	34,423	34,423
Operating and liability reserves	-	703,635	703,635
Other liabilities	-	20,161	20,161
Total liabilities			$834,650

26. Commitment and contingent liabilities

(1) The Company

As of December 31, 2012, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	(NT$)	(US$)
January 1, 2013 ~ December 31, 2013	$118,857	$4,091
January 1, 2014 ~ December 31, 2014	118,857	4,091
January 1, 2015 ~ December 31, 2015	118,857	4,091
January 1, 2016 ~ December 31, 2016	118,857	4,091
January 1, 2017 ~ December 31, 2017	118,857	4,091
Total	$594,285	20,455

(Expressed in thousands of dollars unless otherwise stated)

(2) Cathay Insurance (China)

As of December 31, 2012, Cathy Insurance (China) has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	(NT$)	(US$)
January 1, 2013 ~ December 31, 2013	$62,124	$2,139
January 1, 2014 ~ December 31, 2014	23,954	825
January 1, 2015 ~ December 31, 2015	15,635	538
January 1, 2016 ~ December 31, 2016	4,848	167
January 1, 2017 ~ December 31, 2017	2,595	89
Total	$109,156	$3,758

27.Change of capital structure: None.

28.Subsequent events:

On January 9, 2013, the resolutions passed by the Company's Board of Director, expect to increase investments RMB $200 million for Cathay Insurance Company Limited (China).

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

30.Significant disaster losses: None.

31.Significant lawsuit: None.

32.Significant contract: None.

33.Pension related information

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

(Expressed in thousands of dollars unless otherwise stated)

A. Pension funded status:

	For the years ended December 31,			
	2012		2011	
	NT$	US$	NT$	US$
(1) Vested benefit obligation	$(121,189)	(4,172)	$(94,417)	$(3,119)
(2) Non-vested benefit obligation	(372,233)	(12,813)	(341,789)	(11,291)
(3) Accumulated benefit obligation	(493,422)	(16,985)	(436,206)	(14,410)
(4) Additional benefits based on future salaries	(112,105)	(3,859)	(107,185)	(3,541)
(5) Projected benefit obligation	(605,527)	(20,844)	(543,391)	(17,951)
(6) Fair value of plan assets	348,590	12,000	312,975	10,339
(7) Vested benefit	340,771	11,731	282,806	9,343
(8) Funded status=(5)+(6)	(256,937)	(8,844)	(230,416)	(7,612)
(9) Unrecognized transitional net benefit obligation (net assets)	3,481	120	4,061	134
(10) Unrecognized prior service cost	-	-	-	-
(11) Unrecognized pension gain and loss	250,778	8,633	220,342	7,279
(12) Adjustment to minimum liability accrued pension liability	(142,154)	(4,894)	(117,219)	(3,872)
(13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	$(144,832)	$(4,985)	$(123,232)	$(4,071)

B. Net periodic pension cost:

	For the years ended December 31,			
	2012		2011	
	NT$	US$	NT$	US$
(1) Service cost	$18,992	$654	$21,235	$702
(2) Interest cost	10,667	367	9,109	301
(3) Projected return on plan assets	(6,406)	(221)	(5,926)	(196)
(4) Amortization of unrealized transit on obligation (asset)	580	20	580	19
(5) Amortization prior service cost	-	-	-	-
(6) Amortization pension gain or loss	8,300	286	6,292	208
(7) Net periodic pension cost	$32,133	$1,106	$31,290	$1,034

(Expressed in thousands of dollars unless otherwise stated)

C. Actuarial assumptions

	For the years ended December 31,	
	2012	2011
(1) Discount rate	1.75%	2.00%
(2) Rate of increase in compensation (internal)	1.50%	1.50%
(3) Rate of increase in compensation (external)	1.08%~8.69%	1.08%~8.69%
(4) Expected return on pension plan assets	1.75%	2.00%

34.Segment information

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

35.Discontinued operation: None.

36.Merger and acquisition: None.

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

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

38.Information for investment in Mainland China

On December 31, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$28,960 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life Insurance). The Company has received approval from the China Insurance Regulatory Commission on October 8, 2007, to form a joint venture general insurance company. The Company and Cathay Life Insurance's subsidiary, Cathay Insurance Company Ltd. (China), acquired a business license of an enterprise as legal person on August 26, 2009. As of December 31, 2011, the Company's remittances to this company amounted to US$27,820 thousands.

39.Private placement of securities: None.

40.Investment in derivative financial instruments: None.

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

42.Significant impact from government regulation change: None.

43.Others

(1) Risk management policies and hedge strategies

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

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

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

Foreign currency risk

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

To maximum the hedging effect, the Company and Subsidiary adopt an equivalent hedging strategy for foreign currency risks.

<u>Credit risk</u>

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

<u>Operational Risk</u>

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 adapt and implement the internal control regulations and sheets. The Company and Subsidiary establish the information systems to accommodate the aforementioned policies.

<u>Liquidity risk</u>

The Company and Subsidiary's exposure to liquidity risk is minimal.

(Expressed in thousands of dollars unless otherwise stated)

(2) Financial instruments related information:

	December 31, 2012			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$5,827,862	$5,827,862	$200,615	$200,615
Receivables	4,249,891	4,249,891	146,296	146,296
Financial assets at fair value through profit or loss	437,273	437,273	15,053	15,053
Available-for-sale financial assets	8,404,492	8,404,492	289,311	289,311
Investments under equity method	1,490	1,490	51	51
Investments in debt securities with no active market	1,172,459	1,172,459	40,360	40,360
Held-to-maturity financial assets	2,512,011	2,512,011	86,472	86,472
Secured loans	522,080	522,080	17,972	17,972
Guarantee deposits paid	1,139,563	1,139,563	39,228	39,228
Derivative financial instruments:				
Financial assets at fair value through profit or loss				
Forward and SWAP	60,579	60,579	2,086	2,086
Derivative financial assets for hedging				
IRS	17,134	17,134	590	590
Liabilities				
Non-derivative financial instrument:				
Payables	2,220,327	2,220,327	76,431	76,431
Preferred stock liability	1,000,000	1,000,000	34,424	34,424

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$6,998,255	$6,998,255	$231,194	$231,194
Receivable	3,675,521	3,675,521	121,425	121,425
Financial assets at fair value through profit or loss	619,455	619,455	20,464	20,464
Available-for-sale financial assets	5,897,618	5,897,618	194,834	194,834
Investments under equity method	5,465	5,465	181	181
Investments in debt securities with no active market	1,120,809	1,120,809	37,027	37,027
Held-to-maturity financial assets	2,408,714	2,408,714	79,574	79,574
Secured loans	551,965	551,965	18,235	18,235
Guarantee deposits paid	940,947	940,947	31,085	31,085
Derivative financial instruments:				
Financial assets at fair value through profit or loss				
Derivative financial assets for hedging				
IRS	28,521	28,521	942	942
Liabilities				
Non-derivative financial instrument:				
Payables	2,101,262	2,101,262	69,417	69,417
Preferred stock liabilities	1,000,000	1,000,000	33,036	33,036
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	45,000	45,000	1,487	1,487

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

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

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

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

④ The fair value of the Company and Subsidiary's other financial asset or liabilities is based on market prices at the reporting date if market prices are available. When market prices are not available, the fair value is based on its book value or other relevant financial information.

