# Cathay Century Insurance Co., Ltd. and Subsidiaries
# Consolidated Financial Statements
# As of June 30, 2012 and 2011
# With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Business Entity Accounting Act" and "Regulation in Business Entity Accounting Handling" with respect to financial accounting standards. 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 financial statements shall prevail.

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## Index to consolidated financial statements

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

**Independent Auditors' Review Report**

Board of Directors
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China ("ROC"). A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements as of and for the six months ended June 30, 2012 and 2011 in order for them to be in conformity with "Guidelines Governing the Preparation of Financial Reports by Insurance Industries" and generally accepted accounting principles in the ROC.

Effective from January 1, 2011, the Company adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement", the new SFAS No.40 "Insurance Accounting" and Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises.

ERNST & YOUNG
Taipei, Taiwan
The republic of China
August 24, 2012

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited consolidated balance sheets**

**As of June 30, 2012 and 2011**

**(Expressed in thousands of dollars)**

| | | June 30,2012 | | June 30,2011 | |
|---|---|---|---|---|---|
| Assets | Notes | NT$ | US$ | NT$ | US$ |
| Cash and cash equivalents | 2,4 | $6,391,487 | $214,480 | $7,244,972 | $251,649 |
| Receivables | | | | | |
| Notes receivable | | 249,985 | 8,389 | 235,251 | 8,171 |
| Premiums receivable | 2,5 | 3,084,201 | 103,496 | 2,832,368 | 98,380 |
| Claims recoverable from reinsurers | | 231,450 | 7,767 | 263,005 | 9,135 |
| Due from reinsurers and ceding companies | | 581,012 | 19,497 | 744,717 | 25,868 |
| Other accounts receivable | | 120,296 | 4,037 | 125,281 | 4,352 |
| Subtotal | | 4,266,944 | 143,186 | 4,200,622 | 145,906 |
| Investment | | | | | |
| Financial assets at fair value through profit or loss | 2,6 | 123,139 | 4,132 | 1,035,090 | 35,953 |
| Available-for-sale financial assets | 2,7 | 7,438,311 | 249,608 | 4,305,275 | 149,541 |
| Derivative financial assets for hedging | 2,8 | 22,172 | 744 | 27,724 | 963 |
| Financial assets carried at cost | 2,9 | - | - | 25,500 | 886 |
| Long-term investments under equity method - Net | 2,10 | 3,388 | 114 | 5,734 | 199 |
| Investments in debt securities with no active market | 2,11 | 1,180,259 | 39,606 | 500,000 | 17,367 |
| Held-to-maturity financial assets | 2,12 | 2,337,828 | 78,450 | 2,413,622 | 83,836 |
| Loans | 2,13 | 519,265 | 17,425 | 640,849 | 22,259 |
| Subtotal | | 11,624,362 | 390,079 | 8,953,794 | 311,004 |
| Reinsurance Reserve Assets - Net | | | | | |
| Ceded unearned premiums reserve | | 2,583,104 | 86,681 | 2,488,091 | 86,422 |
| Ceded claims reserve | | 1,936,680 | 64,989 | 2,235,112 | 77,635 |
| Ceded premiums deficiency reserve | | 8,009 | 269 | 29,244 | 1,016 |
| Subtotal | | 4,527,793 | 151,939 | 4,752,447 | 165,073 |
| Property and equipment - Net | 2,14 | | | | |
| Other equipment | | 504,072 | 16,915 | 480,785 | 16,700 |
| Leasehold improvements | | 45,416 | 1,524 | 35,162 | 1,221 |
| Subtotal | | 549,488 | 18,439 | 515,947 | 17,921 |
| Less: Accumulated depreciation | | (357,821) | (12,007) | (286,518) | (9,952) |
| Prepayments for equipments | | 662 | 22 | 12,027 | 418 |
| Subtotal | | 192,329 | 6,454 | 241,456 | 8,387 |
| Intangible assets | | | | | |
| Computer software cost | 2,15 | 35,153 | 1,180 | 30,599 | 1,063 |
| Deferred pension cost | | 4,061 | 136 | 4,642 | 161 |
| Subtotal | | 39,214 | 1,316 | 35,241 | 1,224 |
| Other assets | | | | | |
| Prepayments | | 7,415 | 249 | 5,241 | 182 |
| Guarantee deposits paid | 2 | 1,239,957 | 41,609 | 869,746 | 30,210 |
| Deferred income tax assets | | 22,152 | 744 | 58,714 | 2,039 |
| Other assets - others | | 53,054 | 1,780 | 65,109 | 2,261 |
| Subtotal | | 1,322,578 | 44,382 | 998,810 | 34,692 |
| Total assets | | $28,364,707 | $951,836 | $26,427,342 | $917,935 |

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.8 and NT$28.79 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited consolidated balance sheets - (Continued)**

**As of June 30, 2012 and 2011**

**(Expressed in thousands of dollars)**

| | | June 30,2012 | | June 30,2011 | |
|---|---|---|---|---|---|
| Liabilities & stockholders' equity | Notes | NT$ | US$ | NT$ | US$ |
| Payables | | | | | |
| Claims outstanding | | $5,642 | $189 | $6,350 | $220 |
| Commissions payable | | 131,171 | 4,402 | 105,881 | 3,678 |
| Due to reinsurers and ceding companies | | 1,628,255 | 54,639 | 1,890,287 | 65,658 |
| Other payables | | 484,954 | 16,274 | 379,394 | 13,178 |
| Subtotal | | 2,250,022 | 75,504 | 2,381,912 | 82,734 |
| Financail Liabilities | | | | | |
| Financial liabilities at fair value through profit or loss | 16 | 43,217 | 1,450 | - | - |
| Preferred stock liability | 17 | 1,000,000 | 33,557 | - | - |
| Subtotal | | 1,043,217 | 35,007 | - | - |
| Reserve for operating and liability | 2,18 | | | | |
| Unearned premiums reserve | | 9,868,970 | 331,173 | 8,897,058 | 309,033 |
| Claim reserve | | 5,248,426 | 176,122 | 5,291,148 | 183,784 |
| Special reserve | | 4,800,385 | 161,087 | 5,158,011 | 179,160 |
| Premiums deficiency reserve | | 27,708 | 930 | 56,944 | 1,978 |
| Subtotal | | 19,945,489 | 669,312 | 19,403,161 | 673,955 |
| Other liabilities | | | | | |
| Guarantee deposits received | | 30 | 1 | 350 | 12 |
| Accrued pension liabilities | | 119,897 | 4,024 | 58,023 | 2,015 |
| Other liabilities - others | | 360,228 | 12,088 | 417,670 | 14,508 |
| Subtotal | | 480,155 | 16,113 | 476,043 | 16,535 |
| Total liabilities | | 23,718,883 | 795,936 | 22,261,116 | 773,224 |
| Capital stock | | | | | |
| Common stock | 19 | 2,522,950 | 84,663 | 2,317,006 | 80,480 |
| Capital surplus | | | | | |
| Capital surplus - others | | 1,929 | 64 | 1,929 | 67 |
| Retained earnings | 20 | | | | |
| Legal reserve | | 954,800 | 32,040 | 834,443 | 28,984 |
| Special reserve | | 516,399 | 17,329 | - | - |
| Unappropriated retained earnings | | 371,961 | 12,482 | 406,003 | 14,102 |
| Equity adjustment | | | | | |
| Unrealized gains or losses on financial instruments | | (97,717) | (3,279) | 83,875 | 2,913 |
| Cumulative translation adjustments | | (39,860) | (1,338) | (86,797) | (3,015) |
| Net loss not recognized as net pension cost | | (113,158) | (3,797) | (47,368) | (1,645) |
| Minority interest | | 528,520 | 17,736 | 657,135 | 22,825 |
| Total stockholders' equity | | 4,645,824 | 155,900 | 4,166,226 | 144,711 |
| Total liabilities and stockholders' equity | | $28,364,707 | $951,836 | $26,427,342 | $917,935 |

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.8 and NT$28.79 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited consolidated statements of income**

**For the six months ended June 30, 2012 and 2011**

**(Expressed in thousands of dollars, expect earning per share)**

| Items | Notes | January 1-June 30,2012 | | January 1-June 30,2011 | |
|---|---|---|---|---|---|
| | | NT$ | US$ | NT$ | US$ |
| Operating revenues | 2 | | | | |
| Direct premium income | | $8,161,790 | $273,886 | $7,278,986 | $252,830 |
| Reinsurance premium income | | 217,944 | 7,313 | $267,490 | 9,291 |
| Premiums income | | 8,379,734 | 281,199 | 7,546,476 | 262,121 |
| Deduct: Reinsurance premiums ceded | | (2,305,431) | (77,363) | (2,219,588) | (77,096) |
| Change in unearned premiums reserve - Net | | (619,834) | (20,800) | (666,035) | (23,134) |
| Retained earned premium | | 5,454,469 | 183,036 | 4,660,853 | 161,891 |
| Reinsurance commission earned | | 227,516 | 7,634 | 192,160 | 6,674 |
| Handling fee earned | | 15,940 | 535 | 15,366 | 534 |
| Investment profit and loss | | 300,234 | 10,075 | 313,369 | 10,885 |
| Interest income | | 207,809 | 6,974 | 187,957 | 6,529 |
| Losses on valuation of financial assets | | (436) | (15) | (150,258) | (5,219) |
| Gains on valuation of financial liabilities | | 1,783 | 60 | - | - |
| Gain on investments recognized under the equity method | 2,16 | 11 | - | 13 | - |
| Loss on foreign Exchange | | (33,175) | (1,113) | (2,276) | (79) |
| Gains on disposal of investments | | 124,242 | 4,169 | 277,933 | 9,654 |
| Subtotal | | 5,998,159 | 201,280 | 5,181,748 | 179,984 |
| Operating costs | 2 | | | | |
| Insurance claims paid | | (3,873,873) | (129,995) | (3,697,519) | (128,431) |
| Deduct: Claims recovered from reinsurers | | 804,429 | 26,994 | 934,612 | 32,463 |
| Retained claim paid | | (3,069,444) | (103,001) | (2,762,907) | (95,968) |
| Changes in liability reserves | | (182,427) | (6,122) | (218,149) | (7,577) |
| Change in claims reserve - Net | | (142,263) | (4,774) | (206,722) | (7,180) |
| Change in special reserve - Net | | (39,283) | (1,318) | 5,237 | 182 |
| Change in premiums deficiency reserve - Net | | (881) | (30) | (16,664) | (579) |
| Commissions expenses | | (324,719) | (10,897) | (257,741) | (8,952) |
| Other operating costs | | (25,638) | (860) | (36,520) | (1,269) |
| Subtotal | | (3,602,228) | (120,880) | (3,275,317) | (113,766) |
| Operating expenses | 2 | | | | |
| Marketing expenses | | (1,572,494) | (52,768) | (1,388,175) | (48,217) |
| General and administrative expenses | | (465,890) | (15,634) | (389,498) | (13,529) |
| Employee training expenses | | (1,990) | (67) | (3,118) | (108) |
| Subtotal | | (2,040,374) | (68,469) | (1,780,791) | (61,854) |
| Operating income | | 355,557 | 11,931 | 125,640 | 4,364 |
| Non-operating revenues and gains | | | | | |
| Gains on disposal of fixed assets | | - | - | 303 | 10 |
| Other non-operating revenues and gains | | 5,030 | 169 | 12,041 | 419 |
| Subtotal | | 5,030 | 169 | 12,344 | 429 |
| Non-operating expenses and losses | | | | | |
| Losses on disposal of fixed assets | | (11) | - | (1) | - |
| Dividends on preferred stock liabilities | | (9,249) | (310) | - | - |
| Loss on retiremant of fixed assets | | (417) | (14) | (449) | (16) |
| Other non-operating expenses and losses | | (224) | (8) | (41) | (1) |
| Subtotal | | (9,901) | (332) | (491) | (17) |
| Consolidated income before income taxes | | 350,686 | 11,768 | 137,493 | 4,776 |
| Income taxes | 2,23 | (75,182) | (2,523) | (17,955) | (624) |
| Consolidated net income | | $275,504 | $9,245 | $119,538 | $4,152 |
| Include: | | | | | |
| Parent company | | $371,961 | $12,482 | $165,085 | $5,734 |
| Minority interest | | (96,457) | (3,237) | (45,547) | (1,582) |
| Consolidated net income | | $275,504 | $9,245 | $119,538 | $4,152 |
| Earning per share (In dollars) | 24 | | | | |
| Income before income taxes | | $1.39 | $0.05 | $0.54 | $0.02 |
| Net income | | $1.09 | $0.04 | $0.47 | $0.02 |

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.8 and NT$28.79 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited consolidated statements of changes in stockholders' equity**

**For the six months ended June 30, 2012 and 2011**

**(Expressed in thousands of dollars)**

| Summary | Capital stock | | | | Retained earnings | | | | | | Equity adjustment | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common stock | | Capital surplus | | Legal reserve | | Special 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 | $80,480 | $1,929 | $67 | $774,213 | $26,892 | $- | $- | $301,148 | $10,460 | $187,787 | $6,522 | $(63,039) | $(2,190) | $(47,368) | $(1,645) | $699,186 | $24,286 | $4,170,862 | $144,872 |
| Appropriations and distributions for 2010 | | | | | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | 60,230 | 2,092 | - | - | (60,230) | (2,092) | - | - | - | - | - | - | - | - | - | - |
| Changes in unrealized gains or losses on financial instruments | - | - | - | - | - | - | - | - | - | - | (103,912) | (3,609) | - | - | - | - | (2,175) | (76) | (106,087) | (3,685) |
| Cumulative conversion adjustments | - | - | - | - | - | - | - | - | - | - | - | - | (23,758) | (825) | - | - | 5,671 | 197 | (18,087) | (628) |
| Net Income (loss) for the six months ended June 30, 2011 | - | - | - | - | - | - | - | - | 165,085 | 5,734 | - | - | - | - | - | - | (45,547) | (1,582) | 119,538 | 4,152 |
| Balance on June 30, 2011 | $2,317,006 | $80,480 | $1,929 | $67 | $834,443 | $28,984 | $- | $- | $406,003 | $14,102 | $83,875 | $2,913 | $(86,797) | $(3,015) | $(47,368) | $(1,645) | $657,135 | $22,825 | $4,166,226 | $144,711 |
| Balance on January 1, 2012 | $2,317,006 | $77,752 | $1,929 | $64 | $834,443 | $28,001 | $462,480 | $15,520 | $380,220 | $12,759 | $(53,919) | $(1,809) | $(22,377) | $(751) | $(113,158) | $(3,797) | $629,070 | $21,110 | $4,435,694 | $148,849 |
| Appropriations and distributions for 2011 (Note) | | | | | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | 120,357 | 4,039 | - | - | (120,357) | (4,039) | - | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | - | - | 53,919 | 1,809 | (53,919) | (1,809) | - | - | - | - | - | - | - | - | - | - |
| Stock dividends | 205,944 | 6,911 | - | - | - | - | - | - | (205,944) | (6,911) | - | - | - | - | - | - | - | - | - | - |
| Changes in unrealized gains or losses on financial instruments | - | - | - | - | - | - | - | - | - | - | (43,798) | (1,470) | - | - | - | - | 10,313 | 346 | (33,485) | (1,124) |
| Cumulative conversion adjustments | - | - | - | - | - | - | - | - | - | - | - | - | (17,483) | (587) | - | - | (14,406) | (483) | (31,889) | (1,070) |
| Net Income (loss) for the six months ended June 30, 2012 | - | - | - | - | - | - | - | - | 371,961 | 12,482 | - | - | - | - | - | - | (96,457) | (3,237) | 275,504 | 9,245 |
| Balance on June 30, 2012 | $2,522,950 | $84,663 | $1,929 | $64 | $954,800 | $32,040 | $516,399 | $17,329 | $371,961 | $12,482 | $(97,717) | $(3,279) | $(39,860) | $(1,338) | $(113,158) | $(3,797) | $528,520 | $17,736 | $4,645,824 | $155,900 |

Note：The employee bonus of NT$1,839 (US$62) thousands was recorded as operating costand expenses in 2011.

