

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the years ended
31 December 2013 and 2012
With Independent Auditors' Report

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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

The Board of Directors and Shareholders
Cathay Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2013, 31 December 2012, and 1 January 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statement by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statement. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. 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 consolidated financial positions of the Company and its subsidiaries as of 31 December 2013, 31 December 2012 and 1 January 2012, and the consolidated results of their operations and their cash flows for the years ended 31 December 2013 and 2012, in conformity with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulation Governing the Preparation of Financial Reports by Securities Issuers" and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed by Financial Supervisory Commission of the Republic of China.

Ernst & Young
Taipei, Taiwan
The Republic of China
14 March 2014



Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

As at 31 December 2013, 31 December 2012 and 1 January 2012

(Expressed in thousands of dollars)

	Notes	2013.12.31		2012.12.31		2012.1.1	
		NT \$	US \$	NT \$	US \$	NT \$	US \$
Assets							
Cash and cash equivalents	4, 6	\$331,666,078	\$11,118,541	\$313,663,386	\$10,797,363	\$334,863,114	\$11,062,541
Due from the Central Bank and call loans to banks		151,945,066	5,093,700	109,003,762	3,752,281	100,101,541	3,306,955
Financial assets at fair value through profit or loss	4, 7	244,023,246	8,180,464	146,746,672	5,051,520	84,261,163	2,783,653
Available-for-sale financial assets -net	4, 8	1,357,106,776	45,494,696	1,302,743,262	44,844,863	1,348,697,428	44,555,581
Derivative financial assets for hedging	4	1,300,914	43,611	2,362,366	81,321	3,425,140	113,153
Securities purchased under agreements to resell	4	12,960,817	434,489	15,749,244	542,142	11,617,967	383,811
Receivables -net	4, 9	169,590,966	5,685,248	109,911,278	3,783,521	93,001,582	3,072,401
Current income tax assets	4	5,585,301	187,238	3,597,490	123,838	3,456,783	114,198
Assets held for sale -net		68,479	2,296	-	-	-	-
Loans -net	4, 10	1,667,391,682	55,896,469	1,521,712,123	52,382,517	1,493,694,284	49,345,698
Reinsurance assets -net		5,740,684	192,447	14,641,999	504,028	14,366,255	474,604
Held-to-maturity financial assets -net	4, 11	54,970,153	1,842,781	24,380,985	839,277	21,955,565	725,324
Investments accounted for using the equity method -net	4, 12	3,153,320	105,710	2,235,874	76,966	2,377,392	78,540
Other financial assets -net	4, 13	1,724,797,817	57,820,912	1,605,300,209	55,259,904	1,258,706,263	41,582,632
Investment properties -net	4, 14	191,023,573	6,403,740	171,103,918	5,889,980	167,912,183	5,547,149
Property and equipment -net	4, 15	104,306,810	3,496,708	114,634,059	3,946,095	91,171,304	3,011,936
Intangible assets -net	4, 16	9,223,432	309,200	9,393,007	323,339	9,337,507	308,474
Deferred tax assets -net	4	15,038,697	504,147	19,046,245	655,637	15,428,347	509,691
Other assets -net		26,963,277	903,898	24,726,997	851,187	25,017,986	826,494
Total assets		\$6,076,857,088	\$203,716,295	\$5,510,952,876	\$189,705,779	\$5,079,391,804	\$167,802,835

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013, 31 December 2012 and 1 January 2012 were NT\$29.83, NT\$29.05 and NT\$30.27 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets - (continued)

As at 31 December 2013, 31 December 2012 and 1 January 2012

(Expressed in thousands of dollars)

