Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the Years Ended
December 31, 2012 and 2011
With Independent Auditors' Report

The reader is advised that these financial statements have been prepared originally in Chinese. These 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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Index to consolidated financial statements

<u>English Translation of Report Originally Issued in Chinese</u>

Independent Auditors' Report

Board of Directors
Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and accounting principles generally accepted in the R.O.C..

Effective from January 1, 2011, the Company and its subsidiaries 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.
March 15, 2013

<u>Notice to Readers:</u>

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 audit 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. and Subsidiaries
Audited consolidated balance sheets
As of December 31, 2012 and 2011
(Expressed in thousands of dollars)

Assets	Notes	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$	December 31, 2011 US$
Cash and cash equivalents	2,4,32,33	$385,001,185	$13,253,053	$379,048,580	$12,522,252
Receivables	32				
Notes receivables - Net		2,960,789	101,920	3,419,095	112,953
Premiums receivables - Net		76,735	2,642	78,939	2,608
Claims recoverable from reinsurers - Net		1,014	35	2,940	97
Due from reinsurers and ceding companies - Net		3,547	122	2,755	91
Other receivables - Net	33	57,491,290	1,979,046	42,627,187	1,408,232
Subtotal		60,533,375	2,083,765	46,130,916	1,523,981
Investments	32				
Financial assets at fair value through profit or loss	2,5,12,33,34	72,964,811	2,511,697	60,150,749	1,987,141
Available-for-sale financial assets	2,6,12	1,216,317,031	41,869,777	1,281,414,028	42,332,806
Derivative financial assets for hedging	2,7	1,142,094	39,315	1,957,846	64,679
Financial assets carried at cost	2,8	10,707,797	368,599	10,191,832	336,697
Investments under the equity method - Net	2,9	947,731	32,624	1,423,015	47,011
Investments in debt securities with no active market	2,10	798,025,236	27,470,748	510,033,639	16,849,476
Other financial assets		23,500,010	808,950	13,300,000	439,379
Investments in real estate - Net	2,13	163,800,328	5,638,566	146,085,831	4,826,093
Loans	2,14,33	516,503,876	17,779,824	489,801,740	16,181,095
Subtotal		2,803,908,914	96,520,100	2,514,358,680	83,064,377
Reinsurance reserve assets - Net	32				
Ceded unearned premium reserve - Net	19	8,384,281	288,615	8,617,664	284,693
Ceded reserve for claims - Net	19	781,354	26,897	550,769	18,195
Subtotal		9,165,635	315,512	9,168,433	302,888
Property and equipment - Net	2,15,32,33				
Land		12,025,710	413,966	5,622,358	185,740
Buildings and construction		16,053,269	552,608	11,314,685	373,792
Computer equipment		2,517,668	86,667	2,537,202	83,819
Communication and transportation equipment		15,879	547	13,500	446
Other equipment		3,965,944	136,521	3,824,645	126,351
Leasehold improvements		124,080	4,271	115,912	3,829
Leased assets		275,652	9,489	-	-
Revaluation increments		620	21	620	21
Subtotal of cost and revaluation		34,978,822	1,204,090	23,428,922	773,998
Less: Accumulated depreciation		(10,893,954)	(375,007)	(10,000,566)	(330,378)
Less: Accumulated impairment		(140,412)	(4,833)	(140,412)	(4,639)
Construction in progress and prepayment for real estate equipment		120,676	4,154	38,869	1,284
Subtotal		24,065,132	828,404	13,326,813	440,265
Intangible assets	2,32				
Computer software cost	16	254,878	8,774	396,833	13,110
Subtotal		254,878	8,774	396,833	13,110
Other assets	32				
Prepayment		301,107	10,365	335,000	11,067
Deferred acquisition costs	20	51,659	1,778	-	-
Guarantee deposits paid	2,33,34	14,376,119	494,875	15,695,921	518,531
Deferred income tax assets	2,27	17,830,685	613,793	15,023,186	496,306
Other assets - Other		1,620,867	55,796	2,261,166	74,700
Subtotal		34,180,437	1,176,607	33,315,273	1,100,604
Separate account product assets	2,32,38	329,557,246	11,344,484	294,051,012	9,714,272
Total assets		$3,646,666,802	$125,530,699	$3,289,796,540	$108,681,749

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated balance sheets - (continued)
As of December 31, 2012 and 2011
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2012 NT$	December 31, 2012 US$	December 31,2011 NT$	December 31,2011 US$
Payables	32				
Notes payable		$1,104	$38	$2,428	$80
Life insurance proceeds payable		243,714	8,390	153,489	5,071
Commissions payable		644,891	22,199	1,250,897	41,325
Due to reinsurers and ceding companies		8,056,342	277,327	6,214,729	205,310
Others payable	33	29,127,605	1,002,671	14,989,708	495,200
Subtotal		38,073,656	1,310,625	22,611,251	746,986
Financial liabilities	32				
Short-term debts	38	297,268	10,233	201,158	6,646
Financial liabilities at fair value through profit or loss	2,17	2,079,457	71,582	17,468,901	577,103
Preferred stock liability	2,18,33	30,000,000	1,032,702	30,000,000	991,080
Subtotal		32,376,725	1,114,517	47,670,059	1,574,829
Reserve for liabilities	2,19,32				
Unearned premium reserve		12,104,776	416,688	12,260,033	405,023
Reserve for claims		4,551,254	156,670	4,300,083	142,058
Reserve for life insurance liabilities		2,993,462,480	103,045,180	2,697,468,563	89,113,596
Special reserve		4,380,370	150,787	9,023,572	298,103
Premium deficiency reserve		17,121,635	589,385	13,599,727	449,280
Reserve for insurance contract with feature of financial instruments		61,350,872	2,111,906	66,884,712	2,209,604
Foreign exchange volatility reserve	40	4,270,856	147,017	-	-
Subtotal		3,097,242,243	106,617,633	2,803,536,690	92,617,664
Other liabilities	32				
Accounts collected in advance		300,819	10,355	397,555	13,134
Deferred handling fees	21	100,202	3,449	-	-
Guarantee deposits received	33	2,077,752	71,524	1,960,914	64,781
Reserve for land revaluation increment tax		3,487	120	3,487	115
Accrued pension liability	2,38	1,601,379	55,125	1,884,983	62,272
Other liabilities - Other		9,047,037	311,430	4,122,246	136,182
Subtotal		13,130,676	452,003	8,369,185	276,484
Separate account product liabilities	2,32,38	329,557,246	11,344,484	294,051,012	9,714,272
Total liabilities		3,510,380,546	120,839,262	3,176,238,197	104,930,235
Capital stock					
Common stock	2,22	53,065,274	1,826,688	53,065,274	1,753,065
Capital surplus	2				
Capital surplus - Common stock		13,000,000	447,504	13,000,000	429,468
Capital surplus - Others		9,649	332	9,649	319
Retained earnings	2,23				
Legal capital reserve		9,241,230	318,115	9,150,054	302,281
Special capital reserve		28,367,452	976,504	27,624,972	912,619
Unappropriated retained earnings		2,160,262	74,364	(286,071)	(9,451)
Equity adjustments					
Unrealized revaluation increments		1,462	50	1,462	48
Unrealized gains on financial instruments	2	29,856,213	1,027,752	10,673,438	352,608
Cumulative conversion adjustments	2	(428,258)	(14,742)	(304,530)	(10,060)
Net loss not recognized as pension cost	38	-	-	(509,674)	(16,838)
Minority interests		1,012,972	34,870	1,133,769	37,455
Total stockholders' equity		136,286,256	4,691,437	113,558,343	3,751,514
Total liabilities and stockholders' equity		$3,646,666,802	$125,530,699	$3,289,796,540	$108,681,749

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of income
For the years ended December 31, 2012 and 2011
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-December 31, 2012 NT$	January 1-December 31, 2012 US$	January 1-December 31, 2011 NT$	January 1-December 31, 2011 US$
Operating revenues	2,33				
Direct premium income	24	$474,075,763	$16,319,303	$410,351,924	$13,556,390
Reinsurance premium income	24	194,373	6,691	186,209	6,151
Premiums income	24	474,270,136	16,325,994	410,538,133	13,562,541
Deduct: Reinsurance premiums ceded	24	(28,611,652)	(984,911)	(22,416,067)	(740,537)
Changes in unearned premium reserve	24	(85,006)	(2,926)	2,062,273	68,129
Retained earned premium	24	445,573,478	15,338,157	390,184,339	12,890,133
Reinsurance commission earned		14,371,244	494,707	11,736,550	387,729
Handling fees earned	38	2,581,350	88,859	2,871,657	94,868
Net investment profit and loss					
Interest income		92,377,810	3,179,959	86,926,719	2,871,712
Gains (losses) from valuation on financial assets		1,521,073	52,360	(67,246,887)	(2,221,569)
Gains (losses) from valuation on financial liabilities		15,613,095	537,456	(15,281,075)	(504,826)
(Losses) gains on equity investments		(347,618)	(11,966)	17,506	578
(Losses) gains on foreign exchange		(35,624,016)	(1,226,300)	36,989,945	1,222,000
Gains on disposal of investments		39,877,689	1,372,726	44,086,883	1,456,455
Changes in provision for foreign exchange volatility reserve		240,550	8,281	-	-
Gains on investments - Real estate		6,514,108	224,238	6,850,699	226,320
Impairment loss on investment and gain on reversal of impairment loss		(41,436)	(1,426)	(34,222)	(1,130)
Other operating income		1,610,005	55,422	1,621,282	53,561
Separate account product revenues	38	104,179,520	3,586,214	87,360,078	2,886,028
Subtotal		688,446,852	23,698,687	586,083,474	19,361,859
Operating costs	2,33				
Insurance claim payments	25	(233,531,972)	(8,038,966)	(261,497,291)	(8,638,827)
Deduct: Claims recovered from reinsures	25	11,778,148	405,444	8,389,518	277,156
Retained claim payment	25	(221,753,824)	(7,633,522)	(253,107,773)	(8,361,671)
Changes in liability reserves					
Changes in provision claim reserve		(43,930)	(1,512)	(563,884)	(18,628)
Changes in provision for life insurance		(301,554,545)	(10,380,535)	(194,456,488)	(6,424,066)
Changes in provision for special reserve		131,779	4,536	1,533,906	50,674
Changes in provision for premium deficiency reserve		(3,754,578)	(129,245)	(3,366,593)	(111,219)
Changes in reserve for insurance contract with feature of financial instruments		(796,129)	(27,406)	(577,460)	(19,077)
Brokerage expenses	26	(16,868,068)	(580,657)	(16,090,956)	(531,581)
Commissions expenses		(16,854,133)	(580,177)	(16,721,254)	(552,404)
Other operating cost		(4,842,380)	(166,691)	(4,395,529)	(145,211)
Separate account product expenses	38	(104,179,520)	(3,586,214)	(87,360,078)	(2,886,028)
Subtotal		(670,515,328)	(23,081,423)	(575,106,109)	(18,999,211)
Operating expenses	2,16,23,26,33				
Business expenses		(8,142,518)	(280,293)	(6,309,174)	(208,430)
Administrative and general expenses		(9,309,370)	(320,460)	(8,861,808)	(292,759)
Employee training expenses		(40,631)	(1,399)	(40,127)	(1,325)
Subtotal		(17,492,519)	(602,152)	(15,211,109)	(502,514)
Operating income (loss)		439,005	15,112	(4,233,744)	(139,866)
Non-operating revenues and gains	2,33				
Gains on disposal of property and equipment		146	5	281	9
Other non-operating revenues and gains		1,882,191	64,791	1,768,895	58,437
Subtotal		1,882,337	64,796	1,769,176	58,446
Non-operating expenses and losses	2,33				
Losses on disposal of property and equipment		(4,538)	(156)	(328)	(11)
Dividend on preferred stock liabilities		(908,000)	(31,257)	(827,995)	(27,354)
Losses on obsolescence of property and equipment		-	-	(97)	(3)
Miscellaneous expenses		(4,518)	(155)	(6,998)	(230)
Subtotal		(917,056)	(31,568)	(835,418)	(27,598)
Income (loss) from continuing operations before income taxes		1,404,286	48,340	(3,299,986)	(109,018)
Income taxes benefit	2,27	1,752,287	60,320	3,547,885	117,208
Consolidated income		$3,156,573	$108,660	$247,899	$8,190
Include					
Parent company		3,279,989	112,908	455,880	15,060
Minority interests		(123,416)	(4,248)	(207,981)	(6,870)
Consolidated income		$3,156,573	$108,660	$247,899	$8,190
Earnings per share (In dollars)	2,28				
Consolidated income		$0.59	$0.02	$0.05	$-

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

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of changes in stockholders' equity
For the years ended December 31, 2012 and 2011
(Expressed in thousands of dollars)

					Retained earnings						Equity adjustment											
	Common stock		Capital surplus		Legal capital reserve		Special capital reserve		Unappropriated retained earnings		Unrealized revaluation increments		Unrealized gains on financial instruments		Cumulative conversion adjustments		Net loss not recognized as pension cost		Minority interests		Total	
Summary	NT$	US$	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	$1,753,065	$13,009,649	$429,787	$20,861,134	$689,169	$21,687,527	$716,469	$(6,515,586)	$(215,249)	$1,462	$48	$12,057,721	$398,339	$(401,935)	$(13,278)	$-	$-	$1,424,331	$47,054	$115,189,577	$3,805,404
Covering losses and appropriations for 2010																						
Special capital reserve	-	-	-	-	-	-	5,195,494	171,639	(5,195,494)	(171,639)	-	-	-	-	-	-	-	-	-	-	-	-
Legal capital reserve used to cover accumulated deficits	-	-	-	-	(11,711,080)	(386,888)	-	-	11,711,080	386,888	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	(1,384,283)	(45,731)	-	-	-	-	-	-	(1,384,283)	(45,731)
Changes in cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,405	3,218	-	-	-	-	97,405	3,218
Recognized special reserve (Note1)	-	-	-	-	-	-	741,951	24,511	(741,951)	(24,511)	-	-	-	-	-	-	-	-	-	-	-	-
Changes in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(509,674)	(16,838)	-	-	(509,674)	(16,838)
Consolidated income (loss) for the year ended December 31, 2011	-	-	-	-	-	-	-	-	455,880	15,060	-	-	-	-	-	-	-	-	(207,981)	(6,870)	247,899	8,190
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(82,581)	(2,729)	(82,581)	(2,729)
Balance on December 31, 2011	$53,065,274	$1,753,065	$13,009,649	$429,787	$9,150,054	$302,281	$27,624,972	$912,619	$(286,071)	$(9,451)	$1,462	$48	$10,673,438	$352,608	$(304,530)	$(10,060)	$(509,674)	$(16,838)	$1,133,769	$37,455	$113,558,343	$3,751,514
Balance on January 1, 2012	$53,065,274	$1,826,688	$13,009,649	$447,836	$9,150,054	$314,976	$27,624,972	$950,946	$(286,071)	$(9,847)	$1,462	$50	$10,673,438	$367,416	$(304,530)	$(10,483)	$(509,674)	$(17,545)	$1,133,769	$39,028	$113,558,343	$3,909,065
Appropriations and distributions for 2011																						
Legal capital reserve	-	-	-	-	91,176	3,139	-	-	(91,176)	(3,139)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	742,961	25,575	(742,961)	(25,575)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits	-	-	-	-	-	-	(1,120,208)	(38,561)	1,120,208	38,561	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	19,182,775	660,336	-	-	-	-	-	-	19,182,775	660,336
Changes in cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(123,728)	(4,259)	-	-	-	-	(123,728)	(4,259)
Recognized special reserve (Note1)	-	-	-	-	-	-	1,119,727	38,544	(1,119,727)	(38,544)	-	-	-	-	-	-	-	-	-	-	-	-
Changes in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	509,674	17,545	-	-	509,674	17,545
Consolidated income (loss) for the year ended December 31, 2012	-	-	-	-	-	-	-	-	3,279,989	112,908	-	-	-	-	-	-	-	-	(123,416)	(4,248)	3,156,573	108,660
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,619	90	2,619	90
Balance on December 31, 2012	$53,065,274	$1,826,688	$13,009,649	$447,836	$9,241,230	$318,115	$28,367,452	$976,504	$2,160,262	$74,364	$1,462	$50	$29,856,213	$1,027,752	$(428,258)	$(14,742)	$-	$-	$1,012,972	$34,870	$136,286,256	$4,691,437

Note1：The special reserve was set aside in accordance with article 18 of " Regulations of the Management of Various Reserves by Insurance Enterprises".

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

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Audited consolidated statements of cash flows
For the years ended December 31, 2012 and 2011
(Expressed in thousands of dollars)

	January 1-December 31, 2012		January 1-December 31, 2011	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Consolidated income	$3,156,573	$108,660	$247,899	$8,190
Adjustments:				
(Gains) losses from valuation of financial assets	(1,521,073)	(52,360)	67,246,887	2,221,569
(Gains) losses from valuation of financial liabilities	(15,613,095)	(537,456)	15,281,075	504,826
Provision bad debt	1,286,059	44,271	512,442	16,929
Depreciation	2,554,065	87,920	2,517,880	83,180
Amortization	179,675	6,185	213,933	7,067
Provision or recovered for each reserve	293,705,553	10,110,346	206,520,624	6,822,617
Gains on disposal of investments under the equity method	-	-	(632,746)	(20,903)
Losses on disposal of property and equipment	4,392	151	145	5
Gains on disposal of investments in real estate	(89,808)	(3,091)	(503,098)	(16,620)
Impairment loss	41,436	1,426	34,222	1,130
Gains on equity investments less than cash dividends received	401,683	13,827	49,719	1,642
Decrease in notes receivable	458,306	15,776	2,094,833	69,205
Decrease (increase) in premiums receivable	2,204	76	(29,021)	(959)
Decrease in claims recoverable from reinsurers	1,926	66	63	2
(Increase) decrease in due from reinsurers and ceding companies	(792)	(27)	6,858	227
(Increase) decrease in other accounts receivable	(14,842,981)	(510,946)	9,248,337	305,528
Increase in financial assets at fair value through profit or loss	(11,212,097)	(385,959)	(17,563,816)	(580,238)
Increase in derivative financial assets for hedging	(25,380)	(874)	(20,047)	(662)
(Increase) decrease in other financial assets	(10,200,010)	(351,119)	21,300,000	703,667
Decrease (increase) in ceded unearned premium reserve	233,383	8,034	(2,347,006)	(77,536)
Increase in ceded reserve for claims	(230,585)	(7,938)	(51,980)	(1,717)
Decrease (increase) in prepayments	33,893	1,167	(272,406)	(8,999)
Increase in deferred acquisition costs	(51,659)	(1,778)	-	-
Decrease (increase) in guarantee deposits paid	1,535,202	52,847	(3,760,992)	(124,248)
Increase in deferred income tax assets	(2,807,499)	(96,644)	(6,852,174)	(226,368)
Decrease (increase) in other assets - Other	638,885	21,993	(581,842)	(19,222)
(Decrease) increase in notes payable	(1,324)	(46)	1,060	35
Increase in life insurance proceeds payable	90,225	3,106	88,164	2,912
(Decrease) increase in commissions payable	(606,006)	(20,861)	93,047	3,074
Increase in due to reinsurers and ceding companies	1,841,613	63,395	1,835,231	60,629
Increase (decrease) in others payable	14,137,897	486,675	(22,010,295)	(727,132)
Decrease in financial liabilities at fair value through profit or loss	-	-	(192,258)	(6,351)
Decrease in derivative financial liabilities for hedging	-	-	(227,154)	(7,504)
(Decrease) increase in accounts collected in advance	(96,736)	(3,330)	129,650	4,283
Increase in deferred handling fees	100,202	3,449	-	-
Increase in guarantee deposits received	116,838	4,022	294,977	9,744
Increase in accrued pension liability	226,070	7,782	91,303	3,016
Increase (decrease) in other liabilities - Other	4,924,791	169,528	(933,903)	(30,852)
Net cash provided by operating activities	268,371,826	9,238,273	271,829,611	8,980,166
Cash flows from investing activities				
Increase in loans	(28,009,318)	(964,176)	(8,714,480)	(287,892)
Decrease (increase) in available-for-sale financial assets	85,123,328	2,930,235	(110,985,622)	(3,666,522)
Decrease in held-to-maturity financial assets	-	-	32,496,971	1,073,570
Increase in financial assets carried at cost	(557,401)	(19,188)	(1,110,504)	(36,686)
Increase in investments in debt securities with no active market	(288,007,871)	(9,914,212)	(150,562,629)	(4,973,988)
Disinvestment of investments under the equity method	47,198	1,625	46,500	1,536
Disposal of investments under the equity method	-	-	1,106,232	36,545
Disposal of investments in real estate	112,580	3,875	676,074	22,335
Acquisition of investments in real estate	(27,106,138)	(933,086)	(23,402,221)	(773,116)
Disposal of property and equipment	165	6	860	28
Acquisition of property and equipment	(3,947,687)	(135,893)	(316,908)	(10,469)
Acquisition of intangible assets	(40,145)	(1,382)	(71,064)	(2,348)
Net cash used in investing activities	(262,385,289)	(9,032,196)	(260,836,791)	(8,617,007)
Cash flows from financing activities				
Increase in short-term debts	96,110	3,309	201,158	6,645
Increase in preferred stock liability	-	-	5,000,000	165,180
Cash dividends	(24,044)	(828)	(31,089)	(1,027)
Net cash provided by financing activities	72,066	2,481	5,170,069	170,798
Effects of exchange rate changes	(105,998)	(3,649)	92,151	3,044
Increase in cash and cash equivalents	5,952,605	204,909	16,255,040	537,001
Cash and cash equivalents at the beginning of the periods	379,048,580	13,048,144	362,793,540	11,985,251
Cash and cash equivalents at the end of the periods	$385,001,185	$13,253,053	$379,048,580	$12,522,252
Supplemental disclosure of cash flows information				
Interest paid during the period	$47,538	$1,636	$21,208	$701
Interest paid (excluding capitalized interest)	$47,538	$1,636	$21,208	$701
Income tax paid	$1,708,417	$58,810	$1,881,037	$62,142
Non-cash investing and financing activities				
Held-to-maturity financial assets reclassify to available-for-sale financial assets	$-	$-	$590,598,621	$19,511,022

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

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to audited consolidated financial statements

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

For the years ended December 31, 2012 and 2011

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 December 31, 2012 and 2011, total numbers of employees in the Company were 31,093 and 31,157, respectively.

