Cathay Life Insurance Co., Ltd.
Financial Statements
For The Nine Months Ended
September 30, 2012 and 2011
With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and accounting principles generally accepted in the R.O.C.. If there is any conflict between these 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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English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of September 30, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue the review report based on our review.

We conducted our review in accordance with auditing standards No. 36 "Review of Financial Statements" generally accepted in the Republic of China ("R.O.C."). 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 auditing standards generally accepted, 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 financial statements as of and for the nine-month periods ended September 30, 2012 and 2011 in order for them to be in conformity with requirements of the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and accounting principles generally accepted in the R.O.C..

As described in Note 3 to the financial statements, 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 Contract" and Regulations Governing the Preparation of Financial Reports by Insurance Enterprises.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C.
October 31, 2012

Notice to Readers:

The accompanying 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 financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited balance sheets
As of September 30, 2012 and 2011
(Expressed in thousands of dollars)

Assets	Notes	September 30, 2012 NT$	September 30, 2012 US$	September 30, 2011 NT$	September 30, 2011 US$
Cash and cash equivalents	2,4,30,31	$405,991,506	$13,861,096	$361,243,986	$11,863,514
Receivables	30				
Notes Receivables - Net		2,666,325	91,032	5,047,660	165,769
Claims recoverable from reinsurers - Net		1,014	34	-	-
Due from reinsurers and ceding companies - Net		67,418	2,302	110,345	3,624
Other Receivables - Net	31	47,792,906	1,631,714	121,887,506	4,002,873
Subtotal		50,527,663	1,725,082	127,045,511	4,172,266
Investments	30				
Financial assets at fair value through profit or loss	2,5,12,31	68,674,754	2,344,649	54,660,083	1,795,076
Available-for-sale financial assets	2,6,12	1,212,650,183	41,401,508	661,633,255	21,728,514
Derivative financial assets for hedging	2,7	1,365,092	46,606	2,073,728	68,103
Financial assets carried at cost	2,8	10,191,289	347,944	9,494,526	311,807
Investments under the equity method - Net	2,9	7,506,580	256,285	4,226,763	138,810
Investments in debt securities with no active market	2,10	742,051,160	25,334,625	493,705,445	16,213,643
Held-to-maturity financial assets	2,11,12	-	-	590,623,300	19,396,496
Other financial assets		24,000,000	819,392	19,000,000	623,974
Investments in real estate - Net	2,13	155,270,118	5,301,131	130,725,806	4,293,130
Loans	2,14,31	499,827,902	17,064,797	485,318,975	15,938,226
Subtotal		2,721,537,078	92,916,937	2,451,461,881	80,507,779
Reinsurance reserve assets - Net	30				
Ceded unearned premium reserve - Net	19	8,339,627	284,726	8,425,031	276,684
Ceded reserve for claims - Net	19	761,246	25,990	593,048	19,476
Subtotal		9,100,873	310,716	9,018,079	296,160
Property and equipment - Net	2,15,30,31				
Land		10,894,899	371,966	5,196,572	170,659
Buildings and construction		12,711,619	433,992	10,956,356	359,815
Computer equipment		2,201,312	75,156	2,195,277	72,094
Communication and transportation equipment		14,648	500	9,658	317
Other equipment		3,227,396	110,188	3,163,011	103,876
Leased assets		275,652	9,411	-	-
Revaluation increments		620	21	620	20
Subtotal of cost and revaluation		29,326,146	1,001,234	21,521,494	706,781
Less: Accumulated depreciation		(9,868,492)	(336,924)	(8,977,534)	(294,829)
Less: Accumulated impairment		(140,412)	(4,794)	(140,412)	(4,611)
Construction in progress and prepayment for real estate equipment		96,819	3,306	19,077	627
Subtotal		19,414,061	662,822	12,422,625	407,968
Intangible assets	2,30				
Computer software cost	16	235,809	8,051	325,412	10,687
Subtotal		235,809	8,051	325,412	10,687
Other assets	30				
Prepayment		52,331	1,787	47,387	1,556
Guarantee deposits paid	2,31,32	12,491,934	426,491	13,175,891	432,706
Deferred income tax assets	2,25	15,398,346	525,720	17,181,332	564,248
Other assets - Other		10,040,187	342,786	8,043,163	264,143
Subtotal		37,982,798	1,296,784	38,447,773	1,262,653
Separate account product assets	2,30,36	317,167,536	10,828,526	287,683,745	9,447,742
Total assets		$3,561,957,324	$121,610,014	$3,287,649,012	$107,968,769

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited balance sheets - (continued)
As of September 30, 2012 and 2011
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	September 30, 2012 NT$	September 30, 2012 US$	September 30, 2011 NT$	September 30, 2011 US$
Payables	30				
Notes payable		$1,111	$38	$1,146	$38
Life insurance proceeds payable		8	-	1,297	43
Commissions payable		158,461	5,410	658,773	21,634
Due to reinsurers and ceding companies		7,561,559	258,162	5,867,980	192,709
Others payable	31	19,033,261	649,821	91,759,476	3,013,447
Subtotal		26,754,400	913,431	98,288,672	3,227,871
Financial liabilities	30				
Financial liabilities at fair value through profit or loss	2,17	1,687,225	57,604	44,728,204	1,468,907
Preferred stock liability	2,18,31	30,000,000	1,024,240	25,000,000	821,018
Subtotal		31,687,225	1,081,844	69,728,204	2,289,925
Reserve for liabilities	2,19,30				
Unearned premium reserve		11,275,632	384,965	10,920,575	358,640
Reserve for claims		4,340,510	148,191	3,540,241	116,264
Reserve for life insurance liabilities		2,930,698,812	100,058,000	2,633,243,800	86,477,629
Special reserve		4,380,776	149,566	9,582,448	314,694
Premium deficiency reserve		15,891,703	542,564	12,724,014	417,866
Reserve for insurance contract with feature of financial instruments		57,412,318	1,960,134	60,829,814	1,997,695
Foreign exchange volatility reserve	38	4,286,477	146,346	-	-
Subtotal		3,028,286,228	103,389,766	2,730,840,892	89,682,788
Other liabilities	30				
Accounts collected in advance		106,452	3,634	115,651	3,798
Guarantee deposits received	31	2,058,084	70,266	1,854,025	60,888
Reserve for land revaluation increment tax		3,487	119	3,487	114
Accrued pension liability	2,36	2,048,733	69,947	1,346,491	44,220
Other liabilities - Other		18,032,395	615,650	26,780,811	879,501
Subtotal		22,249,151	759,616	30,100,465	988,521
Separate account product liabilities	2,30,36	317,167,536	10,828,526	287,683,745	9,447,742
Total liabilities		3,426,144,540	116,973,183	3,216,641,978	105,636,847
Capital stock					
Common stock	2,20	53,065,274	1,811,720	53,065,274	1,742,702
Capital surplus	2				
Capital surplus - Common stock		13,000,000	443,837	13,000,000	426,929
Capital surplus - Others		9,649	329	9,649	317
Retained earnings	2,21				
Legal reserve		9,241,230	315,508	9,150,054	300,494
Special reserve		27,247,725	930,274	26,883,021	882,858
Unappropriated retained earnings		2,355,647	80,425	2,877,682	94,505
Equity adjustments					
Unrealized revaluation increments		1,462	50	1,462	48
Unrealized gains (losses) on financial instruments	2	31,783,532	1,085,133	(33,689,932)	(1,106,402)
Cumulative conversion adjustments	2,9	(382,061)	(13,044)	(290,176)	(9,529)
Net loss not recognized as pension cost	36	(509,674)	(17,401)	-	-
Total stockholders' equity		135,812,784	4,636,831	71,007,034	2,331,922
Total liabilities and stockholders' equity		$3,561,957,324	$121,610,014	$3,287,649,012	$107,968,769

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Unaudited statements of income
For the nine months ended September 30, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-September 30, 2012		January 1-September 30, 2011	
		NT$	US$	NT$	US$
Operating revenues	2,31				
Direct premium income	22	$363,031,378	$12,394,379	$299,239,397	$9,827,238
Reinsurance premium income	22	139,826	4,774	139,682	4,587
Premiums income	22	363,171,204	12,399,153	299,379,079	9,831,825
Deduct: Reinsurance premiums ceded	22	(21,332,262)	(728,312)	(15,696,698)	(515,491)
Changes in unearned premium reserve	22	471,659	16,103	2,983,753	97,989
Retained earned premium	22	342,310,601	11,686,944	286,666,134	9,414,323
Reinsurance commission earned		10,961,916	374,255	7,947,684	261,008
Handling fees earned	36	1,762,647	60,179	2,244,991	73,727
Net investment profit and loss					
Interest income		68,727,577	2,346,452	63,979,628	2,101,137
Gains (losses) from valuation on financial assets		9,757,752	333,143	(58,392,396)	(1,917,648)
Gains (losses) from valuation on financial liabilities		16,014,538	546,758	(42,302,661)	(1,389,250)
Losses on equity investments	9	(146,044)	(4,986)	(124,645)	(4,093)
(Losses) gains on foreign exchange		(29,412,689)	(1,004,189)	43,111,777	1,415,822
Gains on disposal of investments		19,986,363	682,361	57,450,878	1,886,728
Changes in provision for foreign exchange volatility reserve	38	224,929	7,679	-	-
Gains on investments - Real estate		4,899,689	167,282	4,887,009	160,493
Separate account product revenues	36	75,864,601	2,590,120	69,326,534	2,276,733
Subtotal		520,951,880	17,785,998	434,794,933	14,278,980
Operating costs	2,31				
Insurance claim payments	23	(170,467,775)	(5,819,999)	(201,845,649)	(6,628,757)
Deduct: Claims recovered from reinsures	23	8,616,003	294,162	6,013,143	197,476
Retained claim payment	23	(161,851,772)	(5,525,837)	(195,832,506)	(6,431,281)
Changes in liability reserves					
Changes in provision claim reserve		(250,130)	(8,540)	(602)	(20)
Changes in provision for life insurance		(240,073,085)	(8,196,418)	(132,495,816)	(4,351,258)
Changes in provision for special reserve		130,857	4,468	974,496	32,003
Changes in provision for premium deficiency reserve		(2,475,914)	(84,531)	(2,458,808)	(80,749)
Changes in reserve for insurance contract with feature of financial instruments		(722,738)	(24,675)	(790,448)	(25,959)
Brokerage expenses	24	(12,582,417)	(429,581)	(11,932,130)	(391,860)
Commissions expenses		(12,987,543)	(443,412)	(12,340,630)	(405,275)
Other operating cost		(2,289,987)	(78,183)	(1,796,486)	(58,998)
Separate account product expenses	36	(75,864,601)	(2,590,120)	(69,326,534)	(2,276,733)
Subtotal		(508,967,330)	(17,376,829)	(425,999,464)	(13,990,130)
Operating expenses	2,16,21,24,31				
Business expenses		(5,586,219)	(190,721)	(4,001,465)	(131,411)
Administrative and general expenses		(6,100,831)	(208,291)	(5,802,048)	(190,543)
Employee training expenses		(22,393)	(764)	(19,088)	(627)
Subtotal		(11,709,443)	(399,776)	(9,822,601)	(322,581)
Operating income (loss)		275,107	9,393	(1,027,132)	(33,731)
Non-operating revenues and gains	2,31				
Gains on disposal of property and equipment		79	3	205	6
Other non-operating revenues and gains		1,264,437	43,169	1,276,607	41,925
Subtotal		1,264,516	43,172	1,276,812	41,931
Non-operating expenses and losses	2,31				
Losses on disposal of property and equipment		(428)	(15)	(203)	(7)
Dividend on preferred stock liabilities		(679,760)	(23,208)	(609,575)	(20,019)
Miscellaneous expenses		(2,947)	(100)	(4,704)	(154)
Subtotal		(683,135)	(23,323)	(614,482)	(20,180)
Income (loss) from continuing operations before income taxes		856,488	29,242	(364,802)	(11,980)
Income taxes benefit	2,25	1,499,159	51,183	3,242,484	106,485
Net income		$2,355,647	$80,425	$2,877,682	$94,505
Earnings per share (In dollars)	2,26				
Net income		$0.44	$0.02	$0.54	$0.02

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

Cathay Life Insurance Co., Ltd.
Unaudited statements of changes in stockholders' equity
For the nine months ended September 30, 2012 and 2011
(Expressed in thousands of dollars)

					Retained earnings						Equity adjustment									
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized revaluation increments		Unrealized gains (losses) on financial instruments		Cumulative conversion adjustments		Net loss not recognized as pension cost		Total	
Summary	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	$53,065,274	$1,742,702	$13,009,649	$427,246	$20,861,134	$685,094	$21,687,527	$712,234	$(6,515,586)	$(213,976)	$1,462	$48	$12,057,721	$395,984	$(401,935)	$(13,199)	$-	$-	$113,765,246	$3,736,133
Covering losses and appropriations for 2010																				
Special reserve	-	-	-	-	-	-	5,195,494	170,624	(5,195,494)	(170,624)	-	-	-	-	-	-	-	-	-	-
Legal reserve used to cover accumulated deficits	-	-	-	-	(11,711,080)	(384,600)	-	-	11,711,080	384,600	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	(45,747,653)	(1,502,386)	-	-	-	-	(45,747,653)	(1,502,386)
Changes in cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	111,759	3,670	-	-	111,759	3,670
Net income for the nine months ended September 30, 2011	-	-	-	-	-	-	-	-	2,877,682	94,505	-	-	-	-	-	-	-	-	2,877,682	94,505
Balance on September 30, 2011	$53,065,274	$1,742,702	$13,009,649	$427,246	$9,150,054	$300,494	$26,883,021	$882,858	$2,877,682	$94,505	$1,462	$48	$(33,689,932)	$(1,106,402)	$(290,176)	$(9,529)	$-	$-	$71,007,034	$2,331,922
Balance on January 1, 2012	$53,065,274	$1,811,720	$13,009,649	$444,166	$9,150,054	$312,395	$27,624,972	$943,154	$(286,071)	$(9,767)	$1,462	$50	$10,673,438	$364,406	$(304,530)	$(10,397)	$(509,674)	$(17,401)	$112,424,574	$3,838,326
Appropriations and Distributions for 2011																				
Legal reserve	-	-	-	-	91,176	3,113	-	-	(91,176)	(3,113)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	742,961	25,365	(742,961)	(25,365)	-	-	-	-	-	-	-	-	-	-
Special reserve used to cover accumulated deficits	-	-	-	-	-	-	(1,120,208)	(38,245)	1,120,208	38,245	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	21,110,094	720,727	-	-	-	-	21,110,094	720,727
Changes in cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(77,531)	(2,647)	-	-	(77,531)	(2,647)
Net income for the nine months ended September 30, 2012	-	-	-	-	-	-	-	-	2,355,647	80,425	-	-	-	-	-	-	-	-	2,355,647	80,425
Balance on September 30, 2012	$53,065,274	$1,811,720	$13,009,649	$444,166	$9,241,230	$315,508	$27,247,725	$930,274	$2,355,647	$80,425	$1,462	$50	$31,783,532	$1,085,133	$(382,061)	$(13,044)	$(509,674)	$(17,401)	$135,812,784	$4,636,831

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

Cathay Life Insurance Co., Ltd.
Unaudited statements of cash flows
For the nine months ended September 30, 2012 and 2011
(Expressed in thousands of dollars)

	January 1-September 30, 2012		January 1-September 30, 2011	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income for the periods	$2,355,647	$80,425	$2,877,682	$94,505
Adjustments:				
(Gains) losses from valuation of financial assets	(9,757,752)	(333,143)	58,392,396	1,917,648
(Gains) losses from valuation of financial liabilities	(16,014,538)	(546,758)	42,302,661	1,389,250
Provision bad debt	997,485	34,055	311,250	10,222
Depreciation	1,727,503	58,979	1,727,153	56,721
Amortization	50,308	1,718	94,075	3,090
Provision or recovered for each reserve	234,386,102	8,002,257	142,971,282	4,695,280
Gains on disposal of investments under the equity method	-	-	(632,746)	(20,780)
Losses (gains) on disposal of property and equipment	349	12	(2)	-
Gains on disposal of investments in real estate	(89,808)	(3,066)	(300,681)	(9,875)
Gains on equity investments less than cash dividends received	236,357	8,070	238,738	7,840
Decrease in notes receivable	751,017	25,641	464,745	15,263
Decrease in claims recoverable from reinsurers	1,926	66	3,003	99
Increase in due from reinsurers and ceding companies	(64,664)	(2,208)	(100,733)	(3,308)
Increase in other accounts receivable	(5,520,169)	(188,466)	(70,256,725)	(2,307,282)
Decrease (increase) in financial assets at fair value through profit or loss	874,793	29,866	(4,485,276)	(147,300)
Increase in derivative financial assets for hedging	(19,977)	(682)	(12,269)	(403)
(Increase) decrease in other financial assets	(10,700,000)	(365,312)	15,600,000	512,315
Decrease (increase) in ceded unearned premium reserve	270,690	9,242	(2,161,122)	(70,973)
Increase in ceded reserve for claims	(211,655)	(7,226)	(95,341)	(3,131)
Decrease (increase) in prepayments	149,483	5,104	(30,075)	(988)
Decrease (increase) in guarantee deposits paid	2,168,859	74,048	(2,161,310)	(70,979)
Increase in deferred income tax assets	(372,907)	(12,732)	(9,052,867)	(297,303)
Increase in other assets - Other	(7,793,979)	(266,097)	(6,309,649)	(207,212)
Decrease in notes payable	(35)	(1)	(222)	(7)
(Decrease) increase in life insurance proceeds payable	(167)	(6)	462	15
Decrease in commissions payable	(1,063,806)	(36,320)	(466,836)	(15,331)
Increase in due to reinsurers and ceding companies	1,346,830	45,982	1,488,481	48,883
Increase in others payable	4,467,775	152,536	55,198,367	1,812,754
Decrease in financial liabilities at fair value through profit or loss	-	-	(192,258)	(6,314)
Decrease in derivative financial liabilities for hedging	-	-	(161,013)	(5,288)
(Decrease) increase in accounts collected in advance	(3,829)	(131)	7,570	249
Increase in guarantee deposits received	101,120	3,452	192,152	6,310
Increase in accrued pension liability	163,750	5,591	62,485	2,052
Increase in other liabilities - Other	13,971,769	477,015	21,785,842	715,463
Net cash provided by operating activities	212,408,477	7,251,911	247,299,219	8,121,485
Cash flows from investing activities				
Increase in loans	(11,058,686)	(377,558)	(4,047,501)	(132,923)
Decrease (increase) in available-for-sale financial assets	83,799,406	2,861,024	(132,420,447)	(4,348,783)
Decrease in held-to-maturity financial assets	-	-	32,531,233	1,068,349
Decrease (increase) in financial assets carried at cost	543	18	(378,976)	(12,446)
Increase in investments in debt securities with no active market	(232,560,269)	(7,939,920)	(134,390,415)	(4,413,478)
Disinvestment of investments under the equity method	47,198	1,611	13,976	459
Increase in investments under the equity method	(3,773,774)	(128,842)	-	-
Disposal of investments under the equity method	-	-	1,106,232	36,330
Disposal of investments in real estate	112,580	3,844	412,485	13,546
Acquisition of investments in real estate	(16,837,998)	(574,872)	(6,753,804)	(221,800)
Disposal of property and equipment	87	3	722	24
Acquisition of property and equipment	(480,950)	(16,420)	(168,004)	(5,517)
Acquisition of intangible assets	(19,069)	(651)	(32,567)	(1,070)
Net cash used in investing activities	(180,770,932)	(6,171,763)	(244,127,066)	(8,017,309)
Increase in cash and cash equivalents	31,637,545	1,080,148	3,172,153	104,176
Cash and cash equivalents at the beginning of the periods	374,353,961	12,780,948	358,071,833	11,759,338
Cash and cash equivalents at the end of the periods	$405,991,506	$13,861,096	$361,243,986	$11,863,514
Supplemental disclosure of cash flows information				
Interest paid during the period	$43,309	$1,479	$18,784	$617
Interest paid (excluding capitalized interest)	$43,309	$1,479	$18,784	$617
Income tax paid	$1,067,524	$36,447	$923,494	$30,328

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2012 and 2011 were NT$29.29 and NT$30.45 to US$1.00)

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

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the "Company") was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act of the Republic of China ("R.O.C."). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holding") by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C. in order to gain benefit of synergistic operation and enhance the Company's competitiveness in the financial market.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of September 30, 2012 and 2011, total numbers of employees in the Company were 31,086 and 31,282, respectively.

2. Summary of significant accounting policies

The Company prepares the financial statements in accordance with the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, 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) 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.

(2) Recognition of financial assets and liabilities

According to the Statements of Financial Accounting Standards of the R.O.C. ("R.O.C. SFAS") No.34 "Financial Instruments: Recognition and Measurement" and "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises", financial assets are categorized as the "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". Financial liabilities are categorized as either "financial liabilities at fair value through profit or loss" or "derivative financial liabilities for hedging". Upon their initial recognition, financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets.