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

(Expressed in thousands of dollars unless otherwise stated)

⑥ The following table summarizes the fair value information of the Company and Subsidiary's financial assets and liabilities at December 31, 2012 and 2011:

	December 31,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2012	2011	2012	2011
Non-derivative assets				
Cash and cash equivalents	$5,682,322	$6,457,597	$145,540	$540,658
Financial assets at fair value through profit or loss	437,273	619,455	-	-
Available-for-sale financial assets	8,404,492	5,897,618	-	-
Investments under equity method	-	-	1,490	5,465
Investment in debt securities with no active market	-	-	1,172,459	1,120,809
Held-to-maturity financial assets	-	-	2,512,011	2,408,714
Derivative assets				
Financial assets at fair value through profit and loss				
Forward and SWAP	-	-	60,579	-
Derivative financial assets for hedging				
IRS	-	-	17,134	28,521
Derivative liabilities				
Financial liabilities at fair value through profit and loss				
Forward and SWAP	-	-	-	45,000

(Expressed in thousands of dollars unless otherwise stated)

	December 31, US$			
	Based on the quoted market price		Based on valuation techniques	
Non-derivative assets	2012	2011	2012	2011
Cash and Cash equivalents	$195,605	$213,333	$5,010	$17,861
Financial assets at fair value through profit or loss	15,053	20,464	-	-
Available-for-sale financial assets	289,311	194,834	-	-
Investments under the equity method	-	-	51	181
Investment in debt securities with no active market	-	-	40,360	37,027
Held-to-maturity financial assets	-	-	86,472	79,574
Derivative assets				
Financial assets at fair value through profit or loss				
Forward and SWAP	-	-	1,741	-
Derivative financial liabilities for hedging				
IRS	-	-	590	942
Derivative liabilities				
Financial liabilities at fair value through profit and loss				
Forward and SWAP	-	-	-	1,487

(Expressed in thousands of dollars unless otherwise stated)

(3) Risk of interest rate

The following table summarizes the maturities of the Company and Subsidiaries' financial instruments at December 31, 2012 and 2011:

Fixed interest rate:

① December 31, 2012

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$572,897	$19,721	$260,243	$8,959	$238,440	$8,208	$4,744	$163
Held-to-maturity financial assets	857,366	29,513	647,903	22,303	-	-	443,496	15,267
Investments in debt securities with no active market	200,000	6,885	-	-	-	-	300,000	10,327
Preferred stock liability	-	-	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available – for –sale financial assets	$-	$-	$1,933,079	$66,543	$3,009,403	$103,594
Held-to-maturity financial assets	256,487	8,829	306,759	10,560	2,512,011	86,472
Investments in debt securities with no active market	-	-	672,458	23,148	1,172,458	40,360
Preferred stock liability	-	-	1,000,000	34,423	1,000,000	34,423

(Expressed in thousands of dollars unless otherwise stated)

② December 31, 2011

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$124,241	$4,104	$872,292	$28,817	$163,829	$5,412	$213,852	$7,065
Held-to-maturity financial assets	274,673	9,074	913,602	30,182	272,365	8,998	107,005	3,535
Investments in debt securities with no active market	300,000	9,911	200,000	6,607	-	-	-	-
Preferred stock liability	-	-	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$939,118	$31,025	$2,313,332	$76,423
Held-to-maturity financial assets	-	-	841,069	27,785	2,408,714	79,574
Investments in debt securities with no active market	-	-	620,809	20,509	1,120,809	37,027
Preferred stock liability	-	-	1,000,000	33,036	1,000,000	33,036

Floating interest rate:

① December 31, 2012

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,885	$200,000	$6,885	$200,000	$6,884	$-	$-

Item	Due in 4~5 years		Over 5 years		Total	
	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$-	$-	$600,000	$20,654

(Expressed in thousands of dollars unless otherwise stated)

② December 31, 2011

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$200,000	$6,607	$-	$-	$200,000	$6,607	$200,000	$6,607

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Available-for-sale financial assets	$-	$-	$-	$-	$600,000	$19,821

(4) Credit risk

The Company and Subsidiaries' exposure to credit risk in minimal.

(5) 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 December 31, 2012:

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$200,000	$6,885	2.65%	Each quarter	Sep. 30, 2014
$200,000	$6,885	2.785%	Each quarter	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$17,134 (US$590) and NT$28,521 (US$942) as of December 31, 2012 and 2011, respectively.

(6) RBK management framework, organization and responsibility

I. The Company

① Risk management framework, organization, and responsibility

Responsibility：

A. Board of Directors

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

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

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

B. 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. Responsibilities of risk management team：

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

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

(c) Assist and supervise various departments in risk management activities.
(d) Adjust risk category, allotment, and attribution in reaction to changes in scenario.
(e) Coordinate interaction and communication of risk management function across departments.

c. Responsibility of risk management division：

(a) Assist the draft of risk management policies and execute one ratified by the board of directors.
(b) Assist the set-up of risk limits according to the risk appetite.
(c) Compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
(d) Propose risk management related reports on a regular basis.
(e) Supervise risk limit and its use of each business unit on a regular basis.
(f) Assist in stress test and conduct back-testing when necessary.
(g) Other risk management related tasks.

C. Business unit (sales unit and administrative unit)

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

(a) Manage daily risk management and report of the corresponding unit and take necessary reactions.
(b) Oversee the passage of risk management information to risk management on a regular basis.

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

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

(c) Review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
(d) Oversee risk exposure and report when over-limit occur, including measures taken against it.

(e) Assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducting on a reasonable basis and is consistent with actual practice.
(f) Assure effective execution of internal control within business unit to comply with related regulation and risk management policies of the company .
(g) Assist in collecting information regarding operation risk.

D. Internal audit room

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

② Scope and nature of risk reporting and evaluation system of property insurance

A. Risks reporting

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

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

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.

③ Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard

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

④ 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.

⑤ Methods with which property insurance business limit insurance risk exposure and improper risk concentration

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

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

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

(Expressed in thousands of dollars unless otherwise stated)

	2012		2011	
Item	NT$	US$	NT$	US$
Fire insurance	$613,000	$21,102	$630,000	20,813
Marine insurance	613,000	21,102	363,240	12,000
Engineering insurance	613,000	21,102	630,000	20,813
Other property insurance	613,000	21,102	630,000	20,813
Automobile insurance	613,000	21,102	100,000	3,304
Health and injury insurance	613,000	21,102	630,000	20,813

⑥ Methods of asset/liability management

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

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

⑦ Management, supervision, control process when additional liability or commitment to equity contribution is required for the property insurance business

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

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

II. Cathay Insurance (China)

① Risk management framework, organization and responsibility

A. The framework and organization structure for risk management.

The Audit Committee under Board of Directors of Cathay Insurance (China) is responsible for risk management, identifying the significant risks and monitoring the effectiveness of the operation of the risk management system.