2. Summary of significant accounting policies

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

(1) Principles of consolidation

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

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

Investors	Investees	Business	Ownership interest 2012.12.31	Ownership interest 2011.12.31	Notes
The Company	Symphox Information Co., Ltd. ("Symphox Information")	Type II telecom service, data processing service, information supply service	60.12%	60.12%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Act. As of December 31 2012 and 2011, the Company owns 60.12% of interest in Symphox Information. As of December 31 2012 and 2011, the total numbers of employees were 200 and 183, respectively.
The Company	Cathay Life Insurance Ltd. (China) ("Cathay Life (China)")	Life insurance	50.00%	50.00%	Cathay Life (China) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Air Holding Group each owns 50% interest in Cathay Life (China). As of December 31 2012 and 2011, the total numbers of employees were 2,255 and 2,564, respectively.
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00%	100.00%	Cathay Life (Vietnam) acquired an operation license of an enterprise as a juristic person on November 21, 2007. As of December 31 2012 and 2011, the total numbers of employees were 239 and 221, respectively.
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office equipment leasing	100.00%	-	Lin Yuan acquired an operation license of an enterprise as a juristic person on August 15, 2012.

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

As of years ended December 31, 2012 and 2011, the consolidated financial statements exclude the followings:

Investors	Investees	Business	Ownership interest		Notes
			2012.12.31	2011.12.31	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class3 general business insurers and a Long-term insurer	100.00%	100.00%	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00%	100.00%	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Insurance Company Limited (China)	Properties insurance	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on August 26, 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements.

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

(2) Cash equivalents

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

A. readily convertible to known amounts of cash; and

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

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

(3) 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.

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.

(4) 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.

(5) Accounting for impairment of financial assets

The Company and Subsidiaries 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.

(6) 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:

<u>Fair value hedges</u>

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 and Subsidiaries discontinue 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.

(7) Allowance for bad and doubtful debts

A. 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.

B. Before January 1, 2011, allowance for bad debts on account receivable of Symphox Information is determined based on the aging analysis of outstanding balances of such accounts and past experience. Since January 1, 2011, Symphox Information first assesses whether objective evidence of impairment exists individually for receivables that is individually significant. If there is objective evidence that an impairment loss on individual receivables has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on receivables that is not individually significant has been incurred, Symphox Information 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.

C. Allowance for bad debts on account receivable of Cathay Life (Vietnam) is determined based on the aging analysis of outstanding balances of such accounts and past experience.

D. According to the R.O.C. SFAS No. 34 "Financial Instruments: Recognition and Measurement" effective on January 1, 2011, Cathay Life (China) first assesses whether objective evidence of impairment exists individually for receivables, such as premiums receivable, interest receivable and account receivable that are individually significant. If there is objective evidence that an impairment loss on individual receivables, such as premiums receivable, interest receivable and account receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on receivables, such as premiums receivable, interest receivable and account receivable that are not individually significant has been incurred, Cathay Life (China) shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for receivables, such as premiums receivable, interest receivable and account receivable with no objective evidence that an impairment loss has been incurred, those receivables shall be collectively assessed for impairment.

(8) 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 investees are amortized over the economic service life of the assets. Gains or losses arising from other types of intercompany transactions are recognized when realized.

(9) 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.

(10) 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.

Fixed assets with unit value above CNY$2,000 thousands of Cathay Life (China) are assets with useful life over a year, such as houses, buildings, machines, equipments and vehicles. These assets are recorded at cost and depreciated using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of those fixed assets are 10% of their costs estimated based on their nature and conditions of usage.

(11) 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 and Subsidiaries 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 and Subsidiaries 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.

(12) 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$55,199) thousands was appropriated to this fund. From July 1, 2002 to December 31, 2012, an amount of NT$3,739,348 (US$128,721) 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.

(13) 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).

(14) Guaranteed depository insurance payment

A. The Company

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".

B. Cathay life (China)

According to the requirement of the China Insurance Regulatory Commission, an amount equal to 20% of the capital must be deposited in the form of time deposits.

(15) Reserve for liabilities

A. The Company

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.

The method prescribed by law for computing reserve for life insurance liabilities was modified by the authority on December 28, 2012.

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:

① 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 capital reserve under stock holder's equity.

② 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 capital 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 capital 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 capital 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.

The method prescribed by law for computing premium deficiency reserve was modified by the authority on December 28, 2012.

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. Reserves 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$155,298) 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 December 31, 2012, the amount set aside was NT$4,270,856 (US$147,017) 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.

B. Cathay life (China)

In accordance with the Insurance Act of the People's Republic of China, the liability reserves (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

(16) Insurance premium income and expenses

A. The Company

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. In terms of the investment management related deferred acquisition costs such as commissions and incremental costs directly attributable to the issue of new type of contracts, the amount is recognized on the balance sheet as "deferred acquisition costs" and amortized on a straight-line basis over the service period. The amortization is recognized as an expense under "other operating costs."

B. Cathay life (China)

In accordance with "The General Accounting System for Insurance Companies" issued by local government, Cathay Life (China) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(17) 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.

(18) 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.

(19) Pension plan

The Company and Subsidiaries have established a pension plan for all employees according to related laws and regulations. Pension funds are separated from the Company and Subsidiaries and therefore are not included in the consolidated financial statements.

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.

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.

(20) Research and development expenses

The research and develop projects of Symphox Information were divided into the research phase and develop phase. All expenditures occurred during the research and develop phases were recognized as expenses except for those expenditures being capitalized during develop phase when Symphox Information could demonstrate all of the following:

A. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
B. Its intention to complete the intangible asset and use or sell it.
C. Its ability to use or sell the intangible asset.
D. The intangible asset is likely to generate future economic benefit.
E. The availability of adequate technical, financial and other resources to complete the development project.
F. Its ability to measure reliably the expenditures attributable to the intangible asset during its development.

An impairment test is performed annually in December for the intangible asset arising from the develop phase.

(21) 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.

(22) Income taxes

The Company and Subsidiaries 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 and Subsidiaries have 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 and Symphox Information adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate and file joint income basic tax.

(23) 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.

(24) 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.”

(25) 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.

(26) 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, and

C. for which discrete financial information is available.

(27) Conversion to U.S. dollars

The financial statements are presented in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2012 and 2011 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$29.05 and NT$30.27 provided by Federal Reserve Bank of New York of December 31, 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 and subsidiaries apply 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 and subsidiaries' insurance policies reclassification, measurement and disclosure are as following:

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

For investment-linked insurance products which are categorized as non-participating financial instruments, the Company and subsidiaries 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 the consolidated financial statements for the year ended December 31, 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 capital reserve under retained earnings at the end of 2011. As of December 31, 2011, the amount set aside was NT$741,951 (US$24,511) thousands.

(2) Effected on January 1, 2011, the Company and subsidiaries adopted the third revision of the SFAS No.34 “Financial Instruments: Recognition and Measurement”. This change in accounting principles has no significant impact on the consolidated financial statements for the year ended December 31, 2011.

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

4. Cash and cash equivalents

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Cash on hand and petty cash	$202,262	$6,963	$196,035	$6,476
Cash in banks	83,168,415	2,862,940	86,712,363	2,864,630
Time deposits	264,499,563	9,104,976	278,951,453	9,215,443
Cash equivalents	37,130,945	1,278,174	13,188,729	435,703
Total	$385,001,185	$13,253,053	$379,048,580	$12,522,252

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

As of December 31, 2012 and 2011, the amounts of time deposits with maturities beyond one year were NT$18,879,381 (US$649,893) thousands and NT$4,995,000 (US$165,015) 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

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Listed stocks	$11,333,091	$390,124	$7,705,386	$254,555
Overseas stocks	-	-	322,368	10,650
Beneficiary certificates	35,560,980	1,224,130	33,026,532	1,091,065
Exchange traded funds	479,223	16,496	1,721,844	56,883
Overseas bonds	96,441	3,320	203,089	6,709
Corporate bonds	781,539	26,903	1,314,648	43,430
Government bonds	1,572,423	54,128	1,572,423	51,947
Derivative financial instruments	22,828	786	367,049	12,126
Structured time deposits	18,600,000	640,275	11,000,000	363,396
Subtotal	68,446,525	2,356,162	57,233,339	1,890,761
Add: Adjustment of valuation	4,518,286	155,535	2,917,410	96,380
Total	$72,964,811	$2,511,697	$60,150,749	$1,987,141

As of December 31, 2012 and 2011, Symphox Information Co., Ltd. has pledged NT$45,103 (US$1,553) thousands and NT$39,313 (US$1,299) thousands, respectively as collaterals for its e-coupon transaction. Refer to Note 34 (2) disclosure for pledged assets.

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

6. Available-for-sale financial assets

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Listed stocks	$212,344,860	$7,309,634	$214,704,550	$7,092,982
Overseas stocks	74,626,542	2,568,900	50,168,583	1,657,370
Beneficiary certificates	80,318,335	2,764,831	68,637,045	2,267,494
Collateralized loans obligation and collateralized bonds obligation	7,128,861	245,400	9,997,863	330,290
Exchange traded funds	7,228,313	248,823	7,067,933	233,496
Real estate investment trust	7,847,883	270,151	8,699,943	287,411
Financial debentures	195,661,599	6,735,339	191,424,921	6,323,915
Corporate bonds	51,095,646	1,758,886	48,181,906	1,591,738
Government bonds	206,785,773	7,118,271	179,687,163	5,936,147
Overseas bonds	350,110,039	12,051,980	505,518,706	16,700,321
Subtotal	1,193,147,851	41,072,215	1,284,088,613	42,421,164
Add : Adjustment of valuation	33,427,486	1,150,688	8,675,541	286,605
Less: Accumulated impairment	(735,000)	(25,301)	(735,000)	(24,282)
Less: Securities serving as deposits paid-bonds	(9,523,306)	(327,825)	(10,615,126)	(350,681)
Total	$1,216,317,031	$41,869,777	$1,281,414,028	$42,332,806

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 December 31, 2012 and 2011 the Company recognized impairment losses amounting to NT$735,000 (US$25,301) thousands and NT$735,000 (US$24,282) thousands, respectively. Refer to Note 11 for reclassification of held-to-maturity financial assets information.

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

7. Derivative financial assets for hedging

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	1,142,094	39,315	1,957,846	64,679
Total	$1,142,094	$39,315	$1,957,846	$64,679

8. Financial assets carried at cost

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$6,211,102	$213,807	$7,907,077	$261,218
Beneficiary certificates	5,421,129	186,614	3,178,813	105,015
Subtotal	11,632,231	400,421	11,085,890	366,233
Less: Accumulated impairment	(924,434)	(31,822)	(894,058)	(29,536)
Total	$10,707,797	$368,599	$10,191,832	$336,697

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with the stocks held by the Company. As of December 31, 2012 and 2011 the Company recognized impairment losses amounting to NT$924,434 (US$31,822) thousands and NT$894,058 (US$29,536) thousands, respectively.

9. Investments under the equity method

	December 31,			
	2012		2011	
Investee	NT$	US$	NT$	US$
WK Technology Fund VI Co., Ltd.	$279,441	$9,619	$336,538	$11,118
Vista Technology Venture Capital Corp.	7,451	256	27,325	903
Omnitek Venture Capital Corp.	31,694	1,091	63,705	2,104
IBT Venture Capital Corp.	56,435	1,943	77,733	2,568
Cathay Insurance (Bermuda) Co., Ltd.	101,761	3,503	126,731	4,187
Cathay Securities Investment Consulting Co., Ltd.	170,659	5,875	161,913	5,349
Cathay Insurance Company Limited. (China)	300,290	10,337	629,070	20,782
Total	$947,731	$32,624	$1,423,015	$47,011

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

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$1,045) thousands, NT$31,362 (US$1,080) 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.

10. Investments in debt securities with no active market

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Stocks	$7,531,287	$259,253	$2,108,000	$69,640
Corporate bonds	13,500,000	464,716	15,500,000	512,058
Financial debentures	8,950,000	308,089	-	-
Overseas bonds	768,422,717	26,451,728	492,819,409	16,280,786
Subtotal	798,404,004	27,483,786	510,427,409	16,862,484
Less: Accumulated impairment	(378,768)	(13,038)	(393,770)	(13,008)
Total	$798,025,236	$27,470,748	$510,033,639	$16,849,476

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company. As of December 31, 2012 and 2011, the Company recognized impairment losses amounting to NT$378,768 (US$13,038) thousands and NT$393,770 (US$13,008) thousands, respectively.

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

11. Held-to-maturity financial assets

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$19,511,022) 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$7,840,496 (US$269,897) thousands and NT$8,776,116 (US$289,928) thousands as of December 31, 2012 and 2011, respectively. The details of structured notes are listed below:

	December 31, 2012					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$96,441	$3,320	$27,808	$957	$124,249	$4,277
Available-for-sale financial assets	7,429,680	255,755	286,567	9,865	7,716,247	265,620
Total	$7,526,121	$259,075	$314,375	$10,822	$7,840,496	$269,897

	December 31, 2011					
	Cost		Adjustment of valuation		Book value	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$203,088	$6,709	$59,762	$1,975	$262,850	$8,684
Available-for-sale financial assets	8,329,667	275,179	183,599	6,065	8,513,266	281,244
Total	$8,532,755	$281,888	$243,361	$8,040	$8,776,116	$289,928

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

13. Investments in real estate

December 31, 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	$178,736,912	$6,152,734	$4,329	$149	$(23,901,456)	$(822,770)	$(140,701)	$(4,843)	$154,699,084	$5,325,270
Construction	7,519,477	258,846	-	-	-	-	-	-	7,519,477	258,846
Prepayments for buildings and land	1,581,767	54,450	-	-	-	-	-	-	1,581,767	54,450
Total	$187,838,156	$6,466,030	$4,329	$149	$(23,901,456)	$(822,770)	$(140,701)	$(4,843)	$163,800,328	$5,638,566

December 31, 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	$163,100,411	$5,388,187	$4,329	$143	$(22,357,900)	$(738,616)	$(140,701)	$(4,648)	$140,606,139	$4,645,066
Construction	5,459,223	180,351	-	-	-	-	-	-	5,459,223	180,351
Prepayments for buildings and land	20,469	676	-	-	-	-	-	-	20,469	676
Total	$168,580,103	$5,569,214	$4,329	$143	$(22,357,900)	$(738,616)	$(140,701)	$(4,648)	$146,085,831	$4,826,093

(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 December 31, 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

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Policy loans	$175,865,592	$6,053,893	$182,048,566	$6,014,158
Automatic premium loans	6,045,296	208,100	6,312,018	208,524
Secured loans	334,592,988	11,517,831	301,441,156	9,958,413
Total	$516,503,876	$17,779,824	$489,801,740	$16,181,095

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

(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

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Secured loans	$333,064,485	$11,465,215	$298,732,859	$9,868,941
Secured loans - Related parties	3,677,241	126,583	3,783,742	125,000
Less: Allowance for bad debts	(2,289,452)	(78,811)	(1,337,090)	(44,172)
Subtotal	334,452,274	11,512,987	301,179,511	9,949,769
Overdue receivables	558,875	19,238	324,987	10,736
Less: Allowance for bad debts	(418,161)	(14,394)	(63,342)	(2,092)
Subtotal	140,714	4,844	261,645	8,644
Total	$334,592,988	$11,517,831	$301,441,156	$9,958,413

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

	December 31, 2012									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$12,025,710	$413,966	$620	$21	$-	$-	$(67,146)	$(2,311)	$11,959,184	$411,676
Buildings and construction	16,053,269	552,608	-	-	(5,105,945)	(175,764)	(73,266)	(2,522)	10,874,058	374,322
Computer equipment	2,517,668	86,667	-	-	(2,218,630)	(76,373)	-	-	299,038	10,294
Communication and transportation equipment	15,879	547	-	-	(9,653)	(332)	-	-	6,226	215
Other equipment	3,965,944	136,521	-	-	(3,434,077)	(118,212)	-	-	531,867	18,309
Leasehold improvements	124,080	4,271	-	-	(96,935)	(3,337)	-	-	27,145	934
Leased assets	275,652	9,489	-	-	(28,714)	(989)	-	-	246,938	8,500
Subtotal	34,978,202	1,204,069	620	21	(10,893,954)	(375,007)	(140,412)	(4,833)	23,944,456	824,250
Construction in progress and prepayment for real estate equipment	120,676	4,154	-	-	-	-	-	-	120,676	4,154
Total	$35,098,878	$1,208,223	$620	$21	$(10,893,954)	$(375,007)	$(140,412)	$(4,833)	$24,065,132	$828,404

	December 31, 2011									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$5,622,358	$185,740	$620	$21	$-	$-	$(67,146)	$(2,218)	$5,555,832	$183,543
Buildings and construction	11,314,685	373,792	-	-	(4,459,903)	(147,337)	(73,266)	(2,421)	6,781,516	224,034
Computer equipment	2,537,202	83,819	-	-	(2,155,842)	(71,220)	-	-	381,360	12,599
Communication and transportation equipment	13,500	446	-	-	(11,820)	(391)	-	-	1,680	55
Other equipment	3,824,645	126,351	-	-	(3,293,717)	(108,811)	-	-	530,928	17,540
Leasehold improvements	115,912	3,829	-	-	(79,284)	(2,619)	-	-	36,628	1,210
Subtotal	23,428,302	773,977	620	21	(10,000,566)	(330,378)	(140,412)	(4,639)	13,287,944	438,981
Construction in progress and prepayment for real estate equipment	38,869	1,284	-	-	-	-	-	-	38,869	1,284
Total	$23,467,171	$775,261	$620	$21	$(10,000,566)	$(330,378)	$(140,412)	$(4,639)	$13,326,813	$440,265

No properties or equipment was pledged as collaterals as of December 31, 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		December 31, 2012	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,682,975	$57,934	$33,597	$1,156	$(340)	$(12)	$1,716,232	$59,078
Amortized and impairment:								
Amortized	(1,286,142)	(44,273)	(175,212)	(6,031)	-	-	(1,461,354)	(50,304)
Book value	$396,833	$13,661	$(141,615)	$(4,875)	$(340)	$(12)	$254,878	$8,774

	January 1, 2011		Increase		Decrease		December 31, 2011	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired Cost:								
Computer software	$1,598,634	$52,813	$84,341	$2,786	$-	$-	$1,682,975	$55,599
Amortized and impairment:								
Amortized	(1,069,129)	(35,320)	(217,013)	(7,169)	-	-	(1,286,142)	(42,489)
Book value	$529,505	$17,493	$(132,672)	$(4,383)	$-	$-	$396,833	$13,110

17. Financial liabilities at fair value through profit or loss

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	2,079,457	71,582	17,468,901	577,103
Total	$2,079,457	$71,582	$17,468,901	$577,103

18. Preferred stock liabilities

(1) In accordance with the resolution of the Board of Directors' meeting on November 6, 2008, adopted with the Shareholder Meeting's authority, 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, adopted with the Shareholder Meeting's authority, 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, adopted with the Shareholder Meeting's authority, 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) The Company

A. Reserve for life insurance liabilities:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$2,540,691,009	$44,435,855	$2,585,126,864	$2,262,171,695	$44,410,268	$2,306,581,963
Injury insurance	7,888,169	-	7,888,169	7,663,561	-	7,663,561
Health insurance	270,513,728	-	270,513,728	228,602,480	-	228,602,480
Annuity insurance	1,226,217	124,300,017	125,526,234	1,468,242	149,221,880	150,690,122
Investment-linked insurance	1,059,809	-	1,059,809	1,217,774	-	1,217,774
Recover from major incident reserve	63,292	-	63,292	-	-	-
Total	$2,821,442,224	$168,735,872	$2,990,178,096	$2,501,123,752	$193,632,148	$2,694,755,900