All "regular way" purchases and sales of financial assets are recorded using trade date (the date that the Company commits to purchase or sell the asset) accounting. "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 include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets held for trading include products acquired primarily for the purpose of sale in the near term and derivative financial assets, except for those that are designated as hedging instruments and are effective. Such assets are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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 financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized or impaired. The amortized cost is computed as the cost amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial assets, transactions costs, fees and premiums/discounts are taken into consideration when calculating the effective interest rate.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in equity. When the financial asset is derecognized, those cumulative gains or losses shall be recognized in profit or loss.

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 in profit or loss when the investments in debt securities with no active market are derecognized or impaired.

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in equity, except for impairment losses and gains or losses arising from the translation of monetary financial assets. When the financial assets are derecognized, the cumulative gains or losses previously recorded in equity are recognized in profit or loss.

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 carried at cost are investments in equity instruments to non-listed companies which the Company has no significant influence over. They are recorded at initial cost as the fair values cannot be reliably measured. If there is objective evidence that an impairment loss has been incurred, the impairment loss is recognized. Such impairment loss shall not be reversed.

F. Derivative financial assets for hedging

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

The fair value, as mentioned above, for a listed stock or a depositary receipt is based on the closing price on the balance sheet date, while for an open-end fund, the fair value is determined based on its net asset value as at the balance sheet date.

Financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging are measured at fair value.

(3) Derecognizing of financial assets and liabilities

A. Financial assets

A financial asset or a portion of a financial asset is derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. A transfer of a financial asset or a portion of the asset in which the Company surrenders control over the asset in exchange of consideration received is deemed a sale.

If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the Company accounts for the transaction as a secured borrowing. In that case, the Company's right to reacquire the asset is not a derivative financial instrument.

B. Financial liabilities

An entire or a part of a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Where an existing financial liability is replaced by another one from the same creditor with substantially different terms of agreement, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognization of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized as a gain or loss for the period.

(4) 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. Applying to different financial assets valued in different ways, the adopted impairment methods are as follows:

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 recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced 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 is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset exceeding 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.

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such equity instrument has been incurred, the amount of the loss is recorded and 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. Such impairment loss shall not be reversed.

C. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss that had been recognized in equity shall be reclassified from equity to profit or loss. The amount of the impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value or recoverable amount, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall be reversed through equity, rather than through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed through profit or loss.

(5) Derivative financial instruments

The Company engages in derivative financial instrument transactions, such as forward currency contracts and interest rate swaps, to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day 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 of derivatives that no longer meets the criteria for hedge accounting are taken directly to profit or loss for the period.

Hedging relationships consist of three types:

A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss.

B. Cash flow hedges: a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or with a highly probable forecast transaction and could affect profit or loss.

C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

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 Company assesses the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, 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 for the hedge.

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

Fair value hedges

The carrying amount of the hedged item is adjusted and gain or loss attributable to the hedged risk is recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the R.O.C. SFAS No. 14 “The Effects of Changes in Foreign Exchange Rates” (for a non-derivative hedging instrument) is recognized in profit or loss.

For a hedged interest-bearing financial instrument, the adjustment arising from above paragraph to its carrying amount is amortized to profit or loss based on an effective interest rate over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be subject to hedge accounting.

The Company discontinues fair value hedge accounting when any of the below situation occurs:

A. the hedging instrument expires or is sold, terminated or exercised,
B. the hedge no longer meets the conditions for hedge accounting,
C. the Company revokes the designation.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in equity, while the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in equity shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses initially recognized in equity shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is 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, the cumulative gain or loss that was previously recognized in equity remains in equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from equity to profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation 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 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 gains or losses recognized in equity is transferred to profit or loss.

(6) Allowance for bad and doubtful debts

In accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts: 0.5 percent of the ending balance for the first category of loan assets excluding life insurance loan, automatic premium loans, and holding government debt to be reserved within three years starting on January 1, 2011, 2 percent of the ending balance for the second category of loan assets, 10 percent of the ending balance for the third category of loan assets, as well as 50 and 100 percent of the ending balance for the fourth and fifth category of loan assets, respectively.

Since January 1, 2011, 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 loans and receivables has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on loans and receivables that are not individually significant has been incurred, the Company shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for receivables with no objective evidence that an impairment loss has been incurred, those receivables shall be collectively assessed for impairment.

If the objective evidence indicating the occurrence of the impairment loss does exist, the assessment of impairment loss is based upon the difference between the carrying amount of loans and receivables and the present value of the estimated future cash flows, excluding forecasted loss on credit risks. Present value of the future cash flow on loans and receivables is discounted by using the original effective interest rate. However, if floating rate is stipulated, then the present value of the future cash flows for loans and receivables shall be calculated using the current effective interest rate determined under the contract as the discount rate.

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 loan and receivable that exceeds what the amortized cost would have been had the impairment not being recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in current period as profit or loss.

(7) Investments under the equity method

Investments in equity securities are accounted for under the equity method where the Company holds more than 20% of the investee's voting rights or 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 at the acquisition date is analyzed and accounted for in conformity with the acquisition cost allocation as provided in R.O.C. SFAS No.25 "Business Combination - Accounting Treatment under Purchase Method". Goodwill is no longer amortized.

Adjustment to additional paid-in capital is required when the holding percentage changes due to disproportional subscription to new issue of investee's shares. If the balance of additional paid-in capital is insufficient, retained earnings are adjusted.

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

The Company prepares semi-annual and annual consolidated financial statements including all subsidiaries over which the Company has a controlling interest, with the exception of subsidiaries whose total revenues and total assets are relatively immaterial to the Company.

(8) Investments in real estate

Investments in real estate are stated at cost when acquired.

Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed as incurred.

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains or losses are recorded in operating gains or losses.

Depreciation is calculated using the straight-line method in accordance with the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the R.O.C. (the "Executive Yuan Depreciation Table").

Real estate investment primarily is for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(9) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. Upon revaluation, land and depreciable properties shall be reevaluated separately. Property increments shall be recorded in "unrealized reevaluation increments" under stockholders' equity.

Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

(10) Intangible assets

According to the R.O.C. SFAS No. 37 "Accounting for Intangible Assets" effective on January 1, 2007, intangible assets are initially recognized at cost. After the initial recognition, the intangible assets shall be carried at cost plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

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

The intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets. The Company will reassess the useful lives and amortization methods for its intangible assets with finite useful lives at each balance sheet date. If there is any change to be made, it will be treated as changes in accounting estimates.

(11) Deferred charges

According to the regulations established by the R.O.C. Ministry of Finance (the "MOF") in the year of 1993, the Company created a "stabilization fund" and an offsetting account "stabilization fund reserve", both of which are off balance sheet accounts. From January 1, 1993 to June 30, 2002, an amount of NT$1,603,526 (US$54,747) thousands was appropriated to this fund. From July 1, 2002 to September 30, 2012, an amount of NT$3,630,369 (US$123,946) thousands was appropriated to this fund under Regulations Governing Management of Insurance Stabilization Funds, which was established by the "MOF" in the year of 2002.

(12) Accounting for assets impairment

Pursuant to R.O.C. SFAS No. 35, the Company evaluates whether indicators of impairment exist at each balance sheet date for all assets subject to guidelines set forth under the Statement. If impairment indicators exist, the Company shall perform impairment testing by comparing the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU"). Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount which is defined as the higher of fair values less costs to sell and the values in use. Conversely, if there is any evidence that the impairment loss may no longer exist or may have decreased, the recoverable amount of the asset shall be subsequently re-evaluated. The impairment loss may be reversed to reflect the asset's estimated increase in future service potential since the date of its last recognition of impairment loss. However, the carrying amount of the asset after the reversal of impairment loss should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. If the recoverable amount of the CGU assets or the group of CGUs assets is smaller than their carrying amount, impairment loss should be recognized to reduce the carrying amount of the assets. First, the carrying amount of the goodwill allocated to the CGU or group of CGUs shall be reduced. Then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the CGU or group of CGUs. Recognized impairment loss for goodwill should not be reversed.

Impairment loss (reversal) is classified as non-operating losses (income).

(13) Guaranteed depository insurance payment

According to Article 141 of the R.O.C. Insurance Act (the "Insurance Act"), an amount equal to 15% of the Company's capital stock must be deposited in the form of a bond with the Central Bank of China (the "Central Bank") as the "Guaranteed Depository Insurance".

(14) Reserve for liabilities

Business reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." Furthermore, they have been validated by the certified actuarial professionals approved by Financial Supervisory Commission. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

Moreover, an insurance contract with discretionary participation feature is classified as liability.

A. Unearned premium reserve:

For the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the amount of reserve required is based upon the risk calculation.

B. Reserve for claims:

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon a based that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited by the following methods:

a. Health or life insurance with a policy period within 1 year: Before December 31, 2009, 1 percent of earned premium by each type of insurance is reserved and deposited. At the beginning of January 2010, the dollar amount of indemnity reserve by each type of insurance is calculated and deposited based upon the past indemnity experiences and expenses occurred and in accordance with the actuarial principles.

b. Injury insurance: The dollar amount of reserve required and deposited is based upon the past experiences and expenses occurred and in accordance with the actuarial principle.

C. Reserve for life insurance liabilities:

Based upon the life table and projected interest rates in the manual provided by the authority for each type of insurance, the dollar amount of life insurance reserve is calculated and deposited according to the calculation method listing on the section 12 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and the manual published by each authority of insurance products.

Starting from policy year of 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the authorities, the downward adjustments of bonus due to the offset between mortality saving (loss) and gain (loss) from difference of interest rate should be recognized and recorded as the increase of reserve for long-term valid contract.

From January 1, 2012, insurance company should reserve the amount of special reserve for major incidents which is recovered in accordance with the section 19 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" as reserve for life insurance liabilities.

D. Special reserve:

a. For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 1 year, the special reserve is classified into 2 categories, “Special Reserves for Major Incidents” and “Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

(A) Special reserves for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of NT$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. Effected on January 1, 2011, the recovery of special reserves for major incidents can be charged against the special reserve for life insurance proceeds if sufficient. If the recovery amount exceeds the balance of the special reserve for life insurance proceeds, according to SFAS No. 22, the post-tax excess amount can be placed in the special reserve under stock holder’s equity.

(B) Special reserves for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15 percent of this difference should be reserved in special reserve for fluctuation of risks.

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30 percent of self-retention earned premium, the exceeded amount will be recalled and recognized as profit in current period. Since January of 2011, the amounts of written-down and recallable can be recognized and recorded in special reserve for major incidents under liability. However, these amounts are able to be recognized and recorded in special reserve for major incidents under equity in accordance with SFAS No. 22 if the amounts reserved under liability are unrecoverable.

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in special reserve under equity since January of 2011 according to SFAS No. 22.

In addition, the full amount of special reserves for fluctuation of risks in liability should be recognized and recorded in special reserve next year after approved by shareholders; it should not be used for other purposes and distributed if not been approved by the authority.

b. The Company sells participating life insurance policy. According to the “Rule Governing application of revenues and expenses related to participating / non-participating policy”, the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.

E. Premium deficiency reserve：

For the contracts over 1 year of life insurance, health insurance, or annuities contracts commencing on January 1, 2001, the following rules applied: If the written premiums are lower than those of providing policy reserves, the special premium deficiency reserve will be set aside based on the premium deficiencies.

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules applied: If the probable indemnities and expenses are greater than the aggregate of unearned premium serves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

F. Liability adequacy reserve：

This is the reserve that is set aside based on the adequacy test of liability required by SFAS No.40.

G. Reserve for insurance contract with feature of financial instruments

Reserve for non-separate account insurance product that is also classified as financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

H. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is NT$4,511,406 (US$154,025) thousands which was appropriated in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and "Direction for foreign exchange volatility reserve by Life Insurance Enterprises". As of September 30, 2012, the amount set aside was NT$4,286,477 (US$146,346) thousands.

I. Liability adequacy test

Liability adequacy test is base on integrated insurance contract and related regulations following ASP No. 40 - Contract classification and liability adequacy test. This test compares reserve for insurance contract net with deferred acquisition cost and related intangible assets and anticipated present value of insurance contract cash flow on balance sheet date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

(15) Insurance premium income and expenses

For the company's insurance contract and financial instruments with discretionary participation features, the initial and renewal premium is only recognized as revenue after collection and underwriting procedures finished, subsequent session of collection, respectively. In terms of the acquisition cost such as commission expenses and brokerage expenses, the relative expenses will be recognized in that period after commencement of the insurance contract.

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as "reserves for insurance contract with feature of financial instruments."

For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc. is totally recognized on the balance sheet as "separate account product liabilities."

(16) Product categories

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

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

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

Insurance contracts and insurance contracts with features of financial instruments can be further broken down into separate categories depending on whether the contracts have discretionary participation feature or not. To have discretionary participation feature means a guaranteed payment from the contract plus contractual rights to receive additional payments. These contractual rights have the following characteristics:

A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.

B. In accordance with the contract, the amount and date of payment for additional payments are at the Company's discretion.

C. In accordance with the contract, additional payments are handed out based on one of the following matters:

a. Special combination of contracts or specific type of contractual performance.
b. The Company holds return on investment from a portfolio of specific assets.
c. Profit and loss from the Company, funds, or other entities.

When embedded derivative products' economic characteristics and risks are no longer closely related to the economic characteristics and risks of the primary contracts, it should be listed separately from the primary contracts and use fair value method to determine its fair value. Also the profit or loss determined by the fair value method should be recognized in the current period. However, if the embedded derivative product meets the definition of an insurance contract or the whole contract is measured by the fair value method and the profit or loss is recognized in the current period, the Company will not need to separately list the embedded derivative product and the insurance contract.

(17) Reinsurance

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

The Company holds the right over re-insurees for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. When objective evidences demonstrate that such rights after initial recognition may lead to the Company not recovering all contractual terms of the amount due; and the above events can be recovered from reinsurers at the impacted amount, then the Company can retrieve an amount that is less than the carrying value of the aforementioned rights, and recognize impairment losses.

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

Reinsurance contracts that have their significant insurance risk transferred; if the Company can separate the individual elements and measure their savings, then the reinsurance contracts need to be recognized separately as the insurance's element and the saving's element. That is, the Company receive (or pay) the contract's value minus the insurance element, recognizing it as either financial liabilities (or assets), and not as incomes (or expenses). The financial liabilities (or assets) are recognized with the fair value method and uses the present value of future cash flow as the basis for the fair value method.

(18) Pension plan

The Company has established a pension plan for all employees since 1972. Pension plan benefits are primarily based on participants' compensation and the length of service period. The Company has established a pension fund committee in 1981 to independently administer the pension fund. Prior to the establishment of the pension fund committee, the Company had provided for 4% of the employees' salaries into the pension fund; after the establishment of the committee, 8% were provided for.

The Labor Pension Act of R.O.C. ("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 other pension mechanism under the Labor Standards Act. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis of no less than 6% of the employees' monthly wages.

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

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

(19) Foreign currency transactions

A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate as at the balance sheet date and the resulting exchange differences shall be recognized in profit or loss for the period. Non-monetary assets or liabilities denominated in foreign currencies that are measured at fair value 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 asset or liability is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary assets or liabilities denominated in foreign currencies that are measured at historical cost shall be translated using the exchange rate at the date of the initial transaction.

B. Translation of subsidiaries' financial statements in foreign currencies

Financial statements of foreign subsidiaries accounted for under the equity method are translated into NT dollars as follows: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate on the balance sheet date. Stockholders' equity items are translated at the historical rates except for the opening balance of retained earnings, which is carried forward directly from the yearend balance of previous year. Revenue and expense items are translated by the weighted-average exchange rate for the fiscal year. Translation differences arising from above conversion are reported as "cumulative conversion adjustments" under stockholders' equity.

(20) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, loss carry-forward and investment tax credits. A valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

The Company has adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with income tax credits. Accordingly, the income tax credits resulting from expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for using the flow-through method.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders' meeting in which the shareholders have resolved that the earnings shall be retained.

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

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

(21) Capital expenditure expenses

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

(22) Separate account products

The Company sells Separate account products, of which the insured pays the insurance fees according to the agreement amount less the expenses incurred by the insured. In addition, the investment distribution is approved by the insured and then transferred to specific accounts as requested by the insured. The value of these specific accounts is determined based on the market value on the applicable date, and its fair value is determined based on the accounting principles and practices generally accepted in the R.O.C..

In accordance with guidelines for the preparation of financial statements in the insurance industry, provides a dedicated book for assets and liabilities, regardless if it is produced by an insurance contract or insurance policy with features of financial instruments. All contracts are to be accounted for separately as, "separate account product assets" and "separate account product liabilities". To record related revenues and expenditures, this method is consistent with SFAS No. 40 insurance contract's definition for separate account insurance products' income and expenses, separately recognizing as "separate account product revenues" and "separate account product expenses."

(23) Employee bonus and remuneration of directors and supervisors

Pursuant to (96) Article 052 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors and supervisors are accounted for 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 presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$29.29 and NT$30.45 provided by Federal Reserve Bank of New York of September 30, 2012 and 2011 are used for the conversion.

3. Reasons and effects for changes in accounting principles

(1) This applied to SFAS No.40 "Insurance Contract" and "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises".

The Company applies SFAS No.40 "Insurance Contract" and "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" issued on December 30, 2009 according to FSC Insurance Interpretation No. 09802506492 from January 1, 2011. Based on SFAS, preparing guidance and related interpretation, the impact of the Company's insurance policies reclassification, measurement and disclosure are as following:

For investment-linked insurance products which are categorized as non-participating financial instruments, the Company should recognize the accumulated change in accounting principle of deferred surcharge revenue and deferred acquiring costs on January 1, 2011 under this change in accounting principle. The change in accounting principles does not have significant effect on net income and earnings per share for the nine-month period ended September 30, 2011.

In addition, special reserves for major incidents and special reserves for fluctuation of risks that had been set aside should be accounted for special reserve under retained earnings at the end of 2011. As of September 30, 2011, the amount set aside was NT$783,693 (US$25,737) thousands.

(2) Effected on January 1, 2011, the Company adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement". This change in accounting principles has no significant impact on net income and earnings per share for the nine-month period ended September 30, 2011.

(3) Effected on January 1, 2011, the Company adopted SFAS No.41, "Operating Segments", to present operating segment information. The new SFAS No.41 replaces SFAS No.20, "Segment Reporting".

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

4. Cash and cash equivalents

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Cash on hand	$6,139	$210	$6,692	$220
Revolving Funds	194,726	6,648	193,865	6,367
Cash in banks	94,432,379	3,224,048	88,606,084	2,909,888
Time deposits	284,276,748	9,705,591	256,221,634	8,414,503
Cash equivalents	27,081,514	924,599	16,215,711	532,536
Total	$405,991,506	$13,861,096	$361,243,986	$11,863,514

As of September 30, 2012 and 2011, the amounts of time deposits with maturities beyond one year were NT$16,460,000 (US$561,967) thousands and NT$0 (US$0) thousands, respectively.

The cash equivalent usually includes commercial paper and repurchase agreement with maturity shorter than three months.

5. Financial assets at fair value through profit or loss

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Listed stocks	$12,093,892	$412,902	$12,169,660	$399,660
Overseas stocks	-	-	325,923	10,704
Beneficiary certificates	24,566,039	838,718	12,724,519	417,882
Exchange traded funds	120,712	4,121	2,092,914	68,733
Overseas bonds	97,978	3,345	257,207	8,447
Corporate bonds	869,143	29,674	2,664,083	87,490
Government bonds	1,572,423	53,685	1,572,423	51,640
Derivative financial instruments	-	-	252,715	8,299
Structured time deposits	16,600,000	566,746	11,000,000	361,248
Subtotal	55,920,187	1,909,191	43,059,444	1,414,103
Add: Adjustment of valuation	12,754,567	435,458	11,600,639	380,973
Total	$68,674,754	$2,344,649	$54,660,083	$1,795,076

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

6. Available-for-sale financial assets

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Listed stocks	$211,235,398	$7,211,861	$222,309,313	$7,300,799
Overseas stocks	72,278,628	2,467,690	48,212,184	1,583,323
Beneficiary certificates	74,495,661	2,543,382	68,627,950	2,253,791
Collateralized loans obligation and collateralized bonds obligation	7,137,581	243,687	894,004	29,360
Exchange traded funds	7,184,176	245,277	7,133,821	234,280
Real estate investment trust	7,866,340	268,567	8,715,077	286,209
Financial debentures	196,758,682	6,717,606	176,735,644	5,804,126
Corporate bonds	52,647,276	1,797,449	37,844,662	1,242,846
Government bonds	198,986,316	6,793,660	32,339,103	1,062,040
Overseas bonds	359,681,853	12,280,022	96,222,861	3,160,028
Subtotal	1,188,271,911	40,569,201	699,034,619	22,956,802
Add (less): Adjustment of valuation	34,671,080	1,183,717	(36,666,364)	(1,204,150)
Less: Accumulated impairment	(735,000)	(25,094)	(735,000)	(24,138)
Less: Securities serving as deposits paid-bonds	(9,557,808)	(326,316)	-	-
Total	$1,212,650,183	$41,401,508	$661,633,255	$21,728,514

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with collateralized loans obligation held by the Company. As of September 30, 2012 and 2011 the Company recognized impairment losses amounting to NT$735,000 (US$25,094) thousands and NT$735,000 (US$24,138) thousands, respectively. Refer to Note 11 for reclassification of held-to-maturity financial assets information.