	Notes	2013.12.31		2012.12.31		2012.1.1	
		NT \$	US \$	NT \$	US \$	NT \$	US \$
Liabilities & equity							
Liabilities							
Due to the Central Bank and call loans from banks		\$56,985,225	\$1,910,333	\$56,934,246	\$1,959,871	\$62,275,073	\$2,057,320
Bankers acceptances and funds borrowed		1,497,500	50,201	1,456,800	50,148	1,514,500	50,033
Financial liabilities at fair value through profit or loss	4, 17	28,754,621	963,950	9,086,346	312,783	23,136,143	764,326
Derivative financial liabilities for hedging		5,148	173	-	-	-	-
Securities sold under agreements to repurchase	4	60,931,600	2,042,628	22,046,517	758,916	14,686,609	485,187
Commercial paper payable -net	4, 18	10,050,000	336,909	5,540,000	190,706	8,720,000	288,074
Payables		37,548,440	1,258,747	60,740,926	2,090,910	44,204,197	1,460,330
Current income tax liabilities	4	37,003	1,240	104	4	2,041,027	67,427
Deposits	19	1,585,031,001	53,135,468	1,458,392,976	50,202,856	1,414,421,828	46,726,853
Bonds payable	4, 20	92,417,213	3,098,130	89,831,007	3,092,289	76,023,825	2,511,524
Provisions	4, 22	3,477,440,832	116,575,288	3,175,688,291	109,318,013	2,880,403,214	95,157,027
Other financial liabilities -net	4, 21	413,414,217	13,859,008	348,229,937	11,987,261	305,766,443	10,101,303
Deferred tax liabilities	4	12,771,382	428,139	16,307,882	561,373	14,033,366	463,606
Other liabilities		14,712,855	493,223	18,548,681	638,509	12,817,284	423,432
Total liabilities		5,791,597,037	194,153,437	5,262,803,713	181,163,639	4,860,043,509	160,556,442
Equity attributable to owners of parent							
Capital stock							
Common stock	24	119,649,621	4,011,050	108,653,851	3,740,236	103,575,096	3,421,708
Capital surplus	25	89,063,184	2,985,692	78,508,148	2,702,518	78,508,148	2,593,596
Retained earnings	26						
Legal reserve		16,922,773	567,307	15,222,599	524,014	14,105,459	465,988
Special reserve		7,072,630	237,098	4,078,065	140,381	4,078,065	134,723
Undistributed earnings		28,287,695	948,297	19,290,840	664,056	14,449,857	477,366
Other equity		20,083,810	673,275	25,823,918	888,947	7,760,904	256,389
Treasury stock	4, 27	-	-	(7,179,872)	(247,156)	(7,179,872)	(237,194)
Non-controlling interests	4, 28	4,180,338	140,139	3,751,614	129,144	4,050,638	133,817
Total equity		285,260,051	9,562,858	248,149,163	8,542,140	219,348,295	7,246,393
Total liabilities and equity		\$6,076,857,088	\$203,716,295	\$5,510,952,876	\$189,705,779	\$5,079,391,804	\$167,802,835

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013, 31 December 2012 and 1 January 2012 were NT\$29.83, NT\$29.05 and NT\$30.27 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)**

	Notes	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
		NT \$	US \$	NT \$	US \$
Interest income	4	\$128,608,655	\$4,311,386	\$126,231,055	\$4,345,303
Less: Interest expenses		(14,073,643)	(471,795)	(13,504,477)	(464,870)
Net interest income	4	114,535,012	3,839,591	112,726,578	3,880,433
Net income other than interest					
Net commission and handling fee		764,649	25,634	2,207,218	75,980
Net premiums from insurance business		213,301,740	7,150,578	226,883,585	7,810,106
(Losses) gains on financial assets and liabilities at fair value through profit or loss		(28,805,639)	(965,660)	26,982,554	928,831
Gains from investment properties		6,303,080	211,300	6,245,091	214,977
Realized gains on available-for-sale financial assets		34,263,540	1,148,627	28,280,425	973,509
Realized gains (losses) on held-to-maturity financial assets		3,134	105	(19,073)	(657)
Gains (losses) on foreign exchange		35,548,670	1,191,709	(34,483,636)	(1,187,044)
Impairment losses on assets		(192,262)	(6,445)	(225,360)	(7,758)
Share of profit of associates and joint ventures accounted for using equity method		157,038	5,264	(49,589)	(1,707)
Net other non-interest gains		6,998,320	234,607	8,554,173	294,465
Total income		382,877,282	12,835,310	377,101,966	12,981,135
Bad debt expenses and provision for premiums reserve		(1,487,407)	(49,863)	(3,172,861)	(109,221)
Changes in insurance liabilities and provisions		(293,569,577)	(9,841,421)	(306,442,777)	(10,548,805)
Operating expenses	29				
Employee benefits expenses		(34,297,866)	(1,149,777)	(32,723,638)	(1,126,459)
Depreciation and amortizations expenses		(4,483,291)	(150,295)	(4,448,024)	(153,116)
Other general and administration expenses		(17,068,090)	(572,179)	(14,600,127)	(502,586)
Subtotal		(55,849,247)	(1,872,251)	(51,771,789)	(1,782,161)
Profit before income tax from continuing operations		31,971,051	1,071,775	15,714,539	540,948
Income tax (expense) benefit	4, 31	(2,950,940)	(98,925)	457,390	15,745
Net income		29,020,111	972,850	16,171,929	556,693
Other comprehensive income	4, 30				
Exchange differences resulting from translating the financial statements of a foreign operation		733,397	24,586	(959,568)	(33,032)
Unrealized (losses) gains from available-for-sale financial assets		(6,879,955)	(230,639)	21,002,969	722,994
Losses on cash flow hedges		(714,659)	(23,958)	(852,519)	(29,347)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(14,204)	(476)	(24,244)	(834)
Income tax relating to the components of other comprehensive income		1,237,702	41,492	(1,197,137)	(41,210)
Other comprehensive income, net of tax		(5,637,719)	(188,995)	17,969,501	618,571
Total comprehensive income		\$23,382,392	\$783,855	\$34,141,430	\$1,175,264
Net income attributable to:					
Owners of parent		\$28,815,775	\$966,000	\$16,115,633	\$554,755
Non-controlling interests		204,336	6,850	56,296	1,938
Subtotal		\$29,020,111	\$972,850	\$16,171,929	\$556,693
Total comprehensive income attributable to:					
Owners of parent		\$23,075,667	\$773,572	\$34,178,647	\$1,176,545
Non-controlling interests		306,725	10,283	(37,217)	(1,281)
Subtotal		\$23,382,392	\$783,855	\$34,141,430	\$1,175,264
Earnings per share (expressed in dollars) :	32				
Basic earnings per share:					
Net income		\$2.50	\$0.08	\$1.41	\$0.05
Diluted earnings per share:					
Net income		\$2.50	\$0.08	\$1.41	\$0.05