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.8 and NT$28.79 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited consolidated statements of cash flows**

**For the six months ended June 30, 2012 and 2011**

**(Expressed in thousands of dollars)**

| Items | Notes | January 1-June 30,2012 NT$ | January 1-June 30,2012 US$ | January 1-June 30,2011 NT$ | January 1-June 30,2011 US$ |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Net income | | $275,504 | $9,245 | $119,538 | $4,152 |
| Adjustments to reconcile net income to net cash provided by (used in) | | | | | |
| Operating activities: | | | | | |
| Depreciation | | 42,666 | 1,432 | 32,469 | 1,128 |
| Amortization | | 10,029 | 337 | 7,876 | 274 |
| Provsion bad debt | | 14,936 | 501 | 9,876 | 343 |
| Losses from valuation on financial assets | | 436 | 15 | 150,258 | 5,219 |
| Gains from valuation on financial liabilities | | (1,783) | (60) | - | - |
| Unearned premiums reserve | | 619,834 | 20,800 | 666,035 | 23,134 |
| Claims reserve | | 142,263 | 4,774 | 206,722 | 7,180 |
| Special reserve | | 39,283 | 1,318 | (5,237) | (182) |
| Premiums deficiency reserve | | 881 | 30 | 16,664 | 579 |
| Investment gain recognized under equity method | | (11) | - | (13) | - |
| Gains on disposal of investments | | (124,242) | (4,169) | (277,933) | (9,654) |
| Gains on disposal of property and equipment | | - | - | (303) | (10) |
| Loss on disposal of property and equipment | | 11 | - | 1 | - |
| Loss of property and equipment scrapped | | 417 | 14 | 449 | 16 |
| Decrease (Increase)in notes receivable | | 4,608 | 155 | (15,421) | (536) |
| Increase in premiums receivable | | (557,238) | (18,699) | (763,940) | (26,535) |
| Decrease (Increase) in claims recoverable from reinsurers | | 36,800 | 1,235 | (69,442) | (2,412) |
| Increase in other accounts receivable | | (5,302) | (178) | (44,333) | (1,540) |
| Decrease (Increase) in financial assets at fair value through profit or loss | | 504,759 | 16,938 | (737,261) | (25,608) |
| Increase in due from reinsurers and ceding companies | | (83,138) | (2,790) | (601,422) | (20,890) |
| Decrease (Increase) in prepayments | | 1,772 | 59 | (191) | (7) |
| (Increase) Decrease in guarantee deposits paid | | (300,175) | (10,073) | 115,934 | 4,027 |
| Decrease (Increase) in deferred income tax assets | | 17,940 | 602 | (6,415) | (223) |
| Increase in other assets - others | | (12,675) | (425) | (11,486) | (399) |
| Decrease in claims outstanding | | (27,135) | (911) | (25,245) | (877) |
| Increase in commissions payable | | 93,873 | 3,150 | 92,126 | 3,200 |
| Increase in due to reinsurers and ceding companies | | 366,817 | 12,309 | 945,188 | 32,830 |
| Decrease in other payables | | (300,603) | (10,087) | (383,956) | (13,337) |
| (Decrease) Increase in pension liabilities | | (3,335) | (112) | 475 | 17 |
| Increase in other liabilities - others | | 100,441 | 3,370 | 211,679 | 7,353 |
| Net cash provided by (used in) operating activities | | 857,633 | 28,780 | (367,308) | (12,758) |
| Cash flows from investing activities | | | | | |
| Acquisition of financial assets | | (1,439,868) | (48,318) | (24,089) | (836) |
| Decrease in secured loans | | 32,701 | 1,097 | 64,364 | 2,236 |
| Acquisition of fixed assets | | (14,075) | (472) | (84,586) | (2,938) |
| Disposal of fixed assets | | 7 | - | 303 | 10 |
| Acquisition of intangible assets | | (4,174) | (140) | (2,357) | (82) |
| Net cash used in investing activities | | (1,425,409) | (47,833) | (46,365) | (1,610) |
| Effects of exchange rate changes | | (38,992) | (1,308) | (13,007) | (452) |
| Decrease in cash and cash equivalents | | (606,768) | (20,361) | (426,680) | (14,820) |
| Cash and cash equivalents at the beginning of periods | | 6,998,255 | 234,841 | 7,671,652 | 266,469 |
| Cash and cash equivalents at the end of periods | | $6,391,487 | $214,480 | $7,244,972 | $251,649 |
| Supplemental disclosure of cash flows information | | | | | |
| Income tax paid | | $5,875 | $197 | $7,275 | $253 |

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2012 and 2011 were NT$29.8 and NT$28.79 to US$1.00)

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

**Cathay Century Insurance Co., Ltd. and Subsidiaries**
**Notes to unaudited consolidated financial statements**
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**
**As of June 30, 2012 and 2011**

## 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 June 30, 2012 and 2011, the total numbers of employees were 2,128 and 1,698 respectively.

## 2. Summary of significant accounting policies

The company prepared the consolidated financial statement, in accordance with the Regulations 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 June 30, 2012 and 2011, the consolidated financial statements include the following entities:

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| Investor | Investee | Business | Ownership interest 2012.6.30 | Ownership interest 2011.6.30 | 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 an operation license of an enterprise as a juristic person on August 26, 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China) . As of June 30, 2012 and 2011, the total numbers of employees were 415 and 227, respectively. |
| The Company | Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)") | Property Insurance | 100.00% | 100.00% | Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on November 2, 2010. The Company owns 100% interest of Cathay Insurance(Vietnam). As of June 30, 2012 and 2011, the total numbers of employees wares 98 and 51, 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) Long-term investments under equity method

Long-term 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 long-term 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 long-term 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 are computer software and are amortized over the estimated useful lives of 3 years using the straight-line method.

The “intangible assets” of “the Subsidiaries” are computer software and they are amortized over the estimated useful lives of 1-2 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.

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

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

D. Premiums deficiency reserve :

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

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 June 30, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$29.80 and NT$28.79 provided by Federal Reserve Bank of New York of as of June 30, 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 six months ended June 30, 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

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

interpretation, this change in accounting principles has no significant impact on consolidated net income and earnings per share for the six months ended June 30,2011

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 June 30, 2011, the amount set aside was NT$ 179,666 (US$6,241) 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

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Petty cash and cash on hand | $12,354 | $415 | $11,445 | $398 |
| Cash in banks | 1,455,648 | 48,847 | 1,950,877 | 67,763 |
| Time deposits | 4,733,539 | 158,844 | 4,547,622 | 157,959 |
| Cash equivalents | 189,946 | 6,374 | 734,988 | 25,529 |
| Total | $6,391,487 | $214,480 | $7,244,972 | $251,649 |

## 5. Premiums receivable

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Premiums receivable | $3,153,031 | $105,806 | $2,910,660 | $101,100 |
| Less: Allowance for bad debts | (68,830) | (2,310) | (78,292) | (2,720) |
| Net | $3,084,201 | $103,496 | $2,832,368 | $98,380 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

**6. Financial assets at fair value through profit or loss**

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Listed stocks | $- | $- | $186,083 | 6,463 |
| Beneficiary certificates | 123,139 | 4,132 | 818,457 | 28,429 |
| Subtotal | 123,139 | 4,132 | 1,004,540 | 34,892 |
| Add: Valuation adjustment | - | - | 30,550 | 1,061 |
| Total | $123,139 | $4,132 | $1,035,090 | $35,953 |

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

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Listed stocks | $1,915,735 | $64,286 | $1,229,615 | $42,710 |
| Overseas stocks | 29,418 | 987 | 13,907 | 483 |
| Beneficiary certificates | 1,711,060 | 57,418 | 446,648 | 15,514 |
| Real Estate Investment Trust | 153,542 | 5,152 | 672,698 | 23,366 |
| Corporate bonds | 1,462,333 | 49,072 | 1,070,281 | 37,175 |
| Financial debentures | 1,200,120 | 40,273 | 800,117 | 27,791 |
| Government bonds | 784,559 | 26,328 | 22,039 | 766 |
| Overseas bonds | 306,963 | 10,301 | - | - |
| Subtotal | 7,563,730 | 253,817 | 4,255,305 | 147,805 |
| Add: Valuation adjustment | (125,419) | (4,209) | 49,970 | 1,736 |
| Total | $7,438,311 | $249,608 | $4,305,275 | $149,541 |

**8. Derivative financial assets for hedging**

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Derivative financial instruments | $- | $- | $- | $- |
| Add: Valuation adjustment | 22,172 | 744 | 27,724 | 963 |
| Total | $22,172 | $744 | $27,724 | $963 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## 9. Financial assets carried at cost

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| KGEX. Com Co., Ltd. | $- | $- | $25,500 | $886 |

## 10. Long-term investments under equity method

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Investee | NT$ | US$ | NT$ | US$ |
| Vista Technology Venture Capital Corp. | $3,388 | $114 | $5,734 | $199 |

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

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Balance on January 1 | $5,465 | $184 | $5,720 | $199 |
| Add (less): | | | | |
| Investment gain recognized under the equity method | 11 | - | 13 | - |
| Unrealized gains or losses on financial instruments recognized under the equity investment | 2 | - | 1 | - |
| Disinvestment of investment under the equity method | (2,090) | (70) | - | - |
| Balance on June 30 | $3,388 | $114 | $5,734 | $199 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

B. The investment gains recognized under equity method for the six months ended June 30, 2012 and 2011 are listed below:

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Investee | NT$ | US$ | NT$ | US$ |
| Vista Technology Venture Capital Corp. | $11 | $- | $13 | $- |

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 six months ended June 30, 2012 and 2011.

## 11. Investments in debt securities with no active market

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Preferred stocks | $400,000 | $13,423 | $- | $- |
| Company bonds | 500,000 | 16,778 | 500,000 | $17,367 |
| Overseas bonds | 280,259 | 9,405 | - | - |
| Total | $1,180,259 | $39,606 | $500,000 | $17,367 |

## 12. Held-to-maturity financial assets

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Overseas bonds | $2,337,828 | $78,450 | $2,413,622 | $83,836 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## 13. Secured loans

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Secured loans | $566,240 | $19,001 | $647,619 | $22,494 |
| Less: Allowance for bad debts | (46,975) | (1,576) | (6,770) | (235) |
| Net | $519,265 | $17,425 | $640,849 | $22,259 |

Secured loans are secured by real estate.

## 14. Fixed assets

| | June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Cost | | Accumulated Depreciation | | Net | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Other equipments | $504,072 | $16,915 | $325,914 | $10,936 | $178,158 | $5,979 |
| Leasehold improvements | 45,416 | 1,524 | 31,907 | 1,071 | 13,509 | 453 |
| Subtotal | 549,488 | 18,439 | 357,821 | 12,007 | 191,667 | 6,432 |
| Prepayments for equipments | 662 | 22 | - | - | 662 | 22 |
| Total | $550,150 | $18,461 | $357,821 | $12,007 | $192,329 | $6,454 |

| | June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Cost | | Accumulated Depreciation | | Net | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Other equipments | $480,785 | $16,700 | $262,560 | $9,120 | $218,225 | $7,580 |
| Prepayments for equipments | 35,162 | 1,221 | 23,958 | 832 | 11,204 | 389 |
| Subtotal | 515,947 | $17,921 | 286,518 | $9,952 | 229,429 | 7,969 |
| Prepayments for equipments | 12,027 | 418 | - | - | 12,027 | 418 |
| Total | $527,974 | $18,339 | $286,518 | $9,952 | $241,456 | $8,387 |

No equipments of the Company were pledged as collaterals as of June 30, 2012 and 2011.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## 15. Intangible assets - Computer software cost

| | January 1,2012 | | Increase | | Decrease | | June 30, 2012 | |
|---|---|---|---|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Acquired cost: | | | | | | | | |
| Computer software cost | $115,704 | $3,883 | $7,271 | $244 | $- | $- | $122,975 | $4,127 |
| Amortization and impairment | | | | | | | | |
| Amortization | (78,381) | (2,630) | (9,441) | (317) | - | - | (87,822) | (2,947) |
| Book value | $37,323 | $1,253 | | | | | $35,153 | $1,180 |

| | January 1,2011 | | Increase | | Decrease | | June 30, 2011 | |
|---|---|---|---|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Acquired cost: | | | | | | | | |
| Computer software cost | $96,948 | $3,367 | $2,646 | $92 | $- | $- | $99,594 | $3,459 |
| Amortization and impairment | | | | | | | | |
| Amortization | (61,712) | (2,143) | (7,283) | (253) | - | - | (68,995) | (2,396) |
| Book value | $35,236 | $1,224 | | | | | $30,599 | $1,063 |

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

The intangible assets of its subsidiaries are computer software and are calculated using the straight-line method over the estimated useful lives within 1-2 years.

## 16. Financial liabilities at fair value through profit or loss

| | December 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| Item | NT$ | US$ | NT$ | US$ |
| Derivative financial instruments | $- | $- | $- | $- |
| Add: Valuation adjustment | 43,217 | 1,450 | - | - |
| Total | $43,217 | $1,450 | $- | $- |

## 17. Preferred stock liabilities

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.