7. Derivative financial assets for hedging

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	1,365,092	46,606	2,073,728	68,103
Total	$1,365,092	$46,606	$2,073,728	$68,103

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

8. Financial assets carried at cost

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$6,765,565	$230,985	$8,144,985	$267,487
Beneficiary certificates	4,319,782	147,483	2,324,878	76,351
Subtotal	11,085,347	378,468	10,469,863	343,838
Less: Accumulated impairment	(894,058)	(30,524)	(975,337)	(32,031)
Total	$10,191,289	$347,944	$9,494,526	$311,807

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. As of September 30, 2012 and 2011 the Company recognized impairment losses amounting to NT$894,058 (US$30,524) thousands and NT$975,337 (US$32,031) thousands, respectively.

9. Investments under the equity method

(1) Investments under the equity method are as follows:

	September 30,			
	2012		2011	
Investee	NT$	US$	NT$	US$
WK Technology Fund VI Co., Ltd.	$293,049	$10,005	$334,463	$10,984
Vista Technology Venture Capital Corp.	16,909	577	28,531	937
Omnitek Venture Capital Corp.	38,068	1,300	62,314	2,046
Wa Tech Venture Capital Co., Ltd.	-	-	41,623	1,367
IBT Venture Capital Corp.	56,516	1,930	77,733	2,553
Cathay Insurance (Bermuda) Co., Ltd.	111,318	3,801	127,227	4,178
Symphox Information Co., Ltd.	336,291	11,481	339,901	11,163
Cathay Securities Investment Consulting Co., Ltd.	155,361	5,304	151,278	4,968
Cathay Life Insurance Ltd. (China)	911,948	31,135	989,403	32,493
Cathay Life Insurance (Vietnam) Co., Ltd.	1,392,076	47,527	1,421,458	46,682
Cathay Insurance Company Limited. (China)	421,270	14,383	652,832	21,439
Lin Yuan (Shanghai) Real Estate Co., Ltd.	3,773,774	128,842	-	-
Total	$7,506,580	$256,285	$4,226,763	$138,810

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

To expand investments in real estate in China, the Company established a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. which has been authorized by the Investment Commission of the Ministry of Economic Affairs (MOEAIC). Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person. Refer to Note 40 for detail information.

Cathay Securities Investment Trust Co., Ltd., an investee of the Company, was sold in accordance with resolution of the Board of Directors' meeting and became a subsidiary of Cathay Financial Holding Co., Ltd. with 100% ownership.

As of June 24, 2011, the Company has disposed all of its equity investment in Cathay Securities Investment Trust Co., Ltd. to Cathay Financial Holding Co., Ltd..

The disinvestment of investments under the equity method amounting to NT$30,351 (US$1,036) thousands, NT$31,362 (US$1,071) thousands and NT$1,162 (US$40) thousands for November 19, 2010, November 16, 2011 and July 27, 2012, respectively, and agreement of dissolution on July 1, 2010 were resolved by Wa Tech Venture Capital Co., Ltd.'s stockholders' meeting on June 23, 2010.

(2) Changes in investments under the equity method are summarized below:

	For the nine months ended September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Balance as of January 1	$4,016,883	$137,141	$5,067,119	$166,408
Add (less) :				
Losses on equity investments	(146,044)	(4,986)	(124,645)	(4,093)
Cumulative conversion adjustments	(77,531)	(2,647)	111,759	3,670
Unrealized gains (losses) on financial instruments	77,009	2,629	(225,916)	(7,419)
Cash dividends	(90,313)	(3,083)	(114,092)	(3,747)
Disinvestment of investments	(47,198)	(1,611)	(13,976)	(459)
Disposal of investments	-	-	(473,486)	(15,550)
Increase in investments	3,773,774	128,842	-	-
Balance as of September 30	$7,506,580	$256,285	$4,226,763	$138,810

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

(3) The recognized equity investment gains (losses) for the nine months ended September 30, 2012 and 2011 are listed below:

	For the nine months ended September 30,			
	2012		2011	
Investee	NT$	US$	NT$	US$
WK Technology Fund VI Co., Ltd.	$(24,774)	$(846)	$(1,515)	$(50)
Vista Technology Venture Capital Corp.	67	2	(84)	(3)
Omnitek Venture Capital Corp.	9,601	328	(1,880)	(62)
Wa Tech Venture Capital Co., Ltd.	-	-	(5,245)	(172)
IBT Venture Capital Corp.	145	5	3,223	106
Cathay Insurance (Bermuda) Co., Ltd.	(11,606)	(396)	8,330	274
Symphox Information Co., Ltd.	22,242	759	29,868	981
Cathay Securities Investment Trust Co., Ltd.	-	-	72,280	2,374
Cathay Securities Investment Consulting Co., Ltd.	47,513	1,622	49,437	1,624
Cathay Life Insurance Ltd. (China)	10,787	368	(154,260)	(5,066)
Cathay Life Insurance (Vietnam) Co., Ltd.	(5,324)	(181)	(40,732)	(1,338)
Cathay Insurance Company Limited. (China)	(194,695)	(6,647)	(84,067)	(2,761)
Total	$(146,044)	$(4,986)	$(124,645)	$(4,093)

A. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the nine months ended September 30, 2012, except for WK Technology Fund VI Co., Ltd., Vista Technology Venture Capital Corp., Omnitek venture Capital Corp. and IBT Venture Capital Corp. were recognized based on unreviewed financial statements. Unqualified review reports were issued for all above investee companies.

B. The equity investment gains (losses) were recognized based on investees' reviewed financial statements for the nine months ended September 30, 2011, except for WK Technology Fund VI Co., Ltd., Vista Technology Venture Capital Corp., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. were recognized based on unreviewed financial statements. Unqualified review reports were issued for all above investee companies.

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

10. Investments in debt securities with no active market

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$7,531,287	$257,128	$1,108,000	$36,387
Corporate bonds	13,500,000	460,908	15,000,000	492,611
Financial debentures	3,500,000	119,495	-	-
Overseas bonds	717,901,319	24,510,117	477,994,023	15,697,669
Subtotal	742,432,606	25,347,648	494,102,023	16,226,667
Less: Accumulated impairment	(381,446)	(13,023)	(396,578)	(13,024)
Total	$742,051,160	$25,334,625	$493,705,445	$16,213,643

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company. As of September 30, 2012 and 2011, the Company recognized impairment losses amounting to NT$381,446 (US$13,023) thousands and NT$396,578 (US$13,024) thousands, respectively.

11. Held-to-maturity financial assets

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Corporate bonds	$-	$-	$11,136,573	$365,733
Government bonds	-	-	135,787,282	4,459,353
Financial debentures	-	-	21,907,894	719,471
Collateralized loans obligation and collateralized bonds obligation	-	-	7,071,928	232,247
Overseas bonds	-	-	423,800,364	13,917,910
Subtotal	-	-	599,704,041	19,694,714
Less: Securities serving as deposits paid - bonds	-	-	(9,080,741)	(298,218)
Total	$-	$-	$590,623,300	$19,396,496

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

In response to the increase in the financial market fluctuation and downgrade of the sovereign rating in the recent days, the requirement for investment operating flexibility is increased and it leads to the relevant investment exposures need to be adjusted for a quick response to the market and credit outlook changes. Nevertheless, the investment intention for held-to-maturity financial assets has been changed. In accordance with the R.O.C SFAS No.34 "Financial Instruments: Recognition and Measurement," held-to-maturity financial assets NT$590,598,621 (US$20,163,831) thousands are reclassified to available–for-sale financial assets measured at fair value on December 31, 2011.

12. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT$7,865,450 (US$268,537) thousands and NT$8,764,011 (US$287,817) thousands as of September 30, 2012 and 2011, respectively. The details of structured notes are listed below:

	September 30, 2012					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$97,978	$3,345	$26,125	$892	$124,103	$4,237
Available-for-sale financial assets	7,482,210	255,453	259,137	8,847	7,741,347	264,300
Total	$7,580,188	$258,798	$285,262	$9,739	$7,865,450	$268,537

	September 30, 2011					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$257,207	$8,447	$58,800	$1,931	$316,007	$10,378
Held-to-maturity financial assets	8,389,063	275,503	58,941	1,936	8,448,004	277,439
Total	$8,646,270	$283,950	$117,741	$3,867	$8,764,011	$287,817

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

13. Investments in real estate

	September 30, 2012									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$163,165,515	$5,570,690	$4,329	$148	$(23,344,645)	$(797,017)	$(140,701)	$(4,804)	$139,684,498	$4,769,017
Construction	6,576,431	224,528	-	-	-	-	-	-	6,576,431	224,528
Prepayments for buildings and land	9,009,189	307,586	-	-	-	-	-	-	9,009,189	307,586
Total	$178,751,135	$6,102,804	$4,329	$148	$(23,344,645)	$(797,017)	$(140,701)	$(4,804)	$155,270,118	$5,301,131

	September 30, 2011									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$147,832,736	$4,854,934	$4,329	$142	$(21,912,497)	$(719,622)	$(140,701)	$(4,621)	$125,783,867	$4,130,833
Construction	4,921,524	161,626	-	-	-	-	-	-	4,921,524	161,626
Prepayments for buildings and land	20,145	671	-	-	-	-	-	-	20,415	671
Total	$152,774,675	$5,017,231	$4,329	$142	$(21,912,497)	$(719,622)	$(140,701)	$(4,621)	$130,725,806	$4,293,130

(1) The real estate investments are held mainly for lease business.

(2) All the lease agreements of the Company's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.

(3) Rents from real estate investment are received annually, semi-annually, quarterly, monthly or in lump sum.

(4) As of September 30, 2012 and 2011, no investments in real estate were pledged as collateral.

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

14. Loans

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Policy loans	$176,250,758	$6,017,438	$181,485,870	$5,960,127
Automatic premium loans	6,084,222	207,724	6,517,892	214,052
Secured loans	317,492,922	10,839,635	297,315,213	9,764,047
Total	$499,827,902	$17,064,797	$485,318,975	$15,938,226

(1) Policy loans were secured by policies issued by the Company.

(2) Policyholder may state on the application form or issue a written statement prior within grace period for premium payment to request the insurance enterprise to automatically deduct the due premiums and interest of the premium loan (as well as the principal and interest of the policy loan, if applicable) from the policyholder's policy value reserve after the second installment becomes overdue in order to remain the insurance policy to be constantly effective. Policyholder may also inform the enterprise in written to stop the automatic premium loan option prior to the next due date of premium payment.

(3) Secured loans

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Secured loans	$315,678,482	$10,777,688	$294,299,940	$9,665,023
Secured loans - related parties	3,628,509	123,882	3,814,631	125,276
Less: Allowance for bad debts	(1,986,303)	(67,815)	(1,119,523)	(36,766)
Subtotal	317,320,688	10,833,755	296,995,048	9,753,533
Overdue receivables	594,895	20,310	396,923	13,035
Less: Allowance for bad debts	(422,661)	(14,430)	(76,758)	(2,521)
Subtotal	172,234	5,880	320,165	10,514
Total	$317,492,922	$10,839,635	$297,315,213	$9,764,047

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

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

15. Property and equipment

September 30, 2012

	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$10,894,899	$371,966	$620	$21	$-	$-	$(67,146)	$(2,292)	$10,828,373	$369,695
Buildings and construction	12,711,619	433,992	-	-	(5,084,434)	(173,589)	(73,266)	(2,502)	7,553,919	257,901
Computer equipment	2,201,312	75,156	-	-	(1,954,520)	(66,730)	-	-	246,792	8,426
Communication and transportation equipment	14,648	500	-	-	(8,978)	(307)	-	-	5,670	193
Other equipment	3,227,396	110,188	-	-	(2,809,075)	(95,906)	-	-	418,321	14,282
Leased assets	275,652	9,411	-	-	(11,485)	(392)	-	-	264,167	9,019
Subtotal	29,325,526	1,001,213	620	21	(9,868,492)	(336,924)	(140,412)	(4,794)	19,317,242	659,516
Construction in progress and prepayment for real estate equipment	96,819	3,306	-	-	-	-	-	-	96,819	3,306
Total	$29,422,345	$1,004,519	$620	$21	$(9,868,492)	$(336,924)	$(140,412)	$(4,794)	$19,414,061	$662,822

September 30, 2011

	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$5,196,572	$170,659	$620	$20	$-	$-	$(67,146)	$(2,205)	$5,130,046	$168,474
Buildings and construction	10,956,356	359,815	-	-	(4,366,373)	(143,395)	(73,266)	(2,406)	6,516,717	214,014
Computer equipment	2,195,277	72,094	-	-	(1,916,120)	(62,927)	-	-	279,157	9,167
Communication and transportation equipment	9,658	317	-	-	(9,658)	(317)	-	-	-	-
Other equipment	3,163,011	103,876	-	-	(2,685,383)	(88,190)	-	-	477,628	15,686
Subtotal	21,520,874	706,761	620	20	(8,977,534)	(294,829)	(140,412)	(4,611)	12,403,548	407,341
Construction in progress and prepayment for real estate equipment	19,077	627	-	-	-	-	-	-	19,077	627
Total	$21,539,951	$707,388	$620	$20	$(8,977,534)	$(294,829)	$(140,412)	$(4,611)	$12,422,625	$407,968

No properties or equipment was pledged as collaterals as of September 30, 2012 and 2011.

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

16. Computer software cost

	January 1, 2012		Increase		Decrease		September 30, 2012	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,438,151	$49,101	$19,069	$651	$(339)	$(12)	$1,456,881	$49,740
Amortized and impairment:								
Amortized	(1,170,764)	(39,971)	(50,308)	(1,718)	-	-	(1,221,072)	(41,689)
Book value	$267,387	$9,130	$(31,239)	$(1,067)	$(339)	$(12)	$235,809	$8,051

	January 1, 2011		Increase		Decrease		September 30, 2011	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,371,621	$45,045	$32,567	$1,070	$-	$-	$1,404,188	$46,115
Amortized and impairment:								
Amortized	(984,701)	(32,338)	(94,075)	(3,090)	-	-	(1,078,776)	(35,428)
Book value	$386,920	$12,707	$(61,508)	$(2,020)	$-	$-	$325,412	$10,687

17. Financial liabilities at fair value through profit or loss

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	1,687,225	57,604	44,728,204	1,468,907
Total	$1,687,225	$57,604	$44,728,204	$1,468,907

18. Preferred stock liabilities

(1) In accordance with the resolution of the Board of Directors' meeting on November 6, 2008, the Company issued 300,000 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 November 18, 2008.

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

A. Issuance period covers from December 25, 2008, the issue date, to December 25, 2015, seven years in total.

B. Dividend yield is 3.50% per year based on the actual issue price of NT$50 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 Act. 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.

(2) In accordance with the resolution of the Board of Directors' meeting on October 29, 2009, the Company issued 200,000 thousand shares of Class B 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 December 14, 2009.

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

A. Issuance period covers from December 16, 2009, the issue date, to December 16, 2016, seven years in total.

B. Dividend yield is 2.90% per year based on the actual issue price of NT$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A 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 Act. 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.

(3) In accordance with the resolution of the Board of Directors' meeting on October 7, 2011, the Company issued 125,000 thousand shares of Class C 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 C 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$40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B 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 Act. 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.

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

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.

19. Insurance contract and Reserve for insurance contract with discretionary participation feature of financial instruments

The details of insurance contract and financial instruments with discretionary participation feature are summarized below:

(1) Reserve for life insurance liabilities：

	September 30, 2012 NT$			September 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$2,491,984,798	$44,767,606	$2,536,752,404	$2,207,479,720	$43,800,717	$2,251,280,437
Injury insurance	7,807,817	-	7,807,817	7,862,800	-	7,862,800
Health insurance	257,677,467	-	257,677,467	218,469,523	-	218,469,523
Annuity insurance	1,355,427	126,034,356	127,389,783	1,500,734	152,801,280	154,302,014
Investment-linked insurance	1,023,872	-	1,023,872	1,329,026	-	1,329,026
Recover from major incident reserve	47,469	-	47,469	-	-	-
Total	$2,759,896,850	$170,801,962	$2,930,689,812	$2,436,641,803	$196,601,997	$2,633,243,800

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

	September 30, 2012			September 30, 2011		
	US$			US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$85,079,713	$1,528,426	$86,608,139	$72,495,229	$1,438,447	$73,933,676
Injury insurance	266,570	-	266,570	258,220	-	258,220
Health insurance	8,797,455	-	8,797,455	7,174,697	-	7,174,697
Annuity insurance	46,276	4,302,983	4,349,259	49,285	5,018,105	5,067,390
Investment-linked insurance	34,956	-	34,956	43,646	-	43,646
Recover from major incident reserve	1,621	-	1,621	-	-	-
Total	$94,226,591	$5,831,409	$100,058,000	$80,021,077	$6,456,552	$86,477,629

Reserve for life insurance liabilities is summarized below:

	For the nine months ended September 30, 2012			For the nine months ended September 30, 2011		
	NT$			NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,501,123,752	$193,632,148	$2,694,755,900	$2,254,981,751	$241,995,513	$2,496,977,264
Reserve	360,091,700	773,556	360,865,256	294,617,774	7,574,311	302,192,085
Recover	(97,200,619)	(23,591,552)	(120,792,171)	(116,741,892)	(52,954,377)	(169,696,269)
(Gains) losses on foreign exchange	(4,117,983)	(12,190)	(4,130,173)	3,784,170	(13,450)	3,770,720
Ending balance	$2,759,896,850	$170,801,962	$2,930,698,812	$2,436,641,803	$196,601,997	$2,633,243,800

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

	For the nine months ended September 30, 2012 US$			For the nine months ended September 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$85,391,729	$6,610,862	$92,002,591	$74,055,230	$7,947,307	$82,002,537
Reserve	12,294,015	26,410	12,320,425	9,675,460	248,746	9,924,206
Recover	(3,318,560)	(805,447)	(4,124,007)	(3,833,888)	(1,739,060)	(5,572,948)
(Gains) losses on foreign exchange	(140,593)	(416)	(141,009)	124,275	(441)	123,834
Ending balance	$94,226,591	$5,831,409	$100,058,000	$80,021,077	$6,456,552	$86,477,629

(2) Unearned premium reserve：

	September 30, 2012 NT$			September 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$256,348	$2	$256,350	$193,292	$5	$193,297
Individual injury insurance	4,419,759	-	4,419,759	4,250,841	-	4,250,841
Individual health insurance	5,739,354	-	5,739,354	5,331,908	-	5,331,908
Group insurance	746,941	-	746,941	1,024,157	-	1,024,157
Investment-linked insurance	113,228	-	113,228	120,372	-	120,372
Total	11,275,630	2	11,275,632	10,920,570	5	10,920,575
Less ceded unearned premium reserve:						
Individual life insurance	3,745,639	-	3,745,639	2,339,819	-	2,339,819
Individual injury insurance	4,593,414	-	4,593,414	4,703,906	-	4,703,906
Group insurance	574	-	574	864	-	864
Investment-linked insurance	-	-	-	1,380,442	-	1,380,442
Total	8,339,627	-	8,339,627	8,425,031	-	8,425,031
Net	$2,936,003	$2	$2,936,005	$2,495,539	$5	$2,495,544

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

	September 30, 2012 US$			September 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$8,752	$-	$8,752	$6,348	$-	$6,348
Individual injury insurance	150,896	-	150,896	139,601	-	139,601
Individual health insurance	195,949	-	195,949	175,104	-	175,104
Group insurance	25,502	-	25,502	33,634	-	33,634
Investment-linked insurance	3,866	-	3,866	3,953	-	3,953
Total	384,965	-	384,965	358,640	-	358,640
Less ceded unearned premium reserve:						
Individual life insurance	127,881	-	127,881	76,841	-	76,841
Individual injury insurance	156,825	-	156,825	154,480	-	154,480
Group insurance	20	-	20	28	-	28
Investment-linked insurance	-	-	-	45,335	-	45,335
Total	284,726	-	284,726	276,684	-	276,684
Net	$100,239	$-	$100,239	$81,956	$-	$81,956

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

Unearned premium reserve is summarized below:

	For the nine months ended September 30, 2012			For the nine months ended September 30, 2011		
	NT$			NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$12,017,977	$4	$12,017,981	$11,743,204	$2	$11,743,206
Reserve	11,275,630	2	11,275,632	10,920,570	5	10,920,575
Recover	(12,017,977)	(4)	(12,017,981)	(11,743,204)	(2)	(11,743,206)
Ending balance	11,275,630	2	11,275,632	10,920,570	5	10,920,575
Less ceded unearned premium reserve:						
Beginning balance-Net	8,610,317	-	8,610,317	6,263,909	-	6,263,909
Increase	-	-	-	2,191,939	-	2,191,939
Decrease	(270,690)	-	(270,690)	(30,817)	-	(30,817)
Total	8,339,627	-	8,339,627	8,425,031	-	8,425,031
Ending balance-Net	$2,936,003	$2	$2,936,005	$2,495,539	$5	$2,495,544

	For the nine months ended September 30, 2012			For the nine months ended September 30, 2011		
	US$			US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$410,310	$-	$410,310	$385,656	$-	$385,656
Reserve	384,965	-	384,965	358,640	-	358,640
Recover	(410,310)	-	(410,310)	(385,656)	-	(385,656)
Ending balance	384,965	-	384,965	358,640	-	358,640
Less ceded unearned premium reserve:						
Beginning balance-Net	293,968	-	293,968	205,711	-	205,711
Increase	-	-	-	71,985	-	71,985
Decrease	(9,242)	-	(9,242)	(1,012)	-	(1,012)
Total	284,726	-	284,726	276,684	-	276,684
Ending balance-Net	$100,239	$-	$100,239	$81,956	$-	$81,956

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

(3) Reserve for claims：

	September 30, 2012 NT$			September 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
－Reported but not paid claim	$158,934	$2,459	$161,393	$126,078	$214	$126,292
－Unreported claim	45,709	-	45,709	25,669	-	25,669
Individual injury insurance						
－Reported but not paid claim	162,831	-	162,831	186,808	-	186,808
－Unreported claim	986,644	-	986,644	626,360	-	626,360
Individual health insurance						
－Reported but not paid claim	157,925	-	157,925	126,972	-	126,972
－Unreported claim	1,518,442	-	1,518,442	1,189,540	-	1,189,540
Group insurance						
－Reported but not paid claim	42,841	-	42,841	17,573	-	17,573
－Unreported claim	1,249,288	-	1,249,288	1,217,056	-	1,217,056
Investment-linked insurance						
－Reported but not paid claim	15,437	-	15,437	23,971	-	23,971
Total	4,338,051	2,459	4,340,510	3,540,027	214	3,540,241
Less ceded reserve for claims:						
Individual injury insurance	761,246	-	761,246	593,048	-	593,048
Net	$3,576,805	$2,459	$3,579,264	$2,946,979	$214	$2,947,193

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

	September 30, 2012			September 30, 2011		
	US$			US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
－Reported but not paid claim	$5,426	$84	$5,510	$4,141	$7	$4,148
－Unreported claim	1,561	-	1,561	843	-	843
Individual injury insurance						
－Reported but not paid claim	5,559	-	5,559	6,135	-	6,135
－Unreported claim	33,685	-	33,685	20,570	-	20,570
Individual health insurance						
－Reported but not paid claim	5,392	-	5,392	4,170	-	4,170
－Unreported claim	51,842	-	51,842	39,065	-	39,065
Group insurance						
－Reported but not paid claim	1,463	-	1,463	577	-	577
－Unreported claim	42,652	-	42,652	39,969	-	39,969
Investment-linked insurance						
－Reported but not paid claim	527	-	527	787	-	787
Total	148,107	84	148,191	116,257	7	116,264
Less ceded reserve for claims:						
Individual injury insurance	25,990	-	25,990	19,476	-	19,476
Net	$122,117	$84	$122,201	$96,781	$7	$96,788

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

Reserve for claims is summarized below:

	For the nine months ended September 30, 2012			For the nine months ended September 30, 2011		
	NT$			NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,875,488	$3,242	$3,878,730	$3,444,087	$211	$3,444,298
Reserve	4,338,056	2,459	4,340,515	3,540,027	214	3,540,241
Recover	(3,875,488)	(3,242)	(3,878,730)	(3,444,087)	(211)	(3,444,298)
Gains on foreign exchange	(5)	-	(5)	-	-	-
Ending balance	4,338,051	2,459	4,340,510	3,540,027	214	3,540,241
Less ceded reserve for claims:						
Beginning balance-Net	549,591	-	549,591	497,707	-	497,707
Increase	211,655	-	211,655	95,341	-	95,341
Total	761,246	-	761,246	593,048	-	593,048
Net	$3,576,805	$2,459	$3,579,264	$2,946,979	$214	$2,947,193

	For the nine months ended September 30, 2012			For the nine months ended September 30, 2011		
	US$			US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$132,314	$111	$132,425	$113,106	$7	$113,113
Reserve	148,107	84	148,191	116,257	7	116,264
Recover	(132,314)	(111)	(132,425)	(113,106)	(7)	(113,113)
Gains on foreign exchange	-	-	-	-	-	-
Ending balance	148,107	84	148,191	116,257	7	116,264
Less ceded reserve for claims:						
Beginning balance-Net	18,764	-	18,764	16,345	-	16,345
Increase	7,226	-	7,226	3,131	-	3,131
Total	25,990	-	25,990	19,476	-	19,476
Net	$122,117	$84	$122,201	$96,781	$7	$96,788

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

(4) Special reserve：

	September 30, 2012 NT$				September 30, 2011 NT$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Statutory special reserve：								
Individual life insurance	$75,764	$-	$-	$75,764	$119,665	$-	$-	$119,665
Individual injury insurance	1,078,340	-	-	1,078,340	2,364,455	-	-	2,364,455
Individual health insurance	1,835,928	-	-	1,835,928	3,746,117	-	-	3,746,117
Group insurance	1,389,224	-	-	1,389,224	3,352,211	-	-	3,352,211
Participating policies dividends reserve	1,520	-	-	1,520	(203)	-	-	(203)
Dividends risk reserve	-	-	-	-	203	-	-	203
Total	$4,380,776	$-	$-	$4,380,776	$9,582,448	$-	$-	$9,582,448

	September 30, 2012 US$				September 30, 2011 US$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Statutory special reserve：								
Individual life insurance	$2,587	$-	$-	$2,587	$3,930	$-	$-	$3,930
Individual injury insurance	36,816	-	-	36,816	77,650	-	-	77,650
Individual health insurance	62,681	-	-	62,681	123,025	-	-	123,025
Group insurance	47,430	-	-	47,430	110,089	-	-	110,089
Participating policies dividends reserve	52	-	-	52	(7)	-	-	(7)
Dividends risk reserve	-	-	-	-	7	-	-	7
Total	$149,566	$-	$-	$149,566	$314,694	$-	$-	$314,694

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

Special reserve is summarized below:

	For the nine months ended September 30, 2012				For the nine months ended September 30, 2011			
	NT$				NT$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$9,023,039	$-	$-	$9,023,039	$10,556,945	$-	$-	$10,556,945
Reserves for major incidents over 15 years	(47,469)	-	-	(47,469)	(127,442)	-	-	(127,442)
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	(7,247)	-	-	(7,247)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(84,682)	-	-	(84,682)	(839,808)	-	-	(839,808)
Reserves for participating policies dividends reserve	1,615	-	-	1,615	971	-	-	971
Recovery from participating policies dividends reserve	(321)	-	-	(321)	(285)	-	-	(285)
Reserves for dividends risk reserve	-	-	-	-	(686)	-	-	(686)
Reclassify to foreign exchange volatility reserve	(4,511,406)	-	-	(4,511,406)	-	-	-	-
Ending balance	$4,380,776	$-	$-	$4,380,776	$9,582,448	$-	$-	$9,582,448

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

	For the nine months ended September 30, 2012				For the nine months ended September 30, 2011			
	US$				US$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$308,059	$-	$-	$308,059	$346,698	$-	$-	$346,698
Reserves for major incidents over 15 years	(1,621)	-	-	(1,621)	(4,185)	-	-	(4,185)
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	(238)	-	-	(238)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(2,891)	-	-	(2,891)	(27,580)	-	-	(27,580)
Reserves for participating policies dividends reserve	55	-	-	55	32	-	-	32
Recovery from participating policies dividends reserve	(11)	-	-	(11)	(10)	-	-	(10)
Reserves for dividends risk reserve	-	-	-	-	(23)	-	-	(23)
Reclassify to foreign exchange volatility reserve	(154,025)	-	-	(154,025)	-	-	-	-
Ending balance	$149,566	$-	$-	$149,566	$314,694	$-	$-	$314,694

(5) Premium deficiency reserve：

	September 30, 2012			September 30, 2011		
	NT$			NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$15,160,562	$-	$15,160,562	$12,004,481	$-	$12,004,481
Individual health insurance	686,928	-	686,928	663,615	-	663,615
Group insurance	44,213	-	44,213	55,918	-	55,918
Total	$15,891,703	$-	$15,891,703	$12,724,014	$-	$12,724,014

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

	September 30, 2012 US$			September 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$517,602	$-	$517,602	$394,236	$-	$394,236
Individual health insurance	23,453	-	23,453	21,794	-	21,794
Group insurance	1,509	-	1,509	1,836	-	1,836
Total	$542,564	$-	$542,564	$417,866	$-	$417,866

Premium deficiency reserve is summarized below:

	For the nine months ended September 30, 2012 NT$			For the nine months ended September 30, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$13,599,727	$-	$13,599,727	$10,064,101	$-	$10,064,101
Reserve	2,475,914	-	2,475,914	2,660,774	-	2,660,774
Recover	-	-	-	(201,966)	-	(201,966)
(Gains) losses on foreign exchange	(183,938)	-	(183,938)	201,105	-	201,105
Ending balance	$15,891,703	$-	$15,891,703	$12,724,014	$-	$12,724,014

	For the nine months ended September 30, 2012 US$			For the nine months ended September 30, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$464,313	$-	$464,313	$330,512	$-	$330,512
Reserve	84,531	-	84,531	87,382	-	87,382
Recover	-	-	-	(6,633)	-	(6,633)
(Gains) losses on foreign exchange	(6,280)	-	(6,280)	6,605	-	6,605
Ending balance	$542,564	$-	$542,564	$417,866	$-	$417,866

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

(6) Liability adequacy reserve

	September 30, 2012 (NT$)	September 30, 2012 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,930,698,812	$100,058,000
Unearned premium reserve	11,275,632	384,965
Premium deficiency reserve	15,891,703	542,564
Total	$2,957,866,147	$100,985,529
Book value of insurance liabilities	$2,957,866,147	$100,985,529
Estimated present value of cash flows	$2,134,485,986	$72,874,223
Balance of liability adequacy reserve	$-	$-

	September 30, 2011 (NT$)	September 30, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,633,243,800	$86,477,629
Unearned premium reserve	10,920,575	358,640
Premium deficiency reserve	12,724,014	417,866
Total	$2,656,888,389	$87,254,135
Book value of insurance liabilities	$2,656,888,389	$87,254,135
Estimated present value of cash flows	$2,335,395,488	$76,696,075
Balance of liability adequacy reserve	$-	$-

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

Note 1： Shown by liability adequacy test range (integrated contract).

Note 2： Reserve for claims and special reserve are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date (September 30, 2012 and 2011, respectively) and therefore not included in the test.

Note 3： There are no instances of merge or transfer of insurance contract for the Company. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Liability adequacy testing methodology are listed as follows：

	September 30, 2012
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies：Include insurance contracts and financial instruments with discretionary participation feature as of September 30, 2012. (2) Discount rate：Under assets allocation plan of current semi-annual report, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with neutral assumption for discount rates after 30 years.

	September 30, 2011
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies：Include insurance contracts and financial instruments with discretionary participation feature as of September 30, 2011. (2) Discount rate：Under assets allocation plan of current semi-annual report, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2010, with neutral assumption for discount rates after 30 years.

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

(7) Reserve for insurance contract with feature of financial instruments：

The Company issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of September 30, 2012 and 2011, reserve for insurance contract with feature of financial instruments is summarized below:

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Life insurance	$57,412,318	$1,960,134	$60,829,814	$1,997,695

	For the nine months ended September 30,2012 NT$	For the nine months ended September 30,2011 NT$
Beginning balance	$60,624,750	$55,083,797
Premiums (returned) received	(5,029)	6,758,067
Insurance claim payments	(3,930,141)	(1,802,498)
Net provision of statutory reserve	722,738	790,448
Ending balance	$57,412,318	$60,829,814

	For the nine months ended September 30,2012 US$	For the nine months ended September 30,2011 US$
Beginning balance	$2,069,811	$1,808,991
Premiums (returned) received	(172)	221,940
Insurance claim payments	(134,180)	(59,195)
Net provision of statutory reserve	24,675	25,959
Ending balance	$1,960,134	$1,997,695

20. Common stock

As of September 30, 2012 and 2011, the total authorized thousand shares were 5,306,527 at par value of NT$10 each.

21. Retained earnings

(1) Legal reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. Prior to 2007, this legal reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act.

On April 24, 2012, the Company's Board of Directors resolved to recognize the legal reserves NT$91,176 (US$3,113) thousands.

(2) Special reserve

Pursuant to the regulations established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special claim reserves for contingency according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" are appropriated as special reserve when approved by stockholders' meeting in the following year.

For special reserves, the balance of the annual reserve net of tax needs to be recorded in special reserve under equity since January of 2011 according to SFAS No. 22.

According to article 17 of "Regulations Governing the Acquisition and Disposal of Assets by Public Companies", when the company acquires real estates from its related parties, the differences between transaction price and valuation cost should be recognized as special reserve.

In addition, the full amount of special reserves for fluctuation of risks in liability should be recognized and recorded in special reserve next year after approved by shareholders; it should not be used for other purposes and distributed if not been approved by the authority.

On April 24, 2012, the Company's Board of Directors resolved to use the special reserves to offset the cumulative deficits amounting to NT$1,120,208 (US$38,245) thousands after recognizing special reserves NT$1,484,912 (US$50,696) thousands, among which special reserves for major incidents and special reserves for fluctuation of risks NT$741,951(US$25,331) thousands had been recognized at the end of 2011 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The resolution was authorized by Financial Supervisory Commission on April 9, 2012.

(3) Undistributed retained earnings

A. According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated 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, and 2% of the aforementioned amount should be distributed as the employee bonus.

B. 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.

C. 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 losses of financial instruments expect for the special reserve since 2007.

D. The employee bonus and remuneration of directors in the Company for the nine months ended September 30, 2012 and 2011, amounting to NT$0 (US$0) thousands and NT$15,000 (US$493) thousands, respectively, was accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.

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

F. Special reserves for major incidents and special reserves for fluctuation of risks should be recorded as special reserves under equity at the end of this year. As of September 30, 2012, the reserves amounted to NT$1,129,909 (US$38,577) thousands.

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

22. Retained earned premium

	For the nine months ended September 30,2012 NT$			For the nine months ended September 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$352,873,074	$10,158,304	$363,031,378	$268,859,174	$30,380,223	$299,239,397
Reinsurance premium income	139,826	-	139,826	139,682	-	139,682
Premiums income	353,012,900	10,158,304	363,171,204	268,998,856	30,380,223	299,379,079
Less：						
Reinsurance premiums ceded	(21,332,262)	-	(21,332,262)	(15,696,698)	-	(15,696,698)
Changes in unearned premium reserve	471,657	2	471,659	2,983,755	(2)	2,983,753
Subtotal	(20,860,605)	2	(20,860,603)	(12,712,943)	(2)	(12,712,945)
Retained earned premium	$332,152,295	$10,158,306	$342,310,601	$256,285,913	$30,380,221	$286,666,134

	For the nine months ended September 30,2012 US$			For the nine months ended September 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$12,047,561	$346,818	$12,394,379	$8,829,530	$997,708	$9,827,238
Reinsurance premium income	4,774	-	4,774	4,587	-	4,587
Premiums income	12,052,335	346,818	12,399,153	8,834,117	997,708	9,831,825
Less：						
Reinsurance premiums ceded	(728,312)	-	(728,312)	(515,491)	-	(515,491)
Changes in unearned premium reserve	16,103	-	16,103	97,989	-	97,989
Subtotal	(712,209)	-	(712,209)	(417,502)	-	(417,502)
Retained earned premium	$11,340,126	$346,818	$11,686,944	$8,416,615	$997,708	$9,414,323

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

23. Retained claim payment

	For the nine months ended September 30,2012 NT$			For the nine months ended September 30,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$133,833,239	$36,538,808	$170,372,047	$122,874,041	$78,888,620	$201,762,661
Reinsurance claim payments	95,728	-	95,728	82,988	-	82,988
Insurance claim payments	133,928,967	36,538,808	170,467,775	122,957,029	78,888,620	201,845,649
Less：						
Claims recovered from reinsures	(8,616,003)	-	(8,616,003)	(6,013,143)	-	(6,013,143)
Retained claim payment	$125,312,964	$36,538,808	$161,851,772	$116,943,886	$78,888,620	$195,832,506

	For the nine months ended September 30,2012 US$			For the nine months ended September 30,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$4,569,247	$1,247,484	$5,816,731	$4,035,273	$2,590,759	$6,626,032
Reinsurance claim payments	3,268	-	3,268	2,725	-	2,725
Insurance claim payments	4,572,515	1,247,484	5,819,999	4,037,998	2,590,759	6,628,757
Less：						
Claims recovered from reinsures	(294,162)	-	(294,162)	(197,476)	-	(197,476)
Retained claim payment	$4,278,353	$1,247,484	$5,525,837	$3,840,522	$2,590,759	$6,431,281

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

24. Personnel expense、depreciation and amortizations

Item	For the nine months ended September 30, 2012 (NT$)			For the nine months ended September 30, 2012 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$9,456,003	$1,820,547	$11,276,550	$322,841	$62,156	$384,997
Labor & health insurance expenses	1,196,700	220,466	1,417,166	40,857	7,527	48,384
Pension expenses	838,207	154,422	992,629	28,618	5,272	33,890
Other expenses	1,013,176	228,875	1,242,051	34,591	7,814	42,405
Depreciation	-	1,727,503	1,727,503	-	58,979	58,979
Amortizations	-	50,308	50,308	-	1,718	1,718

Item	For the nine months ended September 30, 2011 (NT$)			For the nine months ended September 30, 2011 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$8,977,965	$1,757,716	$10,735,681	$294,843	$57,725	$352,568
Labor & health insurance expenses	1,188,099	208,179	1,396,278	39,018	6,837	45,855
Pension expenses	757,429	132,717	890,146	24,874	4,359	29,233
Other expenses	936,486	184,512	1,120,998	30,755	6,059	36,814
Depreciation	-	1,727,153	1,727,153	-	56,721	56,721
Amortizations	-	94,075	94,075	-	3,089	3,089

25. Estimated income taxes

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Total deferred tax assets	$17,392,718	$593,811	$17,181,332	$564,248
Total deferred tax liabilities	$(1,980,345)	$(67,612)	$-	$-
Allowance for deferred tax assets	$(14,027)	$(479)	$-	$-

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

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Temporary differences:				
Pension expense	$1,539,059	$52,546	$1,346,491	$44,220
Unrealized foreign exchange losses	74,512,743	2,543,965	40,867,611	1,342,122
(Gains) losses from valuation on financial assets and liabilities	(11,649,089)	(397,716)	32,499,997	1,067,323
Impairment losses	1,302,936	44,484	1,302,936	42,789
Unrealized bad debt losses	455,551	15,553	455,551	14,961
Others	22,451	767	20,215	664
Total	$66,183,651	$2,259,599	$76,492,801	$2,512,079
Loss carryforwards	$4,636,512	$158,297	$4,841,985	$159,014
Tax effect under consolidated income tax system	$(496,592)	$(16,954)	$(702,065)	$(23,056)
Investment tax credits	$21,233	$725	$37,636	$1,236

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Deferred tax assets	$17,392,718	$593,811	$17,181,332	$564,248
Allowance for deferred tax assets	(14,027)	(479)	-	-
Deferred tax assets-Net	17,378,691	593,332	17,181,332	564,248
Deferred tax liabilities	(1,980,345)	(67,612)	-	-
Net offset balance of deferred tax assets	$15,398,346	$525,720	$17,181,332	$564,248

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

(2) Income tax benefit included the following:

	For the nine months ended September 30			
	2012		2011	
	NT$	US$	NT$	US$
Tax expenses before adjusting temporary and other differences	$-	$-	$5,789,892	$190,144
Deferred income tax (benefit) expenses:				
Unrealized foreign exchange (gains) losses	(4,659,971)	(159,097)	7,838,348	257,417
Unrealized financial instruments valuation losses (gains)	4,300,854	146,837	(16,905,592)	(555,191)
Unrealized pension benefit	(27,837)	(950)	(10,623)	(349)
Loss carry forward	205,474	7,015	-	-
Allowance for deferred tax assets	14,027	479	-	-
Others	21	1	30	1
Prior year adjustment	257,913	8,805	45,461	1,493
China corporate income tax	822	28	-	-
Withholding tax for overseas investments	15,354	524	-	-
Tax effects under consolidated income tax systems	(1,605,816)	(54,825)	-	-
Total income tax benefit	$(1,499,159)	$(51,183)	$(3,242,484)	$(106,485)

(3) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal year 2006. Due to disagreements on premiums on bonds investment amortized to interest revenue, the Company has filed appeals for fiscal year of 2002 through 2006.