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013 and 2012 were NT\$29.83 and NT\$29.05 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 Financial Holding Co., Ltd. and Subsidiaries

Statements of changes in equity

For the years ended 31 December 2013 and 2012

(Expressed in thousands of dollars)

Items	Equity attributable to owners of parent																										
	Capital stock				Retained earnings						Other equity																
	Common stock		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Exchange differences resulting from translating the financial statements of a foreign operation		Unrealized gains from available-for-sale financial assets		Gains on cash flow hedges		Others		Treasury stock		Total		Non-controlling interests		Total equity		
NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on 1 January 2012	\$103,575,096	\$3,565,408	\$78,508,148	\$2,702,518	\$14,105,459	\$485,558	\$4,078,065	\$140,381	\$14,449,857	\$497,413	\$(378,126)	\$(13,016)	\$6,454,007	\$222,169	\$1,686,208	\$58,045	\$(1,185)	\$(41)	\$(7,179,872)	\$(247,156)	\$215,297,657	\$7,411,279	\$4,050,638	\$139,437	\$219,348,295	\$7,550,716	
Appropriations and distribution for 2011																											
Legal reserve	-	-	-	-	1,117,140	38,456	-	-	(1,117,140)	(38,456)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(5,078,755)	(174,828)	-	-	-	-	-	-	-	-	-	-	-	(5,078,755)	(174,828)	-	-	(5,078,755)	(174,828)
Stock dividend	5,078,755	174,828	-	-	-	-	-	-	(5,078,755)	(174,828)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	16,115,633	554,755	-	-	-	-	-	-	-	-	-	-	-	16,115,633	554,755	56,296	1,938	16,171,929	556,693
Other comprehensive income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	-	-	(703,971)	(24,233)	19,476,556	670,449	(709,526)	(24,424)	(45)	(2)	-	-	-	18,063,014	621,290	(93,513)	(3,219)	17,969,501	618,571
Comprehensive income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	16,115,633	554,755	(703,971)	(24,233)	19,476,556	670,449	(709,526)	(24,424)	(45)	(2)	-	-	-	34,178,647	1,176,545	(37,217)	(1,281)	34,141,430	1,175,264
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(261,807)	(9,012)	(261,807)	(9,012)
Balance on 31 December 2012	\$108,653,851	\$3,740,736	\$78,508,148	\$2,702,518	\$15,222,599	\$524,014	\$4,078,065	\$140,381	\$19,290,840	\$664,056	\$(1,082,097)	\$(37,249)	\$25,930,563	\$892,618	\$976,682	\$33,621	\$(1,230)	\$(43)	\$(7,179,872)	\$(247,156)	\$244,397,549	\$8,412,996	\$3,751,614	\$129,144	\$248,149,163	\$8,542,140	
Balance on 1 January 2013	\$108,653,851	\$3,642,436	\$78,508,148	\$2,631,852	\$15,222,599	\$510,312	\$4,078,065	\$136,710	\$19,290,840	\$646,692	\$(1,082,097)	\$(36,276)	\$25,930,563	\$869,278	\$976,682	\$32,742	\$(1,230)	\$(41)	\$(7,179,872)	\$(240,693)	\$244,397,549	\$8,193,012	\$3,751,614	\$125,767	\$248,149,163	\$8,318,779	
Special reserve provision in accordance with ruling no. 10202508140 issued by the Financial Supervisory Commission, ROC	-	-	-	-	-	-	-	2,994,565	100,388	(2,994,565)	(100,388)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriations and distribution for 2012																											
Legal reserve	-	-	-	-	1,700,174	56,995	-	-	(1,700,174)	(56,995)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(7,465,770)	(250,277)	-	-	-	-	-	-	-	-	-	-	-	(7,465,770)	(250,277)	-	-	(7,465,770)	(250,277)
Stock dividend	7,465,770	250,277	-	-	-	-	-	-	(7,465,770)	(250,277)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	28,815,775	966,000	-	-	-	-	-	-	-	-	-	-	-	28,815,775	966,000	204,336	6,850	29,020,111	972,850
Other comprehensive income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	-	-	554,063	18,574	(5,700,072)	(191,085)	(594,376)	(19,926)	277	9	-	-	-	(5,740,108)	(192,428)	102,389	3,433	(5,637,719)	(188,995)
Comprehensive income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	28,815,775	966,000	554,063	18,574	(5,700,072)	(191,085)	(594,376)	(19,926)	277	9	-	-	-	23,075,667	773,572	306,725	10,283	23,382,392	783,855
Increase in cash capital	3,530,000	118,337	9,178,000	307,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,708,000	426,014	-	-	12,708,000	426,014
Value difference between price of subsidiary stock paid and book value	-	-	29,142	977	-	-	-	-	(192,641)	(6,458)	-	-	-	-	-	-	-	-	-	-	-	(163,499)	(5,481)	-	-	(163,499)	(5,481)
Share-based payment transaction	-	-	203,408	6,819	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	203,408	6,819	-	-	203,408	6,819
Other	-	-	1,144,486	38,367	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,179,872	240,693	8,324,358	279,060	-	-	8,324,358	279,060	
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	121,999	4,089	121,999	4,089
Balance on 31 December 2013	\$119,649,621	\$4,011,050	\$89,063,184	\$2,985,692	\$16,922,773	\$567,307	\$7,072,630	\$237,098	\$28,287,695	\$948,297	\$(528,034)	\$(17,702)	\$20,230,491	\$678,193	\$382,306	\$12,816	\$(953)	\$(32)	-	-	\$281,079,713	\$9,422,719	\$4,180,338	\$140,139	\$285,260,051	\$9,562,858	