The risk management team is responsible for coordinating the risk management affairs and specific risk management. The team is lead by general manager and the team members include high-level management and the department managers from marketing, financial accounting, sales, information technology etc.

B. Duties and responsibilities

a. The Audit Committee is responsible for reviewing the following issues and providing suggestions to Board of Directors:

(a) The overall goal, basic policies and work system regarding risk management.

(b) the organizational structure for risk management and related duties and responsibilities.

(c) The report on the risk assessment of major decision, solutions to material risks.

(d) Annual risk assessment report.

b. Risk management department (risk management team)

(a) Coordinate the risk management affairs:

(i) Formulate the policies and system for risk management that can match up to the development strategies and overall risk tolerance for the insurance company.

(ii) Complete the risk assessment reports for significant events, decisions and business process, and the solution for significant risks.

(iii) Provide the annual risk assessment report to the board of direct and the management.

(iv) Coach, coordinate and supervise each department and business unit to launch the risk management.

(b) Responsible for specific risk management：

(i) Evaluate the risk by qualitative and quantitative and improve the methods, technique and models for risk management.

(ii) Ensure the risk limit for each type of insurance and coordinate the daily work for risk management. In addition, support business units to launch business under the risk limit and monitor the compliance.

(iii) Assets and liabilities management.

(iv) Implement and establish the information system for risk management.

(v) Implement the construction of risk culture.

c. Business unit (operating department and administrative department)

Cathay Insurance (China) has set up a basic process to identify, assess and control risks for operating activities, which is led by risk management team and coordin by the close cooperation between each department.

d. Audit department

The department is required to audit all departments to determine the execution status of the risk management policies complies with the related regulations and company’s risk management policies.

② The description and execution of overall strategies for risk management:

A. Overall strategies for risk management

According to the risk management policies and annual operating objectives from Cathay Insurance (China), every business unit should take measures to the risks they faced during the operating activity. The type of risks includes insurance risk, market risk, credit risk, liquidity risk and operating risk.

B. Execution for risk management

a. Insurance risk:

(a) Implement pressure test periodically (include negative assumption of premium income, claim expense and expenditure).
(b) Continue to advance the balanced development in operation structure by upgrading insurance products.

b. Market risk:

(a) Periodically provide pressure test (include negative assumption for investment under equity asset).
(b) Implement pressure test periodically for investment (include debt deadline gap analysis, exchange rate sensitive analysis , interest rate sensitive analysis and so on) .

c. Credit analysis：

(a) Fulfill the related regulation for reinsurance.
(b) Invest in the underlying asset with higher credit rating.

d. Liquidity risk：

(a) According to “the Guidelines for the Risk Control in the Operation of Insurance Funds” and the company’s annual strategies to plan the asset allocation.
(b) Fulfill the policy of “Cash before Cover” and enhance the collection of insurance premium.

(Expressed in thousands of dollars unless otherwise stated)

e. Operating risk：

(a) Periodically perform the audit.
(b) Continuously improve the regulations and system for Cathay Insurance (China).

(7) Information of insurance contract

① Receivables and payables of insurance contracts

A. Receivables of insurance contracts

	December 31, 2012	
	Premiums receivable(Note)	
Item	NT$	US$
Fire insurance	$665,154	$22,897
Marine insurance	369,048	12,704
Land and air insurance	748,157	25,754
Liability insurance	217,416	7,484
Bonding insurance	13,983	481
Other property insurance	345,181	11,882
Accident insurance	288,526	9,932
Health insurance	22,994	792
Compulsory automobile liability insurance	268,872	9,255
Total	2,939,331	101,181
Less: Allowance for bad debts	(69,978)	(2,408)
Net	$2,869,353	$98,773

(Expressed in thousands of dollars unless otherwise stated)

Item	December 31, 2011 Premiums receivable(Note) NT$	US$
Fire insurance	$342,994	$11,331
Marine insurance	477,307	15,768
Land and air insurance	638,561	21,096
Liability insurance	135,547	4,478
Bonding insurance	11,456	378
Other property insurance	440,887	14,565
Accident insurance	235,275	7,773
Health insurance	87,566	2,893
Compulsory automobile liability insurance	251,058	8,294
Total	2,620,651	86,576
Less: Allowance for bad debts	(78,752)	(2,602)
Net	$2,541,899	$83,974

Note： As of December 31, 2012 and 2011, the receivables included overdue receivables amounted to NT$497,914(US$17,140) and NT$281,695 (US$9,307), the allowance for bad debts amounted to NT$31,767 (US$1,094) and NT$42,183 (US$1,394).

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

Item	December 31, 2012 Claims reported and paid off NT$	US$
Fire insurance	$241,267	$8,305
Marine insurance	42,699	1,470
Land and air insurance	40,214	1,385
Liability insurance	13,506	465
Bonding insurance	8	-
Other property insurance	8,231	283
Accident insurance	23,435	807
Health insurance	-	-
Compulsory automobile liability insurance	144,232	4,965
Total	513,592	17,680
Less: Allowance for bad debts	-	-
Net	$513,592	$17,680

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011	
	Claims reported and paid off	
Item	NT$	US$
Fire insurance	$76,577	$2,530
Marine insurance	58,775	1,942
Land and air insurance	18,463	610
Liability insurance	14,907	493
Bonding insurance	2,406	79
Other property insurance	25,509	843
Accident insurance	17,873	590
Health insurance	-	-
Compulsory automobile liability insurance	53,741	1,775
Total	268,251	8,862
Less: Allowance for bad debts	-	-
Net	$268,251	$8,862

C. Payables of insurance contract

	December 31, 2012					
	Commission payables		Other payables		Total	
Item	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

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	Commission payables		Other payables		Total	
Item	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	$135,923	$4,490	$174,625	$5,769	$310,548	$10,259

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

	December 31, 2012			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
Item	NT$	US$	NT$	US$
Non-Life Insurance Association of the R.O.C	$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 & OMPANY.LTD	-	-	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	$444,688	$15,308	$1,205,101	$41,484

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
Item	NT$	US$	NT$	US$
Non-Life Insurance Association of the R.O.C	$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
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
BEST RE	3,473	115	-	-
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 December 31, 2012 and 2011, the due from reinsurers and ceding companies included overdue receivables amounted to NT$54,939 (US$1,891) and NT$52,091 (US$1,721), the allowance for bad debts amounted to NT$5,494 (US$189) and NT$52,091 (US$1,721).