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.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## 18. Liability reserves

| | June 30 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Unearned premiums reserve | $9,868,970 | $331,173 | $8,897,058 | $309,033 |
| Claims reserve | 5,248,426 | 176,122 | 5,291,148 | 183,784 |
| Special reserve | 4,800,385 | 161,087 | 5,158,011 | 179,160 |
| Premiums deficiency reserve | 27,708 | 930 | 56,944 | 1,978 |
| Total | $19,945,489 | $669,312 | $19,403,161 | $673,955 |

(1) Unearned premiums reserve

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

| | June 30, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unearned premium reserve | | | | Ceded unearned premium reserve | | Retained business | |
| | Direct business | | Assumed reinsurance business | | Ceded reinsurance business | | | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $2,213,171 | $74,267 | $46,800 | $1,570 | $993,099 | $33,325 | $1,266,872 | $42,51 |
| Marine insurance | 270,344 | 9,072 | 8,836 | 297 | 239,853 | 8,049 | 39,327 | 1,32 |
| Land and air insurance | 2,741,449 | 91,995 | 4,839 | 162 | 118,934 | 3,991 | 2,627,354 | 88,16 |
| Liability insurance | 489,017 | 16,410 | 195 | 7 | 161,349 | 5,414 | 327,863 | 11,00 |
| Bonding insurance | 33,438 | 1,122 | 549 | 18 | 15,109 | 507 | 18,878 | 63 |
| Other property insurance | 1,026,083 | 34,432 | 12,719 | 427 | 514,848 | 17,277 | 523,954 | 17,58 |
| Accident insurance | 1,539,855 | 51,673 | 4,823 | 162 | 69,121 | 2,319 | 1,475,557 | 49,51 |
| Health insurance | 121,011 | 4,061 | - | - | 1,486 | 50 | 119,525 | 4,01 |
| Compulsory automobile liability insurance | 1,172,991 | 39,362 | 182,850 | 6,136 | 469,305 | 15,749 | 886,536 | 29,74 |
| Total | $9,607,359 | $322,394 | $261,611 | $8,779 | $2,583,104 | $86,681 | $7,285,866 | $244,49 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

June 30, 2011

| | Unearned premium reserve | | | | Ceded unearned premium reserve | | Retained business | |
|---|---|---|---|---|---|---|---|---|
| | Direct business | | Assumed reinsurance business | | Ceded reinsurance business | | | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $2,166,977 | $75,269 | $41,480 | $1,441 | $932,365 | $32,385 | $1,276,092 | $44,32 |
| Marine insurance | 255,148 | 8,862 | 2,308 | 80 | 216,637 | 7,525 | 40,819 | 1,41 |
| Land and air insurance | 2,219,673 | 77,099 | 2,857 | 99 | 203,029 | 7,052 | 2,019,501 | 70,14 |
| Liability insurance | 329,934 | 11,460 | 823 | 28 | 90,303 | 3,137 | 240,454 | 8,35 |
| Bonding insurance | 34,149 | 1,186 | 280 | 10 | 17,348 | 602 | 17,081 | 59 |
| Other property insurance | 912,933 | 31,710 | 15,947 | 554 | 488,952 | 16,983 | 439,928 | 15,28 |
| Accident insurance | 1,469,089 | 51,028 | 54,175 | 1,882 | 88,461 | 3,073 | 1,434,803 | 49,83 |
| Health insurance | 93,628 | 3,252 | - | - | 2,633 | 91 | 90,995 | 3,16 |
| Compulsory automobile liability insurance | 1,120,257 | 38,911 | 177,400 | 6,162 | 448,363 | 15,574 | 849,294 | 29,49 |
| Total | $8,601,788 | $298,777 | $295,270 | $10,256 | $2,488,091 | $86,422 | $6,408,967 | $222,61 |

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

June 30, 2012

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

June 30, 2011

| | Unearned premium reserve | | Ceded unearned premium reserve | |
|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ |
| Beginning balance | $7,563,045 | $262,697 | $1,820,466 | $63,233 |
| Reserve | 8,897,486 | 309,048 | 2,488,283 | 86,429 |
| Recover | (7,564,097) | (262,734) | (1,820,929) | (63,249) |
| Effects of exchange rate changes | 624 | 22 | 271 | 9 |
| Ending balance | $8,897,058 | $309,033 | $2,488,091 | $86,422 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Claims reserve

A. Claims reserve and ceded claims reserve

| | June 30, 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 | $3,787,753 | $127,106 | $216,600 | $7,269 | $1,671,746 | $56,099 | $2,332,607 | $78,276 |
| Unreported claims | 1,214,240 | 40,746 | 29,833 | 1,001 | 264,934 | 8,890 | 979,139 | 32,857 |
| Total | $5,001,993 | $167,852 | $246,433 | $8,270 | $1,936,680 | $64,989 | $3,311,746 | $111,133 |

| | June 30, 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 | $4,181,417 | $145,238 | $85,170 | $2,958 | $1,965,831 | $68,282 | $2,300,756 | $79,914 |
| Unreported claims | 986,401 | 34,262 | 38,160 | 1,326 | 269,281 | 9,353 | 755,280 | 26,235 |
| Total | $5,167,818 | $179,500 | $123,330 | $4,284 | $2,235,112 | $77,635 | $3,056,036 | $106,149 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

B. Net changes for claims reserve and ceded claims reserve

June 30, 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 | $3,787,573 | $4,058,046 | $216,600 | $180,872 | $(234,745) | $1,671,697 | $1,895,491 | $(223,794) |
| Unreported claims | 1,214,004 | 1,055,060 | 29,829 | 47,496 | 141,277 | 264,825 | 276,762 | (11,937) |
| Total | $5,001,577 | $5,113,106 | $246,429 | $228,368 | $(93,468) | $1,936,522 | $2,172,253 | $(235,731) |

June 30, 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 | $127,100 | $136,176 | $7,269 | $6,069 | $(7,876) | $56,097 | $63,607 | $(7,510) |
| Unreported claims | 40,738 | 35,405 | 1,001 | 1,594 | 4,740 | 8,887 | 9,287 | (400) |
| Total | $167,838 | $171,581 | $8,270 | $7,663 | $(3,136) | $64,984 | $72,894 | $(7,910) |

June 30, 2011 — 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 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 | $4,181,647 | $3,662,954 | $85,170 | $54,682 | $549,181 | $1,965,925 | $1,585,772 | $380,153 |
| Unreported claims | 986,599 | 901,541 | 38,164 | 2,737 | 120,485 | 269,384 | 186,593 | 82,791 |
| Total | $5,168,246 | $4,564,495 | $123,334 | $57,419 | $669,666 | $2,235,309 | $1,772,365 | $462,944 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | US$ | | | | | | | |
| | Direct underwriting business | | Assumed reinsurance business | | Net change for claims reserve | Ceded reinsurance business | | Net change for ceded claims reserve |
| | Reserve | Recover | Reserve | Recover | (5)=(1)-(2) | Reserve | Recover | |
| Item | (1) | (2) | (3) | (4) | +(3)-(4) | (6) | (7) | (8)=(6)-(7) |
| Claims reported but not paid off | $145,246 | $127,230 | $2,958 | $1,899 | $19,075 | $68,285 | $55,081 | $13,204 |
| Unreported claims | 34,269 | 31,315 | 1,326 | 95 | 4,185 | 9,357 | 6,481 | 2,876 |
| Total | $179,515 | $158,545 | $4,284 | $1,994 | $23,260 | $77,642 | $61,562 | $16,080 |

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

| | June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Claims reserve | | | | | |
| | Claim reported but not paid off | | Unreported claims | | Total | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $1,769,336 | $59,374 | $171,003 | $5,738 | $1,940,339 | $65,112 |
| Marine insurance | 628,130 | 21,078 | 92,039 | 3,088 | 720,169 | 24,166 |
| Land and air insurance | 577,938 | 19,394 | 445,150 | 14,938 | 1,023,088 | 34,332 |
| Liability insurance | 170,242 | 5,713 | 152,179 | 5,107 | 322,421 | 10,820 |
| Bonding insurance | 20,622 | 692 | 7,708 | 259 | 28,330 | 951 |
| Other property insurance | 319,086 | 10,708 | 75,579 | 2,536 | 394,665 | 13,244 |
| Accident insurance | 130,145 | 4,367 | 244,632 | 8,209 | 374,777 | 12,576 |
| Health insurance | 4,965 | 167 | 34,782 | 1,167 | 39,747 | 1,334 |
| Compulsory automobile liability insurance | 383,889 | 12,882 | 21,001 | 705 | 404,890 | 13,587 |
| Total | $4,004,353 | $134,375 | $1,244,073 | $41,747 | $5,248,426 | $176,122 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Claims reserve | | | | | |
| | Claim reported but not paid off | | Unreported claims | | Total | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $2,118,015 | $73,568 | $188,374 | $6,543 | $2,306,389 | $80,111 |
| Marine insurance | 635,314 | 22,067 | 157,158 | 5,459 | 792,472 | 27,526 |
| Land and air insurance | 479,070 | 16,640 | 428,623 | 14,888 | 907,693 | 31,528 |
| Liability insurance | 205,596 | 7,141 | 36,896 | 1,282 | 242,492 | 8,423 |
| Bonding insurance | 22,778 | 791 | 3,266 | 113 | 26,044 | 904 |
| Other property insurance | 299,073 | 10,388 | 46,365 | 1,611 | 345,438 | 11,999 |
| Accident insurance | 109,277 | 3,796 | 142,494 | 4,949 | 251,771 | 8,745 |
| Health insurance | 5,535 | 192 | 915 | 32 | 6,450 | 224 |
| Compulsory automobile liability insurance | 391,928 | 13,613 | 20,471 | 711 | 412,399 | 14,324 |
| Total | $4,266,586 | $148,196 | $1,024,562 | $35,588 | $5,291,148 | $183,784 |

D. Reinsurance asset- ceded claims reserve for policyholder

| | June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Ceded claims reserve | | | | | |
| | Claim reported but not paid off | | Unreported claims | | Total | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $883,239 | $29,639 | $88,000 | $2,953 | $971,239 | $32,592 |
| Marine insurance | 454,542 | 15,253 | 66,783 | 2,241 | 521,325 | 17,494 |
| Land and air insurance | 24,404 | 819 | 10,948 | 367 | 35,352 | 1,186 |
| Liability insurance | 51,576 | 1,731 | 45,649 | 1,532 | 97,225 | 3,263 |
| Bonding insurance | 18,904 | 634 | 846 | 28 | 19,750 | 662 |
| Other property insurance | 106,853 | 3,586 | 11,158 | 374 | 118,011 | 3,960 |
| Accident insurance | 11,805 | 396 | 32,347 | 1,086 | 44,152 | 1,482 |
| Health insurance | - | - | 1,876 | 63 | 1,876 | 63 |
| Compulsory automobile liability insurance | 120,423 | 4,041 | 7,327 | 246 | 127,750 | 4,287 |
| Total | $1,671,746 | $56,099 | $264,934 | $8,890 | $1,936,680 | $64,989 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Ceded claims reserve | | | | | |
| | Claim reported but not paid off | | Unreported claims | | Total | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $1,148,582 | $39,895 | $91,184 | $3,167 | $1,239,766 | $43,062 |
| Marine insurance | 410,550 | 14,260 | 86,689 | 3,011 | 497,239 | 17,271 |
| Land and air insurance | 20,623 | 716 | 43,927 | 1,526 | 64,550 | 2,242 |
| Liability insurance | 87,791 | 3,050 | 14,160 | 492 | 101,951 | 3,542 |
| Bonding insurance | 19,555 | 679 | 1,521 | 53 | 21,076 | 732 |
| Other property insurance | 141,119 | 4,902 | 10,202 | 354 | 151,321 | 5,256 |
| Accident insurance | 12,313 | 428 | 14,486 | 503 | 26,799 | 931 |
| Health insurance | - | - | 4 | - | 4 | - |
| Compulsory automobile liability insurance | 125,298 | 4,352 | 7,108 | 247 | 132,406 | 4,599 |
| Total | $1,965,831 | $68,282 | $269,281 | $9,353 | $2,235,112 | $77,635 |

E. Reconciliation statement of claims reserve and ceded claims reserve

| | June 30, 2012 | | | |
|---|---|---|---|---|
| | Claims reserve | | Ceded claims reserve | |
| Item | NT$ | US$ | NT$ | US$ |
| Beginning balance | $5,348,980 | $179,496 | $2,175,269 | $72,995 |
| Reserve | 5,248,006 | 176,108 | 1,936,522 | 64,984 |
| Recover | (5,341,474) | (179,244) | (2,172,253) | (72,894) |
| Effects of exchange rate changes | (7,086) | (238) | (2,858) | (96) |
| Ending balance | $5,248,426 | $176,122 | $1,936,680 | $64,989 |

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Claims reserve | | Ceded claims reserve | |
| Item | NT$ | US$ | NT$ | US$ |
| Beginning balance | $4,620,275 | $160,482 | $1,771,478 | $61,531 |
| Reserve | 5,291,580 | 183,799 | 2,235,309 | 77,642 |
| Recover | (4,621,914) | (160,539) | (1,772,365) | (61,562) |
| Effects of exchange rate changes | 1,207 | 42 | 690 | 24 |
| Ending balance | $5,291,148 | $183,784 | $2,235,112 | $77,635 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(3) Special reserve

A. Special reserve- Compulsory car insurance

| Item | June 30, 2012 | |
|---|---|---|
| | NT$ | US$ |
| Beginning balance | $2,434,891 | $81,708 |
| Reserve | 114,829 | 3,853 |
| Recover | (55,798) | (1,872) |
| Ending balance | $2,493,922 | $83,689 |

| Item | June 30, 2011 | |
|---|---|---|
| | NT$ | US$ |
| Beginning balance | $2,335,811 | $81,133 |
| Reserve | 140,708 | 4,887 |
| Recover | (72,527) | (2,519) |
| Ending balance | $2,403,992 | $83,501 |

B. Special reserve- Non-compulsory car insurance

| Item | June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Liability | | | | | |
| | Major incidents | | Fluctuation of risks | | Total | |
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Beginning balance | $1,172,396 | $39,342 | $1,153,815 | $38,719 | $2,326,211 | $78,061 |
| Reserve | - | - | - | - | - | - |
| Recover | - | - | (19,748) | (663) | (19,748) | (663) |
| Ending balance | $1,172,396 | $39,342 | $1,134,067 | $38,056 | $2,306,463 | $77,398 |

| Item | June 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Liability | | | | | |
| | Major incidents | | Fluctuation of risks | | Total | |
| | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Beginning balance | $1,183,609 | $41,112 | $1,643,828 | $57,097 | $2,827,437 | $98,209 |
| Reserve | - | - | 4,243 | 147 | 4,243 | 147 |
| Recover | - | - | (77,661) | (2,697) | (77,661) | (2,697) |
| Ending balance | $1,183,609 | $41,112 | $1,570,410 | $54,547 | $2,754,019 | $95,659 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(4) Premiums deficiency reserve

A. Premiums deficiency reserve and ceded premium deficiency reserve

| | June 30, 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 | $- | $- | $- | $- | $- | $- | $- | $- |
| Marine insurance | 10,422 | 350 | 359 | 12 | 3,232 | 109 | 7,549 | 253 |
| Land and air insurance | - | - | 762 | 25 | - | - | 762 | 25 |
| Liability insurance | 551 | 19 | - | - | - | - | 551 | 19 |
| Bonding insurance | 4,900 | 164 | - | - | 4,777 | 160 | 123 | 4 |
| Other property insurance | 10,468 | 351 | 78 | 3 | - | - | 10,546 | 354 |
| Accident insurance | - | - | 168 | 6 | - | - | 168 | 6 |
| Health insurance | - | - | - | - | - | - | - | - |
| Total | $26,341 | $884 | $1,367 | $46 | $8,009 | $269 | $19,699 | $661 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 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 | $- | $- | $186 | $6 | $(7,556) | $(262) | $7,742 | $268 |
| Marine insurance | 9,768 | 339 | 296 | 10 | 3,037 | 106 | 7,027 | 243 |
| Land and air insurance | - | - | - | - | (4,049) | (141) | 4,049 | 141 |
| Liability insurance | - | - | - | - | - | - | - | - |
| Bonding insurance | 37,797 | 1,313 | 15 | 1 | 37,812 | 1,313 | - | 1 |
| Other property insurance | 3,523 | 123 | 5,359 | 186 | - | - | 8,882 | 309 |
| Accident insurance | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - |
| Total | $51,088 | $1,775 | $5,856 | $203 | $29,244 | $1,016 | $27,700 | $962 |