(4) Information related to imputation

	September 30,			
	2012		2011	
	NT$	US$	NT$	US$
Balance of imputation credit account	$5,192,682	$177,285	$3,966,115	$130,250

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

	2011	2010
Imputation credit account ratio – actual (April 23, 2012)	20.48%	-
Imputation credit account ratio – actual (April 29, 2011)	-	-(Note)

Note：The imputation credit account ratio was inapplicable due to the Company's cumulative deficits of 2010.

(5) Information related to undistributed earnings

	September 30,			
	2012		2011	
Year	NT$	US$	NT$	US$
After 1998	$2,355,647	$80,425	$2,877,682	$94,505

(6) Tax credits obtained in accordance with "Statute for Upgrading Industries" are as follows:

		Amount of deductible income tax		Remaining balance		
Regulation	Deductible items	NT$	US$	NT$	US$	Expiry Year
Statute for Upgrading Industries	Education and training	$12,478	$426	$12,478	$426	2012
Statute for Upgrading Industries	Education and training	8,755	299	8,755	299	2013
Total		$21,233	$725	$21,233	$725	

26. Earnings per share

	For the nine months ended September 30, 2012			
	Before tax		After tax	
	NT$	US$	NT$	US$
Net income (a)	$856,488	$29,242	$2,355,647	$80,425
Outstanding number of thousand shares at end of period (b)	5,306,527	5,306,527	5,306,527	5,306,527
Weighted average outstanding number of thousand shares (c)	5,306,527	5,306,527	5,306,527	5,306,527
Earnings per share (a) / (c) (dollars)				
Net income	$0.16	$0.01	$0.44	$0.02

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

	For the nine months ended September 30, 2011			
	Before tax		After tax	
	NT$	US$	NT$	US$
Net (loss) income (a)	$(364,802)	$(11,980)	$2,877,682	$94,505
Outstanding number of thousand shares at end of period (b)	5,306,527	5,306,527	5,306,527	5,306,527
Weighted average outstanding number of thousand shares (c)	5,306,527	5,306,527	5,306,527	5,306,527
Earnings per share (a) / (c) (dollars)				
Net (loss) income	$(0.07)	$-	$0.54	$0.02

27. Information of insurance contract

Risk management objectives, policies, procedures and methods:

(1) Framework for risk management, organization structure and responsibilities

A. Board of directors

a. The board of directors should establish appropriate risk management function and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.

b. The board of directors and senior management should promote and execute risk management policies and standards. Furthermore, they should ensure the policies and standards are in line with the Company’s operational objective and operational strategy.

c. The board of directors should acknowledge the risk of operation, ensure the effectiveness of risk management and assume the ultimate responsibility for risk management.

d. The board of directors should delegate authority to risk management department to deal with violation of risk quotas by other departments.

B. Risk management committee

a. The committee should draft the risk management policies, framework and organizational function to establish quantitative and qualitative risk management standards. The committee is also responsible to report the execution results to the board periodically and make necessary improvement suggestions.

b. The committee should execute the risk management decisions set by the board of directors and evaluate the development, implementation and results of execution of the risk management function.

c. The committee should assist and monitor the risk management activities.

d. The committee should adjust the risk category, risk quota allocation and risk taking according to the change of the big environment.

e. The committee should enhance cross-department interaction and communication.

C. Risk management department

a. The department is responsible for monitoring, measuring and evaluating daily risks. The department should execute its authority independently from the operating department.

b. The department should perform following function based on activity categories:

① Assist drafting and execute the risk management policies set by the board of directors.
② Assist determines the risk quotas based on risk appetite.
③ Summarize the risk information provided by all departments. Facilitate and communicate the execution of the policies as well as the risk quotas with departments.
④ Periodically provide risk management related reports.
⑤ Periodically monitor all operating department's risk quotas and manage the exceptions attributable to exceed the risk quotas granted.
⑥ Assist the pressure test. Execute back testing if necessary.
⑦ Other risk management issues.

D. Operating departments

a. Managers of the operating departments：

① Responsible for the departments' daily risk management report and respond to issues if necessary.
② Make sure to delivery risk management information periodically to the risk management department.

b. Operating departments：

① Address and measure risks and report the pervasiveness of exposure.
② Periodically review the risk quotas. If exception happens, report the exceptions as well as the actions taken.
③ Assist to develop the risk model. Ensure the measurement of risk, the usage of the model and the assumptions made are reasonable and has been applied consistently.
④ Ensure internal control operates effectively to comply with related regulation and company's risk management policies.
⑤ Assist gathering risk management related data.

E. 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) Reporting risk or measuring the range and characteristics of the system

The Company set its risk management standards based on markets, credibility, sovereign, liquidity, operations, insurance, risks of matching between assets / liability positions and the capital adequacy. The company also periodically provides the risk management report for monitoring the Company's risks.

A. Market risk

The risk represents decrease in value of the company's financial asset due to the price fluctuation of the financial instrument market. The company applies the 95% and 99% confidence level as the benchmark to measure odd week market risk. The company also applies back testing periodically to the market risk to ensure accuracy of the model. Furthermore, the Company applies scenario analysis and stress test to evaluate the change in value of the asset groups due to significant domestic and international incidences.

B. Credit risk

This risk represents the Company's loss due to the default of debtors. The measurements that the Company uses include credit rating, concentration analysis and value at risk (VAR) under 95% confidence level. The Company also periodically applies back-testing to the credit risk to ensure accuracy of the model. Furthermore, the Company applies scenario analysis and stress test to evaluate the change in value of the asset groups due to significant domestic and international incidences.

C. Sovereign risk

This represents risks of the Company's investment positions caused by changes of the local government's politics or economy further causes price fluctuation or default that eventually results in a loss. The Company takes international credit ranking companies' ranking and other economy indexes into consideration to set the investment ceiling for specific countries. The Company review and adjust the ceiling periodically.

D. Liquidity risk

Liquidity risks include Funding liquidity risk and Market liquidity risk. Funding liquidity risk is the risk of insufficient funding to meet the Company's commitment when due. The Company uses current ratio to measure funding liquidity risk and manages to maintain the ratio below high risk. Operating departments have established funding communication system. The risk management department manages funding liquidity based on the information provided by the operating departments. Furthermore, operating departments have also built up their own cash flow analysis models and monitor the result of the analysis. They also set the annual assets allocation plan to better maintain the liquidity of funding. Market liquidity risk occurs when the market is under turmoil or lack of market depth further cause the drastic change of market price. All investment departments have evaluated the market liquidity risk based on the characteristics and intentions of current investment portfolio.

E. Operating risk

This risk occurs when there are errors caused by internal process, employee or system breakdown or external issues including legislative risks but strategic risk and reputation risks. The Company had set the standard operating procedure based all characteristics of operations meanwhile established losses reporting system to manage operating risk losses information.

F. Insurance risk

This risk occurs after collecting premium from the policy holder. The Company assumed the risk transferred from the policy holder and when the company pays the claim, due to unexpected change the Company assumed a loss. This generally happens because of the policy design, pricing risks, underwriting risks, reinsurance risks, catastrophe risks, claim risks and reserve related risks.

G. Asset and liability matching risk

The type of risks happens when the changes in value of assets and liability are not equal. The Company measures the risk by referencing capital costs, duration, cash flow management and scenario analysis.

H. Capital adequacy rate

Capital adequacy ratio is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies. The Company applies capital adequacy rate as the index of capital adequacy.

(3) Manage the process of assuming, measuring, monitoring and controlling risks to ensure proper risk classification, premium level and underwriting policies.

A. The process of assuming, measuring, monitoring and controlling risks：

a. Promulgate the Company’s risk management standards including the definition and rage of risk, management structure, risk management indexes and other risk management measures.

b. Establish methods to evaluate insurance risks

c. Periodically provide the insurance risk management report to the risk management committee for supervising insurance risks and developing insurance risk management strategies.

d. When a risk exceptional incidence occur, related departments should draft the possible solution and submit it to the risk management committee and Cathay Financial Holding's risk management committee.

B. Ensure proper risk classification and underwriting policies of premium level:

a. Underwriters should ensure clients' financial underwriting, checking insurance notification for exceptions, considering the amount insured, types of insurance, age, family members, reason for insurance, employment, etc. to confirm client's appropriateness of the amount insured and the ability to meet premium deadlines.

b. The Company has an underwriter team dealing with controversy events such as new type of contracts and change of security systems and clarifying related underwriting standards.

c. The Company has a judging team for highly insured projects to enhance its risk management and prevent adverse selection and moral hazard.

(4) Evaluation based on the enterprise taken as a whole and range of managing insurance risks

A. Evaluation of insurance risks include the following risks：

a. Product design and pricing risks: This type of risk arises from improper design of products, inappropriate policies, inappropriate pricing, referencing the wrong source of information, inconsistency and unexpected changes.

b. Underwriting risks: Unexpected losses arise from promoting business, underwriting activities and approval, other expenditure activities, etc.

c. Reinsurance risks: This type of risk arises from failing to reinsure the excess risk or reinsurer fails to fulfill its responsibility that results in loss in premium, claims or non-reimbursed expenses.

d. Catastrophe risks: This type of risk arises from accidents that cause a type or more than one type of insurance a loss which in aggregate might affect the Company's credit raking and solvency.

e. Claim risks: This type of risk arises from inappropriate operation or mistakes while handling claim.

f. Risks of insufficient reserve: This type of risk arises from insufficient reserve due to underestimate of liability. As a result, the Company fails to fulfill its anticipated responsibility.

B. Range of managing insurance risks

a. Establish Company's insurance risk management standards as the guidance of performing risk management.

b. Establish Company's insurance risk management standards including the definition and range of risks, management structure, risk management index and other risk management measures.

c. Draft action plans for matching the Company's expanding strategy and response to the changes of financial environment worldwide.

d. Establish measurement methods for insurance risks.

e. Periodically provide insurance risks management report for monitoring insurance risk and drafting insurance managing strategy.

f. Other issues related to insurance risks management.

(5) Methods to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks

The method that the Company mainly uses to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks is the reinsurance managing plan. The company estimates the risk that the Company is able to assume including characteristics of the risk, regulation issues and development technique factors all together to determine the range of reinsurance. In order to maintain safety of risk transfer and control the risk of reinsurance transactions, the Company has established reinsurer selection standards.

(6) Methods for managing assets and liabilities

A. The Company has assets and liabilities managing committee to ensure full application of the managing policy, establish management structure, integrate human capital and resources, review the strategy and practice periodically and further reduce all types of risks.

B. Responsible departments will review the measurement of the matching risks of assets and liabilities periodically. The reports will be sent to the risk management committee. Furthermore, the reports should be delivered to the risk management committee of Cathay Financial Holding annually.

C. When exceptional situation occur, related departments should hold a meeting to find possible actions plan and deliver the report to assets and liabilities managing committee, risk management committee and the risk management committee of Cathay Financial Holding.

(7) When special incidence happens, the managing, monitoring and controlling procedures relating to extra liability or commitment of contributing extra owner equity are as following:

To comply with laws and regulation, the Company is required to maintain its capital adequacy rate in a certain rage. In order to enhance the Company’s capital management and maintain its capital adequacy ratio, the Company has established a set of capital adequacy management standards as following:

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

A. Capital adequacy management

a. Periodically provide capital adequacy management reports and analysis to the financial department of Cathay Financial Holding.

b. Periodically provide the risk management committee the capital adequacy management analysis report.

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

d. Periodically review the capital adequacy rate and related control standards to fulfill the management of capital adequacy.

B. Exception management process

When the Company's capital adequacy rate exceeds the risk management standard or other exceptions occur, the Company is required to notify the risk management department and financial department of Cathay Financial Holding enclosed with capital adequacy analysis report and related planned actions reports.

28. Information of insurance risk

(1) Sensitivity of insurance risk- Insurance contracts and financial instruments with discretionary participation features:

	September 30, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,528,313	Decrease (increase) 1,268,500
Expense	×1.05 (×0.95)	Decrease (increase) 1,978,469	Decrease (increase) 1,642,130
Surrender rates	×1.05 (×0.95)	Increase (decrease) 242,238	Increase (decrease) 201,058
Investment return rate	+0.1%	Increase 2,208,555	Increase 1,833,101
Investment return rate	-0.1%	Decrease 2,210,187	Decrease 1,834,455

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

September 30, 2012
US$

	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 52,179	Decrease (increase) 43,308
Expense	×1.05 (×0.95)	Decrease (increase) 67,548	Decrease (increase) 56,065
Surrender rates	×1.05 (×0.95)	Increase (decrease) 8,270	Increase (decrease) 6,864
Investment return rate	+0.1%	Increase 75,403	Increase 62,585
Investment return rate	-0.1%	Decrease 75,459	Decrease 62,631

September 30, 2011
NT$

	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,513,214	Decrease (increase) 1,255,968
Expense	×1.05 (×0.95)	Decrease (increase) 1,794,592	Decrease (increase) 1,489,512
Surrender rates	×1.05 (×0.95)	Increase (decrease) 307,254	Increase (decrease) 255,020
Investment return rate	+0.1%	Increase 2,011,925	Increase 1,669,897
Investment return rate	−0.1%	Decrease 2,013,415	Decrease 1,671,135

September 30, 2011
US$

	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 49,695	Decrease (increase) 41,247
Expense	×1.05 (×0.95)	Decrease (increase) 58,936	Decrease (increase) 48,917
Surrender rates	×1.05 (×0.95)	Increase (decrease) 10,090	Increase (decrease) 8,375
Investment return rate	+0.1%	Increase 66,073	Increase 54,841
Investment return rate	−0.1%	Decrease 66,122	Decrease 54,881

A. Changes in income before tax listed above refer to the effects of income before tax for the nine months ended September 30, 2012 and 2011 by the assumption. Change of the stockholders' equity is assumed 17% of income tax rate has been used.

B. Increase (decrease) 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and stockholders' equity. The result of the test shows adequacy. However, if the discount rate keeps decreasing to significant degree, income before tax and stockholders' equity will probably be affected.

C. Test of sensitivity

a. Life Table/Morbidity test is measured by mortality, morbidity and the occurrence rate of injury insurance multiply 1.05 (multiply 0.95), in opposition to the change in income before tax.

b. Expenses sensitivity is measured by all expenses listed on income statement (Note 1) multiply 1.05 (multiply 0.95), in opposition to the change in income before tax.

c. Surrender rate sensitivity test is measured by surrender rate multiply 1.05 (multiply 0.95), in opposition to the change in income before tax.

d. The rate of returns sensitivity test is measured by the rate of returns (Note 2) increases (decreases) 0.1%, in opposition to income before tax.

Note 1: Expenses includes brokerage expenses, commission expenses, other operating expenses under operating costs as well as business expenses, administration expenses and staffs training expenses under operating expenses.

Note 2: The rate of returns is measured by 2 x net profits or losses on investment / (the beginning balance of usable capital + the ending balance of usable capital – net profits or losses on investment) and it needs to be annualized.

(2) Interpretation of concentration on insurance risk

The Company's insurance business is mainly from Taiwan, Republic of China. All the insurance contracts which have been signed have the similar risk of exposure, for example, the exposure of the unanticipated changes in trend (ex: mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by a specific event (ex: the simultaneous exposure of life insurance, health insurance, and accidental insurance caused by one earthquake). The Company reduces the risk of exposure not only by monitoring the status of the risk continuously, but also buying reinsurance contracts.

The Company reviews the profits and losses on compensation as a whole and the capability of assuming the risk periodically. Depending upon the feature of each risk, the company assesses the amount of coverage a company retains on that risk, also called "net line," as well as reviewed and approved by each competent authority. For the excess of net line, the company reinsures this portion of amount. At the same time, the company takes the possibility of suddenness of human and nature disasters into account periodically and estimates the reasonable maximum amount of compensation on retained risks. Depending upon the dollar amount of losses and the capability of assuming risks, the company makes the decision on whether it is necessary to adjust the insurance limits or reinsurance on disasters. Hence, the insurance risk to some extent has been spread out to reduce the potential impact on unanticipated losses.

Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.", the annual increase after-tax amount of special reserve for major accidents and special reserve for fluctuation of risks which is based upon the loss ratio of each type of insurance and used for the abnormal movement of compensation needs to be recognized and recorded in appropriated retained earnings of equity in accordance with the Statements of Financial Accounting Standards No. 22 since the beginning of 2011.

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

(3) Trend of the development on compensation

A. Direct business trend of development

	Development period (years) NT$							Expected future payment
Accident year	1	2	3	4	5	6	7	
2005Q4~2006Q3	10,895,168	13,038,655	13,121,562	13,155,156	13,175,973	13,192,137	13,203,606	-
2006Q4~2007Q3	12,374,187	14,656,331	14,786,549	14,848,145	14,877,814	14,930,922	14,942,577	11,655
2007Q4~2008Q3	12,783,636	15,205,962	15,380,662	15,435,648	15,496,566	15,529,400	15,541,308	44,742
2008Q4~2009Q3	14,093,398	16,952,010	17,187,343	17,269,392	17,313,790	17,351,904	17,365,342	95,950
2009Q4~2010Q3	13,987,020	17,033,181	17,304,931	17,369,366	17,413,463	17,449,222	17,461,980	157,049
2010Q4~2011Q3	14,706,765	18,104,960	18,309,309	18,378,333	18,425,475	18,463,028	18,476,350	371,390
2011Q4~2012Q3	14,695,125	17,609,518	17,799,755	17,861,967	17,904,531	17,936,047	17,948,798	3,253,673

Expected future payment	$3,934,459
Less：Expected reported but not paid claim	172,935
Add：Assumed reserve for incurred but not reported claim	38,559
Reserve for unreported claim	3,800,083
Add：Reported but not paid claim	540,427
Reserve claim balance	$4,340,510

	Development period (years) US$							Expected future payment
Accident year	1	2	3	4	5	6	7	
2005Q4~2006Q3	371,976	445,157	447,988	449,135	449,845	450,397	450,789	-
2006Q4~2007Q3	422,471	500,387	504,833	506,936	507,949	509,762	510,160	398
2007Q4~2008Q3	436,451	519,152	525,116	526,994	529,074	530,195	530,601	1,527
2008Q4~2009Q3	481,168	578,764	586,799	589,600	591,116	592,417	592,876	3,276
2009Q4~2010Q3	477,536	581,536	590,813	593,014	594,519	595,740	596,175	5,362
2010Q4~2011Q3	502,109	618,127	625,104	627,461	629,071	630,353	630,807	12,680
2011Q4~2012Q3	501,711	601,213	607,708	609,832	611,285	612,361	612,796	111,085

Expected future payment	$134,328
Less：Expected reported but not paid claim	5,904
Add：Assumed reserve for incurred but not reported claim	1,316
Reserve for unreported claim	129,740
Add：Reported but not paid claim	18,451
Reserve claim balance	$148,191

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

B. Retained business trend of development

	Development period (years) NT$							Expected future payment
Accident year	1	2	3	4	5	6	7	
2005Q4~2006Q3	10,986,012	13,124,049	13,224,346	13,265,112	13,281,248	13,297,086	13,309,100	-
2006Q4~2007Q3	12,453,794	14,767,000	14,904,781	14,962,743	14,992,135	15,046,254	15,058,162	11,908
2007Q4~2008Q3	12,865,035	15,316,452	15,489,229	15,544,392	15,606,626	15,640,001	15,652,165	45,539
2008Q4~2009Q3	13,683,230	16,249,367	16,454,638	16,528,138	16,569,037	16,603,748	16,615,577	87,439
2009Q4~2010Q3	12,197,035	14,611,151	14,799,181	14,848,431	14,880,657	14,904,860	14,912,157	112,976
2010Q4~2011Q3	12,826,801	15,522,464	15,671,976	15,724,948	15,759,542	15,784,879	15,792,427	269,963
2011Q4~2012Q3	12,912,578	15,346,432	15,488,451	15,536,548	15,568,078	15,588,851	15,596,525	2,683,947

Note：Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	$3,211,772
Less：Expected reported but not paid claim	172,935
Add：Reported but not paid claim	540,427
Retained reserve claim balance	$3,579,264

	Development period (years) US$							Expected future payment
Accident year	1	2	3	4	5	6	7	
2005Q4~2006Q3	375,077	448,073	451,497	452,889	453,440	453,980	454,391	-
2006Q4~2007Q3	425,189	504,165	508,869	510,848	511,852	513,699	514,106	407
2007Q4~2008Q3	439,230	522,924	528,823	530,706	532,831	533,971	534,386	1,555
2008Q4~2009Q3	467,164	554,775	561,783	564,293	565,689	566,874	567,278	2,985
2009Q4~2010Q3	416,423	498,844	505,264	506,945	508,046	508,872	509,121	3,857
2010Q4~2011Q3	437,924	529,958	535,062	536,871	538,052	538,917	539,175	9,217
2011Q4~2012Q3	440,853	523,948	528,797	530,439	531,515	532,224	532,486	91,633

Note：Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

Expected future payment	$109,654
Less：Expected reported but not paid claim	5,904
Add：Reported but not paid claim	18,451
Retained reserve claim balance	$122,201

The company records and recognizes reserve for claim for anticipated payment of reported and unreported compensations. Due to the factors of uncertainty, estimation, and judgment involved in recording and recognition, there is a high degree of complexity of reserve for claim. Any change of the estimation or judgment is treated as the change of the accounting principle and recorded and recognized as profit and loss in current year. Some claims of compensation are delayed notification. Also, the estimated unreported cases probably need to be settled by compensation. All these are involved in heavy judgment and estimation. Thus, it exists uncertainty that the estimated reserve for claim in balance sheet date will be not equal to the final settled amount of compensation. The reserve for claim recorded on the book is estimated based upon the current information obtained. However, the settled amount probably will be deviated from the original estimated amount because of the follow-up events.