(Expressed in thousands of dollars unless otherwise stated)

② Information of Management Achievements

A. Acquisition cost for insurance contracts

	December 31, 2012					
	NT$					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$25,156	$7,930	$34,858	$2,218	$91,186	$161,348
Marine insurance	9,934	2,769	7,772	3,223	69,367	93,065
Land and air insurance	36,318	2,166	-	3,211	680,747	722,442
Liability insurance	17,277	1,703	37,870	214	55,730	112,794
Bonding insurance	764	20	640	4	1,847	3,275
Other property insurance	21,072	2,736	86,035	8,258	82,891	200,992
Accident insurance	11,462	974	6	521	336,110	349,073
Health insurance	4,150	334	-	-	11,892	16,376
Compulsory automobile liability insurance	-	-	393,394	-	11,055	404,449
Total	$126,133	$18,632	$560,575	$17,649	$1,340,825	$2,063,814

	December 31, 2012					
	US$					
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$866	$273	$1,200	$76	$3,139	$5,554
Marine insurance	342	95	268	111	2,388	3,204
Land and air insurance	1,250	74	-	111	23,434	24,869
Liability insurance	595	59	1,304	7	1,918	3,883
Bonding insurance	26	1	22	-	64	113
Other property insurance	725	94	2,962	284	2,853	6,918
Accident insurance	395	34	-	18	11,570	12,017
Health insurance	143	11	-	-	409	563
Compulsory automobile liability insurance	-	-	13,542	-	381	13,923
Total	$4,342	$641	$19,298	$607	$46,156	$71,044

(Expressed in thousands of dollars unless otherwise stated)

Item	December 31, 2011 NT$ Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$47,598	$4,596	$28,930	$986	$82,628	$164,738
Marine insurance	14,597	2,489	11,517	1,707	41,203	71,513
Land and air insurance	12,930	1,003	-	2,850	598,360	615,143
Liability insurance	13,957	766	14,018	60	43,195	71,996
Bonding insurance	279	34	1,473	(1)	1,020	2,805
Other property insurance	16,414	1,048	19,292	4,199	71,944	112,897
Accident insurance	6,959	696	16	1,372	319,526	328,569
Health insurance	979	102	-	-	11,183	12,264
Compulsory automobile liability insurance	-	-	376,140	-	38,436	414,576
Total	$113,713	$10,734	$451,386	$11,173	$1,207,495	$1,794,501

Item	December 31, 2011 US$ Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$1,572	$152	$956	$33	$2,729	$5,442
Marine insurance	483	82	380	56	1,361	2,362
Land and air insurance	427	34	-	94	19,767	20,322
Liability insurance	461	25	463	2	1,427	2,378
Bonding insurance	9	1	49	-	34	93
Other property insurance	542	35	637	139	2,377	3,730
Accident insurance	230	23	1	45	10,556	10,855
Health insurance	33	3	-	-	369	405
Compulsory automobile liability insurance	-	-	12,426	-	1,270	13,696
Total	$3,757	$355	$14,912	$369	$39,890	$59,283

(Expressed in thousands of dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

	December 31, 2012					
	NT$					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	$2,985,247	$(304,110)	$(159,130)	$(1,319,195)	$854,615	$2,057,427
Marine insurance	837,375	16,353	(89,842)	(424,162)	(83,675)	256,049
Land and air insurance	5,046,347	(480,858)	(719,231)	(2,885,578)	(215,172)	745,508
Liability insurance	987,686	(118,926)	(112,580)	(325,192)	(189,940)	241,048
Bonding insurance	63,146	(1,826)	(3,271)	(4,116)	(6,372)	47,561
Other property insurance	1,309,640	(260,993)	(192,734)	(390,286)	(286,323)	179,304
Accident insurance	2,372,577	(19,527)	(348,552)	(1,008,751)	(61,379)	934,368
Health insurance	124,417	59,541	(16,376)	(157,658)	(34,125)	(24,201)
Compulsory automobile liability insurance	2,818,880	(50,870)	(404,449)	(1,769,121)	(342,953)	251,487
Total	$16,545,315	$(1,161,216)	$(2,046,165)	$(8,284,059)	$(365,324)	$4,688,551

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2012					
	US$					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	$102,762	$(10,469)	$(5,478)	$(45,411)	$29,419	$70,823
Marine insurance	28,825	563	(3,093)	(14,601)	(2,880)	8,814
Land and air insurance	173,712	(16,553)	(24,758)	(99,331)	(7,407)	25,663
Liability insurance	34,000	(4,094)	(3,876)	(11,194)	(6,538)	8,298
Bonding insurance	2,174	(63)	(113)	(142)	(219)	1,637
Other property insurance	45,082	(8,984)	(6,634)	(13,435)	(9,856)	6,173
Accident insurance	81,672	(672)	(11,999)	(34,725)	(2,113)	32,163
Health insurance	4,283	2,050	(563)	(5,427)	(1,175)	(832)
Compulsory automobile liability insurance	97,035	(1,751)	(13,923)	(60,899)	(11,806)	8,656
Total	$569,545	$(39,973)	$(70,437)	$(285,165)	$(12,575)	$161,395

	December 31, 2011					
	NT$					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	$2,367,396	$(38,396)	$(163,752)	$(966,706)	$(190,692)	$1,007,850
Marine insurance	872,950	(13,625)	(69,806)	(591,669)	23,625	221,475
Land and air insurance	4,200,396	(547,541)	(612,293)	(2,418,632)	(185,363)	436,567
Liability insurance	713,063	(84,423)	(71,936)	(224,792)	(70,294)	261,618
Bonding insurance	60,077	(312)	(2,806)	(23,260)	1,442	35,141
Other property insurance	1,092,103	(465,201)	(108,698)	(357,084)	16,125	177,245
Accident insurance	2,301,927	(224,493)	(327,197)	(889,431)	(78,377)	782,429
Health insurance	167,785	(9,056)	(12,264)	(128,341)	(6,695)	11,429
Compulsory automobile liability insurance	2,699,595	(45,012)	(414,576)	(1,632,213)	(45,315)	562,479
Total	$14,475,292	$(1,428,059)	$(1,783,328)	$(7,232,128)	$(535,544)	$3,496,233

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	US$					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	$78,209	$(1,269)	$(5,409)	$(31,936)	$(6,300)	$33,295
Marine insurance	28,839	(450)	(2,306)	(19,546)	780	7,317
Land and air insurance	138,764	(18,089)	(20,228)	(79,902)	(6,124)	14,421
Liability insurance	23,557	(2,789)	(2,376)	(7,426)	(2,322)	8,644
Bonding insurance	1,985	(10)	(93)	(769)	48	1,161
Other property insurance	36,079	(15,368)	(3,591)	(11,797)	533	5,856
Accident insurance	76,046	(7,416)	(10,810)	(29,383)	(2,589)	25,848
Health insurance	5,543	(299)	(405)	(4,240)	(221)	378
Compulsory automobile liability insurance	89,184	(1,487)	(13,696)	(53,922)	(1,497)	18,582
Total	$478,206	$(47,177)	$(58,914)	$(238,921)	$(17,692)	$115,502