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

| | June 30, 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 | $- | $- | $- | $432 | $(432) | $- | $(5,485) | $5,485 | $(5,917) |
| Marine insurance | 10,422 | 9,806 | 359 | 55 | 920 | 3,232 | 1,867 | 1,365 | (445) |
| Land and air insurance | - | - | 762 | 2 | 760 | - | (1,480) | 1,480 | (720) |
| Liability insurance | 550 | - | - | 49 | 501 | - | 49 | (49) | 550 |
| Bonding insurance | 4,900 | 11,292 | - | 6 | (6,398) | 4,777 | 11,185 | (6,408) | 10 |
| Other property insurance | 10,459 | 3,239 | 78 | 53 | 7,245 | - | - | - | 7,245 |
| Accident insurance | - | - | 169 | 11 | 158 | - | - | - | 158 |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Total | $26,331 | $24,337 | $1,368 | $608 | $2,754 | $8,009 | $6,136 | $1,873 | $881 |

English Translation of Financial Statements Originally Issued in Chinese

# Cathay Century Insurance Co., Ltd. and Subsidiaries

## Notes to unaudited consolidated financial statements

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## As of June 30, 2012 and 2011

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

June 30, 2011

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 premiums deficiency reserve (5)=(1)-(2)+(3)-(4) | Ceded reinsurance business Reserve (6) | Ceded reinsurance business Recover (7) | Net change for ceded premiums deficiency reserve (8)=(6)-(7) | Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8) |
|---|---|---|---|---|---|---|---|---|---|
| Fire insurance | $- | $- | $186 | $- | $186 | $(7,556) | $- | $(7,556) | $7,742 |
| Marine insurance | 9,768 | 61,814 | 296 | 139 | (51,889) | 3,037 | 56,168 | (53,131) | 1,242 |
| Land and air insurance | - | - | - | - | - | (4,049) | (4,220) | 171 | (171) |
| Liability insurance | - | - | - | - | - | - | - | - | - |
| Bonding insurance | 37,797 | 9,053 | 15 | - | 28,759 | 37,812 | 9,053 | 28,759 | - |
| Other property insurance | 3,529 | 1,006 | 5,359 | 31 | 7,851 | - | - | - | 7,851 |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Total | $51,094 | $71,873 | $5,856 | $170 | $(15,093) | $29,244 | $61,001 | $(31,757) | $16,664 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 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 | $- | $- | $6 | $- | $6 | $(262) | $- | $(262) | $268 |
| Marine insurance | 339 | 2,147 | 10 | 5 | (1,803) | 106 | 1,951 | (1,845) | 42 |
| Land and air insurance | - | - | - | - | - | (141) | (146) | 5 | (5) |
| Liability insurance | - | - | - | - | - | - | - | - | - |
| Bonding insurance | 1,313 | 314 | 1 | - | 1,000 | 1,313 | 314 | 999 | 1 |
| Other property insurance | 123 | 35 | 186 | 1 | 273 | - | - | - | 273 |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Total | $1,775 | $2,496 | $203 | $6 | $(524) | $1,016 | $2,119 | $(1,103) | $579 |

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

| | June 30, 2012 | | | |
|---|---|---|---|---|
| | Premiums deficiency reserve | | Ceded premiums deficiency reserve | |
| Item | NT$ | US$ | NT$ | US$ |
| Beginning balance | $25,026 | $840 | $6,136 | $206 |
| Reserve | 27,699 | 930 | 8,009 | 269 |
| Recover | (24,945) | 837 | (6,136) | (206) |
| Effects of exchange rate changes | (72) | (3) | - | - |
| Ending balance | $27,708 | $930 | $8,009 | $269 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Premiums deficiency reserve | | Ceded premiums deficiency reserve | |
| Item | NT$ | US$ | NT$ | US$ |
| Beginning balance | $72,033 | $2,502 | $61,001 | $2,119 |
| Reserve | 56,950 | 1,978 | 29,244 | 1,016 |
| Recover | (72,043) | (2,502) | (61,001) | (2,119) |
| Effects of exchange rate changes | 4 | - | - | - |
| Ending balance | $56,944 | $1,978 | $29,244 | $1,016 |

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.

## 19. Common stock

As of June 30, 2012 and 2011, the authorized and issued shares were 252,295 and 231,701 thousands shares with par value of NT$10 each.

## 20. 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 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 accrual of employee bonus of $0 (US$0) for the six months ended as of June 30, 2012 and 2011 was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. 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$61) thousands, there was no difference between the accrual and actual amount of the employee bonus and directors' compensation for 2011.

(9) There was no difference between the accrual and actual amount of employee bonus and directors' compensation for 2010.

(10) Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special reserve under equity at the end of the year. For the six months ended June 30, 2012, the reserves amounted to NT$249,089 (US$8,359) thousands.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## 21. Personnel, depreciation, depletion and amortization expenses

| Item | For the six months ended June 30, 2012 (NT$) | | | For the six months ended June 30, 2011 (NT$) | | |
|---|---|---|---|---|---|---|
| | Operating Costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel Expenses | | | | | | |
| Payroll expenses | $- | $862,203 | $862,203 | $- | $721,328 | $721,328 |
| Labor & health insurance expenses | - | 59,442 | 59,442 | - | 46,344 | 46,344 |
| Pension expenses | - | 39,268 | 39,268 | - | 33,814 | 33,814 |
| Other expenses | - | 24,252 | 24,252 | - | 34,093 | 34,093 |
| Depreciation | - | 42,666 | 42,666 | - | 32,469 | 32,469 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 10,029 | 10,029 | - | 7,876 | 7,876 |

| Item | For the six months ended June 30, 2012 (US$) | | | For the six months ended June 30, 2011 (US$) | | |
|---|---|---|---|---|---|---|
| | Operating Costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel Expenses | | | | | | |
| Payroll expenses | $- | $28,933 | $28,933 | $- | $25,055 | $25,055 |
| Labor & health insurance expenses | - | 1,995 | 1,995 | - | 1,610 | 1,610 |
| Pension expenses | - | 1,318 | 1,318 | - | 1,175 | 1,175 |
| Other expenses | - | 814 | 814 | - | 1,184 | 1,184 |
| Depreciation | - | 1,432 | 1,432 | - | 1,128 | 1,128 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 337 | 337 | - | 274 | 274 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

## 22. Estimated income taxes

(1) Income tax expenses include the following:

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Tax expenses calculated in taxable income | $61,539 | $2,065 | $24,349 | $846 |
| Taxed separately | - | - | - | - |
| Adjustment of prior year's income tax | (4,313) | (145) | 21 | 1 |
| Deferred income tax (benefits) expenses | 17,956 | 603 | (6,415) | (223) |
| Total income tax expenses | $75,182 | $2,523 | $17,955 | $624 |

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

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| A. Total deferred income tax assets | $198,892 | $6,674 | $157,920 | $5,485 |
| B. Total deferred income tax liabilities | $2,480 | $83 | $- | $- |
| C. Allowance for tax assets | $174,260 | $5,847 | $99,206 | $3,446 |
| D. Temporary differences: | | | | |
| Bad debts exceeding legal limitation | $108,632 | $3,645 | $116,130 | $4,033 |
| Unrealized losses on foreign exchanges | 33,585 | 1,127 | 32,416 | 1,126 |
| Unrealized gains on foreign exchanges | (8,708) | (292) | - | - |
| Unrealized losses from valuation on financial assets | - | - | 150,106 | 5,214 |
| | (1,783) | (60) | - | - |
| Others | 2,678 | 90 | 6,013 | 209 |
| Total | $134,404 | $4,510 | $304,665 | $10,582 |
| E. Investment tax credit | $- | $- | $6,921 | $240 |
| F. Loss carry forwards | $697,040 | $23,391 | $396,824 | $13,783 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| G. Deferred income tax assets | $24,632 | $827 | $58,714 | $2,039 |
| Deferred income tax liabilities | 2,480 | 83 | - | - |
| Net balance deferred income tax assets | $22,152 | $744 | $58,714 | $2,039 |

(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:

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | NT$ | US$ | NT$ | US$ |
| Balance of imputation credit account | $- | $- | $11,677 | $406 |

| | June 30, 2012 (real) | June 30, 2011 (real) |
|---|---|---|
| Imputation creditable ratio | - | 4.85% |

(5) Information related to undistributed earnings:

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Year | NT$ | US$ | NT$ | US$ |
| Prior to 1997 | $- | $- | $- | $- |
| After 1998 | - | - | 240,918 | 8,368 |
| Total | $- | $- | $240,918 | $8,368 |

Net income after tax for the six months ended June 30, 2012 and 2011 are not included in the undistributed earnings after 1998.

## 23. Earnings per share

| | For the six months ended June 30, 2012 | | For the six months ended June 30, 2011 | |
|---|---|---|---|---|
| | NT$ | US$ | NT$ | US$ |
| Consolidated net income (A) | $275,504 | $9,245 | $119,538 | $4,152 |
| 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) | $1.09 | $0.04 | $0.47 | $0.02 |

## 24. 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. |
| Seaward Card Co., Ltd. | Subsidiary of Cathay United Bank Co, Ltd. |
| Indovina Bank Limited. | Subsidiary of Cathay United Bank Co, Ltd. |
| Cathay Futures Co., Ltd. | Subsidiary of Cathay Securities Co., Ltd. |
| Other related parties | The directors, supervisors, mangers, and their spouses, as well as their second immediate families |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Significant transactions with related parties

A. Premiums income

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Life Insurance Co., Ltd. | $97,863 | $3,284 | $98,740 | $3,430 |
| Cathay United Bank | 30,982 | 1,040 | 32,909 | 1,143 |
| Total | $128,845 | $4,324 | $131,649 | $4,573 |

B. Premiums receivable

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Life Insurance Co., Ltd. | $16,281 | $546 | $17,975 | $624 |
| Cathay United Bank | 2,707 | 91 | 10,348 | 360 |
| Total | $18,988 | $637 | $28,323 | $984 |

C. Cash in banks

| | | For the six months ended June 30, 2012 | | |
|---|---|---|---|---|
| Name | Type | Ending balance | Interest rate | Interest income |
| | | NT$ | | NT$ |
| Cathay United Bank | Cash in banks | $503,349 | 0.06%-0.17% | $216 |
| | Time deposits | $830,900 | 0.17%-1.345% | $5,694 |

| | | For the six months ended June 30, 2012 | | |
|---|---|---|---|---|
| Name | Type | Ending balance | Interest rate | Interest income |
| | | US$ | | US$ |
| Cathay United Bank | Cash in banks | $16,891 | 0.06%-0.17% | $7 |
| | Time deposits | $27,883 | 0.17%-1.345% | $191 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | | For the six months ended June 30, 2011 | | |
|---|---|---|---|---|
| Name | Type | Ending balance | Interest rate | Interest income |
| | | NT$ | | NT$ |
| Cathay United Bank | Cash in banks | $466,552 | 0.16% | $271 |
| | Time deposits | $946,800 | 0.82%-1.37% | $1,748 |

| | | For the six months ended June 30, 2011 | | |
|---|---|---|---|---|
| Name | Type | Ending balance | Interest rate | Interest income |
| | | US$ | | US$ |
| Cathay United Bank | Cash in banks | $16,205 | 0.16% | $9 |
| | Time deposits | $32,886 | 0.82%-1.37% | $61 |

D. Loans

| | For the six months ended June 30, 2012 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Interest rate | Interest income |
| | NT$ | NT$ | | NT$ |
| Other related parties | $42,915 | $39,922 | 1.88%-2.03% | $406 |

| | For the six months ended June 30, 2012 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Interest rate | Interest income |
| | US$ | US$ | | US$ |
| Other related parties | $1,440 | $1,340 | 1.88%-2.03% | $14 |

| | For the six months ended June 30, 2011 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Interest rate | Interest income |
| | NT$ | NT$ | | NT$ |
| Other related parties | $36,165 | $34,735 | 1.87% | $321 |

| | For the six months ended June 30, 2011 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Interest rate | Interest income |
| | US$ | US$ | | US$ |
| Other related parties | $1,256 | $1,206 | 1.87% | $11 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

E. Available-for-sale financial assets

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Securities Investment Trust Co., Ltd. | $551,505 | $18,507 | $74,501 | $2,588 |

F. Guarantee deposits paid

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Life Insurance Co., Ltd. | $22,801 | $765 | $22,786 | $791 |
| Cathay Futures Corp. | 5,748 | 193 | 5,929 | 206 |
| Total | $28,549 | $958 | $28,715 | $997 |

G. Other payable

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Financial Holding Co., Ltd. (Note) | $64,913 | $2,178 | $14,762 | $513 |
| Cathay Life Insurance Co., Ltd. | 171,995 | 5,772 | 164,360 | 5,709 |
| Symphox Information Co., Ltd | 3,915 | 131 | 561 | 19 |
| Total | $240,823 | $8,081 | $179,683 | $6,241 |

Note：Other payable as of June 30, 2012 are consisted of interest payable of preferred stock liability and tax payable under the consolidated income tax system.

H. Preferred stock liability

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Financial Holding Co.,Ltd. | $1,000,000 | $33,557 | $- | $- |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

I. Operating costs

| | | For the six months ended June 30, | | | |
|---|---|---|---|---|---|
| | | 2012 | | 2011 | |
| Name | Summary | NT$ | US$ | NT$ | US$ |
| Cathay United Bank | Handing fee paid | $7,404 | $248 | $6,653 | $231 |

J. Operating expenses

| | | For the six months ended June 30, | | | |
|---|---|---|---|---|---|
| | | 2011 | | 2012 | |
| Name | Summary | NT$ | US$ | NT$ | US$ |
| Cathay Life Insurance Co., Ltd. | Rental expenses | $46,145 | $1,548 | $45,196 | $1,570 |
| | Marketing expenses | 567,659 | 19,049 | 586,728 | 20,380 |
| | Party premium expenses | 6,116 | 205 | 5,099 | 177 |
| | Administrative expenses | 3,830 | 129 | 3,504 | 122 |
| Cathay United Bank | Marketing expenses | 29,946 | 1,005 | 29,455 | 1,023 |
| | Rental expenses | 3,485 | 117 | 3,259 | 113 |
| Total | | $657,181 | $22,053 | $673,241 | $23,385 |

K. Other expenses

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Symphox Information Co., Ltd. | $12,485 | $419 | $11,076 | $385 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

L. Non-operating expenses and losses

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Name | NT$ | US$ | NT$ | US$ |
| Cathay Financial Holding Co.,Ltd. | $9,249 | $310 | $- | $- |

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

M. Other

(A) As of June 30, 2011 and 2012 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

| | June 30, | |
|---|---|---|
| Item | 2012 | 2011 |
| CS contracts | US$49,050 | US$41,050 |
| IRS | NT$600,000 | NT$600,000 |
| | (US$20,134) | (US$20,841) |

**25. Pledged assets**

A. The Company

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Government deposits paid-government bonds | $712,974 | $23,925 | $355,489 | $12,348 |
| Guarantee deposits paid | 20,000 | 671 | 20,000 | 694 |
| Total | $732,974 | $24,596 | $375,489 | $13,042 |

As of June 30, 2012 and 2011, the Company provided government bonds amounting to NT$712,794 (US$23,909) thousand and NT$355,489 (US$12,348) 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 except for share and per share data and unless otherwise stated)

B. Cathay Insurance (China)

| | June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Guarantee deposits paid-time deposits | $376,448 | 12,632 | $356,464 | $12,382 |

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.