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

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$87,459,243	$1,529,634	$88,988,877	$74,733,125	$1,467,138	$76,200,263
Injury insurance	271,538	-	271,538	253,174	-	253,174
Health insurance	9,312,004	-	9,312,004	7,552,114	-	7,552,114
Annuity insurance	42,211	4,278,830	4,321,041	48,505	4,929,695	4,978,200
Investment-linked insurance	36,482	-	36,482	40,230	-	40,230
Recover from major incident reserve	2,179	-	2,179	-	-	-
Total	$97,123,657	$5,808,464	$102,932,121	$82,627,148	$6,396,833	$89,023,981

Reserve for life insurance liabilities is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 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	466,361,698	1,012,224	467,373,922	399,124,484	7,788,150	406,912,634
Recover	(140,671,956)	(25,790,701)	(166,462,657)	(156,150,107)	(56,357,179)	(212,507,286)
(Gains) losses on foreign exchange	(5,371,270)	(117,799)	(5,489,069)	3,167,624	205,664	3,373,288
Ending balance	$2,821,442,224	$168,735,872	$2,990,178,096	$2,501,123,752	$193,632,148	$2,694,755,900

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

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$86,097,203	$6,665,479	$92,762,682	$74,495,598	$7,994,566	$82,490,164
Reserve	16,053,759	34,844	16,088,603	13,185,480	257,289	13,442,769
Recover	(4,842,408)	(887,804)	(5,730,212)	(5,158,576)	(1,861,816)	(7,020,392)
(Gains) losses on foreign exchange	(184,897)	(4,055)	(188,952)	104,646	6,794	111,440
Ending balance	$97,123,657	$5,808,464	$102,932,121	$82,627,148	$6,396,833	$89,023,981

B. Unearned premium reserve:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$286,321	$-	$286,321	$209,502	$4	$209,506
Individual injury insurance	4,528,407	-	4,528,407	4,346,188	-	4,346,188
Individual health insurance	6,135,137	-	6,135,137	5,762,270	-	5,762,270
Group insurance	780,294	-	780,294	1,579,244	-	1,579,244
Investment-linked insurance	118,616	-	118,616	120,773	-	120,773
Total	11,848,775	-	11,848,775	12,017,977	4	12,017,981
Less ceded unearned premium reserve:						
Individual life insurance	3,686,613	-	3,686,613	2,513,030	-	2,513,030
Individual injury insurance	4,690,419	-	4,690,419	4,807,267	-	4,807,267
Group insurance	89	-	89	826	-	826
Investment-linked insurance	-	-	-	1,289,194	-	1,289,194
Total	8,377,121	-	8,377,121	8,610,317	-	8,610,317
Net	$3,471,654	$-	$3,471,654	$3,407,660	$4	$3,407,664

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

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$9,856	$-	$9,856	$6,921	$-	$6,921
Individual injury insurance	155,883	-	155,883	143,581	-	143,581
Individual health insurance	211,192	-	211,192	190,362	-	190,362
Group insurance	26,861	-	26,861	52,172	-	52,172
Investment-linked insurance	4,083	-	4,083	3,990	-	3,990
Total	407,875	-	407,875	397,026	-	397,026
Less ceded unearned premium reserve:						
Individual life insurance	126,906	-	126,906	83,021	-	83,021
Individual injury insurance	161,460	-	161,460	158,813	-	158,813
Group insurance	3	-	3	27	-	27
Investment-linked insurance	-	-	-	42,590	-	42,590
Total	288,369	-	288,369	284,451	-	284,451
Net	$119,506	$-	$119,506	$112,575	$-	$112,575

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

Unearned premium reserve is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 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	11,848,775	-	11,848,775	12,017,977	4	12,017,981
Recover	(12,017,977)	(4)	(12,017,981)	(11,743,204)	(2)	(11,743,206)
Ending balance	11,848,775	-	11,848,775	12,017,977	4	12,017,981
Less ceded unearned premium reserve:						
Beginning balance-Net	8,610,317	-	8,610,317	6,263,909	-	6,263,909
Increase	1,283	-	1,283	2,413,153	-	2,413,153
Decrease	(234,479)	-	(234,479)	(66,745)	-	(66,745)
Total	8,377,121	-	8,377,121	8,610,317	-	8,610,317
Ending balance-Net	$3,471,654	$-	$3,471,654	$3,407,660	$4	$3,407,664

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$413,700	$-	$413,700	$387,949	$-	$387,949
Reserve	407,875	-	407,875	397,026	-	397,026
Recover	(413,700)	-	(413,700)	(387,949)	-	(387,949)
Ending balance	407,875	-	407,875	397,026	-	397,026
Less ceded unearned premium reserve:						
Beginning balance-Net	296,396	-	296,396	206,935	-	206,935
Increase	44	-	44	79,721	-	79,721
Decrease	(8,071)	-	(8,071)	(2,205)	-	(2,205)
Total	288,369	-	288,369	284,451	-	284,451
Ending balance-Net	$119,506	$-	$119,506	$112,575	$-	$112,575

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

C. Reserve for claims:

	December 31, 2012 NT$			December 31, 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	$105,856	$797	$106,653	$139,018	$3,242	$142,260
－Unreported claim	49,750	-	49,750	33,877	-	33,877
Individual injury insurance						
－Reported but not paid claim	147,062	-	147,062	192,822	-	192,822
－Unreported claim	1,024,487	-	1,024,487	789,273	-	789,273
Individual health insurance						
－Reported but not paid claim	124,100	-	124,100	116,876	-	116,876
－Unreported claim	1,535,223	-	1,535,223	1,321,690	-	1,321,690
Group insurance						
－Reported but not paid claim	36,141	-	36,141	18,972	-	18,972
－Unreported claim	1,124,644	-	1,124,644	1,252,450	-	1,252,450
Investment-linked insurance						
－Reported but not paid claim	4,210	-	4,210	10,510	-	10,510
Total	4,151,473	797	4,152,270	3,875,488	3,242	3,878,730
Less ceded reserve for claims:						
Individual injury insurance	780,831	-	780,831	549,591	-	549,591
Net	$3,370,642	$797	$3,371,439	$3,325,897	$3,242	$3,329,139

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to audited consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
For the years ended December 31, 2012 and 2011

	December 31, 2012			December 31, 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	$3,644	$27	$3,671	$4,593	$107	$4,700
—Unreported claim	1,713	-	1,713	1,119	-	1,119
Individual injury insurance						
— Reported but not paid claim	5,062	-	5,062	6,370	-	6,370
—Unreported claim	35,266	-	35,266	26,075	-	26,075
Individual health insurance						
— Reported but not paid claim	4,272	-	4,272	3,861	-	3,861
—Unreported claim	52,848	-	52,848	43,663	-	43,663
Group insurance						
— Reported but not paid claim	1,244	-	1,244	627	-	627
—Unreported claim	38,714	-	38,714	41,376	-	41,376
Investment-linked insurance						
— Reported but not paid claim	145	-	145	347	-	347
Total	142,908	27	142,935	128,031	107	128,138
Less ceded reserve for claims:						
Individual injury insurance	26,879	-	26,879	18,156	-	18,156
Net	$116,029	$27	$116,056	$109,875	$107	$109,982

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

Reserve for claims is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 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	4,151,480	797	4,152,277	3,875,488	3,242	3,878,730
Recover	(3,875,488)	(3,242)	(3,878,730)	(3,444,087)	(211)	(3,444,298)
Gains on foreign exchange	(7)	-	(7)	-	-	-
Ending balance	4,151,473	797	4,152,270	3,875,488	3,242	3,878,730
Less ceded reserve for claims:						
Beginning balance-Net	549,591	-	549,591	497,707	-	497,707
Increase	231,240	-	231,240	51,884	-	51,884
Total	780,831	-	780,831	549,591	-	549,591
Net	$3,370,642	$797	$3,371,439	$3,325,897	$3,242	$3,329,139

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$133,408	$112	$133,520	$113,779	$7	$113,786
Reserve	142,908	27	142,935	128,031	107	128,138
Recover	(133,408)	(112)	(133,520)	(113,779)	(7)	(113,786)
Gains on foreign exchange	-	-	-	-	-	-
Ending balance	142,908	27	142,935	128,031	107	128,138
Less ceded reserve for claims:						
Beginning balance-Net	18,919	-	18,919	16,442	-	16,442
Increase	7,960	-	7,960	1,714	-	1,714
Total	26,879	-	26,879	18,156	-	18,156
Net	$116,029	$27	$116,056	$109,875	$107	$109,982

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

D. Special reserve:

	December 31, 2012 NT$				December 31, 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	$62,075	$-	$-	$62,075	$121,785	$-	$-	$121,785
Individual injury insurance	1,102,231	-	-	1,102,231	2,336,788	-	-	2,336,788
Individual health insurance	1,829,374	-	-	1,829,374	3,728,497	-	-	3,728,497
Group insurance	1,384,203	-	-	1,384,203	2,835,742	-	-	2,835,742
Participating policies dividends reserve	1,971	-	-	1,971	227	-	-	227
Total	$4,379,854	$-	$-	$4,379,854	$9,023,039	$-	$-	$9,023,039

	December 31, 2012 US$				December 31, 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	$2,137	$-	$-	$2,137	$4,023	$-	$-	$4,023
Individual injury insurance	37,943	-	-	37,943	77,198	-	-	77,198
Individual health insurance	62,973	-	-	62,973	123,175	-	-	123,175
Group insurance	47,649	-	-	47,649	93,681	-	-	93,681
Participating policies dividends reserve	68	-	-	68	8	-	-	8
Total	$150,770	$-	$-	$150,770	$298,085	$-	$-	$298,085

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

Special reserve is summarized below:

	For the year ended December 31, 2012 NT$				For the year ended December 31, 2011 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	(63,292)	-	-	(63,292)	(169,922)	-	-	(169,922)
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	(18,925)	-	-	(18,925)	(769,214)	-	-	(769,214)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(51,306)	-	-	(51,306)	(594,997)	-	-	(594,997)
Reserves for participating policies dividends reserve	2,065	-	-	2,065	1,401	-	-	1,401
Recovery from participating policies dividends reserve	(321)	-	-	(321)	(285)	-	-	(285)
Reserves for dividends risk reserve	-	-	-	-	(889)	-	-	(889)
Reclassify to foreign exchange volatility reserve	(4,511,406)	-	-	(4,511,406)	-	-	-	-
Ending balance	$4,379,854	$-	$-	$4,379,854	$9,023,039	$-	$-	$9,023,039

7	For the year ended December 31, 2012 US$				For the year ended December 31, 2011 US$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$310,604	$-	$-	$310,604	$348,759	$-	$-	$348,759
Reserves for major incidents over 15 years	(2,179)	-	-	(2,179)	(5,614)	-	-	(5,614)
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	(651)	-	-	(651)	(25,412)	-	-	(25,412)
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	(1,766)	-	-	(1,766)	(19,656)	-	-	(19,656)
Reserves for participating policies dividends reserve	71	-	-	71	46	-	-	46
Recovery from participating policies dividends reserve	(11)	-	-	(11)	(9)	-	-	(9)
Reserves for dividends risk reserve	-	-	-	-	(29)	-	-	(29)
Reclassify to foreign exchange volatility reserve	(155,298)	-	-	(155,298)	-	-	-	-
Ending balance	$150,770	$-	$-	$150,770	$298,085	$-	$-	$298,085

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

E. Special capital reserve for major incidents and fluctuation of risks:

	December 31, 2012 NT$				December 31, 2011 NT$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$27,650	$-	$-	$27,650	$19,462	$-	$-	$19,462
Individual injury insurance	279,581	-	-	279,581	157,782	-	-	157,782
Individual health insurance	842,680	-	-	842,680	509,244	-	-	509,244
Group insurance	711,767	-	-	711,767	55,463	-	-	55,463
Total	$1,861,678	$-	$-	$1,861,678	$741,951	$-	$-	$741,951

	December 31, 2012 US$				December 31, 2011 US$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$952	$-	$-	$952	$644	$-	$-	$644
Individual injury insurance	9,624	-	-	9,624	5,212	-	-	5,212
Individual health insurance	29,008	-	-	29,008	16,823	-	-	16,823
Group insurance	24,501	-	-	24,501	1,832	-	-	1,832
Total	$64,085	$-	$-	$64,085	$24,511	$-	$-	$24,511

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

F. Premium deficiency reserve:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$16,389,516	$-	$16,389,516	$12,872,878	$-	$12,872,878
Individual health insurance	690,546	-	690,546	673,880	-	673,880
Group insurance	41,573	-	41,573	52,969	-	52,969
Total	$17,121,635	$-	$17,121,635	$13,599,727	$-	$13,599,727

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$564,183	$-	$564,183	$425,268	$-	$425,268
Individual health insurance	23,771	-	23,771	22,262	-	22,262
Group insurance	1,431	-	1,431	1,750	-	1,750
Total	$589,385	$-	$589,385	$449,280	$-	$449,280

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

Premium deficiency reserve is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 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	3,754,578	-	3,754,578	3,366,593	-	3,366,593
(Gains) losses on foreign exchange	(232,670)	-	(232,670)	169,033	-	169,033
Ending balance	$17,121,635	$-	$17,121,635	$13,599,727	$-	$13,599,727

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$468,149	$-	$468,149	$332,477	$-	$332,477
Reserve	129,245	-	129,245	111,219	-	111,219
(Gains) losses on foreign exchange	(8,009)	-	(8,009)	5,584	-	5,584
Ending balance	$589,385	$-	$589,385	$449,280	$-	$449,280

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

G. Liability adequacy reserve:

	December 31, 2012 (NT$)	December 31, 2011 (NT$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,990,178,096	$2,694,755,900
Unearned premium reserve	11,848,775	12,017,981
Premium deficiency reserve	17,121,635	13,599,727
Total	$3,019,148,506	$2,720,373,608
Book value of insurance liabilities	$3,019,148,506	$2,720,373,608
Estimated present value of cash flows	$2,174,379,434	$2,368,148,220
Balance of liability adequacy reserve	$-	$-

	December 31, 2012 (US$)	December 31, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$102,932,121	$89,023,981
Unearned premium reserve	407,875	397,026
Premium deficiency reserve	589,385	449,280
Total	$103,929,381	$89,870,287
Book value of insurance liabilities	$103,929,381	$89,870,287
Estimated present value of cash flows	$74,849,550	$78,234,167
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 (December 31, 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:

	December 31, 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 December 31, 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.

	December 31, 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 December 31, 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 (after 2041).

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

H. 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 December 31, 2012 and 2011, reserve for insurance contract with feature of financial instruments is summarized below:

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Life insurance	$56,461,371	$1,943,593	$60,624,750	$2,002,800

	For the year ended December 31,2012 NT$	For the year ended December 31,2011 NT$
Beginning balance	$60,624,750	$55,083,796
Premiums (returned) received	(5,532)	6,757,906
Insurance claim payments	(5,118,417)	(2,214,416)
Net provision of statutory reserve	960,570	997,464
Ending balance	$56,461,371	$60,624,750

	For the year ended December 31,2012 US$	For the year ended December 31,2011 US$
Beginning balance	$2,086,910	$1,819,749
Premiums (returned) received	(190)	223,254
Insurance claim payments	(176,193)	(73,155)
Net provision of statutory reserve	33,066	32,952
Ending balance	$1,943,593	$2,002,800

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

(2) Cathay Life (China)

A. Reserve for life insurance liabilities:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$2,875,460	$-	$2,875,460	$2,417,929	$-	$2,417,929
Health insurance	58,989	-	58,989	44,343	-	44,343
Investment-linked insurance	50,436	-	50,436	19,226	-	19,226
Total	$2,984,885	$-	$2,984,885	$2,481,498	$-	$2,481,498

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$98,983	$-	$98,983	$79,879	$-	$79,879
Health insurance	2,031	-	2,031	1,465	-	1,465
Investment-linked insurance	1,736	-	1,736	635	-	635
Total	$102,750	$-	$102,750	$81,979	$-	$81,979

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

Reserve for life insurance liabilities is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,481,498	$-	$2,481,498	$3,083,702	$-	$3,083,702
Reserve	955,020	-	955,020	1,007,504	-	1,007,504
Recover	(377,675)	-	(377,675)	(1,837,146)	-	(1,837,146)
(Gains) losses on foreign exchange	(73,958)	-	(73,958)	227,438	-	227,438
Ending balance	$2,984,885	$-	$2,984,885	$2,481,498	$-	$2,481,498

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$85,422	$-	$85,422	$101,873	$-	$101,873
Reserve	32,875	-	32,875	33,284	-	33,284
Recover	(13,001)	-	(13,001)	(60,692)	-	(60,692)
(Gains) losses on foreign exchange	(2,546)	-	(2,546)	7,514	-	7,514
Ending balance	$102,750	$-	$102,750	$81,979	$-	$81,979

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

B. Unearned premium reserve:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$6,787	$-	$6,787	$8,653	$-	$8,653
Individual health insurance	624	-	624	682	-	682
Group insurance	245,310	-	245,310	229,383	-	229,383
Total	252,721	-	252,721	238,718	-	238,718
Less ceded unearned premium reserve:						
Individual life insurance	61	-	61	62	-	62
Individual injury insurance	66	-	66	68	-	68
Individual health insurance	2,862	-	2,862	2,937	-	2,937
Group insurance	4,171	-	4,171	4,280	-	4,280
Total	7,160	-	7,160	7,347	-	7,347
Net	$245,561	$-	$245,561	$231,371	$-	$231,371

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$234	$-	$234	$286	$-	$286
Individual health insurance	22	-	22	23	-	23
Group insurance	8,444	-	8,444	7,578	-	7,578
Total	8,700	-	8,700	7,887	-	7,887
Less ceded unearned premium reserve:						
Individual life insurance	2	-	2	2	-	2
Individual injury insurance	2	-	2	2	-	2
Individual health insurance	98	-	98	97	-	97
Group insurance	144	-	144	141	-	141
Total	246	-	246	242	-	242
Net	$8,454	$-	$8,454	$7,645	$-	$7,645

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

Unearned premium reserve is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$238,718	$-	$238,718	$211,489	$-	$211,489
Reserve	269,698	-	269,698	206,999	-	206,999
Recover	(248,736)	-	(248,736)	(198,970)	-	(198,970)
(Gains) losses on foreign exchange	(6,959)	-	(6,959)	19,200	-	19,200
Ending balance	252,721	-	252,721	238,718	-	238,718
Less ceded unearned premium reserve:						
Beginning balance-Net	7,347	-	7,347	6,749	-	6,749
Increase	24	-	24	-	-	-
(Losses) gains on foreign exchange	(211)	-	(211)	598	-	598
Total	7,160	-	7,160	7,347	-	7,347
Ending balance-Net	$245,561	$-	$245,561	$231,371	$-	$231,371

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$8,218	$-	$8,218	$6,987	$-	$6,987
Reserve	9,284	-	9,284	6,839	-	6,839
Recover	(8,562)	-	(8,562)	(6,573)	-	(6,573)
(Gains) losses on foreign exchange	(240)	-	(240)	634	-	634
Ending balance	8,700	-	8,700	7,887	-	7,887
Less ceded unearned premium reserve:						
Beginning balance-Net	253	-	253	223	-	223
Increase	-	-	-	-	-	-
(Losses) gains on foreign exchange	(7)	-	(7)	19	-	19
Total	246	-	246	242	-	242
Ending balance-Net	$8,454	$-	$8,454	$7,645	$-	$7,645

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

C. Reserve for claims:

	December 31, 2012 NT$			December 31, 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	$2,899	$-	$2,899	$19	$-	$19
－Unreported claim	2,358	-	2,358	2,118	-	2,118
Individual injury insurance						
－Reported but not paid claim	3,613	-	3,613	2,509	-	2,509
－Unreported claim	3,020	-	3,020	286	-	286
Individual health insurance						
－Reported but not paid claim	3,285	-	3,285	499	-	499
－Unreported claim	7,369	-	7,369	4,592	-	4,592
Group insurance						
－Reported but not paid claim	66,165	-	66,165	21,878	-	21,878
－Unreported claim	307,740	-	307,740	388,663	-	388,663
Total	396,449	-	396,449	420,564	-	420,564
Less ceded reserve for claims:						
Individual health insurance	523	-	523	1,178	-	1,178
Net	$395,926	$-	$395,926	$419,386	$-	$419,386

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

	December 31, 2012			December 31, 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	$100	$-	$100	$1	$-	$1
－Unreported claim	81	-	81	70	-	70
Individual injury insurance						
－Reported but not paid claim	124	-	124	83	-	83
－Unreported claim	104	-	104	9	-	9
Individual health insurance						
－Reported but not paid claim	113	-	113	16	-	16
－Unreported claim	254	-	254	152	-	152
Group insurance						
－Reported but not paid claim	2,278	-	2,278	723	-	723
－Unreported claim	10,594	-	10,594	12,840	-	12,840
Total	13,648	-	13,648	13,894	-	13,894
Less ceded reserve for claims:						
Individual health insurance	18	-	18	39	-	39
Net	$13,630	$-	$13,630	13,855	$-	13,855

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

Reserve for claims is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$420,564	$-	$420,564	$210,756	$-	$210,756
Reserve	743,155	-	743,155	520,001	-	520,001
Recover	(755,230)	-	(755,230)	(338,925)	-	(338,925)
(Gains) losses on foreign exchange	(12,040)	-	(12,040)	28,732	-	28,732
Ending balance	396,449	-	396,449	420,564	-	420,564
Less ceded reserve for claims:						
Beginning balance-Net	1,178	-	1,178	1,082	-	1,082
Decrease	(624)	-	(624)	-	-	-
(Losses) gains on foreign exchange	(31)	-	(31)	96	-	96
Total	523	-	523	1,178	-	1,178
Net	$395,926	$-	$395,926	$419,386	$-	$419,386

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$14,477	$-	$14,477	$6,963	$-	$6,963
Reserve	25,582	-	25,582	17,179	-	17,179
Recover	(25,997)	-	(25,997)	(11,197)	-	(11,197)
(Gains) losses on foreign exchange	(414)	-	(414)	949	-	949
Ending balance	13,648	-	13,648	13,894	-	13,894
Less ceded reserve for claims:						
Beginning balance-Net	40	-	40	36	-	36
Decrease	(21)	-	(21)	-	-	-
(Losses) gains on foreign exchange	(1)	-	(1)	3	-	3
Total	18	-	18	39	-	39
Net	$13,630	$-	$13,630	$13,855	$-	$13,855

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

D. Liability adequacy reserve:

	December 31, 2012 (NT$)	December 31, 2011 (NT$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$2,984,885	$2,481,498
Unearned premium reserve	252,721	238,718
Total	$3,237,606	$2,720,216
Book value of insurance liabilities	$3,237,606	$2,720,216
Estimated present value of cash flows	$2,319,570	$2,312,185
Balance of liability adequacy reserve	$-	$-

	December 31, 2012 (US$)	December 31, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$102,750	$81,979
Unearned premium reserve	8,700	7,887
Total	$111,450	$89,866
Book value of insurance liabilities	$111,450	$89,866
Estimated present value of cash flows	$79,848	$76,385
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 is not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date (December 31, 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 Cathay Life (China). 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:

	December 31, 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 December 31, 2012. (2) Discount rate: 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.