(B) Cost benefit analysis for assumed reinsurance business

	December 31, 2012					
	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	$99,597	$(16,375)	$(2,218)	$(4,895)	$1,490	$77,599
Marine insurance	39,975	(16,009)	(3,223)	3,465	(67,294)	(43,086)
Land and air insurance	20,081	(7,874)	(3,211)	(24,184)	(3,501)	(18,689)
Liability insurance	663	(54)	(214)	(184)	1,143	1,354
Bonding insurance	1,186	(140)	(4)	(357)	(10)	675
Other property insurance	45,274	(894)	(8,258)	(9,980)	2,874	29,016
Accident insurance	8,072	21,896	(521)	(13,474)	(2,428)	13,545
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	280,083	(4,834)	-	(262,057)	(21,473)	(8,281)
Total	$494,931	$(24,284)	$(17,649)	$(311,666)	$(89,085)	$52,247

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2012					
	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	$3,429	$(564)	$(76)	$(169)	$51	$2,671
Marine insurance	1,376	(551)	(111)	119	(2,316)	(1,483)
Land and air insurance	691	(271)	(111)	(832)	(121)	(644)
Liability insurance	23	(2)	(7)	(6)	39	47
Bonding insurance	41	(5)	-	(12)	-	24
Other property insurance	1,558	(31)	(284)	(344)	99	998
Accident insurance	278	754	(18)	(464)	(84)	466
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	9,641	(166)	-	(9,021)	(739)	(285)
Total	$17,037	$(836)	$(607)	$(10,729)	$(3,067)	$1,798

	December 31, 2011					
	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	$65,647	$12,276	$(986)	$(269,732)	$(806)	$(193,601)
Marine insurance	23,502	870	(1,707)	(15,014)	(159,668)	(152,017)
Land and air insurance	12,110	105,318	(2,850)	(5,547)	(3,298)	105,733
Liability insurance	1,294	889	(60)	(510)	(911)	702
Bonding insurance	687	15	1	(157)	(13)	533
Other property insurance	35,962	(9,238)	(4,199)	(12,879)	(729)	8,917
Accident insurance	67,149	(22,278)	(1,372)	(38,246)	(1,144)	4,109
Health insurance	-	-	-	-	(114)	(114)
Compulsory automobile liability insurance	273,796	(3,122)	-	(229,266)	(19,912)	21,496
Total	$480,147	$84,730	$(11,173)	$(571,351)	$(186,595)	$(204,242)

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	US$					
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$2,169	$406	$(33)	$(8,911)	$(26)	$(6,395)
Marine insurance	776	29	(56)	(496)	(5,275)	(5,022)
Land and air insurance	400	3,479	(94)	(183)	(109)	3,493
Liability insurance	43	29	(2)	(17)	(30)	23
Bonding insurance	23	-	-	(5)	-	18
Other property insurance	1,188	(305)	(139)	(426)	(24)	294
Accident insurance	2,218	(736)	(45)	(1,263)	(38)	136
Health insurance	-	-	-	-	(4)	(4)
Compulsory automobile liability insurance	9,045	(103)	-	(7,574)	(658)	710
Total	$15,862	$2,799	$(369)	$(18,875)	$(6,164)	$(6,747)

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

	December 31, 2012					
	NT$					
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$1,816,933	$(188,202)	$(117,309)	$(635,370)	$586,924	$1,462,976
Marine insurance	669,899	10,579	(99,571)	(216,764)	(172,707)	191,436
Land and air insurance	223,738	(8,848)	(40,092)	(129,925)	(30,304)	14,569
Liability insurance	352,536	(54,420)	(93,372)	(82,613)	(41,749)	80,382
Bonding insurance	26,895	(2,431)	(5,074)	(7,009)	(3,821)	8,560
Other property insurance	396,432	(22,319)	(67,490)	(66,411)	(37,940)	202,272
Accident insurance	166,776	(10,732)	(40,382)	(90,722)	(5,378)	19,562
Health insurance	1,950	1,264	(679)	(1,110)	(1,341)	84
Compulsory automobile liability insurance	771,320	(20,370)	-	(696,501)	(137,201)	(82,752)
Total	$4,426,479	$(295,479)	$(463,969)	$(1,926,425)	$156,483	$1,897,089

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2012					
	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	$62,545	$(6,479)	$(4,038)	$(21,872)	$20,204	$50,360
Marine insurance	23,060	364	(3,428)	(7,462)	(5,945)	6,589
Land and air insurance	7,702	(305)	(1,380)	(4,472)	(1,043)	502
Liability insurance	12,135	(1,873)	(3,214)	(2,844)	(1,437)	2,767
Bonding insurance	926	(84)	(175)	(241)	(132)	294
Other property insurance	13,647	(768)	(2,323)	(2,286)	(1,306)	6,964
Accident insurance	5,741	(369)	(1,390)	(3,123)	(185)	674
Health insurance	67	44	(23)	(38)	(46)	4
Compulsory automobile liability insurance	26,551	(701)	-	(23,976)	(4,723)	(2,849)
Total	$152,374	$(10,171)	$(15,971)	$(66,314)	$5,387	$65,305

	December 31, 2011					
	NT$					
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$1,482,285	$(7,031)	$(101,907)	$(624,437)	$(199,284)	$549,626
Marine insurance	650,994	(14,344)	(98,263)	(359,791)	(222,062)	(43,466)
Land and air insurance	200,068	1,331	(32,922)	(78,640)	13,551	103,388
Liability insurance	238,420	(34,308)	(70,379)	(62,656)	(9,595)	61,482
Bonding insurance	22,865	87	(5,628)	(13,807)	1,477	4,994
Other property insurance	563,870	(383,059)	(59,634)	(111,114)	42,938	53,001
Accident insurance	147,576	28,008	(36,502)	(88,832)	(1,715)	48,535
Health insurance	3,187	(603)	(1,114)	-	(128)	1,342
Compulsory automobile liability insurance	735,444	(18,007)	-	(629,960)	(19,244)	68,233
Total	$4,044,709	$(427,926)	$(406,349)	$(1,969,237)	$(394,062)	$847,135

(Expressed in thousands of dollars unless otherwise stated)

	December 31, 2011					
	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	$48,969	$(232)	$(3,367)	$(20,629)	$(6,584)	$18,157
Marine insurance	21,506	(474)	(3,246)	(11,886)	(7,336)	(1,436)
Land and air insurance	6,610	44	(1,087)	(2,598)	448	3,417
Liability insurance	7,877	(1,133)	(2,325)	(2,070)	(317)	2,032
Bonding insurance	755	3	(186)	(456)	49	165
Other property insurance	18,628	(12,655)	(1,970)	(3,671)	1,419	1,751
Accident insurance	4,875	925	(1,206)	(2,935)	(57)	1,602
Health insurance	105	(20)	(37)	-	(4)	44
Compulsory automobile liability insurance	24,296	(595)	-	(20,811)	(636)	2,254
Total	$133,621	$(14,137)	$(13,424)	$(65,056)	$(13,018)	$27,986