C. Cathay Insurance (Vietnam)

| | December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Item | NT$ | US$ | NT$ | US$ |
| Guarantee deposits paid-time deposits | $8,445 | $283 | $8,231 | $286 |

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 except for share and per share data and unless otherwise stated)

**26.** 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.

| | June 30, 2012 NT$ | | |
|---|---|---|---|
| Item | Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
| Cash and cash equivalents | $6,391,487 | $- | $6,391,487 |
| Receivables | 4,266,944 | - | 4,266,944 |
| Investments | 5,274,862 | 6,349,500 | 11,624,362 |
| Reinsurance reserve assets - Net | - | 4,527,793 | 4,527,793 |
| Property and equipment - Net | - | 192,329 | 192,329 |
| Intangible assets | - | 35,153 | 35,153 |
| Deferred pension cost | - | 4,061 | 4,061 |
| Other assets | - | 1,322,578 | 1,322,578 |
| Total assets | | | $28,364,707 |
| | | | |
| Payables | $2,250,022 | $- | $2,250,022 |
| Financial Liabilities | - | 1,043,217 | 1,043,217 |
| Operating and liability reserves | - | 19,945,489 | 19,945,489 |
| Other liabilities | - | 480,155 | 480,155 |
| Total liabilities | | | $23,718,883 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 2012 US$ | | |
|---|---|---|---|
| Item | Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
| Cash and cash equivalents | $214,480 | $- | $214,480 |
| Receivables | 143,186 | - | 143,186 |
| Investments | 177,009 | 213,070 | 390,079 |
| Reinsurance reserve assets - Net | - | 151,939 | 151,939 |
| Property and equipment - Net | - | 6,454 | 6,454 |
| Intangible assets | - | 1,180 | 1,180 |
| Deferred pension cost | - | 136 | 136 |
| Other assets | - | 44,382 | 44,382 |
| Total assets | | | $951,836 |
| | | | |
| Payables | $75,504 | $- | $75,504 |
| Financial Liabilities | - | 35,007 | 35,007 |
| Operating and liability reserves | - | 669,312 | 669,312 |
| Other liabilities | - | 16,113 | 16,113 |
| Total liabilities | | | $795,936 |

## 27. Commitment and contingent liabilities

A. The Company

As of June 30, 2011, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

| Period | (NT$) | (US$) |
|---|---|---|
| July 1, 2012 ~ June 30, 2013 | $107,055 | $3,592 |
| July 1, 2013 ~ June 30, 2014 | 107,055 | 3,592 |
| July 1, 2014 ~ June 30, 2015 | 107,055 | 3,592 |
| July 1, 2015 ~ June 30, 2016 | 107,055 | 3,592 |
| July 1, 2016 ~ June 30, 2017 | 107,055 | 3,592 |
| Total | $535,275 | $17,960 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

B. Cathay Insurance (China)

As of June 30, 2011, Cathy Insurance (China) has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

| Period | (NT$) | (US$) |
|---|---|---|
| July 1, 2012 ~ June 30, 2013 | $61,993 | $2,080 |
| July 1, 2013 ~ June 30, 2014 | 29,915 | 1,004 |
| July 1, 2014 ~ June 30, 2015 | 13,031 | 437 |
| July 1, 2015 ~ June 30, 2016 | 5,564 | 187 |
| July 1, 2016 ~ June 30, 2017 | 9 | - |
| Total | $110,512 | $3,708 |

**28. Change of capital structure:** None.

**29. Subsequent events:** None.

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

**31. Significant disaster losses:** None.

**32. Significant lawsuit:** None.

**33. Significant contract:** None.

**34. 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”.

**35. Discretionary account management**

| | June 30, 2012 | | | |
|---|---|---|---|---|
| | Book value | | Fair value | |
| Item | NT$ | US$ | NT$ | US$ |
| Listed stocks | $- | $- | $- | $- |
| Short - term notes | - | - | - | - |
| Cash in banks | - | - | - | - |
| Net other assets less liabilities | - | - | - | - |
| Total | $- | $- | $- | $- |

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Book value | | Fair value | |
| Item | NT$ | US$ | NT$ | US$ |
| Listed stocks | $184,199 | $6,398 | $184,199 | $6,398 |
| Short - term notes | 50,075 | 1,740 | 50,075 | 1,740 |
| Cash in banks | 55,599 | 1,931 | 55,599 | 1,931 |
| Net other assets less liabilities | 2,335 | 81 | 2,335 | 81 |
| Total | $292,208 | $10,150 | $292,208 | $10,150 |

As of June 30, 2012 and 2011, the Company had discretionary account management contracts in the amount of NT$0 (US$0) and NT$300,000 (US$10,420), respectively.

**36. 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.

**37. Discontinued operation:** None.

**38. Merger and acquisition:** None.

**39. 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.

**40. 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 June 30, 2011, the Company's remittances to this company amounted to US$27,820 thousands.

**41. Private placement of securities:** None.

**42. Investment in derivative financial instruments:** None.

**43. Significant change in organization structure and management principles:** None.

**44. Significant impact from government regulation change:** None.

**45. 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.

Credit risk

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.

Operational Risk

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

Liquidity risk

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

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(2) Financial instruments related information:

| | June 30, 2012 | | | |
|---|---|---|---|---|
| | NT$ | | US$ | |
| Assets | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-derivative financial instruments: | | | | |
| Cash and Cash equivalents | $6,391,487 | $6,391,487 | $214,480 | $214,480 |
| Receivables | 4,266,944 | 4,266,944 | 143,186 | 143,186 |
| Financial assets at fair value through profit or loss | 123,139 | 123,139 | 4,132 | 4,132 |
| Available-for-sale financial assets | 7,438,311 | 7,438,311 | 249,608 | 249,608 |
| Long-term investments under equity method | 3,388 | 3,388 | 114 | 114 |
| Investments in debt securities with no active market | 1,180,259 | 1,180,259 | 39,606 | 39,606 |
| Held-to-maturity financial assets | 2,337,828 | 2,337,828 | 78,450 | 78,450 |
| Secured loans | 519,265 | 519,265 | 17,425 | 17,425 |
| Guarantee deposits paid | 1,239,957 | 1,239,957 | 41,609 | 41,609 |
| Derivative financial assets for hedging | | | | |
| IRS | 22,172 | 22,172 | 744 | 744 |
| Liabilities | | | | |
| Non-derivative financial instrument: | | | | |
| Payables | 2,250,022 | 2,252,022 | 75,504 | 75,504 |
| Preferred stock liabilities | 1,000,000 | 1,000,000 | 33,557 | 33,557 |
| Derivative financial instruments: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward and SWAP | 43,217 | 43,217 | 1,450 | 1,450 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | NT$ | | US$ | |
| Assets | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-derivative financial instruments: | | | | |
| Cash and Cash equivalents | $7,244,972 | $7,244,972 | $251,649 | $251,649 |
| Receivable | 4,200,622 | 4,200,622 | 145,906 | 145,906 |
| Financial assets at fair value through profit or loss | 1,004,389 | 1,004,389 | 34,887 | 34,887 |
| Available-for-sale financial assets | 4,305,275 | 4,305,275 | 149,541 | 149,541 |
| Financial assets carried at cost | 25,500 | 25,500 | 886 | 886 |
| Long-term investments under equity method | 5,734 | 5,734 | 199 | 199 |
| Investments in debt securities with no active market | 500,000 | 500,000 | 17,367 | 17,367 |
| Held-to-maturity financial assets | 2,413,622 | 2,413,622 | 83,836 | 83,836 |
| Secured loans | 640,849 | 640,849 | 22,259 | 22,259 |
| Guarantee deposits paid | 869,746 | 869,746 | 30,210 | 30,210 |
| Derivative financial instruments: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward and SWAP | 30,701 | 30,701 | 1,066 | 1,066 |
| Derivative financial assets for hedging | | | | |
| IRS | 27,724 | 27,724 | 963 | 963 |
| Liabilities | | | | |
| Non-derivative financial instrument: | | | | |
| Payables | 2,381,912 | 2,381,912 | 82,734 | 82,734 |

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 except for share and per share data and unless otherwise stated)

⑥ The following table summarizes the fair value information of the Company and Subsidiary's financial assets and liabilities at June 30, 2012 and 2011:

| | June 30, | | | |
|---|---|---|---|---|
| | NT$ | | | |
| | Based on the quoted market price | | Based on valuation techniques | |
| Financial Instruments | 2012 | 2011 | 2012 | 2011 |
| Non-derivative assets | | | | |
| Cash and cash equivalents | $6,201,541 | $6,509,984 | $189,946 | $734,988 |
| Financial assets at fair value through profit or loss | 123,139 | 1,004,389 | - | - |
| Available-for-sale financial assets | 7,438,311 | 4,305,275 | - | - |
| Long-term investments under equity method | - | - | 3,388 | 5,734 |
| Investment in debt securities with no active market | - | - | 1,180,259 | 500,000 |
| Held-to-maturity financial assets | - | - | 2,337,828 | 2,413,622 |
| Derivative assets | | | | |
| Financial assets at fair value through profit and loss | | | | |
| Forward and SWAP | - | - | - | 30,701 |
| Derivative financial assets for hedging-current | | | | |
| IRS | - | - | 22,172 | 27,724 |
| Derivative liabilities | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Forward and SWAP | - | - | 43,217 | - |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30, | | | |
|---|---|---|---|---|
| | US$ | | | |
| | Based on the quoted market price | | Based on valuation techniques | |
| Non-derivative assets | 2012 | 2011 | 2012 | 2011 |
| Cash and Cash equivalents | $208,106 | $226,120 | $6,374 | $25,529 |
| Financial assets at fair value through profit or loss | 4,132 | 34,887 | - | - |
| Available-for-sale financial assets | 249,608 | 149,541 | - | - |
| Long-term investments under the equity method | - | - | 114 | 199 |
| Investment in debt securities with no active market | - | - | 39,606 | 17,367 |
| Held-to-maturity financial assets | - | - | 78,450 | 83,836 |
| Derivative assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward and SWAP | - | - | - | 1,066 |
| Derivative financial liabilities for hedging | | | | |
| IRS | - | - | 744 | 963 |
| Derivative liabilities | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Forward and SWAP | - | - | 1,450 | - |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(3) Risk of interest rate

The following table summarizes the maturities of the Company and Subsidiaries' financial instruments at June 30, 2012 and 2011:

Fixed interest rate:

① June 30, 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 | $321,624 | $10,793 | $755,067 | $25,338 | $- | $- | $282,879 | $9,492 |
| Held-to-maturity financial assets | 767,587 | 25,758 | 550,088 | 18,459 | - | - | 86,720 | 2,910 |
| Investments in debt securities with no active market | 200,000 | 6,712 | - | - | - | - | - | - |

| | Due in 4~5 years | | Over 5 years | | Total | |
|---|---|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Available – for –sale financial assets | $- | $- | $1,838,401 | $61,691 | $3,197,971 | $107,314 |
| Held-to-maturity financial assets | 371,448 | 12,465 | 561,985 | 18,858 | 2,337,828 | 78,450 |
| Investments in debt securities with no active market | 300,000 | 10,067 | 680,259 | 22,827 | 1,180,259 | 39,606 |

② June 30, 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 | $277,010 | $9,622 | $283,756 | $9,856 | $544,458 | $18,911 | $- | $- |
| Held-to-maturity financial assets | 62,311 | 2,164 | 592,775 | 20,590 | 614,771 | 21,354 | 367,557 | 12,767 |
| Investments in debt securities with no active market | - | - | 500,000 | 17,367 | - | - | - | - |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | Due in 4~5 years | | Over 5 years | | Total | |
|---|---|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Available-for-sale financial assets | $215,526 | $7,486 | $- | $- | $1,320,750 | $45,875 |
| Held-to-maturity financial assets | - | - | 776,208 | 26,961 | 2,413,622 | 83,836 |
| Investments in debt securities with no active market | - | - | - | - | 500,000 | 17,367 |

Floating interest rate:

① June 30, 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 | $200,000 | $6,711 | $- | $- | $400,000 | $13,423 | $- | $- |

| | Due in 4~5 years | | Over 5 years | | Total | |
|---|---|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Available – for –sale financial assets | $- | $- | $- | $- | $600,000 | $20,134 |

② June 30, 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 | $6,947 | $- | $- | $400,000 | $13,894 |

| | Due in 4~5 years | | Over 5 years | | Total | |
|---|---|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Available-for-sale financial assets | $- | $- | $- | $- | $600,000 | $20,841 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(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 June 30, 2012:

| Par value | | | | |
|---|---|---|---|---|
| NT$ | US$ | Exchange rate | Frequency | Maturity date |
| 200,000 | 6,711 | 2.65% | Each quarter | Sep. 30, 2014 |
| 200,000 | 6,711 | 2.40% | Each quarter | Sep. 28, 2012 |
| 200,000 | 6,711 | 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$22,172 (US$744) and NT$27,724 (US$963) as of June 30, 2012 and 2011, respectively.

(6) RBK management framework, organization and responsibility

I. The Company

① Risk management framework, organization, and responsibility

(A) 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：

ⓐ 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.

ⓑ 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.

ⓒ Assist and supervise various departments in risk management activities.

ⓓ Adjust risk category, allotment, and attribution in reaction to changes in scenario

ⓔ Coordinate interaction and communication of risk management function across departments

c. Responsibility of risk management division：

ⓐ Assist the draft of risk management policies and execute one ratified by the board of directors.

ⓑ Assist the set-up of risk limits according to the risk appetite.

ⓒ Compile risk information from various departments, coordinate and communicate with them to execute policies and limits.

ⓓ Propose risk management related reports on a regular basis.

ⓔ Supervise risk limit and its use of each business unit on a regular basis.

ⓕ Assist in stress test and conduct back-testing when necessary.

ⓖ Other risk management related tasks

C. Business unit (sales unit and administrative unit)

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

ⓐ Manage daily risk management and report of the corresponding unit and take necessary reactions.

ⓑ 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：

ⓐ Identify risk and report risk exposure.

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

ⓒ Review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.

ⓓ Oversee risk exposure and report when over-limit occur, including measures taken against it

ⓔ 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

ⓕ Assure effective execution of internal control within business unit to comply with related regulation and risk management policies of the company .

ⓖ 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.

③Processes 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.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Item | NT$ | US$ | NT$ | US$ |
| Fire insurance | $613,000 | $20,570 | $630,000 | $21,883 |
| Marine insurance | 613,000 | 20,570 | US$12,000 | 12,000 |
| Engineering insurance | 613,000 | 20,570 | 630,000 | 21,883 |
| Other property insurance | 613,000 | 20,570 | 630,000 | 21,883 |
| Automobile insurance | 613,000 | 20,570 | 100,000 | 3,473 |
| Health and injury insurance | 613,000 | 20,570 | 630,000 | 21,883 |

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:

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

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

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

ⓓ Annual risk assessment report.

b. Risk management department (risk management team)

ⓐ 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.

ⓑ 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:

ⓐ Implement pressure test periodically (include negative assumption of premium income, claim expense and expenditure).

ⓑ Continue to advance the balanced development in operation structure by upgrading insurance products.

b. Market risk:

ⓐ Periodically provide pressure test (include negative assumption for investment under equity asset).

ⓑ 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：

ⓐ Fulfill the related regulation for reinsurance.

ⓑ Invest in the underlying asset with higher credit rating.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

d. Liquidity risk：

ⓐ 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.