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Statements of cash flows
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31		Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NTS	US\$	NTS	US\$		NTS	US\$	NTS	US\$
Cash flows from operating activities					Cash flows from investing activities				
Profit before income tax from continuing operations	\$31,971,051	\$1,071,775	\$15,714,539	\$540,948	Acquisition of financial assets at fair value through profit or loss	(225,000)	(7,543)	(914,092)	(31,466)
Adjustments:					Disposal of financial assets at fair value through profit or loss	475,769	15,949	638,323	21,973
Income and other adjustments with no cash flow effects					Acquisition of financial assets available for sale	(869,608,189)	(29,152,135)	(644,166,777)	(22,174,416)
Depreciation expenses	4,111,027	137,815	4,017,406	138,293	Disposal of financial assets available for sale	832,967,391	27,923,815	741,263,110	25,516,802
Amortizations expenses	372,264	12,480	430,618	14,823	Acquisition of bond investments with no active market	(577,531,969)	(19,360,777)	(681,594,061)	(23,462,790)
Bad debt expense	1,487,407	49,863	3,172,861	109,221	Disposal of bond investments with no active market	381,368,341	12,784,725	385,251,198	13,261,659
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	33,184,214	1,112,444	(24,847,377)	(855,331)	Due repays principal of bond investments with no active market	208,750	6,998	-	-
Interest expenses	14,073,643	471,795	13,504,477	464,870	Acquisition of financial assets held to maturity	(1,959,653)	(65,694)	(737,811)	(25,398)
Interest revenue	(128,608,655)	(4,311,386)	(126,231,055)	(4,345,303)	Disposal of financial assets held to maturity	848,650	28,449	633,710	21,815
Dividend income	(14,644,454)	(490,931)	(12,845,176)	(442,175)	Due repays principal of financial assets held to maturity	200,000	6,705	-	-
Net changes in insurance liabilities and provisions	295,470,955	9,905,161	290,955,128	10,015,667	Acquisition of investments accounted for using the equity method	(472,953)	(15,855)	(59,120)	(2,035)
Net changes of other liabilities and provisions	6,211,326	208,224	4,270,856	147,017	Disposal of investments accounted for using the equity method	217,537	7,293	-	-
Revaluation gains on bonds payable	-	-	(207,604)	(7,147)	Acquisition of subsidiary	(338,612)	(11,351)	(654,930)	(22,545)
Share of gain of associates and joint ventures accounted for using the equity method	(157,038)	(5,264)	(49,589)	(1,707)	Disposal of subsidiary	(465,975)	(15,621)	-	-
Losses (gains) on disposal or scrapping of property and equipment	5,384	180	(1,618,248)	(55,706)	Cash returned by capital deduction from investments accounted for using equity method	13,067	438	49,288	1,697
(Gains) losses on disposal of investment properties	144,560	4,846	(295,672)	(10,178)	Acquisition of property and equipment	(2,036,594)	(68,273)	(4,575,240)	(157,495)
Gains on disposal of investments	(30,814,956)	(1,033,019)	(20,746,094)	(714,151)	Disposal of property and equipment	28,596	959	1,926,601	66,320
Gains on disposal of investments accounted for using the equity method	(131,174)	(4,397)	-	-	Increase in operating deposit	(50,000)	(1,676)	(5,000)	(172)
Impairment losses on financial assets	206,620	6,926	225,360	7,758	Decrease in operating deposit	25,000	838	-	-
Impairment losses on non-financial assets	25,825	866	-	-	Increase in clearing and settlement funds	(2,121)	(71)	(7,000)	(241)
Reversal of impairment losses on non-financial assets	(40,183)	(1,347)	-	-	Decrease in clearing and settlement funds	9,615	322	-	-
Unrealized foreign exchange losses	14,746	494	104,464	3,596	Increase in guarantee deposits paid	(15,905)	(533)	(136,482)	(4,698)
Losses on redeeming corporate bonds payable	203,372	6,818	-	-	Decrease in guarantee deposits paid	9	-	-	-
Loss on disposal of foreclosed collaterals	-	-	(1,000)	(34)	Acquisition of intangible assets	(162,297)	(5,441)	(120,287)	(4,141)
Subtotal	181,114,883	6,071,568	129,839,355	4,469,513	Disposal of foreclosed collaterals	-	-	1,000	34
Changes in operating assets and liabilities					Net cash flows from consolidating	-	-	687,361	23,661
Changes in operating assets					Acquisition of investment properties	(11,646,282)	(390,422)	(26,716,416)	(919,670)
Increase in due from the Central Bank and call loans to banks	(4,890,404)	(163,942)	(789,914)	(27,191)	Disposal of investment properties	261	9	764,528	26,318