(8) Sensitivity of insurance risk

I. The Company

NT$						The impact to profit and loss when the expected loss ratio increases 5%	
Insurance type	Premium income	Expected loss ratio	Retention ratio	Expected claim	Expected net claim	Before reinsurance	After reinsurance
Fire insurance	$2,628,929	63.75	78.80	$1,675,914	$1,320,620	$131,446	$660,031
Marine insurance	782,282	65.01	32.90	508,596	167,328	39,114	8,366
Land and air insurance	5,023,758	65.18	96.00	3,274,496	3,143,516	251,188	157,176
Liability insurance	732,588	68.03	79.80	498,408	397,730	36,629	19,886
Bonding insurance	58,808	69.48	31.90	40,857	13,033	2,940	652
Other property insurance	712,863	62.63	71.20	446,469	317,886	35,643	15,894
Accident insurance	2,367,455	72.02	92.00	1,705,076	1,568,670	118,373	78,433
Health insurance	124,417	66.03	99.30	82,488	81,911	6,221	4,096
Compulsory automobile liability insurance	2,818,880	NA	NA	NA	NA	NA	NA

(Expressed in thousands of dollars unless otherwise stated)

US$						The impact to profit and loss when the expected loss ratio increases 5%	
Insurance type	Premium income	Expected loss ratio	Retention ratio	Expected claim	Expected net claim	Before reinsurance	After reinsurance
Fire insurance	$90,497	63.75	78.80	$57,691	$45,460	$4,525	$22,721
Marine insurance	26,929	65.01	32.90	17,508	5,760	1,346	288
Land and air insurance	172,935	65.18	96.00	112,719	108,211	8,647	5,411
Liability insurance	25,218	68.03	79.80	17,157	13,691	1,261	685
Bonding insurance	2,024	69.48	31.90	1,406	449	101	22
Other property insurance	24,539	62.63	71.20	15,369	10,943	1,227	547
Accident insurance	81,496	72.02	92.00	58,695	53,999	4,075	2,700
Health insurance	4,283	66.03	99.30	2,840	2,820	214	141
Compulsory automobile liability insurance	97,035	NA	NA	NA	NA	NA	NA

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

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

II. Cathay Insurance (China)

NT$		The impact to profit and loss when the ending loss rate increases 5%	
Insurance type	Premium income	Before reinsurance	After reinsurance
Fire insurance	$326,887	$16,344	$6,646
Marine insurance	53,265	2,663	1,770
Liability insurance	252,874	12,644	7,039
Bonding insurance	4,338	217	176
Other property insurance	595,477	29,774	29,606
Accident insurance	-	-	81

(Expressed in thousands of dollars unless otherwise stated)

US$		The impact to profit and loss when the ending loss rate increases 5%	
Insurance type	Premium income	Before reinsurance	After reinsurance
Fire insurance	$11,253	$563	$229
Marine insurance	1,834	92	61
Liability insurance	8,705	435	242
Bonding insurance	149	7	6
Other property insurance	20,498	1,025	1,019
Accident insurance	-	-	3

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.

(9) Concentration Risk

I. The Company

① Situations that might cause concentration of insurance risk：

A. Single insurance contract or few related contracts

For the year ended December 31, 2012, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

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

For the years ended December 31, 2012, the loss rate of Health insurance is high due to several large claim cases. Other than these, the loss rates of the rest insurance categories are still within reasonable range.

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

"Regulations for Assisting Lawsuit Cases of Cathay Century Insurance" is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the six months ended December 31, 2011, no material lawsuit or legal risks has taken place.

D. Correlation and mutual influence between different risks。

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, the company has established "Operation standards under crisis" that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the six months ended December 31, 2012, there is no catastrophe has taken place.

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

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

F. Concentration risks in geographic regions and operating segments

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

(Expressed in thousands of dollars unless otherwise stated)

② Following table summarizes the concentration risk of the Company before and after reinsurance by types of insurance:

Insurance type	For the year ended December 31, 2012 (NT$)				For the year ended December 31, 2012 (US$)			
	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	$8,768,890	$290,597	$902,428	$8,157,059	$301,855	$10,003	$31,065	$271,793
Fire insurance	2,649,445	97,259	1,595,240	1,151,464	91,203	3,348	54,914	39,637
Marine insurance	859,994	45,360	738,549	166,805	29,604	1,561	25,423	5,742
Engineering insurance	573,679	14,318	309,356	278,641	19,748	493	10,649	9,592
Health and injury insurance	1,384,403	6,065	154,867	1,235,601	47,656	209	5,331	42,534
Other insurance	1,007,719	16,329	341,699	682,349	34,689	562	11,762	23,489
Total	$15,244,130	$469,928	$4,042,139	$11,671,919	$524,755	$16,176	$139,144	$392,787

③ Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business. The greatest loss rate for such catastrophes for the company in the past would be the 2000 Typhoon Fanatic and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at 342 million.

II. Cathay Insurance (China)

① Situations that might cause to the concentration of insurance risk：

A. 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.

(Expressed in thousands of dollars unless otherwise stated)

B. The correlation and cross effect between different risks

When significant incidents happened, Cathay Insurance (China) may face huge claim loss for the insured cases or the impairment loss for intangible or tangible assets. It may also create risks such as market risk, credit risk, liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Insurance (China) established "Notice for significant incidents handling process". If necessary, the general manager or assigned personnel will held the emergency response team to make sure the operation of Cathay Insurance (China) and protect the safety of policyholders' property as well as its equity. There is no significant incident occurred for the years ended December 31, 2012.