ⓑ Fulfill the policy of "Cash before Cover" and enhance the collection of insurance premium.

e. Operating risk：

ⓐ Periodically perform the audit.

ⓑ 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

| | June 30,2012 | |
|---|---|---|
| | Premiums receivable(Note) | |
| Item | NT$ | US$ |
| Fire insurance | $1,063,083 | $35,674 |
| Marine insurance | 372,049 | 12,485 |
| Land and air insurance | 554,728 | 18,615 |
| Liability insurance | 176,485 | 5,922 |
| Bonding insurance | 23,898 | 802 |
| Other property insurance | 410,997 | 13,792 |
| Accident insurance | 278,997 | 9,362 |
| Health insurance | 6,088 | 204 |
| Compulsory automobile liability insurance | 266,706 | 8,950 |
| Total | 3,153,031 | 105,806 |
| Less: Allowance for bad debts | (68,830) | (2,310) |
| Net | $3,084,201 | $103,496 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | |
|---|---|---|
| | Premiums receivable(Note) | |
| Item | NT$ | US$ |
| Fire insurance | $900,465 | $31,277 |
| Marine insurance | 409,444 | 14,222 |
| Land and air insurance | 475,373 | 16,512 |
| Liability insurance | 122,567 | 4,257 |
| Bonding insurance | 28,625 | 994 |
| Other property insurance | 443,040 | 15,389 |
| Accident insurance | 290,375 | 10,086 |
| Health insurance | 11,122 | 386 |
| Compulsory automobile liability insurance | 229,649 | 7,977 |
| Total | 2,910,660 | 101,100 |
| Less: Allowance for bad debts | (78,292) | (2,720) |
| Net | $2,832,368 | $98,380 |

Note：As of June 30, 2012 and 2011, the receivables included overdue receivables amounted to NT$256,978(US$8,623) and NT$308,490(US$10,715), the allowance for bad debts amounted to NT$12,401(US$416) and NT$41,544(US$1,443).

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

| | June 30,2012 | |
|---|---|---|
| | Claims reported and paid off | |
| Item | NT$ | US$ |
| Fire insurance | $15,340 | $515 |
| Marine insurance | 59,154 | 1,985 |
| Land and air insurance | 22,036 | 739 |
| Liability insurance | 12,585 | 422 |
| Bonding insurance | (415) | (14) |
| Other property insurance | 9,745 | 327 |
| Accident insurance | 20,190 | 678 |
| Health insurance | - | - |
| Compulsory automobile liability insurance | 92,815 | 3,115 |
| Total | 231,450 | 7,767 |
| Less: Allowance for bad debts | - | - |
| Net | $231,450 | $7,767 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | |
|---|---|---|
| | Claims reported and paid off | |
| Item | NT$ | US$ |
| Fire insurance | $26,011 | $904 |
| Marine insurance | 24,155 | 839 |
| Land and air insurance | 17,136 | 595 |
| Liability insurance | 21,226 | 737 |
| Bonding insurance | 859 | 30 |
| Other property insurance | 6,341 | 220 |
| Accident insurance | 22,113 | 768 |
| Health insurance | - | - |
| Compulsory automobile liability insurance | 145,164 | 5,042 |
| Total | 263,005 | 9,135 |
| Less: Allowance for bad debts | - | - |
| Net | $263,005 | $9,135 |

C. Payables of insurance contract

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | Commission payables | | Other payables | | Total | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $19,168 | $643 | $7,140 | $239 | $26,308 | $882 |
| Marine insurance | 8,383 | 282 | 5,721 | 192 | 14,104 | 474 |
| Land and air insurance | 2,028 | 68 | 78,935 | 2,649 | 80,963 | 2,717 |
| Liability insurance | 5,477 | 184 | 4,895 | 164 | 10,372 | 348 |
| Bonding insurance | 1,965 | 66 | 51 | 2 | 2,016 | 68 |
| Other property insurance | 6,206 | 208 | 8,076 | 271 | 14,282 | 479 |
| Accident insurance | - | - | 31,852 | 1,069 | 31,852 | 1,069 |
| Health insurance | - | - | 7,009 | 235 | 7,009 | 235 |
| Compulsory automobile liability insurance | 87,944 | 2,951 | - | - | 87,944 | 2,951 |
| Total | $131,171 | $4,402 | $143,679 | $4,821 | $274,850 | $9,223 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | Commission payables | | Other payables | | Total | |
| Item | NT$ | US$ | NT$ | US$ | NT$ | US$ |
| Fire insurance | $21,805 | $758 | $7,349 | $255 | $29,154 | $1,013 |
| Marine insurance | 1,678 | 58 | 5,797 | 202 | 7,475 | 260 |
| Land and air insurance | 573 | 20 | 72,788 | 2,528 | 73,361 | 2,548 |
| Liability insurance | 140 | 5 | 3,733 | 130 | 3,873 | 135 |
| Bonding insurance | (25) | (1) | 94 | 3 | 69 | 2 |
| Other property insurance | 1,676 | 58 | 8,674 | 301 | 10,350 | 359 |
| Accident insurance | - | - | 32,741 | 1,137 | 32,741 | 1,137 |
| Health insurance | - | - | 5,402 | 188 | 5,402 | 188 |
| Compulsory automobile liability insurance | 80,034 | 2,780 | - | - | 80,034 | 2,780 |
| Total | $105,881 | $3,678 | $136,578 | $4,744 | $242,459 | $8,422 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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

| | June 30,2012 | | | |
|---|---|---|---|---|
| | 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 | $75,129 | $2,521 | $210,637 | $7,069 |
| Taian | 39,552 | 1,327 | 11,988 | 402 |
| Fubon | 57,581 | 1,932 | 6,364 | 214 |
| AON | 10,978 | 368 | 179,791 | 6,033 |
| Best Re | 27,729 | 931 | 26,019 | 873 |
| Central Re | 26,021 | 873 | 109,222 | 3,665 |
| Elite | 18,215 | 611 | 49,360 | 1,657 |
| FP Marine | 29,005 | 973 | 59,752 | 2,005 |
| Korean Re | 46,583 | 1,563 | 82,673 | 2,774 |
| Marsh | 1,294 | 44 | 231,080 | 7,754 |
| Swiss Re | 2,165 | 73 | 67,700 | 2,272 |
| Wilson Re | 789 | 27 | 77,252 | 2,592 |
| Zurich | - | - | 62,526 | 2,098 |
| Guy carpenter | 4,639 | 156 | 111,224 | 3,732 |
| Others | 287,790 | 9,657 | 342,667 | 11,499 |
| Total | 627,470 | 21,056 | 1,628,255 | 54,639 |
| Less: Allowance for bad debts | (46,458) | (1,559) | - | - |
| Net | $581,012 | $19,497 | $1,628,255 | $54,639 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | | | |
|---|---|---|---|---|
| | 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 | $55,460 | $1,926 | $197,068 | $6,845 |
| AON | 17,167 | 596 | 114,672 | 3,983 |
| Central Re | 88,545 | 3,076 | 152,202 | 5,287 |
| Elite | 33,203 | 1,153 | 26,957 | 936 |
| Everest Re | 54,915 | 1,908 | 73,964 | 2,569 |
| FP Marine | 70,385 | 2,445 | 155,160 | 5,390 |
| Korean Re | 43,872 | 1,524 | 72,767 | 2,528 |
| Marsh | 113,785 | 3,952 | 228,227 | 7,927 |
| Sompo Japan Re | 25,074 | 871 | 35,883 | 1,246 |
| Wilson Re | 24,218 | 841 | 76,415 | 2,654 |
| Guy Carpenter | 4,826 | 168 | 78,182 | 2,716 |
| Others | 283,485 | 9,847 | 678,790 | 23,577 |
| Total | 814,935 | 28,307 | 1,890,287 | 65,658 |
| Less: Allowance for bad debts | (70,218) | (2,439) | - | - |
| Net | $744,717 | $25,868 | $1,890,287 | $65,658 |

Notes：As of June 30, 2012 and 2011, the due from reinsurers and ceding companies included overdue receivables amounted to NT$46,458(US$1,559) and NT$70,218(US$2,439), the allowance for bad debts amounted to NT$46,458 (US$1,559) and NT$ 70,218(US$2,439).

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

② Information of Management Achievements

A. Acquisition cost for insurance contracts

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | NT$ | | | | | |
| Item | Commission expense | Agency fee | Surcharge | Reinsurance commission expense | Other cost | Total |
| Fire insurance | $4,441 | $2,137 | $19,708 | $486 | $42,827 | $69,599 |
| Marine insurance | 4,756 | 1,169 | 3,992 | 1,541 | 40,824 | 52,282 |
| Land and air insurance | 14,725 | 849 | - | 879 | 327,275 | 343,728 |
| Liability insurance | 7,765 | 714 | 14,539 | 83 | 26,863 | 49,964 |
| Bonding insurance | 605 | 10 | 757 | (2) | 950 | 2,320 |
| Other property insurance | 13,038 | 1,990 | 35,419 | (3,971) | 37,239 | 83,715 |
| Accident insurance | 6,029 | 451 | 6 | 464 | 157,463 | 164,413 |
| Health insurance | 1,296 | 96 | - | - | 8,327 | 9,719 |
| Compulsory automobile liability insurance | - | - | 190,747 | - | 4,501 | 195,248 |
| Total | $52,655 | $7,416 | $265,168 | $(520) | $646,269 | $970,988 |

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | US$ | | | | | |
| Item | Commission expense | Agency fee | Surcharge | Reinsurance commission expense | Other cost | Total |
| Fire insurance | $149 | $72 | $661 | $16 | $1,437 | $2,335 |
| Marine insurance | 160 | 39 | 134 | 52 | 1,370 | 1,755 |
| Land and air insurance | 494 | 29 | - | 29 | 10,982 | 11,534 |
| Liability insurance | 261 | 24 | 488 | 3 | 902 | 1,678 |
| Bonding insurance | 20 | - | 25 | - | 32 | 77 |
| Other property insurance | 438 | 67 | 1,189 | (133) | 1,250 | 2,811 |
| Accident insurance | 202 | 15 | - | 16 | 5,284 | 5,517 |
| Health insurance | 43 | 3 | - | - | 279 | 325 |
| Compulsory automobile liability insurance | - | - | 6,401 | - | 151 | 6,552 |
| Total | $1,767 | $249 | $8,898 | $(17) | $21,687 | $32,584 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | NT$ | | | | | |
| Item | Commission expense | Agency fee | Surcharge | Reinsurance commission expense | Other cost | Total |
| Fire insurance | $13,277 | $1,888 | $13,645 | $423 | $40,910 | $70,143 |
| Marine insurance | 6,751 | 838 | 5,181 | 508 | 16,717 | 29,995 |
| Land and air insurance | 3,229 | 319 | - | 662 | 298,544 | 302,754 |
| Liability insurance | 2,312 | 474 | 4,501 | 28 | 19,698 | 27,013 |
| Bonding insurance | 207 | 16 | 1,100 | (5) | 495 | 1,813 |
| Other property insurance | 7,926 | 357 | 8,617 | 1,662 | 33,492 | 52,054 |
| Accident insurance | 1,989 | 156 | 7 | 1,292 | 150,808 | 154,252 |
| Health insurance | 256 | (5) | - | - | 7,850 | 8,101 |
| Compulsory automobile liability insurance | - | - | 180,130 | - | 17,818 | 197,948 |
| Total | $35,947 | $4,043 | $213,181 | $4,570 | $586,332 | $844,073 |

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | US$ | | | | | |
| Item | Commission expense | Agency fee | Surcharge | Reinsurance commission expense | Other cost | Total |
| Fire insurance | $461 | $66 | $474 | $15 | $1,421 | $2,437 |
| Marine insurance | 235 | 29 | 180 | 17 | 581 | 1,042 |
| Land and air insurance | 112 | 11 | - | 23 | 10,370 | 10,516 |
| Liability insurance | 80 | 16 | 157 | 1 | 684 | 938 |
| Bonding insurance | 7 | 1 | 38 | - | 17 | 63 |
| Other property insurance | 275 | 12 | 299 | 58 | 1,163 | 1,807 |
| Accident insurance | 69 | 5 | - | 45 | 5,238 | 5,357 |
| Health insurance | 9 | - | - | - | 273 | 282 |
| Compulsory automobile liability insurance | - | - | 6,257 | - | 619 | 6,876 |
| Total | $1,248 | $140 | $7,405 | $159 | $20,366 | $29,318 |

**English Translation of Financial Statements Originally Issued in Chinese**
**Cathay Century Insurance Co., Ltd. and Subsidiaries**
**Notes to unaudited consolidated financial statements**
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**
**As of June 30, 2012 and 2011**

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $1,686,542 | $(415,160) | $(69,113) | $(552,321) | $274,091 | $924,039 |
| Marine insurance | 432,778 | (12,953) | (50,741) | (162,827) | 62,790 | 269,047 |
| Land and air insurance | 2,317,891 | (266,907) | (342,849) | (1,340,863) | (61,058) | 306,214 |
| Liability insurance | 488,721 | (93,116) | (49,881) | (151,919) | (36,061) | 157,744 |
| Bonding insurance | 38,733 | (8,764) | (2,322) | (2,849) | (566) | 24,232 |
| Other property insurance | 608,629 | (133,297) | (87,686) | (143,461) | (43,259) | 200,926 |
| Accident insurance | 1,168,331 | (29,862) | (163,949) | (467,279) | (76,989) | 430,252 |
| Health insurance | 51,464 | 26,632 | (9,719) | (81,314) | (27,826) | (40,763) |
| Compulsory automobile liability insurance | 1,368,701 | (25,851) | (195,248) | (844,730) | 20,407 | 323,279 |
| Total | $8,161,790 | $(959,278) | $(971,508) | $(3,747,563) | $111,529 | $2,594,970 |

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $56,595 | $(13,932) | $(2,319) | $(18,534) | $9,198 | $31,00 |
| Marine insurance | 14,523 | (435) | (1,703) | (5,464) | 2,107 | 9,02 |
| Land and air insurance | 77,781 | (8,957) | (11,505) | (44,995) | (2,049) | 10,27 |
| Liability insurance | 16,400 | (3,125) | (1,675) | (5,098) | (1,210) | 5,29 |
| Bonding insurance | 1,300 | (294) | (77) | (96) | (19) | 81 |
| Other property insurance | 20,424 | (4,473) | (2,944) | (4,814) | (1,452) | 6,74 |
| Accident insurance | 39,206 | (1,002) | (5,501) | (15,680) | (2,584) | 14,43 |
| Health insurance | 1,727 | 894 | (325) | (2,729) | (934) | (1,367 |
| Compulsory automobile liability insurance | 45,930 | (867) | (6,552) | (28,347) | 685 | 10,84 |
| Total | $273,886 | $(32,191) | $(32,601) | $(125,757) | $3,742 | $87,07 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