Increase in financial assets at fair value through profit or loss	(82,415,269)	(2,762,832)	(5,126,838)	(176,483)	Increase in other assets	(2,649,307)	(88,814)	(412,962)	(14,216)
Increase in available-for-sale financial assets	(726,378)	(24,351)	(11,972,620)	(412,138)	Dividends received	58,936	1,976	86,325	2,972
Decrease in derivative financial assets for hedging	346,794	11,626	210,255	7,238	Net cash used in investing activities	<u>(250,742,935)</u>	<u>(8,405,730)</u>	<u>(228,798,734)</u>	<u>(7,876,032)</u>
Increase in accounts receivable	(56,245,768)	(1,885,544)	(10,824,568)	(372,618)	Cash flows from financing activities				
Increase in loans	(146,695,438)	(4,917,715)	(32,010,767)	(1,101,920)	Increase (decrease) in funds borrowed from Central Bank and banks	3,099,980	103,921	(57,700)	(1,986)
Decrease (increase) in reinsurance contract assets	8,959,387	300,348	(317,244)	(10,921)	Increase in commercial paper payable	121,360,000	4,068,387	102,210,000	3,518,416
Increase in financial assets held to maturity	(29,691,246)	(995,348)	(2,380,214)	(81,935)	Decrease in commercial paper payable	(116,850,000)	(3,917,197)	(105,390,000)	(3,627,883)
Decrease (increase) in other financial assets	131,525,498	4,409,169	(12,366,985)	(425,714)	Issuance of corporate bonds	-	-	7,584,599	261,088
(Increase) decrease in other assets	(631,254)	(21,162)	783,810	26,981	Redemption of corporate bonds	(1,299,728)	(43,571)	-	-
Subtotal	(180,464,078)	(6,049,751)	(74,795,085)	(2,574,701)	Issuance of bank debentures	9,898,582	331,833	6,561,927	225,884
Changes in operating liabilities					(Decrease) increase in bills and bonds sold under agreements to repurchase	(297,268)	(9,965)	96,111	3,308
Decrease in due to the Central Bank and call loans from banks	(177,381)	(5,946)	(4,678,314)	(161,044)	(Decrease) increase in other liabilities	(201,355)	(6,750)	230,617	7,939
Decrease in financial liabilities at fair value through profit or loss	(26,292,724)	(881,419)	(46,760,117)	(1,609,643)	Payment of cash dividends	(7,487,212)	(250,996)	(5,078,755)	(174,828)
Increase in derivative financial liabilities for hedging	5,148	173	-	-	Increase in cash capital	12,708,000	426,014	-	-
Increase in securities purchased under agreements to resell	39,182,351	1,313,522	7,263,797	250,045	Exercise of employee stock options	203,408	6,819	-	-
(Decrease) increase in payables	(25,450,568)	(853,187)	15,149,186	521,487	Net cash flows from financing activities	<u>21,134,407</u>	<u>708,495</u>	<u>6,156,799</u>	<u>211,938</u>
Increase in deposits	125,951,868	4,222,322	42,950,993	1,478,519	Effects of exchange rate changes on cash and cash equivalents	<u>595,059</u>	<u>19,948</u>	<u>(1,317,001)</u>	<u>(45,336)</u>
(Decrease) increase in provisions for the liabilities of employee benefits	(9,343)	(313)	102,119	3,515	Increase (decrease) in cash and cash equivalents	<u>56,297,646</u>	<u>1,887,283</u>	<u>(9,145,203)</u>	<u>(314,809)</u>
Decrease in reserves for the operations and liabilities	(59,443)	(1,993)	(24,254)	(835)	Cash and cash equivalents at the beginning of periods	<u>397,388,554</u>	<u>13,321,775</u>	<u>406,533,757</u>	<u>13,994,277</u>
Increase in other financial liabilities	18,718,967	627,521	6,815,118	234,600	Cash and cash equivalents at the end of periods	<u>\$453,686,200</u>	<u>\$15,209,058</u>	<u>\$397,388,554</u>	<u>\$13,679,468</u>
(Decrease) increase in other liabilities	(3,502,203)	(117,406)	6,243,617	214,927					
Subtotal	128,366,672	4,303,274	27,062,145	931,571					
Subtotal of Changes in operating assets and liabilities	(52,097,406)	(1,746,477)	(47,732,940)	(1,643,130)					
Subtotal of Adjustment	129,017,477	4,325,091	82,106,415	2,826,383	The components of cash and cash equivalents				
Cash generated from operations	160,988,528	5,396,866	97,820,954	3,367,331	Cash and cash equivalents presented in balance sheet	\$331,666,078	\$11,118,541	\$313,663,386	\$10,797,363
Interest received	126,248,334	4,232,261	122,551,324	4,218,634	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	109,059,305	3,656,028	67,975,924	2,339,963
Dividends received	14,799,076	496,114	12,918,510	444,699	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	12,960,817	434,489	15,749,244	542,142
Interest paid	(13,294,354)	(445,670)	(13,799,032)	(475,010)	Cash and cash equivalents at the end of periods	<u>\$453,686,200</u>	<u>\$15,209,058</u>	<u>\$397,388,554</u>	<u>\$13,679,468</u>
Income taxes paid	(3,430,469)	(115,001)	(4,678,023)	(161,033)					
Net cash flows from operating activities	285,311,115	9,564,570	214,813,733	7,394,621					