② Following tables summarized the concentration before and after reinsurance by types of insurance risk of Cathay Insurance (China):

	For the year ended December 31, 2012 (NT$)				For the year ended December 31, 2012 (US$)			
Insurance type	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	$565,634	$16,367	$3,575	$578,426	$19,471	$563	$123	$19,911
Fire insurance	326,887	2,176	196,148	132,915	11,252	75	6,752	4,575
Marine insurance	53,265	4,086	21,949	35,402	1,834	141	755	1,220
Engineering insurance	21,775	29	16,170	5,634	750	1	557	194
Health and injury insurance	-	1,629	-	1,629	-	56	-	56
Other insurance	265,280	237	113,139	152,378	9,132	8	3,895	5,245
Total	$1,232,841	$24,524	$350,981	$906,384	42,439	844	12,082	31,201

(Expressed in thousands of dollars unless otherwise stated)

(10) Claim development table

A. The company

NT$ Underwriting Year	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	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	$3,156,024	$3,240,543	$5,114,327	$4,231,601	$5,087,543	
One year later	4,601,140	3,956,155	6,298,033	4,856,841		
Two year later	4,596,112	4,075,726	5,873,308			
Three year later	4,638,890	4,135,108				
Four year later	4,667,413					
Estimate of cumulative claims incurred	4,667,413	4,135,108	5,873,308	4,856,841	5,087,543	
Cumulative payment to date	4,589,016	3,985,807	5,413,176	4,573,475	3,130,914	
Subtotal	78,397	149,301	460,132	283,366	1,956,629	2,927,825
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	$78,397	$149,301	$460,132	$283,366	$1,956,629	$2,927,825

US$ Underwriting Year	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	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	$108,641	$111,551	$176,053	$145,666	$175,131	
One year later	158,387	136,184	216,800	167,189		
Two year later	158,214	140,300	202,179			
Three year later	159,686	142,345				
Four year later	160,668					
Estimate of cumulative claims incurred	160,668	142,345	202,179	167,189	175,131	
Cumulative payment to date	150,970	137,205	186,340	157,435	107,777	
Subtotal	9,698	5,140	15,839	9,754	67,354	107,785
Reconciliation	-	-	-	-	-	-
Recorded in balance sheet	$9,698	$5,140	$15,839	$9,754	$67,354	$107,785

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

(Expressed in thousands of dollars unless otherwise stated)

B. Cathay Insurance (China)

NT$	For the first half year of 2008	2009	2010	2011	2012	Total
Estimated accumulation amount of claim						
As to 2008/12/31	$2,559					
As to 2009/12/31	2,438	$148,443				
As to 2010/12/31	2,434	142,653	$317,451			
As to 2011/12/31	2,460	139,780	314,432	$341,631		
As to 2012/12/31	1,278	121,339	282,378	305,963	$950,291	
Estimated accumulation of claim	1,278	121,339	282,378	305,963	950,291	$1,661,249
Accumulated claim paid	1,278	121,211	278,661	253,337	281,521	936,008
Subtotal	-	128	3,717	52,626	668,770	725,241
Indirect claim expense, discount and risk margin						36,565
Recognized amount on balance sheet						$761,806

US$	For the first half year of 2008	2009	2010	2011	2012	Total
Estimated accumulation amount of claim						
As to 2008/12/31	$88					
As to 2009/12/31	84	$5,110				
As to 2010/12/31	84	4,911	$10,928			
As to 2011/12/31	85	4,812	10,824	$11,760		
As to 2012/12/31	44	4,177	9,720	10,532	$32,712	
Estimated accumulation of claim	44	4,177	9,720	10,532	32,712	$57,186
Accumulated claim paid	44	4,172	9,592	8,721	9,691	32,221
Subtotal	-	5	128	1,811	23,021	24,965
Indirect claim expense, discount and risk margin						1,259
Recognized amount on balance sheet						$23,706

C. Cathay Insurance (Vietnam)

Due to Cathay Insurance (Vietnam) has been operated for less than one year, there is no historical data for loss development trends. Cathay Insurance (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QCBH for loss reserving method with IBNR, which is calculated as a rate of 5% of its annual retained premiums.

(Expressed in thousands of dollars unless otherwise stated)

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

	2012.12.31			2011.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$174,688	29.136	$5,089,710	$109,828	30.29	$3,326,690
CNY	127,845	4.6588	595,604	-		-
Non-Monetary Items						
USD	176,020	29.136	-	95,320	30.29	-
	(Nominal Amount)		(Note)	(Nominal Amount)		(Note)

Note: The Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial assets at fair value through profit and loss were recognized in income statement by NT$60,579(US$2,085) at December 31, 2012. Financial liabilities at fair value through profit and loss were recognized by NT$45,000 (US$1,486) at December 31, 2011.

(12) Pre-disclosures on the adoption of IFRSs

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

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

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

(Expressed in thousands of dollars unless otherwise stated)

Contents of Plan	Responsible Department or Personnel	Status of Execution
1. Assess stage: 2010/1/1~2011/12/31		
◎Make a plan to adopt IFRSs and establish a project team	Accounting department	Completed
◎Proceed initial internal training	Accounting department and other authorized departments	Completed
◎Identify differences between the existing accounting policies and IFRSs	Accounting department	Completed
◎Identify the adjustment required for existing accounting policies	Accounting department	Completed
◎Select voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” and assess the impact of these exemptions	Accounting department	Completed
◎Identify the adjustments required for IT system and internal controls	Risk management department , IT department and Audit department	Completed
2. Prepare stage: 2011/1/1~2012/12/31		
◎Finalize the accounting policies under IFRSs	Accounting department	Completed
◎Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards”	Accounting department and	Completed
◎Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Risk management department , IT department and Audit department	Completed
◎Proceed advanced internal training	Accounting department and other authorized departments	Completed
3. Practice stage: 2012/1/1~2013/12/31		
◎Test the operation of IT system	IT department	Completed
◎Prepare opening IFRSs balance sheet and comparative financial statements	Accounting department	Completed
◎Prepare IFRSs financial statements	Accounting department	In process

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

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

Accounting Issues	Description of differences
【IAS 19 Employee benefits】	The Company has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under ROC GAAP. However under the requirements of IAS 19, the rate used to discount post-employment benefits obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used.
	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.
【IAS12 Income taxes】	Under the requirements of ROC GAAP, deferred tax assets are recognized in full, however, if there is over

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

(Expressed in thousands of dollars unless otherwise stated)

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

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

(NT$) Item	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents(b)	$6,998,255	$(72,188)	$6,926,067
Receivable(c)	3,675,521	(766,125)	2,909,396
Investments(b)	10,632,547	72,188	10,704,735
Reinsurance reserve assets(c)	4,436,278	766,125	5,202,403
Property and equipment	225,801	-	225,801
Intangible assets(a)	41,384	(4,061)	37,323
Other assets(a)(d)	1,031,192	65,402	1,096,594
Total assets	27,040,978	61,341	27,102,319
Payables	2,101,602	-	2,101,262
Financial Liabilities	1,045,000	-	1,045,000
Operating and liability reserves	19,075,973	-	19,075,973
Other liabilities(a)(d)	383,049	158,567	541,616
Total liabilities	22,605,284	158,567	22,763,851
Common stock	2,317,006	-	2,317,006
Capital surplus	1,929	-	1,929
Legal reserve	834,443	-	834,443
Special capital reserve	462,480	-	462,480
Unappropriated retained earnings(a)	380,220	(210,384)	169,836
Equity adjustment(a)	439,616	113,158	552,774
Stockholders' equity	4,435,694	(97,226)	4,338,468

(Expressed in thousands of dollars unless otherwise stated)

(US$)