June 30,2011

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 | $1,424,139 | $(412,536) | $(69,720) | $(520,933) | $(285,034) | $135,916 |
| Marine insurance | 416,089 | (11,599) | (29,487) | (191,385) | (105,190) | 78,428 |
| Land and air insurance | 1,928,352 | (292,742) | (302,092) | (1,107,900) | (128,280) | 97,338 |
| Liability insurance | 311,095 | (20,989) | (26,985) | (109,688) | (27,851) | 125,582 |
| Bonding insurance | 39,303 | (9,873) | (1,818) | (17,690) | 3,061 | 12,983 |
| Other property insurance | 678,477 | (489,043) | (50,392) | (118,323) | 17,950 | 38,669 |
| Accident insurance | 1,135,607 | (183,598) | (152,960) | (428,823) | (40,614) | 329,612 |
| Health insurance | 38,299 | 44,958 | (8,101) | (57,254) | (1,224) | 16,678 |
| Compulsory automobile liability insurance | 1,307,625 | (18,129) | (197,948) | (782,571) | (36,569) | 272,408 |
| Total | $7,278,986 | $(1,393,551) | $(839,503) | $(3,334,567) | $(603,751) | $1,107,614 |

June 30,2011

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 | $49,466 | $(14,329) | $(2,422) | $(18,094) | $(9,900) | $4,721 |
| Marine insurance | 14,453 | (403) | (1,024) | (6,648) | (3,654) | 2,724 |
| Land and air insurance | 66,980 | (10,168) | (10,493) | (38,482) | (4,456) | 3,381 |
| Liability insurance | 10,806 | (729) | (937) | (3,810) | (967) | 4,363 |
| Bonding insurance | 1,365 | (343) | (63) | (614) | 106 | 451 |
| Other property insurance | 23,566 | (16,987) | (1,750) | (4,110) | 624 | 1,343 |
| Accident insurance | 39,445 | (6,377) | (5,313) | (14,895) | (1,411) | 11,449 |
| Health insurance | 1,330 | 1,562 | (281) | (1,989) | (43) | 579 |
| Compulsory automobile liability insurance | 45,419 | (630) | (6,876) | (27,182) | (1,270) | 9,461 |
| Total | $252,830 | $(48,404) | $(29,159) | $(115,824) | $(20,971) | $38,472 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(B)Cost benefit analysis for assumed reinsurance business

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $41,645 | $(6,290) | $(486) | $(1,136) | $1,118 | $34,851 |
| Marine insurance | 19,527 | (7,414) | (1,541) | (5,964) | 20,430 | 25,038 |
| Land and air insurance | 4,451 | 484 | (879) | (4,319) | 1,135 | 872 |
| Liability insurance | 350 | (75) | (83) | (127) | 1,041 | 1,106 |
| Bonding insurance | 695 | (152) | 2 | (44) | 13 | 514 |
| Other property insurance | 10,121 | 2,346 | 3,971 | (5,399) | (72) | 10,967 |
| Accident insurance | 4,899 | 21,052 | (464) | (3,639) | (8,215) | 13,633 |
| Health insurance | - | - | - | - | 114 | 114 |
| Compulsory automobile liability insurance | 136,256 | (780) | - | (105,682) | (33,625) | (3,831) |
| Total | $217,944 | $9,171 | $520 | $(126,310) | $(18,061) | $83,264 |

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $1,398 | $(211) | $(16) | $(38) | $38 | $1,171 |
| Marine insurance | 655 | (249) | (52) | (200) | 686 | 840 |
| Land and air insurance | 149 | 16 | (29) | (145) | 38 | 29 |
| Liability insurance | 12 | (2) | (3) | (4) | 35 | 38 |
| Bonding insurance | 23 | (5) | - | (2) | - | 16 |
| Other property insurance | 340 | 79 | 133 | (181) | (3) | 368 |
| Accident insurance | 164 | 706 | (16) | (122) | (276) | 456 |
| Health insurance | - | - | - | - | 4 | 4 |
| Compulsory automobile liability insurance | 4,572 | (26) | - | (3,546) | (1,128) | (128) |
| Total | $7,313 | $308 | $17 | $(4,238) | $(606) | $2,794 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $26,661 | $11,297 | $(423) | $(263,182) | $(3,726) | $(229,373) |
| Marine insurance | 19,106 | (17) | (508) | (8,687) | (22,003) | (12,109) |
| Land and air insurance | 7,801 | 95,401 | (662) | (992) | (4,913) | 96,635 |
| Liability insurance | 1,282 | 179 | (28) | (234) | (449) | 750 |
| Bonding insurance | 231 | 132 | 5 | (62) | (83) | 223 |
| Other property insurance | 14,770 | 2,200 | (1,662) | (6,202) | (137) | 8,969 |
| Accident insurance | 62,178 | (50,579) | (1,292) | (715) | (1,027) | 8,565 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 135,461 | 1,548 | - | (82,878) | (33,577) | 20,554 |
| Total | $267,490 | $60,161 | $(4,570) | $(362,952) | $(65,915) | $(105,786) |

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $926 | $392 | $(15) | $(9,141) | $(129) | $(7,967) |
| Marine insurance | 664 | (1) | (17) | (302) | (764) | (420) |
| Land and air insurance | 271 | 3,314 | (23) | (35) | (171) | 3,356 |
| Liability insurance | 44 | 6 | (1) | (8) | (15) | 26 |
| Bonding insurance | 8 | 5 | - | (2) | (3) | 8 |
| Other property insurance | 513 | 76 | (58) | (215) | (5) | 311 |
| Accident insurance | 2,160 | (1,757) | (45) | (25) | (36) | 297 |
| Health insurance | - | - | - | - | - | - |
| Compulsory automobile liability insurance | 4,705 | 54 | - | (2,879) | (1,166) | 714 |
| Total | $9,291 | $2,089 | $(159) | $(12,607) | $(2,289) | $(3,675) |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $1,030,996 | $(264,733) | $(55,630) | $(251,501) | $176,248 | $635,380 |
| Marine insurance | 362,136 | (21,370) | (48,335) | (79,141) | 54,294 | 267,584 |
| Land and air insurance | 61,397 | 30,822 | (16,551) | (36,615) | (11,734) | 27,319 |
| Liability insurance | 168,491 | (43,202) | (43,571) | (32,161) | 6,299 | 55,856 |
| Bonding insurance | 20,415 | (8,383) | (4,094) | (3,281) | 379 | 5,036 |
| Other property insurance | 209,033 | (18,729) | (36,630) | (21,036) | 14,901 | 147,539 |
| Accident insurance | 77,044 | 4,837 | (22,224) | (46,815) | (11,051) | 1,791 |
| Health insurance | 1,363 | 932 | (481) | (950) | (1,744) | (880) |
| Compulsory automobile liability insurance | 374,556 | (10,447) | - | (332,929) | 8,139 | 39,319 |
| Total | $2,305,431 | $(330,273) | $(227,516) | $(804,429) | $235,731 | $1,178,944 |

| | June 30,2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $34,597 | $(8,884) | $(1,867) | $(8,439) | $5,914 | $21,321 |
| Marine insurance | 12,152 | (717) | (1,622) | (2,656) | 1,822 | 8,979 |
| Land and air insurance | 2,060 | 1,034 | (555) | (1,229) | (394) | 916 |
| Liability insurance | 5,654 | (1,450) | (1,462) | (1,079) | 211 | 1,874 |
| Bonding insurance | 685 | (281) | (137) | (110) | 13 | 170 |
| Other property insurance | 7,015 | (628) | (1,229) | (706) | 500 | 4,952 |
| Accident insurance | 2,585 | 162 | (746) | (1,571) | (371) | 59 |
| Health insurance | 46 | 31 | (16) | (32) | (58) | (29) |
| Compulsory automobile liability insurance | 12,569 | (350) | - | (11,172) | 273 | 1,320 |
| Total | $77,363 | $(11,083) | $(7,634) | $(26,994) | $7,910 | $39,562 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $882,568 | $(213,590) | $(51,012) | $(345,359) | $(295,558) | $(22,951) |
| Marine insurance | 316,868 | (12,577) | (43,685) | (93,684) | (144,416) | 22,506 |
| Land and air insurance | 67,221 | (51,942) | (13,474) | (31,685) | (27,381) | (57,261) |
| Liability insurance | 101,444 | (7,531) | (32,012) | (32,366) | (8,902) | 20,633 |
| Bonding insurance | 22,897 | (10,553) | (5,907) | (12,581) | 493 | (5,651) |
| Other property insurance | 387,979 | (376,336) | (26,533) | (56,847) | 23,995 | (47,742) |
| Accident insurance | 83,032 | 13,505 | (19,093) | (49,062) | 4,586 | 32,968 |
| Health insurance | 1,248 | (819) | (444) | - | - | (15) |
| Compulsory automobile liability insurance | 356,331 | (7,512) | - | (313,028) | (15,761) | 20,030 |
| Total | $2,219,588 | $(667,355) | $(192,160) | $(934,612) | $(462,944) | $(37,483) |

| | June 30,2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $30,656 | $(7,419) | $(1,772) | $(11,996) | $(10,266) | $(797) |
| Marine insurance | 11,006 | (437) | (1,517) | (3,254) | (5,016) | 782 |
| Land and air insurance | 2,335 | (1,804) | (468) | (1,101) | (951) | (1,989) |
| Liability insurance | 3,524 | (262) | (1,112) | (1,124) | (309) | 717 |
| Bonding insurance | 795 | (367) | (205) | (437) | 17 | (197) |
| Other property insurance | 13,476 | (13,072) | (922) | (1,974) | 833 | (1,659) |
| Accident insurance | 2,884 | 469 | (663) | (1,704) | 159 | 1,145 |
| Health insurance | 43 | (28) | (15) | - | - | - |
| Compulsory automobile liability insurance | 12,377 | (261) | - | (10,873) | (547) | 696 |
| Total | $77,096 | $(23,181) | $(6,674) | $(32,463) | $(16,080) | $(1,302) |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(7) Sensitivity of insurance risk

I. The Company

NT$

| Insurance type | Premium income | Expected loss ratio | Retention ratio | Expected claim | Expected net claim | The impact to profit and loss when the expected loss ratio increases 5% — Before reinsurance | After reinsurance |
|---|---|---|---|---|---|---|---|
| Fire insurance | 1,491,650 | 62.31 | 41.25 | 929,513 | 383,403 | 74,582 | 19,170 |
| Marine insurance | 400,893 | 65.12 | 17.38 | 261,066 | 45,384 | 20,045 | 2,269 |
| Land and air insurance | 2,308,710 | 65.01 | 97.55 | 1,500,803 | 1,464,030 | 115,436 | 73,201 |
| Liability insurance | 374,350 | 68.49 | 67.10 | 256,407 | 172,037 | 18,718 | 8,602 |
| Bonding insurance | 35,017 | 71.53 | 44.68 | 25,049 | 11,192 | 1,751 | 560 |
| Other property insurance | 352,769 | 63.86 | 47.45 | 225,272 | 106,881 | 17,638 | 5,344 |
| Accident insurance | 1,166,004 | 72.18 | 93.69 | 841,671 | 788,526 | 58,300 | 39,426 |
| Health insurance | 51,464 | 67.31 | 97.35 | 34,639 | 33,722 | 2,573 | 1,686 |
| Compulsory automobile liability insurance | 1,368,701 | NA | NA | NA | NA | NA | NA |

US$

| Insurance type | Premium income | Expected loss ratio | Retention ratio | Expected claim | Expected net claim | The impact to profit and loss when the expected loss ratio increases 5% — Before reinsurance | After reinsurance |
|---|---|---|---|---|---|---|---|
| Fire insurance | 50,055 | 62.31 | 41.25 | 31,192 | 12,866 | 74,582 | 19,170 |
| Marine insurance | 13,453 | 65.12 | 17.38 | 8,761 | 1,523 | 20,045 | 2,269 |
| Land and air insurance | 77,473 | 65.01 | 97.55 | 50,363 | 49,129 | 115,436 | 73,201 |
| Liability insurance | 12,562 | 68.49 | 67.10 | 8,604 | 5,773 | 18,718 | 8,602 |
| Bonding insurance | 1,175 | 71.53 | 44.68 | 841 | 376 | 1,751 | 560 |
| Other property insurance | 11,838 | 63.86 | 47.45 | 7,559 | 3,587 | 17,638 | 5,344 |
| Accident insurance | 39,128 | 72.18 | 93.69 | 28,244 | 26,461 | 58,300 | 39,426 |
| Health insurance | 1,727 | 67.31 | 97.35 | 1,162 | 1,132 | 2,573 | 1,686 |
| Compulsory automobile liability insurance | 45,930 | NA | NA | NA | NA | NA | NA |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

Note: Premium income doesn't include preferential premium; 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)

| | | The impact to profit and loss when the ending loss rate increases 5% | |
|---|---|---|---|
| Insurance type | Premium income (NT$) | Before reinsurance (NT$) | After reinsurance (NT$) |
| Fire insurance | $186,417 | $ 9,321 | $3,994 |
| Marine insurance | 31,106 | 1,555 | 1,023 |
| Liability insurance | 112,810 | 5,641 | 3,448 |
| Bonding insurance | 5,092 | 255 | 237 |
| Other property insurance | 247,710 | 12,385 | 11,929 |
| Accident insurance | - | - | 74 |

| | | The impact to profit and loss when the ending loss rate increases 5% | |
|---|---|---|---|
| Insurance type | Premium income (US$) | Before reinsurance (US$) | After reinsurance (US$) |
| Fire insurance | $6,256 | $313 | $134 |
| Marine insurance | 1,044 | 52 | 34 |
| Liability insurance | 3,786 | 189 | 116 |
| Bonding insurance | 171 | 9 | 8 |
| Other property insurance | 8,312 | 416 | 400 |
| Accident insurance | - | - | 2 |

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 six months ended June 30, 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 six months ended June 30, 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 June 30, 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 June 30, 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 except for share and per share data and 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 six months ended June30,2012 (NT$) | | | | For the six months ended June30,2012 (US$) | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $4,163,536 | $141,092 | $436,598 | $3,868,030 | $139,716 | $4,735 | $14,651 | $129,800 |
| Fire insurance | 1,502,702 | 41,251 | 914,315 | 629,638 | 50,426 | 1,384 | 30,682 | 21,128 |
| Marine insurance | 397,620 | 17,973 | 348,739 | 66,854 | 13,343 | 603 | 11,702 | 2,244 |
| Engineering insurance | 310,132 | 1,236 | 169,593 | 141,775 | 10,407 | 41 | 5,691 | 4,757 |
| Health and injury insurance | 679,698 | 3,255 | 65,075 | 617,878 | 22,809 | 109 | 2,184 | 20,734 |
| Other insurance | 492,800 | 7,031 | 179,812 | 320,019 | 16,537 | 236 | 6,034 | 10,739 |
| Total | $7,546,488 | $211,838 | $2,114,132 | $5,644,194 | $253,238 | $7,108 | $70,944 | 189,402 |

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 except for share and per share data and 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 six months ended June 30, 2011.