	December 31, 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 December 31, 2011. (2) Discount rate: Under assets allocation plan of annual report of 2010, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2009.

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

E. Reserve for insurance contract with feature of financial instruments:

Cathay Life (China) issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of December 31, 2012 and 2011, reserve for insurance contract with feature of financial instruments is summarized below:

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Life insurance	$4,889,501	$168,313	$6,259,962	$206,804

	For the year ended December 31,2012 NT$	For the year ended December 31,2011 NT$
Beginning balance	$6,259,962	$5,518,921
Premiums received	1,248,957	76,026
Insurance claim payments	(704,024)	(322,325)
Net provision of statutory reserve	(1,740,740)	484,711
(Gains) losses on foreign exchange	(174,654)	502,629
Ending balance	$4,889,501	$6,259,962

	For the year ended December 31,2012 US$	For the year ended December 31,2011 US$
Beginning balance	$215,489	$182,323
Premiums received	42,993	2,511
Insurance claim payments	(24,235)	(10,648)
Net provision of statutory reserve	(59,922)	16,013
(Gains) losses on foreign exchange	(6,012)	16,605
Ending balance	$168,313	$206,804

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

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$299,490	$-	$299,490	$231,165	$-	$231,165
Investment – linked insurance	9	-	9	-	-	-
Total	$299,499	$-	$299,499	$231,165	$-	$231,165

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$10,309	$-	$10,309	$7,636	$-	$7,636
Investment – linked insurance	0	-	0	-	-	-
Total	$10,309	$-	$10,309	$7,636	$-	$7,636

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

Reserve for life insurance liabilities is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$231,165	$-	$231,165	$118,431	$-	$118,431
Reserve	77,228	-	77,228	115,585	-	115,585
Gains on foreign exchange	(8,894)	-	(8,894)	(2,851)	-	(2,851)
Ending balance	$299,499	$-	$299,499	$231,165	$-	$231,165

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$7,957	$-	$7,957	$3,912	$-	$3,912
Reserve	2,658	-	2,658	3,818	-	3,818
Gains on foreign exchange	(306)	-	(306)	(94)	-	(94)
Ending balance	$10,309	$-	$10,309	$7,636	$-	$7,636

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

B. Unearned premium reserve:

	December 31, 2012 NT$			December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$1,666	$-	$1,666	$1,484	$-	$1,484
Individual health insurance	1,614	-	1,614	1,850	-	1,850
Total	$3,280	$-	$3,280	$3,334	$-	$3,334

	December 31, 2012 US$			December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$57	$-	$57	$49	$-	$49
Individual health insurance	56	-	56	61	-	61
Total	$113	$-	$113	$110	$-	$110

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

Unearned premium reserve is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,334	$-	$3,334	$2,061	$-	$2,061
Reserve	54	-	54	1,330	-	1,330
Gains on foreign exchange	(108)	-	(108)	(57)	-	(57)
Ending balance	$3,280	$-	$3,280	$3,334	$-	$3,334

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$115	$-	$115	$68	$-	$68
Reserve	2	-	2	44	-	44
Gains on foreign exchange	(4)	-	(4)	(2)	-	(2)
Ending balance	$113	$-	$113	$110	$-	$110

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

C. Reserve for claims:

	December 31, 2012 NT$			December 31, 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	$1,251	$-	$1,251	$302	$-	$302
Individual injury insurance						
－Reported but not paid claim	231	-	231	139	-	139
－Unreported claim	163	-	163	141	-	141
Individual health insurance						
－Reported but not paid claim	206	-	206	98	-	98
－Unreported claim	294	-	294	109	-	109
Investment-linked insurance						
－Reported but not paid claim	390	-	390	-	-	-
Total	$2,535	$-	$2,535	$789	$-	$789

	December 31, 2012 US$			December 31, 2011 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	$43	$-	$43	$10	$-	$10
Individual injury insurance						
－Reported but not paid claim	8	-	8	4	-	4
－Unreported claim	6	-	6	5	-	5
Individual health insurance						
－Reported but not paid claim	7	-	7	3	-	3
－Unreported claim	10	-	10	4	-	4
Investment-linked insurance						
－Reported but not paid claim	13	-	13	-	-	-
Total	$87	$-	$87	$26	$-	$26

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

Reserve for claims is summarized below:

	For the year ended December 31, 2012 NT$			For the year ended December 31, 2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$789	$-	$789	$545	$-	$545
Reserve	1,804	-	1,804	260	-	260
Gains on foreign exchange	(58)	-	(58)	(16)	-	(16)
Ending balance	$2,535	$-	$2,535	$789	$-	$789

	For the year ended December 31, 2012 US$			For the year ended December 31, 2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$27	$-	$27	$18	$-	$18
Reserve	62	-	62	9	-	9
Gains on foreign exchange	(2)	-	(2)	(1)	-	(1)
Ending balance	$87	$-	$87	$26	$-	$26

D. Special reserve:

	December 31, 2012 NT$				December 31, 2011 NT$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	$516	$-	$-	$516	$533	$-	$-	$533

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

	December 31, 2012 US$				December 31, 2011 US$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	$17	$-	$-	$17	$18	$-	$-	$18

Special reserve is summarized below:

	For the year ended December 31, 2012 NT$				For the year ended December 31, 2011 NT$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$533	$-	$-	$533	$551	$-	$-	$551
Reserves for major incidents over 15 years	-	-	-	-	-	-	-	-
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	-	-	-	-
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	-	-	-	-	-	-	-	-
Reserves for participating policies dividends reserve	-	-	-	-	-	-	-	-
Recovery from participating policies dividends reserve	-	-	-	-	-	-	-	-
Reserves for dividends risk reserve	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Gains on foreign exchange	(17)	-	-	(17)	(18)	-	-	(18)
Ending balance	$516	$-	$-	$516	$533	$-	$-	$533

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to audited consolidated financial statements-continued

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

For the years ended December 31, 2012 and 2011

	For the year ended December 31, 2012				For the year ended December 31, 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	$17	$-	$-	$17	$18	$-	$-	$18
Reserves for major incidents over 15 years	-	-	-	-	-	-	-	-
Actual claims payment less offsets of reserves for major incidents exceed expected claims payment	-	-	-	-	-	-	-	-
Accumulated provision for special reserves for fluctuation of risks is more than 30 percent of the retained earned premium for the current year	-	-	-	-	-	-	-	-
Reserves for participating policies dividends reserve	-	-	-	-	-	-	-	-
Recovery from participating policies dividends reserve	-	-	-	-	-	-	-	-
Reserves for dividends risk reserve	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Gains on foreign exchange	-	-	-	-	-	-	-	-
Ending balance	$17	$-	$-	$17	$18	$-	$-	$18

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

E. Liability adequacy reserve:

	December 31, 2012 (NT$)	December 31, 2011 (NT$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$299,499	$231,165
Unearned premium reserve	3,280	3,334
Total	$302,779	$234,499
Book value of insurance liabilities	$302,779	$234,499
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	$-	$-

	December 31, 2012 (US$)	December 31, 2011 (US$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	$10,309	$7,636
Unearned premium reserve	113	110
Total	$10,422	$7,746
Book value of insurance liabilities	$10,422	$7,746
Estimated present value of cash flows	Negative amount	Negative amount
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: Outstanding reserve for claims (NT$2,535 (US$87) and NT$789 (US$26) thousands as of December 31, 2012 and 2011, respectively) and special reserve (NT$516 (US$17) and NT$533 (US$18) thousands as of December 31, 2012 and 2011, respectively) are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date (December 31, 2012 and 2011, respectively) and therefore not included in the test.

Note 3: As the loss ratio of one-year injury medical insurance is less than 100%, unearned premium reserve is included in the calculation of estimated present value of cash flows for conservative approach.

Note 4: Extended contracts are calculated based on maximum possibility of loss, which assumes immediate death of the insured to calculate estimated present value of cash flows.

Note 5: There are no instances of merge or transfer of insurance contract for Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

20. Deferred acquisition costs

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred acquisition costs related to investment management services of such contracts are summarized below:

	For the year ended December 31,2012 NT$	For the year ended December 31,2011 NT$
Beginning balance	$-	$-
Increase	53,571	-
Amortization	(1,912)	-
Ending balance	$51,659	$-

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

	For the year ended December 31,2012 US$	For the year ended December 31,2011 US
Beginning balance	$-	$-
Increase	1,844	-
Amortization	(66)	-
Ending balance	$1,778	$-

21. Deferred handling fees

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred handling fees related to investment management services of such contracts are summarized below:

	For the year ended December 31,2012 NT$	For the year ended December 31,2011 NT$
Beginning balance	$-	$-
Increase	105,084	-
Amortization	(4,481)	-
Gains on foreign exchange	(401)	-
Ending balance	$100,202	$-

	For the year ended December 31,2012 US$	For the year ended December 31,2011 US$
Beginning balance	$-	$-
Increase	3,617	-
Amortization	(154)	-
Gains on foreign exchange	(14)	-
Ending balance	$3,449	$-

22. Common stock

As of December 31, 2012 and 2011, the total authorized thousand shares were both 5,306,527 at par value of NT$10.

23. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Prior to 2007, this legal capital 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, acting under the authority of the Company's Shareholder Meeting, resolved to recognize the legal capital reserves NT$91,176 (US$3,139) thousands. On April 29, 2011, the Company's Board of Directors, acting under the authority of the Company's Shareholder Meeting, resolved to use the legal capital reserves to offset the cumulative deficits amounting to NT$11,711,080 (US$386,888) thousands.

(2) Special capital 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 capital 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 capital 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 capital reserve.

In addition, the full amount of special reserves for fluctuation of risks in liability should be recognized and recorded in special capital 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, acting under the authority of the Company's Shareholder Meeting, resolved to use the special capital reserves to offset the cumulative deficits amounting to NT$1,120,208 (US$38,561) thousands after recognizing special capital reserves NT$1,484,912 (US$51,116) thousands, among which special reserves for major incidents and special reserves for fluctuation of risks NT$741,951 (US$24,511) 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 capital reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, 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 capital reserve in the amount equal to unrealized losses of financial instruments except for the legal capital reserve since 2007.

D. The employee bonus and remuneration of directors for the years ended December 31, 2012 and 2011, amounting to NT$0 (US$0) thousands and NT$ 20,000 (US$661) 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.

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

E. The Company's distribution of 2012 retained earnings has not been approved by the shareholders as of the independent auditor's opinion date. 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 are recorded as special capital reserve under equity at the end of this year. As of December 31, 2012, the reserves amounted to NT$1,119,727 (US$38,544) thousands.

24. Retained earned premium

(1) The Company

	For the year ended December 31,2012 NT$			For the year ended December 31,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$458,061,131	$13,759,474	$471,820,605	$370,138,594	$37,705,814	$407,844,408
Reinsurance premium income	194,373	-	194,373	186,209	-	186,209
Premiums income	458,255,504	13,759,474	472,014,978	370,324,803	37,705,814	408,030,617
Less:						
Reinsurance premiums ceded	(28,597,180)	-	(28,597,180)	(22,397,674)	-	(22,397,674)
Changes in unearned premium reserve	(63,994)	4	(63,990)	2,071,635	(2)	2,071,633
Subtotal	(28,661,174)	4	(28,661,170)	(20,326,039)	(2)	(20,326,041)
Retained earned premium	$429,594,330	$13,759,478	$443,353,808	$349,998,764	$37,705,812	$387,704,576

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

	For the year ended December 31,2012 US$			For the year ended December 31,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$15,768,025	$473,648	$16,241,673	$12,227,902	$1,245,650	$13,473,552
Reinsurance premium income	6,691	-	6,691	6,151	-	6,151
Premiums income	15,774,716	473,648	16,248,364	12,234,053	1,245,650	13,479,703
Less:						
Reinsurance premiums ceded	(984,412)	-	(984,412)	(739,929)	-	(739,929)
Changes in unearned premium reserve	(2,203)	-	(2,203)	68,438	-	68,438
Subtotal	(986,615)	-	(986,615)	(671,491)	-	(671,491)
Retained earned premium	$14,788,101	$473,648	$15,261,749	$11,562,562	$1,245,650	$12,808,212

(2) Cathay life (China)

	For the year ended December 31,2012 NT$			For the year ended December 31,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$2,092,597	$-	$2,092,597	$2,264,929	$-	$2,264,929
Reinsurance premium income	-	-	-	-	-	-
Premiums income	2,092,597	-	2,092,597	2,264,929	-	2,264,929
Less:						
Reinsurance premiums ceded	(14,472)	-	(14,472)	(18,393)	-	(18,393)
Changes in unearned premium reserve	(20,962)	-	(20,962)	(8,030)	-	(8,030)
Subtotal	(35,434)	-	(35,434)	(26,423)	-	(26,423)
Retained earned premium	$2,057,163	$-	$2,057,163	$2,238,506	$-	$2,238,506

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

	For the year ended December 31,2012 US$			For the year ended December 31,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$72,034	$-	$72,034	$74,824	$-	$74,824
Reinsurance premium income	-	-	-	-	-	-
Premiums income	72,034	-	72,034	74,824	-	74,824
Less:						
Reinsurance premiums ceded	(499)	-	(499)	(608)	-	(608)
Changes in unearned premium reserve	(721)	-	(721)	(265)	-	(265)
Subtotal	(1,220)	-	(1,220)	(873)	-	(873)
Retained earned premium	$70,814	$-	$70,814	$73,951	$-	$73,951

(3) Cathay life (Vietnam)

	For the year ended December 31,2012 NT$			For the year ended December 31,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$162,561	$-	$162,561	$242,587	$-	$242,587
Reinsurance premium income	-	-	-	-	-	-
Premiums income	162,561	-	162,561	242,587	-	242,587
Less:						
Reinsurance premiums ceded	-	-	-	-	-	-
Changes in unearned premium reserve	(54)	-	(54)	(1,330)	-	(1,330)
Subtotal	(54)	-	(54)	(1,330)	-	(1,330)
Retained earned premium	$162,507	$-	$162,507	$241,257	$-	$241,257

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

	For the year ended December 31,2012 US$			For the year ended December 31,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$5,596	$-	$5,596	$8,014	$-	$8,014
Reinsurance premium income	-	-	-	-	-	-
Premiums income	5,596	-	5,596	8,014	-	8,014
Less:						
Reinsurance premiums ceded	-	-	-	-	-	-
Changes in unearned premium reserve	(2)	-	(2)	(44)	-	(44)
Subtotal	(2)	-	(2)	(44)	-	(44)
Retained earned premium	$5,594	$-	$5,594	$7,970	$-	$7,970

25. Retained claim payment

(1) The Company

	For the year ended December 31,2012 NT$			For the year ended December 31,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$189,414,906	$42,853,918	$232,268,824	$169,024,123	$90,610,858	$259,634,981
Reinsurance claim payments	174,964	-	174,964	119,143	-	119,143
Insurance claim payments	189,589,870	42,853,918	232,443,788	169,143,266	90,610,858	259,754,124
Less:						
Claims recovered from reinsures	(11,768,982)	-	(11,768,982)	(8,387,802)	-	(8,387,802)
Retained claim payment	$177,820,888	$42,853,918	$220,674,806	$160,755,464	$90,610,858	$251,366,322

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to audited consolidated financial statements-continued

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

For the years ended December 31, 2012 and 2011

	For the year ended December 31,2012 US$			For the year ended December 31,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$6,520,306	$1,475,178	$7,995,484	$5,583,883	$2,993,421	$8,577,304
Reinsurance claim payments	6,023	-	6,023	3,936	-	3,936
Insurance claim payments	6,526,329	1,475,178	8,001,507	5,587,819	2,993,421	8,581,240
Less:						
Claims recovered from reinsures	(405,128)	-	(405,128)	(277,100)	-	(277,100)
Retained claim payment	$6,121,201	$1,475,178	$7,596,379	$5,310,719	$2,993,421	$8,304,140

(2) Cathay life (China)

	For the year ended December 31,2012 NT$			For the year ended December 31,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$1,068,812	$-	$1,068,812	$1,724,226	$-	$1,724,226
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	1,068,812	-	1,068,812	1,724,226	-	1,724,226
Less:						
Claims recovered from reinsures	(9,166)	-	(9,166)	(1,716)	-	(1,716)
Retained claim payment	$1,059,646	$-	$1,059,646	$1,722,510	$-	$1,722,510

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

	For the year ended December 31,2012 US$			For the year ended December 31,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$36,792	$-	$36,792	$56,961	$-	$56,961
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	36,792	-	36,792	56,961	-	56,961
Less:						
Claims recovered from reinsures	(316)	-	(316)	(56)	-	(56)
Retained claim payment	$36,476	$-	$36,476	$56,905	$-	$56,905

(3) Cathay life (Vietnam)

	For the year ended December 31,2012 NT$			For the year ended December 31,2011 NT$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$19,372	$-	$19,372	$18,941	$-	$18,941
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	19,372	-	19,372	18,941	-	18,941
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payment	$19,372	$-	$19,372	$18,941	$-	$18,941

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

	For the year ended December 31,2012 US$			For the year ended December 31,2011 US$		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$667	$-	$667	$626	$-	$626
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	667	-	667	626	-	626
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payment	$667	$-	$667	$626	$-	$626

26. Personnel expense, depreciation and amortizations – The Company and Subsidiaries

Item	For the year ended December 31, 2012 (NT$)			For the year ended December 31, 2011 (NT$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$13,053,296	$2,830,595	$15,883,891	$12,604,973	$2,681,806	$15,286,779
Labor & health insurance expenses	1,730,144	345,568	2,075,712	1,654,108	327,470	1,981,578
Pension expenses	1,162,849	218,959	1,381,808	1,027,080	188,845	1,215,925
Other expenses	1,354,273	328,230	1,682,503	1,278,642	300,927	1,579,569
Depreciation	41,093	2,512,972	2,554,065	52,273	2,465,607	2,517,880
Amortization	732	178,943	179,675	838	213,095	213,933

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

Item	For the year ended December 31, 2012 (US$)			For the year ended December 31, 2011 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$449,339	$97,439	$546,778	$416,418	$88,596	$505,014
Labor & health insurance expenses	59,557	11,896	71,453	54,645	10,818	65,463
Pension expenses	40,029	7,537	47,566	33,931	6,239	40,170
Other expenses	46,619	11,299	57,918	42,241	9,942	52,183
Depreciation	1,415	86,505	87,920	1,727	81,453	83,180
Amortization	25	6,160	6,185	27	7,040	7,067

27. Estimated income taxes

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

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Total deferred tax assets	$19,157,085	$659,452	$15,808,131	$522,237
Total deferred tax liabilities	$(435,535)	$(14,993)	$(2,254)	$(74)
Allowance for deferred tax assets	$(890,865)	$(30,666)	$(782,691)	$(25,857)
Temporary differences:				
Pension expense	$272,234	$9,371	$233,803	$7,724
Unrealized foreign exchange losses	13,601,243	468,201	8,007,195	264,526
(Gains) losses from valuation on financial assets and liabilities	(435,535)	(14,993)	2,320,509	76,660
Impairment losses	221,499	7,625	221,499	7,317
Unrealized bad debt losses	77,463	2,667	77,458	2,559
Others	7,243	249	7,210	238
Total	$13,744,147	$473,120	$10,867,674	$359,024
Loss carryforwards	$7,047,072	$242,584	$5,621,289	$185,705
Tax effect under consolidated income tax system	$(2,078,424)	$(71,546)	$(702,065)	$(23,193)
Deferred income tax liabilities of foreign branches	$-	$-	$(2,254)	$(74)
Investment tax credits	$8,755	$301	$21,233	$701

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

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Deferred tax assets	$19,157,085	$659,452	$15,808,131	$522,237
Allowance for deferred tax assets	(890,865)	(30,666)	(782,691)	(25,857)
Deferred tax assets-Net	18,266,220	628,786	15,025,440	496,380
Deferred tax liabilities	(435,535)	(14,993)	(2,254)	(74)
Net offset balance of deferred tax assets	$17,830,685	$613,793	$15,023,186	$496,306

(2) Income tax benefit included the following:

	For the years ended December 31,			
	2012		2011	
	NT$	US$	NT$	US$
Tax expenses before adjusting temporary and other differences	$760,144	$26,166	$3,293,307	$108,798
Deferred income tax (benefit) expenses:				
Unrealized foreign exchange (gains) losses	(5,594,048)	(192,566)	6,778,646	223,939
Unrealized financial instruments valuation losses (gains)	2,756,043	94,872	(13,701,101)	(452,630)
Unrealized pension benefit	(38,432)	(1,323)	(15,521)	(513)
Loss carryforwards	(49,424)	(1,701)	-	-
Allowance for deferred tax assets	108,174	3,723	-	-
Others	(37)	(1)	(370)	(12)
Prior year adjustment	298,079	10,261	80,809	2,670
China corporate income tax	1,065	37	-	-
Withholding tax for overseas investments	(6,329)	(218)	-	-
Tax effect under basic tax systems	108,011	3,718	66,423	2,194
Investment tax credit	12,478	430	16,345	540
Tax effect under consolidated income tax systems	(108,011)	(3,718)	(66,423)	(2,194)
Total income tax benefit	$(1,752,287)	$(60,320)	$(3,547,885)	$(117,208)

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

(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 2003 and 2005 through 2006.