The chart above has shown the development trend of the compensation. The accident year is the actual year for the occurrence of the claimed accident; The cross axle is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific accident year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount showed below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each accident year. It is possible that the circumstances and trends affecting dollar amount of recording and recognition to the reserve for claim in current year will be different from that in the future. Thus, the anticipated dollar amounts need to be paid for the settlement cases cannot be made the decision to be made from this chart.

29. Credit risk, Liquidity risk, and Market risk for insurance contracts

(1) Credit risk

This risk represents the Company's financial loss due to the default of reinsurers; therefore, may cause impairment of reinsurance assets.

Due to the limitation of the features for reinsurance market and the qualification of reinsurer under the related regulation, the insurance company in Taiwan sustains certain degree of concentration of credit risk in reinsurer. To reduce this risk, the Company chooses trading entity carefully and also reviews its credit rating periodically. Also, the Company monitors and controls the risk of reinsurance transactions properly in accordance with the Company's "Reinsurance Risk Management Plan" and "Reinsurance Entity Assessment Procedures."

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

The credit rating to the trading entities of reinsurance in the company is good and above certain level, complying with the Company's related rules and the regulations in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company; therefore, no significant credit risks exist.

(2) Liquidity risk

The chart below is the analysis (undiscounted) of insurance contracts and net cash flows on liabilities of financial instruments with discretionary participation features. The figures showed in this chart are the total insurance payments and expenses of valid insurance contracts at every payment time in the future on the balance sheet date. The actual dollar amounts paid in the future will not be the same due to the difference between the practical and anticipated experiences.

Unit : Billion

September 30, 2012 NT$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments with discretionary participation feature	(43.2)	171	9,131.9

Unit : Billion

September 30, 2012 US$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments with discretionary participation feature	(1.5)	5.8	311.8

Note: Separate account products are not included in.

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

(3) Market risk

When the company measures insurance liabilities, the discounted rate approved by the competent authority is applied. The competent authority reviews periodically the discount rate assumption which has been used for reserves. However, the discount rate assumption is not necessarily the same of the time, dollar amount, and direction with those variables (ex: yield rate) in market risk. Thus, those possible variables in market risk to the company's valid insurance contacts have slight impact on profit and loss or equity. When the competent authority changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonable possibly change on the market risk probably will have impact on the insurance contracts which are estimated on balance sheet date based upon the current obtained information and the future cash flows of financial instruments with discretionary participation features, used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonable possibly changes on current market risk, it has no or little impact on the adequacy of current recognized insurance liabilities.

30. 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:

	September 30, 2012 NT$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$405,991,506	$-	$405,991,506
Receivables	50,321,952	205,711	50,527,663
Investments	576,965,646	2,144,571,432	2,721,537,078
Reinsurance reserve assets - Net	-	9,100,873	9,100,873
Property and equipment - Net	-	19,414,061	19,414,061
Intangible assets	-	235,809	235,809
Other assets	479,315	37,503,483	37,982,798
Separate account product assets	818,158	316,349,378	317,167,536
Total assets			$3,561,957,324

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

	September 30, 2012 NT$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$26,754,400	$-	$26,754,400
Financial liabilities	1,687,225	30,000,000	31,687,225
Reserve for liabilities	-	3,028,286,228	3,028,286,228
Other liabilities	-	22,249,151	22,249,151
Separate account product liabilities	7,020,303	310,147,233	317,167,536
Total liabilities			$3,426,144,540

	September 30, 2012 US$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$13,861,096	$-	$13,861,096
Receivables	1,718,059	7,023	1,725,082
Investments	19,698,383	73,218,554	92,916,937
Reinsurance reserve assets - Net	-	310,716	310,716
Property and equipment - Net	-	662,822	662,822
Intangible assets	-	8,051	8,051
Other assets	16,365	1,280,419	1,296,784
Separate account product assets	27,933	10,800,593	10,828,526
Total assets			$121,610,014

	September 30, 2012 US$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$913,431	$-	$913,431
Financial liabilities	57,604	1,024,240	1,081,844
Reserve for liabilities	-	103,389,766	103,389,766
Other liabilities	-	759,616	759,616
Separate account product liabilities	239,682	10,588,844	10,828,526
Total liabilities			$116,973,183

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

	September 30, 2011 NT$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$361,243,986	$-	$361,243,986
Receivables	126,841,527	203,984	127,045,511
Investments	413,524,140	2,037,937,741	2,451,461,881
Reinsurance reserve assets - Net	-	9,018,079	9,018,079
Property and equipment - Net	-	12,422,625	12,422,625
Intangible assets	-	325,412	325,412
Other assets	9,150,004	29,297,769	38,447,773
Separate account product assets	299,560	287,384,185	287,683,745
Total assets			$3,287,649,012

	September 30, 2011 NT$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$98,288,672	$-	$98,288,672
Financial liabilities	44,728,204	25,000,000	69,728,204
Reserve for liabilities	-	2,730,840,892	2,730,840,892
Other liabilities	-	30,100,465	30,100,465
Separate account product liabilities	1,310,348	286,373,397	287,683,745
Total liabilities			$3,216,641,978

	September 30, 2011 US$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$11,863,514	$-	$11,863,514
Receivables	4,165,567	6,699	4,172,266
Investments	13,580,431	66,927,348	80,507,779
Reinsurance reserve assets - Net	-	296,160	296,160
Property and equipment - Net	-	407,968	407,968
Intangible assets	-	10,687	10,687
Other assets	300,493	962,160	1,262,653
Separate account product assets	9,838	9,437,904	9,447,742
Total assets			$107,968,769

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

	September 30, 2011		
	US$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$3,227,871	$-	$3,227,871
Financial liabilities	1,468,907	821,018	2,289,925
Reserve for liabilities	-	89,682,788	89,682,788
Other liabilities	-	988,521	988,521
Separate account product liabilities	43,033	9,404,709	9,447,742
Total liabilities			$105,636,847

31. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Inc.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Life Insurance Ltd. (China)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited	Subsidiary of Cathay United Bank
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Insurance Company Limited. (Vietnam)	Subsidiary of Cathay Century Insurance Co., Ltd.
Cathay Insurance Company Limited. (China)	An equity-method investee

Name	Relationship
Cathay General Hospital	Related party disclosed according to SFAS No. 6
Cathay Real Estate Development Co., Ltd.	Related party disclosed according to SFAS No. 6
Lin Yuan Property Management Co., Ltd.	Related party disclosed according to SFAS No. 6
San Ching Engineering Co., Ltd.	Related party disclosed according to SFAS No. 6
Cathay Healthcare Inc.	Related party disclosed according to SFAS No. 6
Seaward Leasing Co., Ltd.	Related party disclosed according to SFAS No. 6 (Merged into Cathay Real Estate Development Co., Ltd. on July 28, 2011)
Other related parties	The directors, supervisors, mangers, and their spouses, as well as their second immediate families

(2) Significant transactions with related parties

A. Property transactions

Property transactions between the Company and related parties are in the nature of undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys, the result of public bidding and the contracts of both parties.

a. Significant transactions with related parties for the nine months ended September 30, 2012 and 2011 are listed below:

	For the nine months ended September 30, 2012		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$12,999	$444
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,107,444	37,810
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	23,601	806
Total		$1,144,044	$39,060

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

	For the nine months ended September 30, 2011		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$18,250	$599
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	787,329	25,857
Total		$805,579	$26,456

The total amounts of contracted projects for real estate as of September 30, 2012 and 2011, between the Company and San Ching Engineering Co., Ltd. were NT$5,483,615 (US$187,218) thousands and NT$5,477,786 (US$179,894) thousands, respectively.

The total amounts of contracted projects for real estate as of September 30, 2012 and 2011, between the Company and Cathay Real Estate Development Co., Ltd. were NT$49,306 (US$1,683) thousands and NT$49,306(US$1,619) thousands, respectively.

b. Real estates acquired from related parties are as follows:

	For the nine months ended September 30, 2011		
Name	Item	NT$	US$
Cathay United Bank	No. 166-1, 166-2, Sec. 1, Zhonghua Rd., Wanhua Dist., Taipei City	$320,000	$10,509

The price was referred to an appraisal report, and the ownership has been transferred during 2011. The Company did not acquire any real estates from its related parties for the nine months ended September 30, 2012.

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

c. Real-estate rental income (from related parties):

	Rental income			
	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$21,130	$721	$19,830	$651
Cathay Real Estate Development Co., Ltd.	13,008	444	14,999	493
Cathay United Bank	326,378	11,143	296,619	9,741
Cathay Century Insurance Co., Ltd.	69,818	2,384	68,292	2,243
Cathay General Hospital	98,261	3,355	103,064	3,385
San Ching Engineering Co., Ltd.	4,611	157	6,667	219
Symphox Information Co., Ltd.	12,231	418	12,299	404
Cathay Securities Investment Trust Co., Ltd.	29,275	999	25,192	827
Cathay Securities Co., Ltd.	16,926	578	15,419	506
Cathay Securities Investment Consulting Co., Ltd.	6,936	237	7,131	234
Cathay Healthcare Inc.	23,002	785	-	-
Total	$621,576	$21,221	$569,512	$18,703

	Guarantee deposits received			
	September 30, 2012		September 30, 2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$4,028	$138	$4,028	$132
Cathay United Bank	83,723	2,858	72,322	2,375
Cathay Century Insurance Co., Ltd.	22,435	766	22,619	743
Cathay General Hospital	10,166	347	12,803	421
Cathay Securities Investment Trust Co., Ltd.	8,903	304	8,934	293
Cathay Securities Co., Ltd.	5,853	200	4,710	155
Cathay Financial Holding Co., Ltd.	6,604	225	5,816	191
Symphox Information Co., Ltd.	3,942	135	3,836	126
Cathay Healthcare Inc.	8,373	286	-	-
Total	$154,027	$5,259	$135,068	$4,436

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

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

d. Real-estate rental expense (to related parties):

	Rental expense			
	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$5,873	$201	$22,076	$725
Cathay United Bank	27,986	955	27,141	891
Total	$33,859	$1,156	$49,217	$1,616

	Guarantee deposits paid			
	September 30, 2012		September 30, 2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$1,780	$61	$8,610	$283
Cathay United Bank	8,921	304	8,921	293
Total	$10,701	$365	$17,531	$576

According to contracts, leasing periods are generally 3 years, and rentals are usually paid on a monthly basis.

B. Cash in banks

		For the nine months ended September 30, 2012		
		Interest income		Ending balance
Name	Item	NT$	Rate	NT$
Cathay United Bank	Time deposit	$316,259	0.17%~1.40%	$57,183,598
	Cash in bank	13,352	0.02%~1.05%	14,271,190
Total		$329,611		$71,454,788

		For the nine months ended September 30, 2012		
		Interest income		Ending balance
Name	Item	US$	Rate	US$
Cathay United Bank	Time deposit	$10,797	0.17%~1.40%	$1,952,325
	Cash in bank	456	0.02%~1.05%	487,238
Total		$11,253		$2,439,563

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

		For the nine months ended September 30, 2011		
Name	Item	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$173,595	0.12%~5.40%	$53,120,239
	Cash in bank	8,894	0.02%~1.10%	14,351,839
Total		$182,489		$67,472,078

		For the nine months ended September 30, 2011		
Name	Item	Interest income US$	Rate	Ending balance US$
Cathay United Bank	Time deposit	$5,701	0.12%~5.40%	$1,744,507
	Cash in bank	292	0.02%~1.10%	471,325
Total		$5,993		$2,215,832

C. Secured loans

	For the nine months ended September 30, 2012			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,485,571	$63,097	2.43%~2.55%	$3,279,925
Other related parties	367,758	4,162	1.53%~3.78%	348,584
Total		$67,259		$3,628,509

	For the nine months ended September 30, 2012			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$119,002	$2,154	2.43%~2.55%	$111,981
Other related parties	12,556	142	1.53%~3.78%	11,901
Total		$2,296		$123,882

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

	For the nine months ended September 30, 2011			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,756,320	$63,048	2.09%~2.47%	$3,553,377
Other related parties	295,194	3,457	1.31%~3.70%	261,254
Total		$66,505		$3,814,631

	For the nine months ended September 30, 2011			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$123,360	$2,071	2.09%~2.47%	$116,696
Other related parties	9,694	113	1.31%~3.70%	8,580
Total		$2,184		$125,276

D. Financial assets at fair value through profit or loss (Beneficiary certificates)

		September 30,			
		2012		2011	
Name		NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd managed funds	Market value	$1,646,516	$56,214	$1,638,821	$53,820
	Cost	$1,523,992	$52,031	$1,523,992	$50,049

E. Discretionary account management balance

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$220,241,403	$7,519,338	$124,043,597	$4,073,681

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

F. Other receivables

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd. (Note 1)	$6,767,349	$231,046	$-	$-
Cathay Life Insurance Ltd. (China) (Note 2)	204,097	6,968	204,097	6,703
Cathay Century Insurance Co., Ltd.	110,448	3,771	183,416	6,024
Cathay Securities Investment Trust Co., Ltd.	20,794	710	23,651	777

Note 1： Receivables are refundable tax under the consolidated income tax system.

Note 2： Receivables are consisted of other receivables for out-of-pocket IT system expenses.

G. Other assets

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$-	$-	$2,551,140	$83,781

H. Guarantee deposits paid

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$257,000	$8,774	$549,628	$18,050

As of September 30, 2012 and 2011, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT$332 (US$11) thousands and NT$268 (US$9) thousands, respectively.

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

I. Guarantee deposits received

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$5,000	$171	$-	$-

The guarantee deposits received from Lin Yuan Property Management Co., Ltd. are due to the construction contract.

J. Other payable

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$22,437	$766	$22,915	$753
Lin Yuan Property Management Co., Ltd.	43,070	1,470	34,064	1,119
Cathay Financial Holding Co., Ltd. (Note)	2,322,754	79,302	1,835,363	60,275
Cathay Century Insurance Co., Ltd.	12,290	420	15,605	512

Note: The payables consist of interest expense accrued from preferred stock and tax payable under the consolidated income tax system.

K. Preferred stock liability

	September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$30,000,000	$1,024,240	$25,000,000	$821,018

L. Premiums income

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay United Bank	$483,897	$16,521	$461,779	$15,165
Cathay General Hospital	29,780	1,017	31,077	1,021
Cathay Century Insurance Co., Ltd.	8,629	295	8,247	271
Cathay Securities Co., Ltd.	3,383	116	2,449	80
Other related parties	82,175	2,806	102,654	3,371
Total	$607,864	$20,755	$606,206	$19,908

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

M. Insurance expense

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$103,157	$3,522	$104,221	$3,423

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT$9,578 (US$327) thousands and NT$8,460 (US$278) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the nine months ended September 30, 2012 and 2011, respectively.

N. Reinsurance income

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$91,343	$3,119	$93,230	$3,062

Since April 1, 2000, Cathay Insurance (Bermuda) Co., Ltd. has engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation’s accidental insurance. For the nine months ended September 30, 2012 and 2011, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd..

O. Reinsurance service expenses

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$7,262	$248	$7,355	$242

P. Reinsurance claims payment

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$90,109	$3,076	$64,948	$2,133

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

Q. Miscellaneous income

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$778,697	$26,586	$871,459	$28,620
Cathay United Bank	74,519	2,544	75,544	2,481
Cathay Securities Investment Trust Co., Ltd.	74,190	2,533	83,778	2,751
Cathay Financial Holding Co., Ltd.	2,950	101	3,873	127
Cathay General Hospital	3,647	125	4,145	136
Total	$934,003	$31,889	$1,038,799	$34,115

Miscellaneous income is mainly generated from the Company's integrated marketing activities.

R. Operating expenses

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$201,274	$6,872	$212,656	$6,984
Lin Yuan Property Management Co., Ltd.	467,279	15,954	438,426	14,398
Cathay Securities Investment Consulting Co., Ltd.	9,883	337	16,218	533
Seaward Card Co., Ltd.	81,286	2,775	57,037	1,873
Seaward Leasing Co., Ltd.	-	-	9,421	309
Cathay United Bank	1,950,350	66,588	1,265,063	41,546
Cathay Venture Inc.	17,466	596	19,048	625
Cathay General Hospital	1,181	40	6,229	205
Cathay Real Estate Development Co., Ltd.	14,390	491	4,267	140
Cathay Futures Co., Ltd.	2,741	94	3,901	128
Total	$2,745,850	$93,747	$2,032,266	$66,741

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

S. Non-operating expenses and losses

	For the nine months ended September 30,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$679,760	$23,208	$609,575	$20,019

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

T. Sales of securities

For the nine months ended September 30, 2011						
Name	Securities	Shares	Amount		Gain from disposal	
		(thousand)	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	Cathay Securities Investment Trust Co., Ltd.	17,256	$1,106,232	$36,329	$632,746	$20,780

There was no significant transaction of securities with related parties for the nine months ended September 30, 2012.

U. Other

a. As of September 30, 2012 and 2011, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

	September 30,	
Item	2012	2011
Forward foreign exchange contracts	USD -	USD 167,000
CS contracts	USD 1,479,000	USD 1,785,000

b. The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT$0 (US$0) thousands and NT$380,000 (US$12,479) thousands during the nine months ended September 30, 2012 and 2011, respectively.

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

32. Pledged assets

As of September 30, 2012 and 2011, the Company provided cash and time deposits to its lessees as guarantees for the guarantee deposits paid and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited its government bonds with the Central Bank as the "Guaranteed Depository Insurance".

	September 30,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid				
- Government bonds	$9,557,808	$326,316	$9,080,741	$298,218
Guarantee deposits paid - Time deposits	99,898	3,411	117,598	3,862
Guarantee deposits paid - Others	9,162	313	9,296	305
Total	$9,666,868	$330,040	$9,207,635	$302,385

Pledged assets are summarized based on the net carrying amounts.

33. Other important commitment and contingent liabilities

None.

34. Serious disaster damages

None.

35. Significant subsequent events

None.

36. Others matters

(1) Pension related information

According to the R.O.C. SFAS No.23 "Interim Financial Reporting and Disclosure", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS No.18 "Accounting for pensions".