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

| Insurance type | For the six months ended June30,2012 (NT$) | | | | For the six months ended June30,2012 (US$) | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 233,013 | $2,825 | $1,720 | $234,118 | $7,819 | $95 | $58 | $7,856 |
| Fire insurance | 186,417 | 241 | 106,772 | 79,886 | 6,256 | 8 | 3,583 | 2,681 |
| Marine insurance | 31,105 | 1,071 | 11,722 | 20,454 | 1,044 | 36 | 393 | 687 |
| Engineering insurance | 10,658 | 30 | 10,272 | 416 | 357 | 1 | 345 | 13 |
| Health and injury insurance | - | 1,479 | - | 1,479 | - | 49 | - | 49 |
| Other insurance | 121,941 | 31 | 44,239 | 77,733 | 4,092 | 1 | 1,484 | 2,609 |
| Total | $ 583,134 | $5,677 | $174,725 | $414,086 | $19,568 | $190 | $5,863 | $13,895 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(10) Claim development table

A. Cathay Century

| NT$ Underwriting Year | 2007.7.1-2008.6.30 | 2008.7.1-2009.6.30 | 2009.7.1-2010.6.30 | 2010.7.1-2011.6.30 | 2011.7.1-2012.6.30 | Total |
|---|---|---|---|---|---|---|
| Estimate of cumulative claims incurred: | | | | | | |
| At end of underwriting year | $3,062,273 | $3,322,792 | $3,931,646 | $5,408,275 | $4,851,463 | |
| One year later | 4,080,849 | 4,039,173 | 4,872,374 | 5,667,748 | | |
| Two year later | 4,184,209 | 4,142,479 | 4,895,061 | | | |
| Three year later | 4,048,332 | 4,178,118 | | | | |
| Four year later | 4,058,322 | | | | | |
| Estimate of cumulative claims incurred | 4,058,322 | 4,178,118 | 4,895,061 | 5,667,748 | 4,851,463 | |
| Cumulative payment to date | 3,995,918 | 4,071,010 | 4,418,172 | 4,860,598 | 3,068,733 | |
| Subtotal | 62,404 | 107,108 | 476,889 | 807,150 | 1,782,730 | 3,236,281 |
| Reconciliation | - | - | - | - | - | - |
| Recorded in balance sheet | $62,404 | $107,108 | $476,889 | $807,150 | $1,782,730 | $3,236,281 |

| US$ Underwriting Year | 2007.7.1-2008.6.30 | 2008.7.1-2009.6.30 | 2009.7.1-2010.6.30 | 2010.7.1-2011.6.30 | 2011.7.1-2012.6.30 | Total |
|---|---|---|---|---|---|---|
| Estimate of cumulative claims incurred: | | | | | | |
| At end of underwriting year | $102,761 | $111,503 | $131,934 | $181,486 | $162,801 | |
| One year later | 136,941 | 135,543 | 163,502 | 190,193 | | |
| Two year later | 140,410 | 139,009 | 164,264 | | | |
| Three year later | 135,850 | 140,205 | | | | |
| Four year later | 136,185 | - | | | | |
| Estimate of cumulative claims incurred | 136,185 | 140,205 | 164,264 | 190,193 | 162,801 | |
| Cumulative payment to date | 134,091 | 136,611 | 148,261 | 163,107 | 102,978 | |
| Subtotal | 2,094 | 3,594 | 16,003 | 27,086 | 59,823 | 108,600 |
| Reconciliation | - | - | - | - | - | - |
| Recorded in balance sheet | $2,094 | $3,594 | $16,003 | $27,086 | $59,823 | $108,600 |

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

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

B. Cathay Insurance (China)

| NT$ | 2008 | 2009 | 2010 | 2011 | For the first half year of 2012 | Total |
|---|---|---|---|---|---|---|
| Estimated accumulation amount of claim | | | | | | |
| As to 2008/12/31 | $2,576 | | | | | |
| As to 2009/12/31 | 2,454 | $149,443 | | | | |
| As to 2010/12/31 | 2,450 | 143,614 | $319,590 | | | |
| As to 2011/12/31 | 2,477 | 140,722 | 316,551 | $343,933 | | |
| As to 2012/6/30 | 2,477 | 141,117 | 316,838 | 371,321 | $262,087 | |
| Estimated accumulation of claim | 2,477 | 141,117 | 316,838 | 371,321 | 262,087 | $1,093,840 |
| Accumulated claim paid | 1,287 | 120,361 | 274,612 | 203,485 | 37,742 | 637,487 |
| Subtotal | 1,190 | 20,756 | 42,226 | 167,836 | 224,345 | 456,353 |
| Indirect claim expense, discount and risk margin | | | | | | 18,226 |
| Recognized amount on balance sheet | | | | | | $474,579 |

| US$ | 2008 | 2009 | 2010 | 2011 | For the first half year of 2012 | Total |
|---|---|---|---|---|---|---|
| Estimated accumulation amount of claim | | | | | | |
| As to 2008/12/31 | $86 | | | | | |
| As to 2009/12/31 | 82 | $5,015 | | | | |
| As to 2010/12/31 | 82 | 4,819 | $10,724 | | | |
| As to 2011/12/31 | 83 | 4,722 | 10,623 | $11,541 | | |
| As to 2012/6/30 | 83 | 4,736 | 10,632 | 12,460 | $8,795 | |
| Estimated accumulation of claim | 83 | 4,736 | 10,632 | 12,460 | 8,795 | $36,706 |
| Accumulated claim paid | 43 | 4,039 | 9,215 | 6,828 | 1,267 | 21,392 |
| Subtotal | 40 | 697 | 1,417 | 5,632 | 7,528 | 15,314 |
| Indirect claim expense, discount and risk margin | | | | | | 611 |
| Recognized amount on balance sheet | | | | | | $15,925 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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.

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

| | 2012.06.30 | | | 2011.06.30 | | |
|---|---|---|---|---|---|---|
| | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD |
| Financial Assets | | | | | | |
| Monetary Items | | | | | | |
| USD | $115,267 | 29.9 | $3,446,483 | $107,759 | 28.802 | $3,103,675 |
| CNY | 121,633 | 4.7033 | 572,076 | - | - | - |
| Non-Monetary Items | | | | | | |
| USD | 120,320 | 29.9 | - | 95,320 | 28.802 | - |
| | (Nominal Amount) | | (Note) | (Nominal Amount) | | (Note) |

Note: The Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized in income statement by NT$43,217 (US$1,450) at June 30, 2012. Financial assets at fair value through profit and loss were recognized by NT$30,701 (US$1,066) at June 30, 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：

| 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 |

| Contents of Plan | Responsible Department or Personnel | Status of Execution |
|---|---|---|
| ◎Finalize adjustments to the internal control (including financial statements process and the associated IT system) | Risk management department , IT department and Audit department | In process |
| ◎Proceed advanced internal training | Accounting department and other authorized departments | In process |
| 3. Practice stage: 2012/1/1~2013/12/31 | | |
| ◎Test the operation of IT system | IT department | In process |
| ◎Prepare opening IFRSs balance sheet and comparative financial statements | Accounting department | In process |
| ◎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：

A. 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. |
| | |

| Accounting Issues | Description of differences |
|---|---|
| 【IAS12 Income taxes】 | Under the requirements of ROC GAAP, deferred tax assets are recognized in full, however, if there is over 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) |

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：

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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

| (NT$) Item | ROC GAAP | Adjustments | IFRSs |
|---|---|---|---|
| Cash and Cash equivalents | $6,998,255 | $- | $6,998,255 |
| Receivable | 3,675,521 | - | 3,675,521 |
| Investments | 10,632,547 | - | 10,632,547 |
| Reinsurance reserve assets | 4,436,278 | - | 4,436,278 |
| Property and equipment | 225,801 | - | 225,801 |
| Intangible assets(a) | 41,384 | (4,061) | 37,323 |
| Other assets(a) (c) | 1,031,192 | 63,209 | 1,094,401 |
| Total assets | 27,040,978 | 59,148 | 27,100,126 |
| | | | |
| Payables | 2,117,070 | - | 2,117,070 |
| Financial Liabilities | 1,045,000 | - | 1,045,000 |
| Operating and liability reserves(c) | 19,060,166 | (2,326,210) | 16,733,956 |
| Other liabilities(a) (b) (c) | 383,048 | 551,830 | 934,878 |
| Total liabilities | 22,605,284 | (1,774,380) | 20,830,904 |
| | | | |
| Common stock | 2,317,006 | - | 2,317,006 |
| Capital surplus | 1,929 | - | 1,929 |
| Legal reserve | 834,443 | - | 834,443 |
| Special reserve(b) | 462,480 | 1,930,754 | 2,393,234 |
| Unappropriated retained earnings(a) | 380,220 | (210,384) | 169,836 |
| Equity adjustment(a) | 439,616 | 113,158 | 552,774 |
| Stockholders' equity | 4,435,694 | 1,833,528 | 6,269,222 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| (US$) Item | ROC GAAP | Adjustments | IFRSs |
|---|---|---|---|
| Cash and Cash equivalents | $231,194 | $- | $231,194 |
| Receivable | 121,425 | - | 121,425 |
| Investments | 351,257 | - | 351,257 |
| Reinsurance reserve assets | 146,557 | - | 146,557 |
| Property and equipment | 7,460 | - | 7,460 |
| Intangible assets(a) | 1,367 | (134) | 1,233 |
| Other assets(a) | 34,066 | 2,088 | 36,154 |
| Total assets | 893,326 | 1,954 | 895,280 |
| | | | |
| Payables | 69,939 | - | 69,939 |
| Financial Liabilities | 34,523 | - | 34,523 |
| Operating and liability reserves(c) | 629,672 | (76,848) | 552,823 |
| Other liabilities(a) | 12,654 | 18,230 | 30,884 |
| Total liabilities | 746,788 | (58,618) | 688,170 |
| | | | |
| Common stock | 76,545 | - | 76,545 |
| Capital surplus | 64 | - | 64 |
| Legal reserve | 27,567 | - | 27,567 |
| Special reserve | 15,278 | 63,784 | 79,062 |
| Unappropriated retained earnings | 12,561 | (6,950) | 5,611 |
| Equity adjustment | 14,523 | 3,738 | 18,261 |
| Stockholders' equity | 146,538 | 60,572 | 207,110 |

(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$1,424) 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) In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. As of January 1, 2012, the catastrophic reserve and stability reserve recorded under liabilities should be reclassified to special reserve under retained earnings. The transition resulted in recognizing special reserve under retained earnings by NT$2,326,210 (US$76,848) thousands, a corresponding tax effect of increase of deferred income tax liabilities by NT$395,456 (US$13,064) thousands, and a decrease of changes in provision for special reserves by NT$19,748(US$663) and income tax expense by NT$3,357 (US$113) thousands.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(c) 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$20,118 (US$665) thousands.

B. Reconciliation of the balance sheet as at June 30, 2012:

| (NT$) Item | ROC GAAP | Adjustments | IFRSs |
|---|---|---|---|
| Cash and Cash equivalents | $6,391,487 | $- | $6,391,487 |
| Receivable | 4,266,944 | - | 4,266,944 |
| Investments | 11,624,362 | - | 11,624,362 |
| Reinsurance reserve assets | 4,527,793 | - | 4,527,793 |
| Property and equipment | 192,329 | - | 192,329 |
| Intangible assets(a) | 39,214 | (4,061) | 35,153 |
| Other assets(a) (c) | 1,322,578 | 43,394 | 1,365,972 |
| Total assets | 28,364,707 | 39,333 | 28,404,040 |
| | | | |
| Payables | 2,250,022 | - | 2,250,022 |
| Financial Liabilities | 1,043,217 | - | 1,043,217 |
| Operating and liability reserves(c) | 19,945,489 | (2,306,461) | 17,639,028 |
| Other liabilities(a) (b) (c) | 480,155 | 528,657 | 1,008,812 |
| Total liabilities | 23,718,883 | (1,777,804) | 21,941,079 |
| | | | |
| Common stock | 2,522,950 | - | 2,522,950 |
| Capital surplus | 1,929 | - | 1,929 |
| Legal reserve | 954,800 | - | 954,800 |
| Special reserve(b) | 516,399 | 1,914,363 | 2,430,762 |
| Unappropriated retained earnings(b) | 371,961 | (210,384) | 161,577 |
| Equity adjustment(a) | 277,785 | 113,158 | 390,943 |
| Stockholders' equity | 4,645,824 | 1,817,137 | 6,462,961 |

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

| (US$) Item | ROC GAAP | Adjustments | IFRSs |
|---|---|---|---|
| Cash and Cash equivalents | $214,480 | $- | $214,480 |
| Receivable | 143,186 | - | 143,186 |
| Investments | 390,079 | - | 390,079 |
| Reinsurance reserve assets | 151,939 | - | 151,939 |
| Property and equipment | 6,454 | - | 6,454 |
| Intangible assets(a) | 1,316 | (136) | 1,180 |
| Other assets(a) (c) | 44,382 | 1,456 | 45,838 |
| Total assets | 951,836 | 1,320 | 953,156 |
| | | | |
| Payables | 75,504 | - | 75,504 |
| Financial Liabilities | 35,007 | - | 35,007 |
| Operating and liability reserves(c) | 669,312 | (77,398) | 591,914 |
| Other liabilities(a) (b) (c) | 16,113 | 17,741 | 33,854 |
| Total liabilities | 795,936 | (59,657) | 736,279 |
| | | | |
| Common stock | 84,663 | - | 84,663 |
| Capital surplus | 64 | - | 64 |
| Legal reserve | 32,040 | - | 32,040 |
| Special reserve(b) | 17,329 | 64,240 | 81,569 |
| Unappropriated retained earnings(b) | 12,482 | (7,060) | 5,422 |
| Equity adjustment(a) | 9,322 | 3,797 | 13,119 |
| Stockholders' equity | 155,900 | 60,987 | 216,877 |

(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$4,573) thousands, and deferred income tax assets by NT$43,091 (US$1,446) thousands; a decrease of deferred pension cost by NT$4,061 (US$136) thousands, net loss not recognized as pension cost by NT$113,158 (US$3,797) thousands and retained earnings by NT$210,384 (US$7,060)

(b) In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. As of June 30, 2012, the special reserve of major incident and special reserve of fluctuation of risk recorded under liabilities amounted to NT$2,306,461 (US$77,398) should be reclassified to special reserve under retained earnings. The transition resulted in recognizing special reserve under retained earnings by NT$1,914,363 (US$64,240) thousands and a corresponding tax effect of increase of deferred income tax liabilities by NT$392,098 (US$13,158) thousands.

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

(c) 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$303 (US$10) thousands.

C. Reconciliation of the income statement for the three months period ended June 30, 2012:

| Item | ROC GAAP | Adjustments | IFRSs |
|---|---|---|---|
| | NT$ | NT$ | NT$ |
| Operating revenues | $5,998,159 | $- | $5,998,159 |
| Operating costs (c) | (3,602,228) | (19,748) | (3,621,976) |
| Operating expenses | (2,040,374) | - | (2,040,374) |
| Operating income | 355,557 | - | 355,557 |
| Non-operating revenue/ gains or expenses/losses | (4,871) | - | (4,871) |
| Net income before income tax | 350,686 | - | 350,686 |
| Income tax expense (c) | (75,182) | 3,357 | (71,825) |
| Net income after income tax | $275,504 | - | $275,504 |

| Item | ROC GAAP | Adjustments | IFRSs |
|---|---|---|---|
| | NT$ | NT$ | NT$ |
| Operating revenues | $201,280 | $- | $201,280 |
| Operating costs (c) | (120,880) | (663) | (121,543) |
| Operating expenses | (68,469) | - | 68,469 |
| Operating income | 11,931 | - | 11,931 |
| Non-operating revenue/ gains or expenses/losses | 163 | - | 163 |
| Net income before income tax | 11,768 | - | 11,768 |
| Income tax expense (c) | (2,523) | 113 | (2,410) |
| Net income after income tax | $9,245 | - | $9,245 |

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 six months ended June 30, 2011 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 2012.