Symphox Information's income tax returns have been assessed by the Tax Authorities up to fiscal year 2009.

(4) Information related to imputation-The Company and Subsidiaries

A. Balance of imputation credit account

	December 31,			
	2012		2011	
	NT$	US$	NT$	US$
The Company	$5,584,641	$192,242	$4,368,541	$144,319
Symphox Information	13,982	481	10,687	353

B. Imputation credit account ratio

	2011 (Actual)	2010 (Actual)
The Company	20.48%	- (Note)
Symphox Information	20.48%	33.33%

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

(5) Information related to undistributed earnings-The Company

	December 31,			
	2012		2011	
Year	NT$	US$	NT$	US$
After 1998	$2,160,262	$74,364	$(286,071)	$(9,451)

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

28. Earnings per share

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the year ended December 31, 2012	Before tax NT$	After tax NT$	(denominator) (thousand shares)	Before tax NT$	After tax NT$
Basic earnings per share:					
Consolidated income	$1,404,286	$3,156,573	5,306,527	$0.26	$0.59

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the year ended December 31, 2012	Before tax US$	After tax US$	(denominator) (thousand shares)	Before tax US$	After tax US$
Basic earnings per share:					
Consolidated income	$48,340	$108,660	5,306,527	$0.01	$0.02

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the year ended December 31, 2011	Before tax NT$	After tax NT$	(denominator) (thousand shares)	Before tax NT$	After tax NT$
Basic earnings per share:					
Consolidated (loss) income	$(3,299,986)	$247,899	5,306,527	$(0.62)	$0.05

	Amount (numerator)		Weighted average outstanding number of shares	Earnings per share (In dollars)	
For the year ended December 31, 2011	Before tax US$	After tax US$	(denominator) (thousand shares)	Before tax US$	After tax US$
Basic earnings per share:					
Consolidated (loss) income	$(109,018)	$8,190	5,306,527	$(0.02)	$0.00

29. 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:

(A) Assist drafting and execute the risk management policies set by the board of directors.
(B) Assist determines the risk quotas based on risk appetite.
(C) Summarize the risk information provided by all departments. Facilitate and communicate the execution of the policies as well as the risk quotas with departments.
(D) Periodically provide risk management related reports.
(E) Periodically monitor all operating department's risk quotas and manage the exceptions attributable to exceed the risk quotas granted.
(F) Assist the pressure test. Execute back testing if necessary.
(G) Other risk management issues.

D. Operating departments

a. Managers of the operating departments:

(A) Responsible for the departments' daily risk management report and respond to issues if necessary.
(B) Make sure to delivery risk management information periodically to the risk management department.

b. Operating departments:

(A) Address and measure risks and report the pervasiveness of exposure.
(B) Periodically review the risk quotas. If exception happens, report the exceptions as well as the actions taken.
(C) 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.
(D) Ensure internal control operates effectively to comply with related regulation and company's risk management policies.
(E) 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. In accordance with the adoption of foreign exchange volatility reserve, the Company regulates the ceiling of foreign exchange risk and early warning system of the reserve, and also monitors foreign exchange risk regularly.

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. 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 measure the sovereign risk and 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 includes 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. Risk 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:

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.

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

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.

30. Information of insurance risk

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

A. The Company

	December 31, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,037,788	Decrease (increase) 1,691,364
Expense	×1.05 (×0.95)	Decrease (increase) 2,642,541	Decrease (increase) 2,193,309
Surrender rates	×1.05 (×0.95)	Increase (decrease) 332,635	Increase (decrease) 276,087
Investment return rate	+0.1%	Increase 2,945,451	Increase 2,444,724
Investment return rate	-0.1%	Decrease 2,948,340	Decrease 2,447,122

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

	December 31, 2012 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 70,148	Decrease (increase) 58,223
Expense	×1.05 (×0.95)	Decrease (increase) 90,965	Decrease (increase) 75,501
Surrender rates	×1.05 (×0.95)	Increase (decrease) 11,450	Increase (decrease) 9,504
Investment return rate	+0.1%	Increase 101,392	Increase 84,156
Investment return rate	-0.1%	Decrease 101,492	Decrease 84,238

	December 31, 2011 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,006,254	Decrease (increase) 1,665,191
Expense	×1.05 (×0.95)	Decrease (increase) 2,440,125	Decrease (increase) 2,025,304
Surrender rates	×1.05 (×0.95)	Increase (decrease) 319,189	Increase (decrease) 264,926
Investment return rate	+0.1%	Increase 2,712,005	Increase 2,250,964
Investment return rate	-0.1%	Decrease 2,714,674	Decrease 2,253,180

	December 31, 2011 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 66,279	Decrease (increase) 55,011
Expense	×1.05 (×0.95)	Decrease (increase) 80,612	Decrease (increase) 66,908
Surrender rates	×1.05 (×0.95)	Increase (decrease) 10,545	Increase (decrease) 8,752
Investment return rate	+0.1%	Increase 89,594	Increase 74,363
Investment return rate	-0.1%	Decrease 89,682	Decrease 74,436

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

B. Cathay life (China)

	December 31, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase) 33,798	Decrease (increase) 25,348
Expense	×1.05 (×0.95)	Decrease (increase) 32,500	Decrease (increase) 24,375
Surrender rates	×1.10 (×0.90)	Increase (decrease) 17,374	Increase (decrease) 13,030
Investment return rate	+0.25%	Increase 112,403	Increase 84,302
Investment return rate	-0.25%	Decrease 122,476	Decrease 91,857

	December 31, 2012 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase) 1,163	Decrease (increase) 873
Expense	×1.05 (×0.95)	Decrease (increase) 1,119	Decrease (increase) 839
Surrender rates	×1.10 (×0.90)	Increase (decrease) 598	Increase (decrease) 449
Investment return rate	+0.25%	Increase 3,869	Increase 2,902
Investment return rate	-0.25%	Decrease 4,216	Decrease 3,162

	December 31, 2011 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10(×0.90)	Decrease (increase) 8,653	Decrease (increase) 6,490
Expense	×1.05(×0.95)	Decrease (increase) 28,166	Decrease (increase) 21,124
Surrender rates	×1.10(×0.90)	Increase (decrease) 16,974	Increase (decrease) 12,730
Investment return rate	+0.25%	Increase 82,982	Increase 62,236
Investment return rate	-0.25%	Decrease 90,645	Decrease 67,984

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

	December 31, 2011 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.10(×0.90)	Decrease (increase) 286	Decrease (increase) 214
Expense	×1.05(×0.95)	Decrease (increase) 930	Decrease (increase) 698
Surrender rates	×1.10(×0.90)	Increase (decrease) 561	Increase (decrease) 421
Investment return rate	+0.25%	Increase 2,741	Increase 2,056
Investment return rate	-0.25%	Decrease 2,995	Decrease 2,246

C. Cathay Life (Vietnam)

	December 31, 2012 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 243	Decrease (increase) 182
Expense	×1.05 (×0.95)	Decrease (increase) 12,285	Decrease (increase) 9,214
Surrender rates	×1.05 (×0.95)	Increase (decrease) 2,199	Increase (decrease) 1,649
Investment return rate	+0.1%	Increase 1,438	Increase 1,079
Investment return rate	-0.1%	Decrease 1,440	Decrease 1,080

	December 31, 2012 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 8	Decrease (increase) 6
Expense	×1.05 (×0.95)	Decrease (increase) 423	Decrease (increase) 317
Surrender rates	×1.05 (×0.95)	Increase (decrease) 76	Increase (decrease) 57
Investment return rate	+0.1%	Increase 50	Increase 37
Investment return rate	-0.1%	Decrease 50	Decrease 37

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

	December 31, 2011 NT$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 72	Decrease (increase) 54
Expense	×1.05 (×0.95)	Decrease (increase) 19,405	Decrease (increase) 14,554
Surrender rates	×1.05 (×0.95)	Increase (decrease) 1,549	Increase (decrease) 1,162
Investment return rate	+0.1%	Increase 1,402	Increase 1,052
Investment return rate	-0.1%	Decrease 1,404	Decrease 1,053

	December 31, 2011 US$		
	Change in supposition	Change in income before tax	Change in stockholders' equity
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase) 2	Decrease (increase) 2
Expense	×1.05 (×0.95)	Decrease (increase) 641	Decrease (increase) 481
Surrender rates	×1.05 (×0.95)	Increase (decrease) 51	Increase (decrease) 38
Investment return rate	+0.1%	Increase 46	Increase 35
Investment return rate	-0.1%	Decrease 46	Decrease 35

a. Changes in income before tax listed above refer to the effects of income before tax for the years ended December 31, 2012 and 2011 by the assumption. Change of the Company、Cathay Life (China) and Cathay Life (Vietnam) stockholders' equity is assumed 17%、25% and 25% 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 change in supposition, in opposition to the change in income before tax.

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

(C) Surrender rate sensitivity test is measured by surrender rate multiplies change in supposition, 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) change in supposition, 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 capital reserve for major incidents and 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. The Company

a. Direct business trend of development

Accident year	Development period (years) NT$ 1	2	3	4	5	6	7	Expected future payment
2006Q1~2006Q4	11,425,053	13,557,196	13,665,394	13,693,817	13,728,736	13,744,249	13,759,078	-
2007Q1~2007Q4	12,452,527	14,654,222	14,777,445	14,836,106	14,885,981	14,940,094	14,955,691	15,597
2008Q1~2008Q4	13,213,167	15,502,203	15,690,933	15,752,002	15,809,213	15,844,103	15,859,726	50,513
2009Q1~2009Q4	14,440,987	17,222,987	17,462,074	17,540,479	17,596,452	17,635,049	17,652,707	112,228
2010Q1~2010Q4	14,132,667	17,063,839	17,346,230	17,408,477	17,462,709	17,498,996	17,515,903	169,673
2011Q1~2011Q4	14,898,732	18,205,420	18,418,577	18,484,902	18,542,274	18,580,339	18,598,390	392,970
2012Q1~2012Q4	14,630,400	17,372,614	17,566,220	17,623,362	17,672,882	17,705,213	17,721,475	3,091,075

Expected future payment	$3,832,056
Less: Expected reported but not paid claim	139,684
Add: Assumed reserve for incurred but not reported claim	41,732
Reserve for unreported claim	3,734,104
Add: Reported but not paid claim	418,166
Reserve claim balance	$4,152,270

Accident year	Development period (years) US$ 1	2	3	4	5	6	7	Expected future payment
2006Q1~2006Q4	393,289	466,685	470,409	471,388	472,590	473,124	473,634	-
2007Q1~2007Q4	428,658	504,448	508,690	510,709	512,426	514,289	514,826	537
2008Q1~2008Q4	454,842	533,639	540,135	542,238	544,207	545,408	545,946	1,739
2009Q1~2009Q4	497,108	592,874	601,104	603,803	605,730	607,058	607,666	3,863
2010Q1~2010Q4	486,495	587,395	597,116	599,259	601,126	602,375	602,957	5,841
2011Q1~2011Q4	512,865	626,693	634,030	636,313	638,288	639,599	640,220	13,527
2012Q1~2012Q4	503,628	598,025	604,689	606,656	608,361	609,474	610,033	106,405

Expected future payment	$131,912
Less: Expected reported but not paid claim	4,808
Add: Assumed reserve for incurred but not reported claim	1,437
Reserve for unreported claim	128,541
Add: Reported but not paid claim	14,394
Reserve claim balance	$142,935

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

b. Retained business trend of development

Accident year	Development period (years) NT$ 1	2	3	4	5	6	7	Expected future payment
2006Q1~2006Q4	11,552,058	13,673,489	13,800,715	13,838,046	13,875,194	13,889,224	13,912,560	-
2007Q1~2007Q4	12,530,438	14,750,682	14,881,256	14,941,735	14,991,028	15,052,095	15,067,952	15,857
2008Q1~2008Q4	13,304,966	15,621,032	15,813,590	15,874,029	15,938,326	15,973,747	15,989,639	51,313
2009Q1~2009Q4	13,556,435	15,902,174	16,096,383	16,169,162	16,215,892	16,248,749	16,263,501	94,339
2010Q1~2010Q4	12,304,040	14,592,249	14,803,959	14,850,410	14,887,449	14,913,061	14,924,564	120,605
2011Q1~2011Q4	12,998,408	15,670,011	15,829,449	15,879,608	15,919,385	15,946,525	15,959,044	289,033
2012Q1~2012Q4	12,821,935	15,088,340	15,233,647	15,276,252	15,309,950	15,332,458	15,343,745	2,521,810

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

Expected future payment	$3,092,957
Less: Expected reported but not paid claim	139,684
Add: Reported but not paid claim	418,166
Retained reserve claim balance	$3,371,439

Accident year	Development period (years) US$ 1	2	3	4	5	6	7	Expected future payment
2006Q1~2006Q4	397,661	470,688	475,068	476,353	477,631	478,114	478,918	-
2007Q1~2007Q4	431,340	507,769	512,264	514,345	516,042	518,144	518,690	546
2008Q1~2008Q4	458,002	537,729	544,358	546,438	548,652	549,871	550,418	1,766
2009Q1~2009Q4	466,659	547,407	554,092	556,598	558,206	559,337	559,845	3,247
2010Q1~2010Q4	423,547	502,315	509,603	511,202	512,477	513,358	513,755	4,152
2011Q1~2011Q4	447,450	539,415	544,904	546,630	547,999	548,934	549,365	9,950
2012Q1~2012Q4	441,375	519,392	524,394	525,861	527,021	527,795	528,184	86,809

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

Expected future payment	$106,470
Less: Expected reported but not paid claim	4,808
Add: Reported but not paid claim	14,394
Retained reserve claim balance	$116,056

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

B. Cathay life (China)

a. Direct business trend of development

Accident year	Development period (years) NT$ 1	2	3	4	5	6	7	Expected future payment
2006Q1~2006Q4	26	51	53	53	53	53	53	-
2007Q1~2007Q4	783	3,148	3,160	3,160	3,160	3,160	3,160	-
2008Q1~2008Q4	8,993	17,321	18,087	18,087	18,087	18,087	18,087	-
2009Q1~2009Q4	49,583	112,041	117,922	117,922	117,922	117,922	117,922	-
2010Q1~2010Q4	93,208	186,536	198,475	198,475	198,475	198,475	198,475	-
2011Q1~2011Q4	172,199	357,911	363,655	363,655	363,655	363,655	363,655	5,744
2012Q1~2012Q4	309,385	660,270	660,270	660,270	660,270	660,270	660,270	350,885

Expected future payment	$356,629
Less: Expected reported but not paid claim	36,142
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	320,487
Add: Reported but not paid claim	75,962
Reserve claim balance	$396,449

Accident year	Development period (years) US$ 1	2	3	4	5	6	7	Expected future payment
2006Q1~2006Q4	1	2	2	2	2	2	2	-
2007Q1~2007Q4	27	108	109	109	109	109	109	-
2008Q1~2008Q4	310	596	623	623	623	623	623	-
2009Q1~2009Q4	1,707	3,857	4,059	4,059	4,059	4,059	4,059	-
2010Q1~2010Q4	3,209	6,421	6,832	6,832	6,832	6,832	6,832	-
2011Q1~2011Q4	5,928	12,321	12,518	12,518	12,518	12,518	12,518	197
2012Q1~2012Q4	10,650	22,729	22,729	22,729	22,729	22,729	22,729	12,079

Expected future payment	$12,276
Less: Expected reported but not paid claim	1,243
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	11,033
Add: Reported but not paid claim	2,615
Reserve claim balance	$13,648

(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	
2006Q1~2006Q4	26	51	53	53	53	53	53	-
2007Q1~2007Q4	783	3,148	3,160	3,160	3,160	3,160	3,160	-
2008Q1~2008Q4	8,993	17,321	18,087	18,087	18,087	18,087	18,087	-
2009Q1~2009Q4	49,583	112,041	117,922	117,922	117,922	117,922	117,922	-
2010Q1~2010Q4	93,208	186,405	198,342	198,342	198,342	198,342	198,342	-
2011Q1~2011Q4	171,811	356,056	361,777	361,777	361,777	361,777	361,777	5,721
2012Q1~2012Q4	311,744	662,129	662,129	662,129	662,129	662,129	662,129	350,385

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

Expected future payment	$356,106
Less: Expected reported but not paid claim	36,142
Add: Reported but not paid claim	75,962
Retained reserve claim balance	$395,926

	Development period (years) US$							Expected future payment
Accident year	1	2	3	4	5	6	7	
2006Q1~2006Q4	1	2	2	2	2	2	2	-
2007Q1~2007Q4	27	108	109	109	109	109	109	-
2008Q1~2008Q4	310	596	623	623	623	623	623	-
2009Q1~2009Q4	1,707	3,857	4,059	4,059	4,059	4,059	4,059	-
2010Q1~2010Q4	3,209	6,417	6,828	6,828	6,828	6,828	6,828	-
2011Q1~2011Q4	5,914	12,257	12,454	12,454	12,454	12,454	12,454	197
2012Q1~2012Q4	10,731	22,792	22,792	22,792	22,792	22,792	22,792	12,061

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

Expected future payment	$12,258
Less: Expected reported but not paid claim	1,243
Add: Reported but not paid claim	2,615
Retained reserve claim balance	$13,630

The Company and Cathay Life (China) record and recognize 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 as time goes. 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.

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

C. Cathay life (Vietnam)

Direct business trend of development (the same as retained business trend of development)

Accident year	Development period (years) NT$			
	1	2	3	4
2009Q1~2009Q4	10	15	15	15
2010Q1~2010Q4	255	277	277	277
2011Q1~2011Q4	338	554	554	554
2012Q1~2012Q4	1,072	1,504	1,504	1,504

Accident year	Development period (years) US$			
	1	2	3	4
2009Q1~2009Q4	-	1	1	1
2010Q1~2010Q4	9	10	10	10
2011Q1~2011Q4	12	19	19	19
2012Q1~2012Q4	37	52	52	52

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 showing below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each accident year as time goes.

Cathay Life (Vietnam) records and recognizes indemnify reserve for anticipated payment of reported claim and unreported claim compensations. The estimated method of unreported claim is earned premium reserve multiply by claim rate based upon the past indemnity experiences instead of loss triangle method, which approved by Vietnam local authorities. Thus, the anticipated dollar amounts need to be paid for the settlement cases cannot be made the decision to be made from this chart. 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 indemnify reserve in balance sheet date will be not equal to the final settled amount of compensation.

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

31. 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."

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

December 31, 2012 NT$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments with discretionary participation feature	(67.4)	150.6	9,514.1

Unit: Billion

December 31, 2012 US$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments with discretionary participation feature	(2.32)	5.18	327.51

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.

32. Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date:

	December 31, 2012 NT$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$385,001,185	$-	$385,001,185
Receivables	60,318,791	214,584	60,533,375
Investments	585,449,294	2,218,459,620	2,803,908,914
Reinsurance reserve assets - Net	-	9,165,635	9,165,635
Property and equipment - Net	-	24,065,132	24,065,132
Intangible assets	-	254,878	254,878
Other assets	3,027,011	31,153,426	34,180,437
Separate account product assets	1,287,322	328,269,924	329,557,246
Total assets			$3,646,666,802

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

	December 31, 2012 NT$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$38,073,448	$208	$38,073,656
Financial liabilities	2,376,725	30,000,000	32,376,725
Reserve for liabilities	-	3,097,242,243	3,097,242,243
Other liabilities	205,168	12,925,508	13,130,676
Separate account product liabilities	1,440,241	328,117,005	329,557,246
Total liabilities			$3,510,380,546

	December 31, 2012 US$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$13,253,053	$-	$13,253,053
Receivables	2,076,378	7,387	2,083,765
Investments	20,153,160	76,366,940	96,520,100
Reinsurance reserve assets - Net	-	315,512	315,512
Property and equipment - Net	-	828,404	828,404
Intangible assets	-	8,774	8,774
Other assets	104,200	1,072,407	1,176,607
Separate account product assets	44,314	11,300,170	11,344,484
Total assets			$125,530,699

	December 31, 2012 US$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$1,310,618	$7	$1,310,625
Financial liabilities	81,815	1,032,702	1,114,517
Reserve for liabilities	-	106,617,633	106,617,633
Other liabilities	7,063	444,940	452,003
Separate account product liabilities	49,578	11,294,906	11,344,484
Total liabilities			$120,839,262

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

	December 31, 2011 NT$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$379,048,580	$-	$379,048,580
Receivables	45,905,176	225,740	46,130,916
Investments	452,978,978	2,061,379,702	2,514,358,680
Reinsurance reserve assets - Net	-	9,168,433	9,168,433
Property and equipment - Net	-	13,326,813	13,326,813
Intangible assets	-	396,833	396,833
Other assets	7,107,897	26,207,376	33,315,273
Separate account product assets	884,443	293,166,569	294,051,012
Total assets			$3,289,796,540

	December 31, 2011 NT$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$22,610,881	$370	$22,611,251
Financial liabilities	17,670,059	30,000,000	47,670,059
Reserve for liabilities	-	2,803,536,690	2,803,536,690
Other liabilities	273,639	8,095,546	8,369,185
Separate account product liabilities	2,438,147	291,612,865	294,051,012
Total liabilities			$3,176,238,197

	December 31, 2011 US$		
Item	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$12,522,252	$-	$12,522,252
Receivables	1,516,524	7,457	1,523,981
Investments	14,964,618	68,099,759	83,064,377
Reinsurance reserve assets - Net	-	302,888	302,888
Property and equipment - Net	-	440,265	440,265
Intangible assets	-	13,110	13,110
Other assets	234,816	865,787	1,100,603
Separate account product assets	29,218	9,685,054	9,714,272
Total assets			$108,681,748

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

	December 31, 2011		
	US$		
Item	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$746,974	$12	$746,986
Financial liabilities	583,749	991,080	1,574,829
Reserve for liabilities	-	92,617,664	92,617,664
Other liabilities	9,040	267,444	276,484
Separate account product liabilities	80,547	9,633,725	9,714,272
Total liabilities			$104,930,235

33. 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 Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited	Subsidiary of Cathay United Bank
Singapore Banking Corporation 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
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

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

(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 years ended December 31, 2012 and 2011 are listed below:

	For the year ended December 31, 2012		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$21,297	$733
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,409,314	48,513
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	34,623	1,192
Total		$1,465,234	$50,438

	For the year ended December 31, 2011		
Name	Item	NT$	US$
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$28,888	$954
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,372,764	45,351
Total		$1,401,652	$46,305

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

The total amounts of contracted projects for real estate as of December 31, 2012 and 2011, between the Company and Lin Yuan Property Management Co., Ltd. were NT$3,408 (US$117) thousands and NT$0 (US$0) thousands, respectively.

The total amounts of contracted projects for real estate as of December 31, 2012 and 2011, between the Company and San Ching Engineering Co., Ltd. were NT$5,483,615 (US$188,765) thousands and NT$5,483,615 (US$181,157) thousands, respectively.

The total amounts of contracted projects for real estate as of December 31, 2012 and 2011, between the Company and Cathay Real Estate Development Co., Ltd. were NT$49,306 (US$1,697) thousands and NT$49,306 (US$1,629) thousands, respectively.

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

	For the year ended December 31, 2011		
Name	Item	NT$	US$
Cathay United Bank	No. 166-1, 166-2, Sec. 1, Zhonghua Rd., Wanhua Dist., Taipei City	$320,000	$10,571
Cathay Real Estate Development Co., Ltd.	Taichung Chunghsing Building and Taichung Yujen Commercial Building	3,372,700	111,421
Total		$3,692,700	$121,992

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 year ended December 31, 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 years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$27,960	$963	$25,701	$849
Cathay Real Estate Development Co., Ltd.	17,351	597	19,316	638
Cathay United Bank	431,041	14,838	397,111	13,119
Cathay Century Insurance Co., Ltd.	92,860	3,197	91,056	3,008
Cathay General Hospital	174,620	6,011	179,855	5,942
San Ching Engineering Co., Ltd.	6,120	211	8,204	271
Cathay Securities Investment Trust Co., Ltd.	39,082	1,345	34,900	1,153
Cathay Securities Co., Ltd.	23,134	796	20,563	679
Cathay Securities Investment Consulting Co., Ltd.	9,244	318	9,438	312
Cathay Healthcare Inc.	31,440	1,082	4,595	152
Total	$852,852	$29,358	$790,739	$26,123

	Guarantee deposits received			
	December 31, 2012		December 31, 2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$4,028	$139	$4,028	$133
Cathay United Bank	85,466	2,942	71,365	2,358
Cathay Century Insurance Co., Ltd.	22,678	781	23,234	768
Cathay General Hospital	10,166	350	13,194	436
Cathay Securities Investment Trust Co., Ltd.	8,903	306	8,903	294
Cathay Securities Co., Ltd.	5,853	201	5,182	171
Cathay Financial Holding Co., Ltd.	6,604	227	5,816	192
Cathay Healthcare Inc.	8,012	276	6,894	228
Total	$151,710	$5,222	$138,616	$4,580

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 expenses (to related parties):

	Rental expense			
	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$7,837	$270	$24,271	$802
Cathay United Bank	37,320	1,284	36,460	1,204
Total	$45,157	$1,554	$60,731	$2,006

	Guarantee deposits paid			
	December 31, 2012		December 31, 2011	
Name	NT$	US$	NT$	US$
Cathay United Bank	$14,790	$509	$8,921	$295

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

B. Cash in banks

		For the year ended December 31, 2012		
		Interest income		Ending balance
Name	Item	NT$	Rate	NT$
Cathay United Bank	Time deposit	$445,308	0.17%~1.40%	$57,341,698
	Cash in bank	17,443	0.01%~1.05%	16,746,027
Indovina Bank Limited	Time deposit	1,429	9%~14%	471
	Cash in bank	70	-	2,737
Total		$464,250		$74,090,933

		For the year ended December 31, 2012		
		Interest income		Ending balance
Name	Item	US$	Rate	US$
Cathay United Bank	Time deposit	$15,329	0.17%~1.40%	$1,973,897
	Cash in bank	601	0.01%~1.05%	576,455
Indovina Bank Limited	Time deposit	49	9%~14%	16
	Cash in bank	2	-	94
Total		$15,981		$2,550,462

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

		For the year ended December 31, 2011		
Name	Item	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$286,009	0.12%~5.40%	$53,383,921
	Cash in bank	13,259	0.02%~1.10%	9,612,041
Indovina Bank Limited	Time deposit	1,603	10%~14%	32,811
	Cash in bank	111	0.50%	1,662
Total		$300,982		$63,030,435

		For the year ended December 31, 2011		
Name	Item	Interest income US$	Rate	Ending balance US$
Cathay United Bank	Time deposit	$9,448	0.12%~5.40%	$1,763,592
	Cash in bank	438	0.02%~1.10%	317,543
Indovina Bank Limited	Time deposit	53	10%~14%	1,084
	Cash in bank	4	0.50%	55
Total		$9,943		$2,082,274

C. Secured loans

	For the year ended December 31, 2012			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,485,571	$83,272	2.43%~2.55%	$3,210,519
Other related parties	510,342	768	1.53%~3.78%	466,722
Total		$84,040		$3,677,241

	For the year ended December 31, 2012			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$119,985	$2,867	2.43%~2.55%	$110,517
Other related parties	17,568	26	1.53%~3.78%	16,066
Total		$2,893		$126,583

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

	For the year ended December 31, 2011			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,756,320	$84,691	2.09%~2.55%	$3,485,571
Other related parties	344,835	5,142	1.25%~3.78%	298,171
Total		$89,833		$3,783,742

	For the year ended December 31, 2011			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$124,094	$2,798	2.09%~2.55%	$115,149
Other related parties	11,392	170	1.25%~3.78%	9,851
Total		$2,968		$125,000

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

		December 31,			
		2012		2011	
Name		NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd. managed funds	Market value	$2,319,889	$79,858	$1,666,355	$55,050
	Cost	$2,152,997	$74,113	$1,548,899	$51,169

E. Discretionary account management balance

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$204,663,888	$7,045,229	$121,139,793	$4,001,975

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

F. Other receivables

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay United Bank	$12,396	$427	$10,272	$339
Cathay Financial Holding Co., Ltd. (Note)	5,235,287	180,216	3,055,618	100,945
Cathay Century Insurance Co., Ltd.	141,412	4,868	217,861	7,197
Cathay Securities Investment Trust Co., Ltd.	22,594	778	21,131	698

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

G. Guarantee deposits paid

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$364,739	$12,556	$511,844	$16,909

As of December 31, 2012 and 2011, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT$474 (US$16) thousands and NT$490 (US$16) thousands, respectively.

H. Guarantee deposits received

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$5,000	$172	$5,000	$165

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

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

I. Other payables

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$3,580	$123	$5,294	$175
Cathay Financial Holding Co., Ltd. (Note)	2,550,995	87,814	1,642,995	54,278
Cathay Century Insurance Co., Ltd.	5,732	197	1,635	54
San Ching Engineering Co., Ltd.	326	11	23,331	771

Note:The payables consist of interest expenses accrued from preferred stocks.

J. Preferred stock liability

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$30,000,000	$1,032,702	$30,000,000	$991,080

K. Accounts collected in advance

	December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$10,859	$374	$9,645	$319
Cathay United Bank	26,517	913	32,817	1,084
Cathay Securities Co., Ltd.	3,993	137	3,627	120

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

L. Premiums income

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay United Bank	$651,850	$22,439	$620,289	$20,492
Cathay General Hospital	39,566	1,362	41,046	1,356
Cathay Century Insurance Co., Ltd.	13,545	466	11,668	385
Cathay Securities Co., Ltd.	4,710	162	3,419	113
Other related parties	103,346	3,558	257,926	8,521
Total	$813,017	$27,987	$934,348	$30,867

M. Insurance expenses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$111,560	$3,840	$103,736	$3,427

The insurance expenses were related to insurance for fixed assets, cash, public accident, etc. Amounts of NT$9,578 (US$330) thousands and NT$11,273 (US$372) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in above insurance expenses for the years ended December 31, 2012 and 2011, respectively.

N. Reinsurance income

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$130,785	$4,502	$123,882	$4,093

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 years ended December 31, 2012 and 2011, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd..

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

O. Reinsurance service expenses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$9,412	$324	$9,087	$300

P. Reinsurance claim payments

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$136,340	$4,693	$92,156	$3,044

Q. Reinsurance commission expenses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$3,105	$107	$2,972	$98

R. Other operating income

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$27,659	$952	$20,511	$678
Cathay United Bank	430,341	14,814	475,643	15,713
Cathay General Hospital	37,295	1,284	15,312	506
Cathay Securities Co., Ltd.	9,280	319	10,140	335
Cathay Securities Investment Trust Co., Ltd.	5,225	180	6,779	224
Cathay Real Estate Development Co., Ltd.	1,095	38	3,854	127
Cathay Futures Co., Ltd.	3,075	106	2,143	71
Total	$513,970	$17,693	$534,382	$17,654

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

S. Miscellaneous income

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$1,176,280	$40,492	$1,163,894	$38,450
Cathay United Bank	95,486	3,287	102,064	3,372
Cathay Securities Investment Trust Co., Ltd.	142,344	4,900	108,958	3,600
Cathay Financial Holding Co., Ltd.	3,632	125	4,478	148
Cathay General Hospital	5,467	188	6,035	199
Total	$1,423,209	$48,992	$1,385,429	$45,769

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

T. Operating expenses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$629,076	$21,655	$590,913	$19,521
Cathay Securities Investment Consulting Co., Ltd.	13,178	454	19,513	645
Seaward Card Co., Ltd.	108,827	3,746	88,311	2,917
Seaward Leasing Co., Ltd.	-	-	9,421	311
Cathay United Bank	2,506,115	86,269	1,717,821	56,750
Cathay Venture Inc.	22,466	774	23,810	787
Cathay General Hospital	5,116	176	6,736	223
San Ching Engineering Co., Ltd.	3,769	130	3,304	109
Cathay Real Estate Development Co., Ltd.	18,776	646	8,955	296
Cathay Futures Co., Ltd.	3,554	122	5,142	170
Cathay Healthcare Inc.	4,763	164	39	1
Total	$3,315,640	$114,136	$2,473,965	$81,730

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

U. Non-operating expenses and losses

	For the years ended December 31,			
	2012		2011	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$908,000	$31,257	$827,995	$27,354

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

V. Sales of securities

For the year ended December 31, 2011						
		Shares	Amount		Gains from disposal	
Name	Securities	(thousand)	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	Cathay Securities Investment Trust Co., Ltd.	17,256	$1,106,232	$36,545	$632,746	$20,903

There was no significant transaction of securities with related parties for the year ended December 31, 2012.

W. Other

a. As of December 31, 2012 and 2011, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

	December 31,	
Item	2012	2011
CS contracts	USD 985,000	USD 1,900,000

b. The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT$0 (US$0) thousands and NT$1,280,000 (US$42,286) thousands during the years ended December 31, 2012 and 2011, respectively.

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

X. Information about key management personnel compensation:

	For the years ended December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Remunerations including wages, awards, bonus, etc.	$95,801	$3,298	$90,517	$2,990

The management of the Company includes directors, supervisors, vice general managers and the above. Please refer to the report for annual shareholder meeting for details of total remunerations paid to above management.

34. Pledged assets

(1) The Company

As of December 31, 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".

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid - Government bonds	$9,523,306	$327,825	$10,615,126	$350,682
Guarantee deposits paid - Time deposits	118,698	4,086	124,298	4,106
Guarantee deposits paid - Others	8,807	303	10,837	358
Total	$9,650,811	$332,214	$10,750,261	$355,146

Pledged assets are summarized based on the net carrying amounts.

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

(2) Symphox information

As of December 31, 2012 and 2011, the pledged property details are as follows:

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Cash in bank (recognized as other financial assets)	$10	$-	$-	$-
Financial assets at fair value through profit and loss	45,103	1,553	39,313	1,299
Total	$45,113	$1,553	$39,313	$1,299

a. Symphonx Information maintains a trust account at Cathay United Bank for its electronic gift certificates. As of December 31, 2012, the account balance was NT$10 (US$0) thousands.

b. The pledged assets, such as cash, time deposits or bond finds, are utilized to strengthen the financial operation of electronic gift certificates and to protect the clients' interests.

(3) Cathay life (China)

	December 31,			
	2012		2011	
Item	NT$	US$	NT$	US$
Guarantee deposits paid	$1,157,835	$39,857	$1,192,563	$39,398

According to the requirement of the China Insurance Regulatory Commission, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Life (China) are time deposits.

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

35. Other important commitment and contingent liabilities

None.

36. Serious disaster damages

None.

37. Significant subsequent events

None.

38. Others matters

(1) Pension related information

a. The Company

The Company recognized a net pension cost of NT$429,379 (US$14,781) thousands and NT$804,004 (US$26,561) thousands for the years ended December 31, 2012 and 2011, respectively. The amount of NT$203,309 (US$6,999) thousands and NT$203,028 (US$6,707) thousands were contributed to the pension fund for the years ended December 31, 2012 and 2011, respectively.

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2012		2011	
	NT$	US$	NT$	US$
①Vested benefit obligation	$(7,630,897)	$(262,682)	$(7,062,083)	$(233,303)
②Non-vested benefit obligation	(2,708,224)	(93,226)	(2,606,814)	(86,119)
③Accumulated benefit obligation	(10,339,121)	(355,908)	(9,668,897)	(319,422)
④Effect from projected salary increase	(1,164,299)	(40,079)	(1,132,522)	(37,414)
⑤Projected benefit obligation	(11,503,420)	(395,987)	(10,801,419)	(356,836)
⑥Fair value of plan assets	9,474,891	326,158	7,783,914	257,150
⑦Funded status = ⑤+⑥	(2,028,529)	(69,829)	(3,017,505)	(99,686)
⑧Unrecognized transitional net assets	-	-	-	-
⑨Unrecognized prior service cost	-	-	-	-
⑩Unrecognized pension loss	427,150	14,704	1,642,196	54,252
⑪Adjustment required to recognize minimum pension liability	-	-	(509,674)	(16,838)
⑫Accrued pension liability recognized = ⑦+⑧+⑨+⑩+⑪	$(1,601,379)	$(55,125)	$(1,884,983)	$(62,272)

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

The actuarial assumptions underlying are as follows:

	For the years ended December 31,	
	2012	2011
①Discount rate	1.75%	2.00%
②Rate of salary increase:		
Office workers	1.50%	1.50%
Field workers	Based on seniority	Based on seniority
③Expected return on plan assets	1.75%	2.00%

B. Symphox Information

The funding status of the pension plan is as follows:

	For the years ended December 31,			
	2012		2011	
	NT$	US$	NT$	US$
①Vested benefit obligation	$(1,908)	$(65)	$(186)	(6)
②Non-vested benefit obligation	(5,310)	(183)	(5,764)	(191)
③Accumulated benefit obligation	(7,218)	(248)	(5,950)	(197)
④Effect from projected salary increase	(2,640)	(91)	(2,285)	(75)
⑤Projected benefit obligation	(9,858)	(339)	(8,235)	(272)
⑥Fair value of plan assets	12,056	415	11,352	375
⑦Vested benefit	4,174	144	1,954	65
⑧Funded status = ⑤ + ⑥	2,198	76	3,117	103
⑨Unrecognized transitional net assets	196	7	215	7
⑩Unrecognized prior service cost	-	-	-	-
⑪Unrecognized pension gain	(1,267)	(44)	(2,254)	(74)
⑫Adjustment required to recognize minimum pension liability	-	-	-	-
⑬Prepaid pension cost = ⑧+⑨+⑩+⑪+⑫	$1,127	$39	$1,078	$36

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

The actuarial assumptions underlying are as follows:

	For the years ended December 31, 2012	2011
① Discount rate	1.75%	2.00%
② Rate of salary increase:	2.00%	2.00%
③ Expected return on plan assets	1.75%	2.00%

(2) Separate account insurance products related information

A. The Company

a. Separate account insurance products – assets and liabilities

Assets			Liabilities		
Item	December 31, 2012		Item	December 31, 2012	
	NT$	US$		NT$	US$
Cash in bank	$1,269,067	$43,686	Other payable	$1,439,828	$49,564
Financial assets at fair value through profit or loss	319,027,929	10,982,028	Reserve for separate account─Insurance contracts	299,194,942	10,299,309
Other receivable	8,903,802	306,499	Reserve for separate account─Investment contracts	28,566,028	983,340
Total	$329,200,798	$11,332,213	Total	$329,200,798	$11,332,213

Assets			Liabilities		
Item	December 31, 2011		Item	December 31, 2011	
	NT$	US$		NT$	US$
Cash in bank	$859,684	$28,401	Other payable	$2,436,877	$80,505
Financial assets at fair value through profit or loss	288,778,425	9,540,087	Reserve for separate account─Insurance contracts	272,543,995	9,003,766
Interest receivable	5,464	180			
Other receivable	3,911,949	129,235	Reserve for separate account─Investment contracts	18,574,650	613,632
Total	$293,555,522	$9,697,903	Total	$293,555,522	$9,697,903

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

b. Separate account insurance products - revenues and expenses

Expenses			Revenues		
Item	January 1-December 31, 2012		Item	January 1-December 31, 2012	
	NT$	US$		NT$	US$
Insurance claim payments	$12,769,311	$439,563	Premiums income	$78,313,136	$2,695,805
Cash surrender value	60,851,969	2,094,732	Interest income	9,738	335
Dividends	1,895	65	Gains from valuation on financial assets	21,905,617	754,066
Provision for separate account reserve	26,650,527	917,402	Gains on disposal of investment	9,343,080	321,621
Administrative expenses	3,785,260	130,302	Losses on foreign exchange	(5,577,116)	(191,983)
			Miscellaneous income	64,507	2,220
Total	$104,058,962	$3,582,064	Total	$104,058,962	$3,582,064

Expenses			Revenues		
Item	January 1-December 31, 2011		Item	January 1-December 31, 2011	
	NT$	US$		NT$	US$
Insurance claim payments	$9,539,929	$315,161	Premiums income	$93,607,277	$3,092,411
Cash surrender value	56,976,259	1,882,268	Interest income	16,523	546
Dividends	2,170	72	Losses from valuation on financial assets	(20,571,875)	(679,613)
Provision for separate account reserve	16,653,296	550,158	Gains on disposal of investment	6,159,120	203,472
Gains on surrender	(519)	(17)	Gains on foreign exchange	7,929,979	261,975
Administrative expenses	4,010,292	132,484	Miscellaneous income	40,403	1,335
Total	$87,181,427	$2,880,126	Total	$87,181,427	$2,880,126

c. The commission earned for the sales of separate account insurance products from counterparties for the years ended December 31, 2012 and 2011 were NT$1,132,834 (US$38,996) thousands and NT$1,254,959 (US$41,459) thousands, respectively.