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

(2) Separate account insurance products related information

A. Separate account insurance products – assets and liabilities

Assets			Liabilities		
	September 30, 2012			September 30, 2012	
Item	NT$	US$	Item	NT$	US$
Cash in bank	$818,158	$27,933	Other payable	$7,020,303	$239,682
Financial assets at fair value through profit or loss	298,221,634	10,181,688	Reserve for separate account	310,147,233	10,588,844
Other receivable	18,127,744	618,905			
Total	$317,167,536	$10,828,526	Total	$317,167,536	$10,828,526

Assets			Liabilities		
	September 30, 2011			September 30, 2011	
Item	NT$	US$	Item	NT$	US$
Cash in bank	$294,812	$9,682	Other payable	$1,310,348	$43,033
Financial assets at fair value through profit or loss	262,729,912	8,628,240	Reserve for separate account	286,373,397	9,404,709
Interest receivable	4,747	156			
Other receivable	24,654,274	809,664			
Total	$287,683,745	$9,447,742	Total	$287,683,745	$9,447,742

B. Separate account insurance products – revenues and expenses

Expenses			Revenues		
	January 1-September 30, 2012			January 1-September 30, 2012	
Item	NT$	US$	Item	NT$	US$
Insurance claims payment	$7,549,366	$257,746	Premiums income	$54,130,493	$1,848,088
Cash surrender value	49,345,226	1,684,712	Interest income	5,802	198
Dividends	1,452	50	Gains from valuation on financial assets	17,918,302	611,755
Provision for separate account reserve	16,125,747	550,555	Gains on disposal of investment	6,433,804	219,659
Administrative expenses	2,842,810	97,057	Losses on foreign exchange	(2,670,357)	(91,170)
			Miscellaneous income	46,557	1,590
Total	$75,864,601	$2,590,120	Total	$75,864,601	$2,590,120

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

Expenses			Revenues		
	January 1-September 30, 2011			January 1-September 30, 2011	
Item	NT$	US$	Item	NT$	US$
Insurance claims payment	$4,162,857	$136,711	Premiums income	$82,436,781	$2,707,283
Cash surrender value	48,951,369	1,607,598	Interest income	8,907	293
Dividends	1,269	42	Losses from valuation		
Provision for separate			on financial assets	(24,193,992)	(794,548)
account reserve	13,228,891	434,446	Gains on disposal of		
Administrative expenses	2,982,667	97,953	investment	5,477,264	179,877
Gains on surrender	(519)	(17)	Gains on foreign		
			exchange	5,566,271	182,800
			Miscellaneous income	31,303	1,028
Total	$69,326,534	$2,276,733	Total	$69,326,534	$2,276,733

C. The commission earned for the sales of separate account insurance products from counterparties for the nine months ended September 30, 2012 and 2011 were NT$777,886 (US$26,558) thousands and NT$961,780 (US$31,586) thousands, respectively.

(3) Discretionary account management

	September 30, 2012			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$93,549,723	$3,193,913	$93,549,723	$3,193,913
Overseas stocks	38,548,040	1,316,082	38,548,040	1,316,082
Repurchase bonds and notes	5,301,750	181,009	5,301,750	181,009
Beneficiary certificates	32,365,411	1,104,999	32,365,411	1,104,999
Cash in banks	48,218,229	1,646,235	48,218,229	1,646,235
Futures and options	1,430,175	48,828	1,430,175	48,828
Corporate bonds	828,075	28,272	828,075	28,272
Total	$220,241,403	$7,519,338	$220,241,403	$7,519,338

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

	September 30, 2011			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$102,964,741	$3,381,436	$102,964,741	$3,381,436
Repurchase bonds and notes	3,049,855	100,159	3,049,855	100,159
Beneficiary certificates	790,895	25,974	790,895	25,974
Cash in bonks	17,238,106	566,112	17,238,106	566,112
Total	$124,043,597	$4,073,681	$124,043,597	$4,073,681

As of September 30, 2012, the Company entered into discretionary account management contracts in the amounts of NT$138,000,000 (US$4,711,506) thousands, US$2,140,000 thousands and HK$6,350,000 (US$818,932) thousands. As of September 30, 2011, the amount is NT$139,500,000 (US$4,581,281) thousands.

(4) Revenues and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are allocated to the Company and its affiliates based on the attribution of the transactions.

(5) Financial risk management objectives and policies

The Company's financial assets primarily consist of domestic or foreign common stocks, preferred stocks, government bonds, corporate bonds, repurchase bonds, structured notes, mortgage-backed securities, mutual funds, project investments, short-term notes, cash and cash equivalents.

The Company also enters into derivative transactions such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps to protect against the price risk of stock value, interest rate risk, foreign currency risk and credit risk from investment activities. The Company does not enter into derivative transactions for increasing investment income; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

The primary risks involved in financial instruments are market risk, credit risk, operational risk, liquidity risk and sovereign risk. In addition to compliance with the risk management policies and guidance from the parent company Cathay Financial Holding Co., Ltd., the Company has also established risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection, and the concentration management systems to monitor and manage the Company's risks. The risk management policies are summarized as follows:

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, price risk and foreign currency risk, etc. The Company conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with scenario analysis, stress testing, back testing, position limit, VaR limit and loss limit are used to effectively manage the market risk of the Company's financial instruments.

Credit Risk

Credit risk is the risk of loss arising from the potential default of the counter-party. In order to minimize the Company's exposure to the credit risk, following evaluations and controls are performed:

The Company has taken the credit concentration index of each conglomerate into consideration when establishing Lending Policy to prevent from over-exposure. Strict credit evaluations are carried out by the Company before committing to business lending, mortgage lending, policy loan, and securities investments. All business loans are secured by land, property, plant and equipment or financial guarantees.

Assessments on the mortgage repayment ability and personal credits are conducted before the mortgages are granted. The total mortgage amounts granted are based on a different percentage of the carrying value which varies according to regions where the secured buildings locate.

For policy loans, the credit risk level is assessed at low as the policy loan amounts are limited to their net realizable value of the insurance policy and hence are deemed as fully secured investments.

An internal credit risk evaluation model for investments in financial instruments has been created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counter-parties by evaluating the credit concentration of the investments or counter-parties.

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 has adopted and implemented the internal control regulations and procedures. The Company has also commenced the development of information systems to accommodate and support the aforementioned policies.

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. The Company has primarily sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

Sovereign Risk

Sovereign risk is the risk of market price fluctuation or default of the issuers due to the political or economical issues in the country where investments are located. The Company categorizes and manages the investment risk based on each country or region, as well as regularly monitors the concentration of foreign countries to minimize its country risk.

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

(6) Financial instruments related information

A. Fair value

	September 30, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$405,991,506	$405,991,506	$13,861,096	$13,861,096
Receivables	50,527,663	50,527,663	1,725,082	1,725,082
Financial assets at fair value through profit or loss	55,197,906	55,197,906	1,884,531	1,884,531
Available-for-sale financial assets	1,212,650,183	1,212,650,183	41,401,508	41,401,508
Financial assets carried at cost	10,191,289	(Note)	347,944	(Note)
Investments under the equity method-Net	7,506,580	7,506,580	256,285	256,285
Investments in debt securities with no active market	742,051,160	792,955,057	25,334,625	27,072,552
Other financial assets	24,000,000	24,000,000	819,392	819,392
Guarantee deposits paid	12,491,934	12,491,934	426,491	426,491
Liabilities – non-derivative				
Payables	26,754,400	26,754,400	913,431	913,431
Preferred stock liability	30,000,000	31,201,372	1,024,240	1,065,257
Guarantee deposits received	2,058,084	2,058,084	70,266	70,266
Assets – derivative				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	13,189,985	13,189,985	450,324	450,324
IRS and CDS	286,863	286,863	9,794	9,794
Derivative financial assets for hedging				
IRS and CDS	1,365,092	1,365,092	46,606	46,606
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	1,560,544	1,560,544	53,279	53,279
IRS and CDS	126,681	126,681	4,325	4,325

Note: In reality, the fair value of the specified items can't be accountably measured.

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

	September 30, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$361,243,986	$361,243,986	$11,863,514	$11,863,514
Receivables	127,045,511	127,045,511	4,172,266	4,172,266
Financial assets at fair value through profit or loss	42,192,612	42,192,612	1,385,636	1,385,636
Available-for-sale financial assets	661,633,255	661,633,255	21,728,514	21,728,514
Financial assets carried at cost	9,494,526	(Note)	311,807	(Note)
Investments under the equity method-Net	4,226,763	4,226,763	138,810	138,810
Investments in debt securities with no active market	493,705,445	503,492,511	16,213,643	16,535,058
Held-to-maturity financial assets	590,623,300	623,879,386	19,396,496	20,488,650
Other financial assets	19,000,000	19,000,000	623,974	623,974
Guarantee deposits paid	13,175,891	13,175,891	432,706	432,706
Liabilities – non-derivative				
Payables	98,288,672	98,288,672	3,227,871	3,227,871
Preferred stock liability	25,000,000	27,363,200	821,018	898,627
Guarantee deposits received	1,854,025	1,854,025	60,888	60,888
Assets – derivative				
Financial assets at fair value through profit or loss				
Option	185,815	185,815	6,102	6,102
Forward, CS and CCS	12,089,253	12,089,253	397,020	397,020
IRS and CDS	192,403	192,403	6,318	6,318
Derivative financial assets for hedging				
IRS and CDS	2,073,728	2,073,728	68,103	68,103
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	44,363,147	44,363,147	1,456,918	1,456,918
IRS and CDS	365,057	365,057	11,989	11,989

Note: In reality, the fair value of the specified items can’t be accountably measured.

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

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

a. The fair value of the Company's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.

b. The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as the Company predicts the future cash inflow or outflow will be of similar amount to the carrying value.

c. Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that market participants would consider in setting a price available to the Company. The Company uses discount rates equal to the prevailing rates 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.

c. The fair value of the Company's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.

e. If no quoted market prices exist for the Company's investments under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.

f. As of September 30, 2012 and 2011, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	September 30, 2012			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$378,909,992	$12,936,497	$27,081,514	$924,599
Receivables	-	-	50,527,663	1,725,082
Financial assets at fair value through profit or loss	37,017,265	1,263,819	18,180,641	620,712
Available-for-sale financial assets	384,991,099	13,144,114	827,659,084	28,257,394
Investments under the equity method-Net	-	-	7,506,580	256,285
Investment in debt securities with no active market	60,622,770	2,069,743	732,332,287	25,002,809
Other financial assets	-	-	24,000,000	819,392

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

	September 30, 2012			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Liabilities – non-derivative				
Payables	$-	$-	$26,754,400	$913,431
Preferred stock liability	-	-	31,201,372	1,065,257
Assets – derivative				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	-	-	13,189,985	450,324
IRS and CDS	-	-	286,863	9,794
Derivative financial assets for hedging				
IRS and CDS	-	-	1,365,092	46,606
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	1,560,544	53,279
IRS and CDS	-	-	126,681	4,325

	September 30, 2011			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$345,028,275	$11,330,978	$16,215,711	$532,536
Receivables	-	-	127,045,511	4,172,266
Financial assets at fair value through profit or loss	41,876,605	1,375,258	316,007	10,378
Available-for-sale financial assets	632,667,204	20,777,248	28,966,051	951,266
Investments under the equity method-Net	-	-	4,226,763	138,810
Investment in debt securities with no active market	26,887,803	883,015	476,604,708	15,652,043
Held-to-maturity financial assets	48,865,610	1,604,782	575,013,776	18,883,868
Other financial assets	-	-	19,000,000	623,974
Liabilities – non-derivative				
Payables	-	-	98,288,672	3,227,871
Preferred stock liability	-	-	27,363,200	898,627

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

	September 30, 2011			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets – derivative				
Financial assets at fair value through profit or loss				
Option	$185,815	$6,102	$-	$-
Forward, CS and CCS	-	-	12,089,253	397,020
IRS and CDS	-	-	192,403	6,318
Derivative financial assets for hedging				
IRS and CDS	-	-	2,073,728	68,103
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	44,363,147	1,456,918
IRS and CDS	-	-	365,057	11,989

B. Risk of interest rate

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

a. September 30, 2012

Non-derivative financial instruments of fixed interest rate

	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$
Financial assets at fair value through profit or loss	$174,740	$5,966	$162,319	$5,542	$1,485,520	$50,718	$10,545,952	$360,053
Available-for-sale financial assets	31,488,590	1,075,063	37,162,241	1,268,769	43,693,241	1,491,746	41,219,306	1,407,283
Investments in debt securities with no active market	6,512,166	222,334	15,214,488	519,443	38,524,168	1,315,267	4,087,619	139,557
Preferred stock liability	-	-	-	-	-	-	15,000,000	512,120

(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$
Financial assets at fair value through profit or loss	$6,670,251	$227,731	$2	$-	$19,038,784	$650,010
Available-for-sale financial assets	49,152,317	1,678,126	493,634,051	16,853,330	696,349,746	23,774,317
Investments in debt securities with no active market	16,789,037	573,200	620,055,681	21,169,535	701,183,159	23,939,336
Preferred stock liability	10,000,000	341,413	5,000,000	170,707	30,000,000	1,024,240

Non-derivative financial instruments of float interest rate

	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$
Financial assets at fair value through profit or loss	$255	$9	$22,118	$755	$3	$-	$-	$-
Available-for-sale financial assets	125,584,020	4,287,607	339,622	11,595	506,818	17,303	1,695,175	57,876
Investments in debt securities with no active market	-	-	-	-	1,375,794	46,972	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$22,376	$764
Available-for-sale financial assets	-	-	36,138,901	1,233,831	164,264,536	5,608,212
Investments in debt securities with no active market	-	-	39,492,207	1,348,317	40,868,001	1,395,289

Derivative financial instruments

	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$
Financial assets at fair value through profit or loss	$-	$-	$4,943	$169	$42,444	$1,449	$-	$-
Derivative financial assets for hedging	73,954	2,525	784,417	26,781	249,813	8,529	-	-
Financial liabilities at fair value through profit or loss	-	-	79,661	2,720	33,604	1,147	12,533	428

(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$
Financial assets at fair value through profit or loss	$227	$8	$239,249	$8,168	$286,863	$9,794
Derivative financial assets for hedging	147,562	5,038	109,346	3,733	1,365,092	46,606
Financial liabilities at fair value through profit or loss	883	30	-	-	126,681	4,325

b. September 30, 2011

Non-derivative financial instruments of fixed interest rate

	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$
Financial assets at fair value through profit or loss	$2,735,602	$89,839	$782,621	$25,702	$154,447	$5,072	$1,359,729	$44,654
Available-for-sale financial assets	11,871,266	389,861	20,219,837	664,034	13,296,435	436,664	24,683,640	810,629
Held-to-maturity financial assets	17,551,059	576,389	26,751,864	878,551	25,857,089	849,166	30,233,115	992,877
Investments in debt securities with no active market	14,536,198	477,379	9,966,714	327,314	3,945,910	129,587	25,276,669	830,104
Preferred stock liability	-	-	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$569,769	$18,712	$5	$-	$5,602,173	$183,979
Available-for-sale financial assets	16,949,420	556,631	115,600,311	3,796,398	202,620,909	6,654,217
Held-to-maturity financial assets	22,300,671	732,370	447,832,041	14,707,128	570,525,839	18,736,481
Investments in debt securities with no active market	10,593,111	347,885	404,523,589	13,284,847	468,842,191	15,397,116
Preferred stock liability	15,000,000	492,611	10,000,000	328,407	25,000,000	821,018

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

Non-derivative financial instruments of float interest rate

	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$
Financial assets at fair value through profit or loss	$77,021	$2,529	$-	$-	$-	$-	$-	$-
Available-for-sale financial assets	145,615,579	4,782,121	-	-	-	-	-	-
Held-to-maturity financial assets	20,097,461	660,015	-	-	-	-	-	-
Investments in debt securities with no active market	24,863,254	816,527	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$77,021	$2,529
Available-for-sale financial assets	-	-	-	-	145,615,579	4,782,121
Held-to-maturity financial assets	-	-	-	-	20,097,461	660,015
Investments in debt securities with no active market	-	-	-	-	24,863,254	816,527

Derivative financial instruments

	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$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$14,768	$485	$84,641	$2,780
Derivative financial assets for hedging	26,807	880	407,538	13,384	2,457,684	80,712	669,405	21,984
Financial liabilities at fair value through profit or loss	-	-	-	-	268,103	8,805	389,506	12,792

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$99,409	$3,265
Derivative financial assets for hedging	-	-	510,200	16,755	4,071,634	133,715
Financial liabilities at fair value through profit or loss	37,528	1,232	-	-	695,137	22,829

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

C. Credit risk

The Company doesn't expose to concentrations of credit risk.

D. Hedged accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company's interest rate swap for bonds used as hedging instruments at September 30, 2012 and 2011:

a. September 30, 2012

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$2,000,000	$68,283	90DCP	Each quarter	2012.10.11
700,000	23,899	90DCP	Each quarter	2012.11.24
2,000,000	68,283	90DCP	Yearly	2013.3.26
2,425,000	82,793	90DCP	Each quarter	2013.4.24
3,600,000	122,909	90DCP	Each quarter	2013.6.8
2,700,000	92,182	90DCP+25bps	Each quarter	2013.8.24
3,000,000	102,424	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,283	90DCP	Yearly	2013.11.3
1,000,000	34,141	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,071	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,212	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,141	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,727	90DCP	Yearly	2014.3.12
1,000,000	34,141	90DCP	Yearly	2014.6.12
3,000,000	102,424	90DCP	Each quarter	2014.6.25
1,810,000	61,796	90DCP	Each quarter	2014.6.26

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

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$2,000,000	$68,283	90DCP	Yearly	2014.6.29
5,000,000	170,707	90DCP	Yearly	2014.8.23
1,000,000	34,141	90DCP	Yearly	2014.9.20
3,200,000	109,252	90DCP	Yearly	2014.9.27
2,000,000	68,283	90DCP	Each quarter	2014.9.28
1,500,000	51,212	90DCP	Yearly	2014.9.29
2,500,000	85,353	90DCP	Yearly	2014.12.20
2,000,000	68,283	90DCP	Yearly	2014.12.24
2,300,000	78,525	90DCP	Each quarter	2015.3.25
1,500,000	51,212	90DCP	Each quarter	2015.5.9
2,543,500	86,839	90DCP	Each quarter	2016.10.23
900,000	30,727	90DCP	Each quarter	2016.10.24
1,200,000	40,970	90DCP	Each quarter	2017.10.25
1,400,000	47,798	90DCP	Each quarter	2017.12.9
600,000	20,485	90DCP	Each quarter	2020.9.23

b. September 30, 2011

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$1,000,000	$32,841	90DCP	Each quarter	2012.6.26
2,000,000	65,681	90DCP	Each quarter	2012.9.9
2,000,000	65,681	90DCP	Each quarter	2012.10.11
700,000	22,989	90DCP	Each quarter	2012.11.24
2,000,000	65,681	90DCP	Yearly	2013.3.26
2,425,000	79,639	90DCP	Each quarter	2013.4.24
3,600,000	118,227	90DCP	Each quarter	2013.6.8
2,700,000	88,670	90DCP+25bps	Each quarter	2013.8.24
2,000,000	65,681	90DCP	Yearly	2013.11.3
3,000,000	98,522	90DCP+26.5bps	Yearly	2013.11.3

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

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$500,000	$16,420	90DCP+23bps	Yearly	2013.12.14
1,000,000	32,841	90DCP+26.5bps	Yearly	2013.12.14
1,500,000	49,261	90DCP+23bps	Yearly	2013.12.16
1,000,000	32,841	90DCP+26.5bps	Yearly	2013.12.16
900,000	29,557	90DCP	Yearly	2014.3.12
1,000,000	32,841	90DCP	Yearly	2014.6.12
3,000,000	98,522	90DCP	Each quarter	2014.6.25
1,810,000	59,442	90DCP	Each quarter	2014.6.26
2,000,000	65,681	90DCP	Yearly	2014.6.29
5,000,000	164,204	90DCP	Yearly	2014.8.23
1,000,000	32,841	90DCP	Yearly	2014.9.20
3,200,000	105,090	90DCP	Yearly	2014.9.27
2,000,000	65,681	90DCP	Each quarter	2014.9.28
1,500,000	49,261	90DCP	Yearly	2014.9.29
2,500,000	82,102	90DCP	Yearly	2014.12.20
2,000,000	65,681	90DCP	Yearly	2014.12.24
2,300,000	75,534	90DCP	Each quarter	2015.3.25
1,500,000	49,261	90DCP	Each quarter	2015.5.9
2,543,500	83,530	90DCP	Each quarter	2016.10.23
900,000	29,557	90DCP	Each quarter	2016.10.24
1,200,000	39,409	90DCP	Each quarter	2017.10.25
1,400,000	45,977	90DCP	Each quarter	2017.12.9
600,000	19,704	90DCP	Each quarter	2020.9.23

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 are considered to be highly effective cash flow hedges. As of September 30, 2012 and 2011, unrealized gains on these financial instruments recognized in equity were NT$1,364,040 (US$46,570) thousands and NT$2,080,219 (US$68,316) thousands, respectively.

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

37. Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	2012.09.30			2011.09.30		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$36,167,489	29.342000	$1,061,226,449	$34,470,927	30.506000	$1,051,570,108
EUR	646,054	37.943607	24,513,620	364,093	41.263941	15,023,894
GBP	447,975	47.651408	21,346,618	315,967	47.506994	15,010,635
CNH	18,466,576	4.655982	85,980,049	2,320,644	4.694133	10,893,411
Non-Monetary Items						
USD	2,853,709	29.342000	83,870,382	2,421,269	30.506000	73,885,383
HKD	9,111,367	3.784355	34,480,651	8,172,593	3.915443	31,999,323
Investments Under The Equity Method						
CNY	1,085,565	4.668700	5,068,178	343,772	4.777100	1,642,235
VND	1,023,585,305	0.001360	1,392,076	1,004,564,148	0.001415	1,421,458
USD	3,794	29.342000	111,318	4,171	30.506000	127,227

38. Foreign exchange volatility reserve

(1) The hedge strategy and risk exposure:

Based on the principle of risk control and to maintain the consistent level of foreign exchange volatility reserve, the Company consistently adjusts the hedge ratios and risk exposure position under the risk control.