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Cathay Financial Holding Co., Ltd. and Subsidiaries

Notes to Audited Consolidated Financial Statements

31 December 2013 and 2012

(Expressed in thousands of dollars except

for share and per share data and unless otherwise stated)

1. Organization and business scope

On 31 December 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TWSE) on the same day. On 22 April 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On 18 December 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on 27 October 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named Cathay United Bank Co., Ltd. (“Cathay United Bank”). On 12 May 2004, the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On 30 June 2005, the Company invested in Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on 25 August 2006. Cathay United Bank merged with Lucky Bank on 1 January 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on 29 December 2007 to improve competitiveness. Cathay Venture Inc. (“Cathay Venture”) was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009. On 13 June 2011, the Company obtained the acquisition approval of Cathay Securities Investment Trust Co., Ltd. (Cathay Securities Investment Trust) from Financial Supervisory Commission of Executive Yuan and acquired all shares of Cathay Securities Investments Trust by cash purchase on 24 June 2011. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depository Shares (GDSs). The Company mainly engages in financial holding business.

As of 31 December 2013, 31 December 2012, and 1 January 2012, the total numbers of the employees of the Company and its subsidiaries were 44,487, 44,678, and 43,904, respectively.

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

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2013 and 2012 were authorized for issue in accordance with a resolution of the board of directors on 14 March 2013.