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

B. Cathay life (China)

a. Separate account insurance products-assets and liabilities

Assets			Liabilities		
Item	December 31,2012		Item	December 31,2012	
	NT$	US$		NT$	US$
Cash in bank	$18,089	$623	Other account payable	$414	$15
Financial assets at fair value through profit or loss	338,194	11,642	Reserve for separate account	344,846	11,871
Interests receivable	165	6	Others	11,188	385
Total	$356,448	$12,271	Total	$356,448	$12,271

Assets			Liabilities		
Item	December 31,2011		Item	December 31,2011	
	NT$	US$		NT$	US$
Cash in bank	$19,135	$632	Other account payable	$1,378	$46
Financial assets at fair value through profit or loss	476,195	15,732	Reserve for separate account	480,999	15,890
Interests receivable	160	5	Others	13,113	433
Total	$495,490	$16,369	Total	$495,490	$16,369

b. Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1- December 31,2012		Item	January 1- December 31,2012	
	NT$	US$		NT$	US$
Cash surrender value	$104,460	$3,596	Premiums income	$42,628	$1,467
Losses on disposal of investment	11,201	386	Interest income	492	17
Administrative expenses	4,897	168	Recovery of separate account reserve	43,052	1,482
			Tax expenses	2,038	70
			Gains from valuation on financial assets	32,348	1,114
Total	$120,558	$4,150	Total	$120,558	$4,150

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

Expenses			Revenues		
Item	January 1- December 31,2011		Item	January 1- December 31,2011	
	NT$	US$		NT$	US$
Cash surrender value	$64,765	$2,140	Premiums income	$85,297	$2,818
Losses on disposal of investment	1,673	55	Interest income	793	26
Losses from valuation on financial assets	105,466	3,484	Recovery of separate account reserve	75,754	2,503
Administrative expenses	6,747	223	Tax expenses	2,584	85
			Gains on disposal of investment	14,223	470
Total	$178,651	$5,902	Total	$178,651	$5,902

(3) Discretionary account management

	December 31, 2012			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$100,690,134	$3,466,098	$100,690,134	$3,466,098
Overseas stocks	28,173,078	969,813	28,173,078	969,813
Repurchase bonds and notes	6,336,804	218,134	6,336,804	218,134
Beneficiary certificates	29,184,078	1,004,616	29,184,078	1,004,616
Cash in banks	38,106,426	1,311,753	38,106,426	1,311,753
Futures and options	1,482,600	51,036	1,482,600	51,036
Corporate bonds	690,768	23,779	690,768	23,779
Total	$204,663,888	$7,045,229	$204,663,888	$7,045,229

	December 31, 2011			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$90,957,252	$3,004,865	$90,957,252	$3,004,865
Resale bonds and notes	1,989,703	65,732	1,989,703	65,732
Cash in banks	25,585,086	845,229	25,585,086	845,229
Beneficiary certificates	748,618	24,731	748,618	24,731
Futures and options	1,859,134	61,418	1,859,134	61,418
Total	$121,139,793	$4,001,975	$121,139,793	$4,001,975

As of December 31, 2012, the Company entered into discretionary account management contracts in the amounts of NT$140,000,000 (US$4,819,277) thousands, US$2,090,000 thousands and HK$2,000,000 (US$258,041) thousands. As of December 31, 2011, the amount is NT$139,500,000 (US$4,608,523) 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. The Company

(a) Fair value

	December 31, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$379,738,487	$379,738,487	$13,071,893	$13,071,893
Receivables	60,115,199	60,115,199	2,069,370	2,069,370
Financial assets at fair value through profit or loss	67,461,849	67,461,849	2,322,267	2,322,267
Available-for-sale financial assets	1,210,730,123	1,210,730,123	41,677,457	41,677,457
Financial assets carried at cost	10,707,797	(Note)	368,599	(Note)
Investments under the equity method - Net	7,144,025	7,144,025	245,921	245,921
Investments in debt securities with no active market	797,490,830	847,858,784	27,452,352	29,186,189
Other financial assets	23,500,000	23,500,000	808,950	808,950
Guarantee deposits paid	13,149,796	13,149,796	452,661	452,661
Liabilities – non-derivative				
Payables	37,262,033	37,262,033	1,282,686	1,282,686
Preferred stock liability	30,000,000	30,464,799	1,032,702	1,048,702
Guarantee deposits received	2,072,652	2,072,652	71,348	71,348
Assets – derivative				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	4,725,696	4,725,696	162,674	162,674
IRS and CDS	241,668	241,668	8,319	8,319
Derivative financial assets for hedging				
IRS and CDS	1,142,094	1,142,094	39,315	39,315
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	1,972,791	1,972,791	67,910	67,910
IRS and CDS	106,666	106,666	3,672	3,672

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)

	December 31, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$374,353,961	$374,353,961	$12,367,161	$12,367,161
Receivables	45,684,727	45,684,727	1,509,241	1,509,241
Financial assets at fair value through profit or loss	55,536,230	55,536,230	1,834,696	1,834,696
Available-for-sale financial assets	1,274,860,140	1,274,860,140	42,116,291	42,116,291
Financial assets carried at cost	10,191,832	(Note)	336,697	(Note)
Investments under the equity method - Net	4,016,883	4,016,883	132,702	132,702
Investments in debt securities with no active market	509,504,264	510,371,049	16,831,988	16,860,623
Other financial assets	13,300,000	13,300,000	439,379	439,379
Guarantee deposits paid	14,429,380	14,429,380	476,689	476,689
Liabilities – non-derivative				
Payables	22,003,803	22,003,803	726,918	726,918
Preferred stock liability	30,000,000	30,580,870	991,080	1,010,270
Guarantee deposits received	1,956,964	1,956,964	64,651	64,651
Assets – derivative				
Financial assets at fair value through profit or loss				
Option	152,026	152,026	5,022	5,022
Forward, CS and CCS	3,775,175	3,775,175	124,717	124,717
IRS and CDS	257,176	257,176	8,496	8,496
Derivative financial assets for hedging				
IRS and CDS	1,957,846	1,957,846	64,679	64,679
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	17,101,959	17,101,959	564,981	564,981
IRS and CDS	366,942	366,942	12,122	12,122

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

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 short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. Short-term financial instruments include cash, cash equivalents, resale bonds and notes, receivables and payables.

(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, is utilized as estimates of the fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, investments in debt securities with no active market and derivative financial instruments for hedging. 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 available to market participants, such as yield curves, exchange rates, etc., and takes into account characteristics of financial instruments, including credit ratings, residual periods of debt securities, currencies and fair value of similar instruments. The Company thus adopts the methods and assumptions that market participants would use in setting prices.

(D) 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.

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

(E) As of December 31, 2012 and 2011, the fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	December 31, 2012			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$342,984,401	$11,806,692	$36,754,086	$1,265,201
Receivables	-	-	60,115,199	2,069,370
Financial assets at fair value through profit or loss	47,469,016	1,634,045	19,992,833	688,222
Available-for-sale financial assets	392,009,994	13,494,320	818,720,129	28,183,137
Investments under the equity method - Net	-	-	7,144,025	245,921
Investment in debt securities with no active market	63,879,749	2,198,959	783,979,035	26,987,230
Other financial assets	-	-	23,500,000	808,950
Liabilities – non-derivative				
Payables	-	-	37,262,033	1,282,686
Preferred stock liability	-	-	30,464,799	1,048,702
Assets – derivative				
Financial assets at fair value through profit or loss				
Forward, CS and CCS	-	-	4,725,696	162,674
IRS and CDS	-	-	241,668	8,319
Derivative financial assets for hedging				
IRS and CDS	-	-	1,142,094	39,315
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	1,972,791	67,910
IRS and CDS	-	-	106,666	3,672

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to audited consolidated financial statements-continued

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

For the years ended December 31, 2012 and 2011

	December 31, 2011			
	Based on the quoted market price		Based on valuation techniques	
Financial instruments	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$361,673,820	$11,948,260	$12,680,141	$418,901
Receivables	-	-	45,684,727	1,509,241
Financial assets at fair value through profit or loss	55,273,380	1,826,012	262,850	8,684
Available-for-sale financial assets	416,804,318	13,769,551	858,055,822	28,346,740
Investments under the equity method - Net	-	-	4,016,883	132,702
Investment in debt securities with no active market	29,669,351	980,157	480,701,698	15,880,466
Other financial assets	-	-	13,300,000	439,379
Liabilities – non-derivative				
Payables	-	-	22,003,803	726,918
Preferred stock liability	-	-	30,580,870	1,010,270
Assets – derivative				
Financial assets at fair value through profit or loss				
Option	152,026	5,022	-	-
Forward, CS and CCS	-	-	3,775,175	124,717
IRS and CDS	-	-	257,176	8,496
Derivative financial assets for hedging				
IRS and CDS	-	-	1,957,846	64,679
Liabilities – derivative				
Financial liabilities at fair value through profit or loss				
Forward, CS and CCS	-	-	17,101,959	564,981
IRS and CDS	-	-	366,942	12,122

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

b. Risk of interest rate

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

(A) December 31, 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	$64,901	$2,234	$159,439	$5,489	$1,352,624	$46,562	$9,280,513	$319,467
Available-for-sale financial assets	30,142,886	1,037,621	39,285,509	1,352,341	48,487,400	1,669,102	29,676,466	1,021,565
Investments in debt securities with no active market	6,968,204	239,869	26,124,165	899,283	30,604,557	1,053,513	4,777,077	164,443
Preferred stock liability	-	-	-	-	15,000,000	516,351	10,000,000	344,234

	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	$9,914,804	$341,301	$2	$-	$20,772,283	$715,053
Available-for-sale financial assets	70,413,562	2,423,875	470,240,580	16,187,283	688,246,403	23,691,787
Investments in debt securities with no active market	18,305,306	630,131	665,841,740	22,920,542	752,621,049	25,907,781
Preferred stock liability	-	-	5,000,000	172,117	30,000,000	1,032,702

(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	$11,887	$409	$9,829	$339	$3	$-	$2	$-
Available-for-sale financial assets	123,688,593	4,257,783	341,836	11,767	504,939	17,382	1,708,520	58,813
Investments in debt securities with no active market	-	-	1,214,388	41,804	260,095	8,953	-	-

	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	$2	$-	$-	$-	$21,723	$748
Available-for-sale financial assets	415,188	14,292	34,935,372	1,202,595	161,594,448	5,562,632
Investments in debt securities with no active market	-	-	43,395,298	1,493,814	44,869,781	1,544,571

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	$-	$-	$3,728	$128	$35,153	$1,210	$-	$-
Derivative financial assets for hedging	185,211	6,375	687,562	23,668	39,508	1,360	133,358	4,591
Financial liabilities at fair value through profit or loss	-	-	66,836	2,301	29,261	1,007	10,569	364

	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	$1,830	$63	$200,957	$6,918	$241,668	$8,319
Derivative financial assets for hedging	73,718	2,538	22,737	783	1,142,094	39,315
Financial liabilities at fair value through profit or loss	-	-	-	-	106,666	3,672

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

(B) December 31, 2011

Non-derivative financial instruments of fixed interest rate

Item	Less than one year NT$	Less than one year US$	Due in 1~2 years NT$	Due in 1~2 years US$	Due in 2~3 years NT$	Due in 2~3 years US$	Due in 3~4 years NT$	Due in 3~4 years US$
Financial assets at fair value through profit or loss	$1,569,417	$51,847	$514,833	$17,008	$206,990	$6,838	$1,315,212	$43,449
Available-for-sale financial assets	36,767,880	1,214,664	39,828,781	1,315,784	42,740,095	1,411,962	48,537,607	1,603,489
Investments in debt securities with no active market	14,599,207	482,300	6,059,556	200,184	18,611,039	614,834	10,430,086	344,568
Preferred stock liability	-	-	-	-	-	-	15,000,000	495,540

Item	Due in 4~5 years NT$	Due in 4~5 years US$	Over 5 years NT$	Over 5 years US$	Total NT$	Total US$
Financial assets at fair value through profit or loss	$10,419,248	$344,211	$2	$-	$14,025,702	$463,353
Available-for-sale financial assets	30,694,791	1,014,034	597,391,686	19,735,437	795,960,840	26,295,370
Investments in debt securities with no active market	4,330,933	143,077	432,454,784	14,286,580	486,485,605	16,071,543
Preferred stock liability	10,000,000	330,360	5,000,000	165,180	30,000,000	991,080

Non-derivative financial instruments of float interest rate

Item	Less than one year NT$	Less than one year US$	Due in 1~2 years NT$	Due in 1~2 years US$	Due in 2~3 years NT$	Due in 2~3 years US$	Due in 3~4 years NT$	Due in 3~4 years US$
Financial assets at fair value through profit or loss	$21,287	$703	$-	$-	$-	$-	$-	$-
Available-for-sale financial assets	166,877,753	5,512,975	-	-	-	-	-	-
Investments in debt securities with no active market	23,018,659	760,445	-	-	-	-	-	-

Item	Due in 4~5 years NT$	Due in 4~5 years US$	Over 5 years NT$	Over 5 years US$	Total NT$	Total US$
Financial assets at fair value through profit or loss	$-	$-	$-	$-	$21,287	$703
Available-for-sale financial assets	-	-	-	-	166,877,753	5,512,975
Investments in debt securities with no active market	-	-	-	-	23,018,659	760,445

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

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	$-	$-	$-	$-	$8,216	$272	$51,977	$1,717
Derivative financial assets for hedging	20,940	692	479,288	15,833	1,124,375	37,145	59,656	1,971
Financial liabilities at fair value through profit or loss	-	-	-	-	172,415	5,696	168,577	5,569

	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	$-	$-	$129,956	$4,293	$190,149	$6,282
Derivative financial assets for hedging	165,487	5,467	108,100	3,571	1,957,846	64,679
Financial liabilities at fair value through profit or loss	23,594	779	-	-	364,586	12,044

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 December 31, 2012 and 2011:

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

(A) December 31, 2012

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$2,000,000	$68,847	90DCP	Yearly	2013.3.26
2,425,000	83,477	90DCP	Each quarter	2013.4.24
3,600,000	123,924	90DCP	Each quarter	2013.6.8
2,700,000	92,943	90DCP+25bps	Each quarter	2013.8.24
3,000,000	103,270	90DCP+26.5bps	Yearly	2013.11.3
2,000,000	68,847	90DCP	Yearly	2013.11.3
1,000,000	34,423	90DCP+26.5bps	Yearly	2013.12.14
500,000	17,212	90DCP+23bps	Yearly	2013.12.14
1,500,000	51,635	90DCP+23bps	Yearly	2013.12.16
1,000,000	34,423	90DCP+26.5bps	Yearly	2013.12.16
900,000	30,981	90DCP	Yearly	2014.3.12
1,000,000	34,423	90DCP	Yearly	2014.6.12
3,000,000	103,270	90DCP	Each quarter	2014.6.25
1,810,000	62,306	90DCP	Each quarter	2014.6.26
2,000,000	68,847	90DCP	Yearly	2014.6.29
5,000,000	172,117	90DCP	Yearly	2014.8.23
1,000,000	34,423	90DCP	Yearly	2014.9.20
3,200,000	110,155	90DCP	Yearly	2014.9.27
2,000,000	68,847	90DCP	Each quarter	2014.9.28
1,500,000	51,635	90DCP	Yearly	2014.9.29
2,500,000	86,059	90DCP	Yearly	2014.12.20
2,000,000	68,847	90DCP	Yearly	2014.12.24
2,300,000	79,174	90DCP	Each quarter	2015.3.25
1,500,000	51,635	90DCP	Each quarter	2015.5.9
2,543,500	87,556	90DCP	Each quarter	2016.10.23
900,000	30,981	90DCP	Each quarter	2016.10.24
1,200,000	41,308	90DCP	Each quarter	2017.10.25
1,400,000	48,193	90DCP	Each quarter	2017.12.9
600,000	20,654	90DCP	Each quarter	2020.9.23

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

(B) December 31, 2011

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$1,000,000	$33,036	90DCP	Each quarter	2012.6.26
2,000,000	66,072	90DCP	Each quarter	2012.9.9
2,000,000	66,072	90DCP	Each quarter	2012.10.11
700,000	23,125	90DCP	Each quarter	2012.11.24
2,000,000	66,072	90DCP	Yearly	2013.3.26
2,425,000	80,112	90DCP	Each quarter	2013.4.24
3,600,000	118,930	90DCP	Each quarter	2013.6.8
2,700,000	89,197	90DCP+25bps	Each quarter	2013.8.24
2,000,000	66,072	90DCP	Yearly	2013.11.3
3,000,000	99,108	90DCP+26.5bps	Yearly	2013.11.3
500,000	16,518	90DCP+23bps	Yearly	2013.12.14
1,000,000	33,036	90DCP+26.5bps	Yearly	2013.12.14
1,500,000	49,554	90DCP+23bps	Yearly	2013.12.16
1,000,000	33,036	90DCP+26.5bps	Yearly	2013.12.16
900,000	29,732	90DCP	Yearly	2014.3.12
1,000,000	33,036	90DCP	Yearly	2014.6.12
3,000,000	99,108	90DCP	Each quarter	2014.6.25
1,810,000	59,795	90DCP	Each quarter	2014.6.26
2,000,000	66,072	90DCP	Yearly	2014.6.29
5,000,000	165,180	90DCP	Yearly	2014.8.23
1,000,000	33,036	90DCP	Yearly	2014.9.20
3,200,000	105,715	90DCP	Yearly	2014.9.27
2,000,000	66,072	90DCP	Each quarter	2014.9.28
1,500,000	49,554	90DCP	Yearly	2014.9.29
2,500,000	82,590	90DCP	Yearly	2014.12.20
2,000,000	66,072	90DCP	Yearly	2014.12.24
2,300,000	75,983	90DCP	Each quarter	2015.3.25
1,500,000	49,554	90DCP	Each quarter	2015.5.9
2,543,500	84,027	90DCP	Each quarter	2016.10.23
900,000	29,732	90DCP	Each quarter	2016.10.24
1,200,000	39,643	90DCP	Each quarter	2017.10.25
1,400,000	46,250	90DCP	Each quarter	2017.12.9
600,000	19,822	90DCP	Each quarter	2020.9.23

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

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 December 31, 2012 and 2011, unrealized gains on these financial instruments recognized in equity were NT$1,140,187 (US$39,249) thousands and NT$1,961,877 (US$64,813) thousands, respectively.

B. Symphox Information

	December 31, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$528,181	$528,181	$18,182	$18,182
Receivables	145,205	145,205	4,998	4,998
Financial assets at fair value through profit and loss	165,124	165,124	5,684	5,684
Available-for-sale-financial assets	972	972	33	33
Other financial assets	10	10	-	-
Guarantee deposits paid	11,210	11,210	386	386
Liabilities – non-derivative				
Payables	218,434	218,434	7,519	7,519
Guarantee deposits received	62	62	2	2

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

	December 31, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$584,861	$584,861	$19,321	$19,321
Receivables	171,616	171,616	5,670	5,670
Financial assets at fair value through profit and loss	157,365	157,365	5,199	5,199
Guarantee deposits paid	8,117	8,117	268	268
Liabilities – non-derivative				
Payables	221,487	221,487	7,317	7,317
Guarantee deposits received	62	62	2	2

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

(A) The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

(B) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Symphox Information predicts the future cash inflow or outflow will be of similar amount to the carrying value.

(C) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the 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 Symphox Information. Symphox Information 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.