Item	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents(b)	$231,194	$(2,385)	$228,809
Receivable(c)	121,425	(25,310)	96,115
Investments(b)	351,257	2,385	353,642
Reinsurance reserve assets(c)	146,557	25,310	171,867
Property and equipment	7,460	-	7,460
Intangible assets(a)	1,367	(134)	1,233
Other assets(a)(d)	34,066	2,160	36,226
Total assets	893,326	2,026	895,352
Payables(a)	69,417	-	69,417
Financial Liabilities	34,523	-	34,523
Operating and liability reserves(c)	630,194	-	630,194
Other liabilities(a)(d)	12,654	5,238	17,892
Total liabilities	746,788	5,238	752,026
Common stock	76,545	-	76,545
Capital surplus	64	-	64
Legal reserve	27,567	-	27,567
Special capital reserve	15,278	-	15,278
Unappropriated retained earnings(a)	12,561	(6,950)	5,611
Equity adjustment(a)	14,523	3,738	18,261
Stockholders' equity	146,538	(3,212)	143,326

(a) The Company adopted IAS 19 “Employee Benefit” to measure pension liability, and recognize all cumulative actuarial gains and losses according to the IFRS I. As of January, 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$136,256 (US$4,501) thousands, and deferred income tax assets by NT$43,091 (US$1,423) thousands; a decrease of deferred pension cost by NT$4,061 (US$134) thousands, net loss not recognized as pension cost by NT$113,158 (US$3,738) thousands and retained earnings by NT$210,384 (US$6,950) thousands.

(b) 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 December 31, 2012, the time deposits amounted to NT$72,188 (US$2,385) thousands should be reclassified to investments in debt securities with no active market.

(Expressed in thousands of dollars unless otherwise stated)

(c) In accordance with the presentation of financial statement of IFRSs, the adjustment resulted in a decrease of receivables by NT$766,125 (US$25,310) thousands and a increase of reinsurance reserve assets by NT$766,125 (US$25,310) thousands.

(d) According to the IAS 12, deferred income tax assets and liabilities should not be offset against each other, which resulted in an increase of both deferred income tax assets and liabilities by NT$22,311 (US$737) thousands.

B. Reconciliation of the balance sheet as at December 31, 2012:

(NT$) Item	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents(b)	$5,827,862	$(150,811)	$5,677,051
Receivable(c)	4,249,891	(958,280)	3,291,611
Investments(b)	13,066,939	150,811	13,217,750
Reinsurance reserve assets(c)	4,556,297	958,280	5,514,577
Property and equipment	184,390	-	184,390
Intangible assets(a)	39,236	(3,481)	35,755
Other assets(a)(d)	1,206,424	60,456	1,266,880
Total assets	29,131,039	56,975	29,188,014
Payables(a)	2,220,327	2,677	2,223,004
Financial Liabilities	1,000,000	-	1,000,000
Operating and liability reserves	20,440,598	-	20,440,598
Other liabilities(a)(d)	585,655	121,423	707,078
Total liabilities	24,246,580	124,100	24,370,680
Common stock	2,522,950	-	2,522,950
Capital surplus	1,929	-	1,929
Legal reserve	954,800	-	954,800
Special capital reserve	923,897	-	923,897
Unappropriated retained earnings (a)	283,137	(205,798)	77,339
Equity adjustment(a)	197,746	138,673	336,419
Stockholders' equity	4,884,459	(67,125)	4,817,334

(Expressed in thousands of dollars unless otherwise stated)

(US$) Item	ROC GAAP	Adjustments	IFRSs
Cash and Cash equivalents(b)	$200,615	(5,191)	$195,424
Receivable(c)	146,296	(32,987)	113,309
Investments(b)	449,809	5,191	455,000
Reinsurance reserve assets(c)	156,843	32,987	189,830
Property and equipment	6,347	-	6,347
Intangible assets(a)	1,351	(120)	1,231
Other assets(a)(d)	41,529	2,081	43,610
Total assets	1,002,790	1,961	1,004,751
Payables(a)	76,431	92	76,523
Financial Liabilities	34,423	-	34,423
Operating and liability reserves	703,635	-	703,635
Other liabilities(a)(d)	20,161	4,180	24,341
Total liabilities	834,650	4,272	838,922
Common stock	86,849	-	86,849
Capital surplus	66	-	66
Legal reserve	32,867	-	32,867
Special capital reserve	31,804	-	31,804
Unappropriated retained earnings(a)	9,747	(7,084)	2,663
Equity adjustment(a)	6,807	4,773	11,580
Stockholders' equity	168,140	(2,311)	165,829

(a) The Company adopted IAS 19 “Employee Benefit” to measure pension Liability, and recognize all cumulative actuarial gains and losses according to the IFRS I. As of January, 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$105,796 (US$3,642) thousands, deferred income tax assets by NT$42,152 (US$1,451) thousands and tax expense NT$939 (US$32); a decrease of deferred pension cost by NT$3,481 (US$120) thousands, net loss not recognized as pension cost by NT$138,673 (US$4,773) thousands, retained earnings by NT$210,384 (US$7,242) thousands and pension expense by NT$5,525 (US$190) thousands.

(Expressed in thousands of dollars unless otherwise stated)

(b) 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 December 31, 2012, the time deposits amounted to NT$150,811 (US$5,191) should be reclassified to investments in debt securities with no active market.

(c) In accordance with the presentation of financial statement of IFRSs, the adjustment resulted in a decrease of receivables by NT$958,280 (US$32,987) thousands and a increase of reinsurance reserve assets by NT$958,280 (US$32,987) thousands.

(d) According to the IAS 12, deferred income tax assets and liabilities should not be offset against each other, which resulted in an increase of both deferred income tax assets and liabilities by NT$18,305 (US$630) thousands.

C. Reconciliation of the income statement for the year ended December 31, 2012:

(NT$)

Item	ROC GAAP	Adjustments	IFRSs
Operating revenues	$12,816,390	$-	$12,816,390
Operating costs	(7,812,692)	-	(7,812,692)
Operating expenses (a)	(4,432,882)	5,525	(4,427,357)
Operating income	570,816	5,525	576,341
Non-operating revenue/ gains or expenses/losses	(9,219)	-	(9,219)
Net income before income tax	561,597	5,525	567,122
Income tax expense (a)	(195,458)	(939)	(196,397)
Net income after income tax	366,139	4,586	370,725

(US$)

Item	ROC GAAP	Adjustments	IFRSs
Operating revenues	$441,184	$-	$441,184
Operating costs	(268,940)	-	(268,940)
Operating expenses (a)	(152,595)	190	(152,405)
Operating income	19,649	190	19,839
Non-operating revenue/ gains or expenses/losses	(317)	-	(317)
Net income before income tax	19,332	190	19,522
Income tax expense (a)	(6,728)	(32)	(6,760)
Net income after income tax	12,604	158	12,762

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

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

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

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

(13) Presentation of Financial Statements:

Certain accounts in financial statements for the year ended December 31, 2011 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2012.