(2) Adjustment in foreign exchange volatility reserve:

	September 30, 2012	
	NT$	US$
Beginning balance (The first money)	$4,511,406	$154,025
Reserve:		
Compulsory reserve	1,095,032	37,386
Extra reserve	944,888	32,260
Subtotal	2,039,920	69,646
Recover	2,264,849	77,325
Total	$4,286,477	$146,346

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

(3) Effects due to foreign exchange volatility reserve:

	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
Item	NT$	US$	NT$	US$	NT$	US$
Net income	$2,168,956	$74,051	$2,355,647	$80,425	$186,691	$6,374
Earnings per share	0.41	0.02	0.44	0.02	0.03	-
Foreign exchange volatility reserve	-	-	4,286,477	146,346	4,286,477	146,346
Stockholders' equity	135,626,093	4,630,457	135,812,784	4,636,831	186,691	6,374

39. Pre-disclosure for adoption of international financial reporting standards

(1) The Financial Supervisory Commission ("FSC") requires insurance enterprises to prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and Interpretations ("IFRSs") approved and promulgated by the FSC, starting 2013.

Under Rule No. 10002506141 issued by the FSC, the main contents of the plan which the Company required to be disclosed 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 and other authorized departments	Finished
◎ Proceed initial internal training	Accounting department and other authorized departments	Finished
◎ Identify differences between the existing accounting policies and IFRSs	Accounting department and other authorized departments	Finished
◎ Identify the adjustment required for existing accounting policies	Accounting department and other authorized departments	Finished
◎ Select voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards" and assess the impact of these exemptions	Accounting department and other authorized departments	Finished
◎ Identify the adjustments required for IT system and internal controls	Accounting department , IT department and Audit department	Finished

Contents of Plan	Responsible Department or Personnel	Status of Execution
2. Prepare stage: 2011/1/1~2012/12/31		
◎ Finalize the accounting policies under IFRSs	Accounting department and other authorized departments	Finished
◎ Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards”	Accounting department and other authorized departments	Finished
◎ Finalize adjustments to the IT system and internal control.	Accounting 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	Accounting department, IT department and other authorized departments	In process
◎ Prepare opening IFRSs balance sheet and comparative financial statements	Accounting department	Finished
◎ Prepare IFRSs financial statements	Accounting department	In process

The Company assesses the material differences in accounting policies based on the IFRSs as recognized by the FSC and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise expected to become effective in 2013. However, these assessments may be changed as the FSC may recognize different versions of IFRSs or amend the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise in the future. Furthermore, the Company has decided the accounting policies to be adopted under IFRSs based on the current circumstances, if 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.”

Material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises are described in the table below:

Financial Instruments	Under the requirements of the existing Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, equity investments in unlisted entities or entities traded on emerging stock market should be measured at cost. However under the requirements of IFRSs, the fair value of investments in equity instruments that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.
Investment Property	For the Company first-time adopted IFRSs, it is eligible to exempt from the regulation of IFRS 1. The cost of certain investment property can be recognized at fair value. And the rest should apply retrospective application of IAS 40 in accordance with the materiality principle.
Property, Plant and Equipment	For the Company first-time adopted IFRSs, it should apply retrospective application of IAS 16 in accordance with the materiality principle.
Leases	Leases of the Company's properties are currently classified as operating leases as they are not qualified as capital leases under R.O.C. GAAP. However under the requirements of IFRSs, a lease is classified as a finance lease, if substantially all the risks and rewards of a leased asset lie with the lessee under the lease agreement.
Income taxes	Under the requirements of R.O.C. 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 IFRSs, a deferred tax asset shall be recognized to the extent that it is probable that would be utilized.

Income taxes	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.
Employee Benefits	The Company has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under R.O.C. GAAP. However under the requirements of IFRSs, 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 active market in such bonds, the market yields on government bonds shall be used.
	Under the requirements of R.O.C. 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 R.O.C. 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.
Special Reserve	Special reserve is recently listed under the liabilities in accordance with the requirement of the “Regulations Governing the Setting Aside of Various Reserve by Insurance Enterprise.” However, based upon IFRSs requirement, the special reserve should not be listed under liabilities. In response to trends in international accounting practices and the planned implementation of the Statement of Financial Accounting Standards No. 40 in 2011, the FSC recently revised the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” to switch the special reserves from the liabilities to owners’ equity.

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

(2) The preliminary assessment on the monetary impacts of the material differences and effects between the existing accounting policies and the accounting policies to be adopted under IFRSs is as follows：

Reconciliation of the balance sheet as of January 1, 2012:

Unit：NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$374,353,961	$-	$374,353,961	
Receivables	45,684,727	362,935	46,047,662	1
Investments	2,509,415,150	3,507,954	2,512,923,104	2,3
Reinsurance reserve assets - Net	9,159,908	-	9,159,908	
Property and equipment - Net	13,029,771	8,445,024	21,474,795	3,4
Intangible assets	267,387	-	267,387	
Other assets	31,902,842	(6,794,684)	25,108,158	7,9
Separate account product assets	293,555,522	-	293,555,522	
Total assets	3,277,369,268	5,521,229	3,282,890,497	
Payables	22,003,803	61,699	22,065,502	1
Financial liabilities	47,468,901	-	47,468,901	
Insurance liabilities	2,793,900,127	(3,760,504)	2,790,139,623	5,6
Provision	-	346,155	346,155	7
Other liabilities	8,016,341	4,362,473	12,378,814	8,9
Separate account product liabilities	293,555,522	-	293,555,522	
Total liabilities	3,164,944,694	1,009,823	3,165,954,517	
Common stock	53,065,274	-	53,065,274	
Capital surplus	13,009,649	-	13,009,649	
Retained earnings	36,488,955	7,505,971	43,994,926	1～9
Equity adjustments	9,860,696	(2,994,565)	6,866,131	2,4,8,9
Total stockholders’ equity	112,424,574	4,511,406	116,935,980	

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

Unit：US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$12,367,161	$-	$12,367,161	
Receivables	1,509,241	11,990	1,521,231	1
Investments	82,901,062	115,889	83,016,951	2,3
Reinsurance reserve assets - Net	302,607	-	302,607	
Property and equipment - Net	430,452	278,990	709,442	3,4
Intangible assets	8,833	-	8,833	
Other assets	1,053,942	(224,469)	829,473	7,9
Separate account product assets	9,697,903	-	9,697,903	
Total assets	108,271,201	182,400	108,453,601	
Payables	726,918	2,038	728,956	1
Financial liabilities	1,568,183	-	1,568,183	
Insurance liabilities	92,299,310	(124,232)	92,175,078	5,6
Provision	-	11,436	11,436	7
Other liabilities	264,828	144,119	408,947	8,9
Separate account product liabilities	9,697,903	-	9,697,903	
Total liabilities	104,557,142	33,361	104,590,503	
Common stock	1,753,065	-	1,753,065	
Capital surplus	429,787	-	429,787	
Retained earnings	1,205,449	247,967	1,453,416	1～9
Equity adjustments	325,758	(98,928)	226,830	2,4,8,9
Total stockholders' equity	3,714,059	149,039	3,863,098	

Note：The exchange rate provided by the Federal Reserve Bank of New York on January 1, 2012 was NT$ 30.27 to US$ 1.00.

Reconciliation items are as follows：

1. The Company adopted IAS 17 to recognize rent revenue under the straight-line method during the lease term. As of January 1, 2012, the IFRSs adjustment resulted in increases of other receivables by NT$362,935 (US$11,990) thousands, tax payables by NT$61,699 (US$2,038) thousands and an increase of retained earnings by NT$301,236(US$9,952).

2. According to the IAS 39, the Company reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. As of January 1, 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT$10,615,151 (US$350,682) thousands and unrealized gains on financial instruments by NT$426,603 (US$14,093) thousands. The adjustment also made decreases of financial assets carried at cost by NT$10,191,832 (US$336,697) thousands and retained earnings by NT$37,960 (US$1,254) thousands.

3. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IFRS 1, the Company identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions. The others were retrospectively applied to the IAS 40. The Company assessed the net increase in fair value of investment property was NT$18,243,350 (US$602,687) thousands as of January 1, 2012, and reviewed each significant components resulted in retrospectively recognizing accumulated depreciation by NT$2,664,823 (US$88,035) thousands and the increase in retained earnings by NT$13,850,603 (US$457,568) thousands. In addition, the Company reclassified investment property to property and equipment by NT$12,493,892 (US$412,748) thousands.

4. The Company determined revalued amount of some properties as deemed cost according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and retrospectively adopted IAS 16. The Company assessed that significant components of property and equipment resulted in retrospectively recognizing accumulated depreciation by NT$4,048,868 (US$133,758) thousands, decreases of retained earnings and unrealized revaluation increments by NT$3,359,099 (US$110,971) thousands and NT$1,462 (US$48) thousands respectively on January 1, 2012.

5. In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liability recorded before December 31, 2012 should be reclassified to special reserve considering of balance after tax according to the IAS 12 under retained earnings on January 1, 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to January 1, 2012. As of January 1, 2012, the "Special Reserves for Major Incidents" and "Special Reserve for Fluctuation of Risks" are amounted to NT$9,022,812 (US$298,078) thousands. The half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on March 1, 2012, and the rest of it NT$4,511,406 (US$149,039) was diverted to special reserve under retained earnings since January 1, 2012. In addition, retained earnings was deducted by NT$766,939 (US$25,337) thousands due to the effect of deferred income tax.

6. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of other accountings first-time adopted to IFRSs, the exceeds should be recognized as special reserve under insurance liabilities by full amount at the date of transition. The transition resulted in recognizing special reserve by NT$750,902 (US$24,807) thousands and a corresponding decrease of retained earnings.

7. The Company adopted IAS 37 to assess the provisions due to taxation administrative remedy. After assessment, the Company should increase provisions by NT$346,155 (US$11,436) thousands, decrease other assets and retained earnings by NT$60,483 (US$1,998) thousands and NT$406,638 (US$13,434) thousands respectively on January 1, 2012.

8. The Company adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to the IFRS 1. As of January 1, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$1,414,590 (US$46,732) thousands, decreases of retained earnings and net loss not recognized as pension cost by NT$1,597,139 (US$52,763) thousands and NT$509,674 (US$16,838) thousands, respectively.

9. According to the IAS 12, the Company reviewed income tax effects resulted from adjustment items above, the adjustment totally recognized deferred tax assets and deferred tax liabilities by NT$1,433,776 (US$47,366) thousands and NT$2,947,883 (US$97,387) thousands, respectively. In addition, assessing income tax effects directly recognized in other comprehensive incomes or equity items, the Company should decrease in recognition of deferred tax assets and unrealized gains or losses on financial instruments by NT$3,929,380 (US$129,811) thousands. In addition, the Company assessed that unused tax loss carryforward would not probably realize and decreased in recognition of deferred tax assets and the amount of retained earnings by NT$4,238,597 (US$140,026) thousands and a corresponding decrease of retained earnings.

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

Reconciliation of the balance sheet as of September 30, 2012:

Unit：NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$405,991,506	$-	$405,991,506	
Receivables	50,527,663	494,270	51,021,933	1,7
Investments	2,721,537,078	3,603,191	2,725,140,269	2,3
Reinsurance reserve assets-Net	9,100,873	-	9,100,873	
Property and equipment-Net	19,414,061	8,417,328	27,831,389	3,4
Intangible assets	235,809	-	235,809	
Other assets	37,982,798	(768,845)	37,213,953	9
Separate account product assets	317,167,536	-	317,167,536	
Total assets	3,561,957,324	11,745,944	3,573,703,268	
Payables	26,754,400	49,906	26,804,306	1
Financial liabilities	31,687,225	-	31,687,225	
Insurance liabilities	3,028,286,228	(3,628,353)	3,024,657,875	5,6
Provision	-	346,155	346,155	7
Other liabilities	22,249,151	11,071,535	33,320,686	8,9
Separate account product liabilities	317,167,536	-	317,167,536	
Total liabilities	3,426,144,540	7,839,243	3,433,983,783	
Common stock	53,065,274	-	53,065,274	
Capital surplus	13,009,649	-	13,009,649	
Retained earnings	38,844,602	7,580,108	46,424,710	1～9
Equity adjustments	30,893,259	(3,673,407)	27,219,852	2,4,8,9
Total stockholders’ equity	135,812,784	3,906,701	139,719,485	

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

Unit：US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$13,861,096	$-	$13,861,096	
Receivables	1,725,082	16,875	1,741,957	1,7
Investments	92,916,937	123,017	93,039,954	2,3
Reinsurance reserve assets-Net	310,716	-	310,716	
Property and equipment-Net	662,822	287,379	950,201	3,4
Intangible assets	8,051	-	8,051	
Other assets	1,296,784	(26,248)	1,270,536	9
Separate account product assets	10,828,526	-	10,828,526	
Total assets	121,610,014	401,023	122,011,037	
Payables	913,431	1,704	915,135	1
Financial liabilities	1,081,844	-	1,081,844	
Insurance liabilities	103,389,766	(123,876)	103,265,890	5,6
Provision	-	11,818	11,818	7
Other liabilities	759,616	377,997	1,137,613	8,9
Separate account product liabilities	10,828,526	-	10,828,526	
Total liabilities	116,973,183	267,643	117,240,826	
Common stock	1,811,720	-	1,811,720	
Capital surplus	444,166	-	444,166	
Retained earnings	1,326,207	258,795	1,585,002	1～9
Equity adjustments	1,054,738	(125,415)	929,323	2,4,8,9
Total stockholders' equity	4,636,831	133,380	4,770,211	

Reconciliation items are as follows：

1. The Company adopted IAS 17 to recognize rent revenue under the straight-line method during the lease term. The IFRSs adjustment resulted in increases of other receivables by NT$293,561 (US$10,023) thousands, tax payables by NT$49,906 (US$1,704) thousands, retained earnings by NT$301,236 (US$10,285) thousands, income tax benefit by NT$11,793 (US$403) thousands and a decrease of rent revenue by NT$69,374(US$2,369).

2. According to the IAS 39, the Company reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. As of September 30, 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT$10,757,842 (US$367,287) thousands, unrealized gains on financial instruments by NT$574,841 (US$19,626) thousands. The adjustment also made decreases of financial assets carried at cost by NT$10,191,289 (US$347,944) thousands and retained earnings by NT$37,960 (US$1,296) thousands.

3. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IFRS 1, the Company identified deemed cost of some properties in accordance with the definition of investment property as optional exemptions. The others were retrospectively applied to the IAS 40. The Company assessed the net increase in fair value of investment property was NT$18,243,350 (US$622,852) thousands as of September 30, 2012, and reviewed each significant components resulted in retrospectively recognizing accumulated depreciation by NT$1,836,443 (US$62,699) thousand and the increases in retained earnings by NT$13,850,603 (US$472,878) thousands, depreciation expense by NT$75,693 (US$2,584) thousands and income tax benefit by NT$12,868 (US$439). In addition, the Company reclassified investment property to property and equipment by NT$13,370,269 (US$456,479) thousands.

4. The Company determined revalued amount of some properties as deemed cost according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and retrospectively adopted IAS 16. The Company assessed that significant components of property and equipment resulted in retrospectively recognizing accumulated depreciation by NT$4,952,941 (US$169,100) thousands, decreases of retained earnings and unrealized revaluation increments by NT$3,359,099 (US$114,684) thousands and NT$1,462 (US$50) thousands, respectively.

5. In accordance with the IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liability recorded before December 31, 2012 should be reclassified to special reserve considering of balance after tax according to the IAS 12 under retained earnings on January 1, 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to January 1, 2012. The adjustment resulted in a decrease of "Special Reserves for Major Incidents" and "Special Reserve for Fluctuation of Risks" by NT$4,379,255 (US$149,513) thousands, a decrease of changes in provision for special reserves by NT$132,151 (US$4,512) thousands, an increase of income tax benefit by NT$22,466 (US$767) thousands and an increase of special reserve under retained earnings by NT$4,511,406 (US$154,025) thousands. In addition, retained earnings will be deducted by NT$766,939 (US$26,184) thousands due to the effect of deferred income tax.

6. According to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of other accountings first-time adopted to IFRSs, the exceeds should be recognized as special reserve under insurance liabilities by full amount at the date of transition. The transition resulted in recognizing special reserve by NT$750,902 (US$25,637) thousands and a corresponding decrease of retained earnings.

7. The Company adopted IAS 37 to assess the provisions due to taxation administrative remedy. After assessment, the Company should increase provisions by NT$346,155 (US$11,818) thousands, decrease retained earnings by NT$406,638 (US$13,883) thousands. In addition, the reversal recognition resulted in increases of tax receivables by NT$200,709 (US$6,852) thousands and income tax benefit NT$261,192 (US$8,917) thousands.

8. The Company adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to the IFRS 1. As of September 30, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$1,379,641 (US$47,103) thousands, and decreases of retained earnings and net loss not recognized as pension cost by NT$1,597,139 (US$54,528) thousands and NT$509,674 (US$17,401) thousands, respectively. In addition, the adjustment resulted in decreases of pension expense and income tax benefit by NT$34,949 (US$1,193) thousands and NT$5,941 (US$203) thousands, respectively.

9. According to the IAS 12, the Company reviewed income tax effects resulted from adjustment items above, the adjustment totally recognized deferred tax assets and deferred tax liabilities by NT$1,475,379 (US$50,372) thousands and NT$2,955,089 (US$100,890) thousands, respectively. In addition, assessing income tax effects directly recognized in other comprehensive incomes or equity items, the Company should increase in recognition of deferred tax liabilities and decrease in recognition of unrealized gains or losses on financial instruments by NT$4,756,460 (US$162,392) thousands. In addition, the Company assessed that unused tax loss carryforward would not probably realize and resulted in decreases of retained earnings by NT$4,238,597(US$144,711) thousands and deferred tax assets by NT$4,224,569 (US$144,232) thousands and resulted in increases of income tax benefit by NT$14,028 (US$479) thousands. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT$1,980,345 (US$67,612) thousands.

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

Reconciliation of the income statement for the nine months period ended September 30, 2012:

Unit：NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Operating revenues	$520,951,880	$(69,374)	$520,882,506	1
Operating costs	(508,967,330)	(132,151)	(509,099,481)	5
Gross margin	11,984,550	(201,525)	11,783,025	
Operating expenses	(11,709,443)	(40,744)	(11,750,187)	3,8
Operating income	275,107	(242,269)	32,838	
Non-operating revenues and expenses	581,381	-	581,381	
Income from continuing operations before income taxes	856,488	(242,269)	614,219	
Income taxes benefit	1,499,159	316,406	1,815,565	1,3,5,7,8,9
Net income	2,355,647	74,137	2,429,784	

Unit：US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Operating revenues	17,785,998	$(2,369)	$17,783,629	1
Operating costs	(17,376,829)	(4,512)	(17,381,341)	5
Gross margin	409,169	(6,881)	402,288	
Operating expenses	(399,776)	(1,391)	(401,167)	3,8
Operating income	9,393	(8,272)	1,121	
Non-operating revenues and expenses	19,849	-	19,849	
Income from continuing operations before income taxes	29,242	(8,272)	20,970	
Income taxes benefit	51,183	10,802	61,985	1,3,5,7,8,9
Net income	80,425	2,530	82,955	

About reconciliation of income statements, please refer to the notes of reconciliation of balance sheets.

(3) 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 elected to regard the revalued amount under previous GAAP as the deemed costs for certain items of land and buildings as at the date of revaluation.

B. The Company has elected to use the fair value at the date of transition to be the deemed costs for certain investment properties as at that date.

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

D. The Company has selected to disclose present value of defined pension plan, fair value of plan assets, surplus or shortage of the plans, and experience adjustment information required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.

E. The Company designates financial instruments which were recognized as financial assets carried at cost previously as available-for-sale financial assets at the date of transition.

40. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$22,850 thousands and US$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US$50,000 to US$48,330 thousands approved by MOEAIC on December 20, 2010. Also, MOEAIC authorized the Company to remit US $59,000 thousands as the registered capital again on May 16, 2008. The total registered capital is US $107,330 thousands. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004. The Company has remitted US$48,330 thousands to Cathay Life Insurance Ltd. (China) till December 31, 2009, and injected another US$29,880 thousands on September 29, 2010. As of September 30, 2012, the Company's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US$78,210 thousands.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US$26,390 thousands to US$28,960 thousands. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on August 26, 2008. As of September 30, 2012, the Company's remittances to this general insurance company totaled approximately US$28,140 thousands.

On November 1, 2011 and April 11, 2012, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$47,000 thousands and US$80,000 thousands, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd.. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on August 15, 2012. As of September 30, 2012, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately US$126,064 thousands.

41. 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.