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

(D) The fair values of Symphox Information's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	December 31, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$528,181	$18,182	$-	$-
Receivables	-	-	145,205	4,998
Financial assets at fair value through profit or loss	165,124	5,684	-	-
Available-for-sale financial assets	-	-	972	33
Other financial assets	-	-	10	-
Liabilities – non-derivative				
Payables	-	-	218,434	7,519

	December 31, 2011			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$584,861	$19,321	$-	$-
Receivables	-	-	171,616	5,670
Financial assets at fair value through profit or loss	157,365	5,199	-	-
Liabilities – non-derivative				
Payables	-	-	221,487	7,317

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

C. Cathay Life (China)

	December 31, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$3,708,574	$3,708,574	$127,662	$127,662
Receivables	399,447	399,447	13,750	13,750
Financial assets at fair value through profit and loss	370,474	370,474	12,753	12,753
Available-for-sale financial assets	4,652,993	4,652,993	160,172	160,172
Investment in debt securities with no active market	534,406	534,406	18,396	18,396
Guarantee deposits paid	1,187,211	1,187,211	40,868	40,868
Liabilities – non-derivative				
Payables	714,954	714,954	24,611	24,611
Short-term debt	297,268	297,268	10,233	10,233
Guarantee deposits received	9,741	9,741	335	335

	December 31, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$3,642,369	$3,642,369	$120,329	$120,329
Receivables	404,156	404,156	13,352	13,352
Financial assets at fair value through profit and loss	272,778	272,778	9,011	9,011
Available-for-sale financial assets	5,606,267	5,606,267	185,209	185,209
Investment in debt securities with no active market	529,375	529,375	17,488	17,488
Guarantee deposits paid	1,221,746	1,221,746	40,362	40,362
Liabilities – non-derivative				
Payables	491,420	491,420	16,235	16,235
Short-term debt	201,158	201,158	6,645	6,645
Guarantee deposits received	8,484	8,484	280	280

(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 book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

(B) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life (China) predicts the future cash inflow or outflow will be of similar amount to the carrying value.

(C) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the 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 Cathay Life (China). Cathay Life (China) 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.

(D) The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

	December 31, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$3,708,574	$127,662	$-	$-
Receivables	-	-	399,447	13,750
Financial assets at fair value through profit or loss	370,474	12,753	-	-
Available-for-sale financial assets	922,092	31,742	3,730,901	128,430
Investment in debt securities with no active market	-	-	534,406	18,396
Liabilities – non-derivative				
Payables	-	-	714,954	24,611
Short-term debt	297,268	10,233	-	-

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

	December 31, 2011			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$3,642,369	$120,329	$-	$-
Receivables	-	-	404,156	13,352
Financial assets at fair value through profit or loss	272,778	9,011	-	-
Available-for-sale financial assets	1,166,409	38,534	4,439,858	146,675
Investment in debt securities with no active market	-	-	529,375	17,488
Liabilities – non-derivative				
Payables	-	-	491,420	16,235
Short-term debt	201,158	6,645	-	-

D. Cathay Life (Vietnam)

	December 31, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$615,771	$615,771	$21,197	$21,197
Receivables	79,948	79,948	2,752	2,752
Available-for-sale financial assets	932,943	932,943	32,115	32,115
Guarantee deposits paid	32,604	32,604	1,122	1,122
Liabilities – non-derivative				
Payables	14,581	14,581	502	502

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

	December 31, 2011			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$467,388	$467,388	$15,441	$15,441
Receivables	76,916	76,916	2,541	2,541
Available-for-sale financial assets	947,621	947,621	31,306	31,306
Guarantee deposits paid	41,274	41,274	1,364	1,364
Liabilities – non-derivative				
Payables	27,601	27,601	912	912

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

(A) The book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

(B) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as Cathay Life (Vietnam) predicts the future cash inflow or outflow will be of similar amount to the carrying value.

(C) Quoted market price, if available, is utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the 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 Cathay Life (Vietnam). Cathay Life (Vietnam) 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.

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

(D) The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

	December 31, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$615,771	$21,197	$-	$-
Receivables	-	-	79,948	2,752
Available-for-sale financial assets	932,943	32,115	-	-
Liabilities – non-derivative				
Payables	-	-	14,581	502

	December 31, 2011			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$467,388	$15,441	$-	$-
Receivables	-	-	76,916	2,541
Available-for-sale financial assets	947,621	31,306	-	-
Liabilities – non-derivative				
Payables	-	-	27,601	912

E. Lin Yuan

	December 31, 2012			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets – non-derivative				
Cash and cash equivalents	$410,172	$410,172	$14,119	$14,119
Liabilities – non-derivative				
Payables	5,376	5,376	185	185

(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 book values of short-term financial instruments approximate their fair value due to their short maturities. Short-term financial instruments include cash and cash equivalents, notes receivable, accounts receivable and payables.

(B) The fair values of financial assets and liabilities determined by quoted market price or pricing models are summarized as following:

	December 31, 2012			
	Based on the quoted market price		Based on pricing models	
Item	NT$	US$	NT$	US$
Assets – non-derivative				
Cash and cash equivalents	$410,172	$14,119	$-	$-
Liabilities – non-derivative				
Payables	-	-	5,376	185

(7) Eliminated intercompany transactions

A. Eliminated intercompany transactions for the year of 2012

	Companies and amounts									
Transactions	The Company		Symphox Information		Cathay Life (China)		Cathay Life (Vietnam)		Lin Yuan	
Eliminations of investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$(176,723)	$(6,084)	$30,341	$1,044	$(143,542)	$(4,941)	$(6,033)	$(208)	$(57,489)	$(1,979)
Eliminations of stockholders' equity on subsidiaries	5,183,322	178,427	344,385	11,855	784,526	27,006	1,385,334	47,688	3,682,049	126,748

Note: The intercompany elimination differences for the year of 2012 are minority interests: NT$1,012,972 (US$34,870) thousands.

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

B. Eliminated intercompany transactions for the year of 2011

	Companies and amounts							
Transactions	The Company		Symphox Information		Cathay Life (China)		Cathay Life (Vietnam)	
Eliminations of investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$(286,547)	$(9,466)	$40,275	$1,330	$(234,697)	$(7,753)	$(92,125)	$(3,043)
Eliminations of stockholders' equity on subsidiaries	1,460,099	48,236	350,309	11,573	901,394	29,778	1,342,165	44,340

Note: The intercompany elimination differences for the year of 2011 are minority interests: NT$1,133,769 (US$37,455) thousands.

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

	2012.12.31			2011.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	36,845,654	29.136000	1,073,534,986	33,563,805	30.290000	1,016,647,662
AUD	(Note)	(Note)	(Note)	1,549,838	30.751900	47,660,512
EUR	717,803	38.609570	27,714,068	515,132	39.199804	20,193,085
GBP	526,696	46.975973	24,742,075	332,656	46.751101	15,552,022
CNH	19,422,188	4.679730	90,890,601	2,765,935	4.774590	13,206,205

Note: On December 31, 2012, the amount did not have significant influence.

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

	2012.12.31			2011.12.31		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Non-Monetary Items						
USD	3,188,552	29.136000	93,069,180	2,407,923	30.290000	72,972,587
HKD	7,588,075	3.758611	28,520,621	8,310,042	3.898503	32,396,719
Investments Under The Equity Method						
CNY	64,246	4.674100	300,290	130,716	4.812500	629,070
USD	3,493	29.136000	101,761	4,184	30.290000	126,731

40. Foreign exchange volatility reserve

A. 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.

B. Adjustment in foreign exchange volatility reserve:

	For the year ended December 31, 2012	
	NT$	US$
Beginning balance (The first money)	$4,511,406	$155,298
Reserve:		
Compulsory reserve	1,672,322	57,567
Extra reserve	944,888	32,526
Subtotal	2,617,210	90,093
Recover	2,857,760	98,374
Total	$4,270,856	$147,017

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

C. Effects due to foreign exchange volatility reserve:

	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
Item	NT$	US$	NT$	US$	NT$	US$
Consolidated income	2,956,916	101,787	3,156,573	108,660	199,657	6,873
Earnings per share	0.55	0.02	0.59	0.02	0.04	-
Foreign exchange volatility reserve	-	-	4,270,856	147,017	4,270,856	147,017
Stockholders' equity	136,086,599	4,684,564	136,286,256	4,691,437	199,657	6,873

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

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 and Subsidiaries 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	Finished
◎Proceed advanced internal training	Accounting department and other authorized departments	Finished
3. Practice stage: 2012/1/1~2013/12/31		
◎Test the operation of IT system	Accounting department, IT department and other authorized departments	Finished
◎Prepare opening IFRSs balance sheet and comparative financial statements	Accounting department	Finished
◎Prepare IFRSs financial statements	Accounting department	In process

The Company and Subsidiaries assess the material differences in accounting policies based on 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 and Subsidiaries have 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 R.O.C. 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 capital reserves from the liabilities to owners’ equity.

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

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	$379,048,580	$(4,995,000)	$374,053,580	1
Receivables	46,130,916	362,935	46,493,851	2
Investments	2,514,358,680	66,757,350	2,581,116,030	1、3、4
Reinsurance reserve assets - Net	9,168,433	-	9,168,433	
Property and equipment - Net	13,326,813	10,291,530	23,618,343	4、5
Intangible assets	396,833	-	396,833	
Other assets	33,315,273	(3,093,832)	30,221,441	8、10
Separate account product assets	294,051,012	-	294,051,012	
Total assets	3,289,796,540	69,322,983	3,359,119,523	
Payables	22,611,251	-	22,611,251	
Financial liabilities	47,670,059	-	47,670,059	
Insurance liabilities	2,803,536,690	50,905,213	2,854,441,903	6、7
Provision	-	346,155	346,155	8
Other liabilities	8,369,185	14,327,148	22,696,333	9、10
Separate account product liabilities	294,051,012	-	294,051,012	
Total liabilities	3,176,238,197	65,578,516	3,241,816,713	
Common stock	53,065,274	-	53,065,274	
Capital surplus	13,009,649	-	13,009,649	
Retained earnings	36,488,955	6,739,032	43,227,987	2~10
Equity adjustments	9,860,696	(2,994,565)	6,866,131	3、5、9、10
Minority interests	1,133,769	-	1,133,769	
Total stockholders' equity	113,558,343	3,744,467	117,302,810	

Cathay Life Insurance Co., Ltd. and Subsidiaries

Note to audited consolidated financial statements-continued

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

For the years ended December 31, 2012 and 2011

Unit: US thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$12,522,252	$(165,015)	$12,357,237	1
Receivables	1,523,981	11,990	1,535,971	2
Investments	83,064,377	2,205,397	85,269,774	1、3、4
Reinsurance reserve assets - Net	302,888	-	302,888	
Property and equipment - Net	440,265	339,991	780,256	4、5
Intangible assets	13,110	-	13,110	
Other assets	1,100,604	(102,208)	998,396	8、10
Separate account product assets	9,714,272	-	9,714,272	
Total assets	108,681,749	2,290,155	110,971,904	
Payables	746,986	-	746,986	
Financial liabilities	1,574,829	-	1,574,829	
Insurance liabilities	92,617,664	1,681,705	94,299,369	6、7
Provision	-	11,436	11,436	8
Other liabilities	276,484	473,312	749,796	9、10
Separate account product liabilities	9,714,272	-	9,714,272	
Total liabilities	104,930,235	2,166,453	107,096,688	
Common stock	1,753,065	-	1,753,065	
Capital surplus	429,787	-	429,787	
Retained earnings	1,205,449	222,630	1,428,079	2~10
Equity adjustments	325,758	(98,928)	226,830	3、5、9、10
Minority interests	37,455	-	37,455	
Total stockholders' equity	3,751,514	123,702	3,875,216	

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. In accordance with IAS 7, the Company and Subsidiaries reclassified time deposits that do not meet the definition of cash and cash equivalents to investments in debt securities with no active market. As of January 1, 2012, the reclassification adjustment resulted in a decrease of cash and cash equivalents by NT$4,995,000 (US$165,015) thousands and a corresponding increase of investments in debt securities with no active market.

2. 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 and retained earnings by NT$301,236(US$9,952).

3. According to 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.

4. 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 IAS 40. The Company assessed the net increase in fair value of investment property was NT$ 75,820,050 (US$2,504,792) thousands as of January 1, 2012, and reviewed each significant components resulted in retrospectively recognizing accumulated depreciation by NT$2,058,259 (US$67,997) thousands and the increase in retained earnings by NT$66,157,740 (US$2,185,587) thousands. In addition, the Company reclassified investment property to property and equipment by NT$12,422,760 (US$410,398) thousands.

5. 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$2,131,230 (US$70,407) thousands, decreases of retained earnings and unrealized revaluation increments by NT$1,767,459 (US$58,390) thousands and NT$1,462 (US$48) thousands, respectively on January 1, 2012.

6. In accordance with 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 capital reserve considering of balance after tax according to 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) after deducted by NT$766,939 (US$25,337) thousands due to the effect of deferred income tax was diverted to special capital reserve under retained earnings since January 1, 2012.

7. 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$55,416,619 (US$1,830,744) thousands and a corresponding decrease of retained earnings.

8. 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$60,482 (US$1,998) thousands and NT$406,637 (US$13,434) thousands respectively on January 1, 2012.

9. The Company adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to 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.

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

10. According to 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$1,039,338 (US$34,335) thousands and NT$8,817,269 (US$291,288) 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$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 by NT$4,238,597 (US$140,026) thousands and a corresponding decrease of retained earnings. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT$165,909 (US$5,481) thousands.

Reconciliation of the balance sheet as of December 31, 2012:

Unit: NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Cash and cash equivalents	$385,001,185	$(18,879,381)	$366,121,804	1
Receivables	60,533,375	462,240	60,995,615	2、8
Investments	2,803,908,914	65,769,693	2,869,678,607	1、3、4
Reinsurance reserve assets – Net	9,165,635	-	9,165,635	
Property and equipment – Net	24,065,132	24,291,750	48,356,882	4、5
Intangible assets	254,878	-	254,878	
Other assets	34,180,437	(1,334,293)	32,846,144	4、10
Separate account product assets	329,557,246	-	329,557,246	
Total assets	3,646,666,802	70,310,009	3,716,976,811	
Payables	38,073,656	-	38,073,656	
Financial liabilities	32,376,725	-	32,376,725	
Insurance liabilities	3,097,242,243	51,038,736	3,148,280,979	6、7
Provision	-	333,438	333,438	8
Other liabilities	13,130,676	17,264,781	30,395,457	9、10
Separate account product liabilities	329,557,246	-	329,557,246	
Total liabilities	3,510,380,546	68,636,955	3,579,017,501	
Common stock	53,065,274	-	53,065,274	
Capital surplus	13,009,649	-	13,009,649	
Retained earnings	39,768,944	6,632,712	46,401,656	2~10
Equity adjustments	29,429,417	(4,959,658)	24,469,759	3、5、10
Minority interests	1,012,972	-	1,012,972	
Total stockholders' equity	136,286,256	1,673,054	137,959,310	

(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	$13,253,053	$(649,893)	$12,603,160	1
Receivables	2,083,765	15,912	2,099,677	2、8
Investments	96,520,100	2,264,017	98,784,117	1、3、4
Reinsurance reserve assets – Net	315,512	-	315,512	
Property and equipment – Net	828,404	836,205	1,664,609	4、5
Intangible assets	8,774	-	8,774	
Other assets	1,176,607	(45,931)	1,130,676	4、10
Separate account product assets	11,344,484	-	11,344,484	
Total assets	125,530,699	2,420,310	127,951,009	
Payables	1,310,625	-	1,310,625	
Financial liabilities	1,114,517	-	1,114,517	
Insurance liabilities	106,617,633	1,756,927	108,374,560	6、7
Provision	-	11,478	11,478	8
Other liabilities	452,003	594,313	1,046,316	9、10
Separate account product liabilities	11,344,484	-	11,344,484	
Total liabilities	120,839,262	2,362,718	123,201,980	
Common stock	1,826,688	-	1,826,688	
Capital surplus	447,836	-	447,836	
Retained earnings	1,368,983	228,320	1,597,303	2~10
Equity adjustments	1,013,060	(170,728)	842,332	3、5、10
Minority interests	34,870	-	34,870	
Total stockholders' equity	4,691,437	57,592	4,749,029	

Reconciliation items are as follows:

1. In accordance with IAS 7, the Company and Subsidiaries reclassified time deposits that do not meet the definition of cash and cash equivalents to investments in debt securities with no active market. As of December 31, 2012, the reclassification adjustment resulted in a decrease of cash and cash equivalents by NT$18,879,381 (US$649,893) thousands and a corresponding increase of investments in debt securities with no active market.

2. 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$274,247 (US$9,441) thousands, retained earnings by NT$301,236 (US$10,370) thousands, income tax benefit by NT$15,077 (US$519) thousands and a decrease of rent revenue by NT$88,688 (US$3,053).

3. According to IAS 39, the Company reclassified financial assets carried at cost to available-for-sale financial assets and measured at fair value. As of December 31, 2012, the reclassification adjustment resulted in increases of available-for-sale financial assets by NT$11,004,140 (US$378,800) thousands, unrealized gains on financial instruments by NT$296,323 (US$10,200) thousands and gains on disposal of investment by NT$24 (US$1). The adjustment also made decreases of financial assets carried at cost by NT$10,707,797 (US$368,599) thousands and retained earnings by NT$37,960 (US$1,307) thousands.

4. 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 IAS 40. The Company assessed the net increase in fair value of investment property was NT$75,820,050 (US$2,609,985) thousands as of December 31, 2012, and reviewed each significant components resulted in retrospectively recognizing accumulated depreciation by NT$177,139 (US$6,098) thousand and an increases in retained earnings by NT$66,157,740 (US$2,277,374) thousands. The adjustment also resulted in decreases of depreciation expense and income tax benefit by NT$1,881,120 (US$64,755) thousands and NT$319,790 (US$11,008) thousands, respectively. In addition, the Company reclassified investment property to property and equipment by NT$28,659,220 (US$986,548) thousands. Superficies NT$389,722 (US$13,416) thousands represented a prepaid rent thus reclassified to other assets.

5. 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$4,367,470 (US$150,343) thousands, decreases of retained earnings and unrealized revaluation increments by NT$1,767,459 (US$60,842) thousands and NT$1,462 (US$50) thousands, respectively. The adjustment also resulted in increases of depreciation expense by NT$2,236,240 (US$76,979) thousands and income tax benefit by NT$380,161 (US$13,086) thousands.

6. In accordance with 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 capital reserve considering of balance after tax according to 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$4,377,883 (US$150,701) thousands, a decrease of changes in provision for special reserves by NT$133,523 (US$4,596) thousands, an increase of income tax benefit by NT$22,699 (US$781) thousands and an increase of special capital reserve under retained earnings by NT$3,744,467 (US$128,897) thousands.

7. 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$55,416,619 (US$1,907,628) thousands and a corresponding decrease of retained earnings.

8. The Company adopted IAS 37 to assess the provisions due to taxation administrative remedy. After assessment, the Company should increase provisions by NT$333,438 (US$11,478) thousands, decrease retained earnings by NT$406,637 (US$13,998) thousands. In addition, the reversal recognition resulted in increases of tax receivables by NT$187,993 (US$6,471) thousands and income tax benefit by NT$261,192 (US$8,991) thousands.

9. The Company adopted IAS 19 to measure pension liability, and recognize all cumulative actuarial gains and losses according to IFRS 1. As of December 31, 2012, the IFRSs adjustment resulted in an increase of accrual pension liability by NT$1,877,666 (US$64,636) thousands, and a decrease of retained earnings by NT$1,597,139 (US$54,979). In addition, the adjustment resulted in decreases of pension expense and income tax benefit by NT$46,598 (US$1,604) thousands and NT$7,922 (US$273) thousands, respectively.

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

10. According to 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$1,411,577 (US$48,590) thousands and NT$9,102,563 (US$313,341) 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$5,254,519 (US$180,878) 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$145,907) thousands and deferred tax assets by NT$4,165,625 (US$143,395) thousands and resulted in increases of income tax benefit by NT$72,972 (US$2,512) thousands. Furthermore, deferred tax assets and liabilities were presented in gross amount and both increased by NT$6,284,552 (US$216,336) thousands.

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

Unit: NT thousand dollars

	ROC GAAP	Adjustments	IFRSs	Notes
Operating revenues	$688,446,852	$(88,664)	$688,358,188	2、3
Operating costs	(670,515,328)	(133,523)	(670,648,851)	6
Gross margin	17,931,524	(222,187)	17,709,337	
Operating expenses	(17,492,519)	(308,522)	(17,801,041)	4、5、9
Operating income (loss)	439,005	(530,709)	(91,704)	
Non-operating revenues and expenses	965,281	-	965,281	
Income from continuing operations before income taxes	1,404,286	(530,709)	873,577	
Income taxes benefit	1,752,287	424,389	2,176,676	2、4~6、8~10
Consolidated income	3,156,573	(106,320)	3,050,253	

(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
Operating revenues	$23,698,687	$(3,052)	$23,695,635	2、3
Operating costs	(23,081,423)	(4,596)	(23,086,019)	6
Gross margin	617,264	(7,648)	609,616	
Operating expenses	(602,152)	(10,620)	(612,772)	4、5、9
Operating income (loss)	15,112	(18,268)	(3,156)	
Non-operating revenues and expenses	33,228	-	33,228	
Income from continuing operations before income taxes	48,340	(18,268)	30,072	
Income taxes benefit	60,320	14,608	74,928	2、4~6、8~10
Consolidated income	108,660	(3,660)	105,000	

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.

42. 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 December 31, 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 December 31, 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 December 31, 2012, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately US$126,064 thousands.

43. 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.