3. Newly issued or revised standards and interpretations

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

IFRS 9 *Financial Instruments*

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

- (2) Standards or interpretations issued but not yet recognized are listed below:

<u>The main content of standards or interpretations</u>	<u>The reporting date of adoption (Note 1)</u>
The revision for IFRS in 2010:	
IFRS 1“First-time Adoption of International Financial Standards”	Effective on 1 January 2011
IFRS 3 “Business Combinations”	Effective on 1 July 2010
IFRS 7“Financial Instruments: Disclosures”	Effective on 1 January 2011
IAS 1“Presentation of Financial Statements”	Effective on 1 January 2011
IAS 34“Interim Financial Reporting”	Effective on 1 January 2011
IFRIC 13“Customer Loyalty Programs”	Effective on 1 January 2011

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<u>The main content of standards or interpretations</u>	<u>The reporting date of adoption (Note 1)</u>
According to IFRS 7, the exception of the comparable disclosure for entities who is first-time adoption is limited (revised IFRS 1 “First-time Adoption of International Financial Standards”)	Effective on 1 July 2010
Hyperinflation and remove of the specific date of first-time adoption.(revised IFRS 1“First-time Adoption of International Financial Standards”)	Effective on 1 July 2011
The amendment of IFRS 7“Financial Instruments: Disclosures”	Effective on 1 July 2011
Deferred income taxes: The recovery of targeted assets (IAS 12 “Income Taxes”)	Effective on 1 January 2012
IFRS 10“Consolidated Financial Statements”	Effective on 1 January 2013
IAS 27“Consolidated and Separate Financial Statements”	Effective on 1 January 2013
IFRS 11“Joint Arrangements”	Effective on 1 January 2013
IAS 28“Investments in Associates and Joint Ventures”	Effective on 1 January 2013
IFRS 12“Disclosure of Interests in Other Entities”	Effective on 1 January 2013
IFRS 13“Fair Value Measurement”	Effective on 1 January 2013
The presentation of the items for other comprehensive income or loss.(revised IAS 1 “Presentation of Financial Statements”)	Effective on 1 July 2012
The amendment of IAS 19“Employee Benefits”	Effective on 1 January 2013
The loan from the government(revised IFRS 1 “First-time Adoption of International Financial Standards”)	Effective on 1 January 2013
The disclosure for the offsetting of financial assets and liabilities (revised IFRS 7 “Financial Instruments: Disclosures”)	Effective on 1 January 2013
The offsetting of financial assets and liabilities(revised IAS 32 “Financial Instruments: Presentation”)	Effective on 1 January 2014
IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”	Effective on 1 January 2013
The improvement for IFRS from 2009 to 2011:	
IFRS 1 “First-time Adoption of International Financial Standards”	Effective on 1 January 2013
IAS 1 “Presentation of Financial Statements”	Effective on 1 January 2013
IAS 16 “Property, Plant and Equipment”	Effective on 1 January 2013
IAS 32 “Financial Instruments: Presentation”	Effective on 1 January 2013
IAS 34 “Interim Financial Reporting”	Effective on 1 January 2013
The amendment of IFRS 10 “Consolidated Financial Statements”	Effective on 1 January 2014
The amendment of IAS 36 “Impairment of Assets”	Effective on 1 January 2014

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The main content of standards or interpretations	The reporting date of adoption (Note 1)
SIC 21 “Income Taxes”	Effective on 1 January 2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 9 “Financial Instruments”)	Effective on 1 January 2014
IFRS 9 “Financial Instruments” -Hedge accounting	Not been examined
IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)	Effective on 1 July 2014
The improvement for IFRS from 2010 to 2012:	
IFRS 2 “Share-based Payment”	Note 2
IFRS 3 “Business Combinations”	Note 3
IFRS 8 “Operating Segments”	Effective on 1 July 2014
IFRS 13 “Fair Value Measurement”	-
IAS 16 “Property, Plant and Equipment”	Effective on 1 July 2014
IAS 24 “Related Party Disclosures”	Effective on 1 July 2014
IAS 38 “Intangible Assets”	Effective on 1 July 2014
The improvement for IFRS from 2011 to 2013:	
IFRS 1 “First-time Adoption of International Financial Reporting Standards”	-
IFRS 3 “Business Combinations”	Effective on 1 July 2014
IFRS 13 “Fair Value Measurement”	Effective on 1 July 2014
IAS 40 “Investment Property”	Effective on 1 July 2014
IFRS 14 “Regulatory Deferral Accounts”	Effective on 1 January 2016

Note 1: Newly issued or revised standards and interpretations mentioned above will be effective on the effective date unless otherwise stated.

Note 2: The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

Note 3: The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

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Standards and interpretations impacting our group are listed below:

Improvements to International Financial Reporting Standards (issued in 2010):

IFRS 7 “Financial Instruments: Disclosures”

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

The amendment of IFRS 7 “Financial Instruments: Disclosures”

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognised in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognised in their entirety.

IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS.

IFRS 13 “Fair Value Measurement”

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosure is required.

The presentation for the items of other comprehensive income (revised IAS 1 “presentation financial statements”)

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified.

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The amendment of IAS 19 “Employee Benefits”

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc..

Improvements to International Financial Reporting Standards (2009-2011 cycle):

IAS 1 “The presentation of financial statements”

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

The amendment of IAS 36 “Impairment of Assets”

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain).

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The amendment of IAS 39 “Financial Instruments: Recognition and Measurement”

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

IFRS 9 “Financial Instruments” (Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39)

The IASB announced amendments to the accounting requirements for financial instruments, which include: (1) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; (2) allow the changes to address the ‘own credit’ not to be recognized in profit or loss that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and (3) remove the 1 January 2015 mandatory effective date of IFRS 9.

IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Improvements to International Financial Reporting Standards (2010-2012 cycle):

IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

IAS 24 “Related Party Disclosures”

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

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Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*.

IAS 40 “Investment Property”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required.

The abovementioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Group’s financial statements, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed above, it is not practicable to estimate their impact on the Group at this point in time.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the year ended 31 December 2013 and 2012 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards* as recognized by the FSC.

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(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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

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

If the Group loses control of a subsidiary, it:

- (a) Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) Derecognizes the carrying amount of any non-controlling interest;
- (c) Recognizes the fair value of the consideration received;
- (d) Recognizes the fair value of any investment retained;
- (e) Recognizes any surplus or deficit in profit or loss; and
- (f) Reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss.

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The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2013.12.31	2012.12.31	2012.1.1	Notes
The Company	Cathay Life Insurance Co., Ltd. (“Cathay Life”)	Life insurance	100.00	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the “Company Act”).
The Company	Cathay United Bank Co., Ltd. (“Cathay United Bank”)	Commercial banking operations	100.00	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. (“Cathay Century”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on 2 August 2002.
The Company	Cathay Securities Corporation (“Cathay Securities”)	Securities	100.00	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	100.00	100.00	Cathay Venture was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.

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Investor	Subsidiary	Business nature	2013.12.31	2012.12.31	2012.1.1	Notes
The Company	Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”)	Securities investment trust	100.00	100.00	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Life Insurance Co., Ltd. (China) (“Cathay Life (China)”)	Life insurance	50.00	50.00	50.00	Cathay Life (China) was incorporated on 29 December 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (China).
Cathay Life	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	49.12	100.00	100.00	Symphox Information was incorporated on 12 December 1999, under the Company Act. Cathay Life own 49.12% interest in Symphox Information.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	100.00	100.00	Cathay Life (Vietnam) was incorporated on 21 November 2007.
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	-	Lin Yuan was incorporated on 15 August 2012.
Cathay Life, Cathay Century	Cathay Insurance Co., Ltd. (China) (“Cathay Century (China)”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century (China) was incorporated on 26 August 2008. Cathay Life and Cathay Century each owns 50% interest of Cathay Century (China).
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00	50.00	50.00	Indovina Bank was incorporated in Vietnam on 29 October 1992. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	70.00	-	SBC Bank was incorporated in Cambodia on 1993 and changed name to “CUBC” in 14 November 2014.

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Investor	Subsidiary	Business nature	2013.12.31	2012.12.31	2012.1.1	Notes
Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.

Cathay Life and Cathay Venture disposed the subsidiaries of Symphox Information Co., Ltd.’s investment of equity in 11% and 39.88% during the November 2013, respectively. As of December 2013, Symphox Information Co., Ltd. excluded from condensed consolidated financial statements.

Cathay United Bank acquired 70% of the voting shares of SBC Bank by US\$22,500 on 13 December 2012, and acquired the rest 30% of the voting shares by US\$11,418 on 30 September 2013, became 100% holding subsidiary, and change name to Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”) in 14 January 2014.

As of 31 December 2013 and 2012, the consolidated financial statements excluded the following subsidiaries as the respective total assets and operating revenues were considered immaterial to the Company.

Investor	Investee	Business	2013.12.31 Ownership interest	2012.12.31 Ownership interest	2012.1.1 Ownership interest	Notes
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100.00	100.00	100.00	Cathay Insurance (Bermuda) was incorporated on 24 January 2000.
Cathay life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment research analysis	100.00	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100.00	100.00	100.00	Seaward Card was incorporated on 9 April 1999.

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(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are accounted for based on the accounting policy for financial instruments.
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

The goodwill arising from acquisition of a foreign operation and the adjustment between book value and fair value of assets and liabilities are regarded as its assets and liabilities, retranslated at the functional currency.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The group will take the deposits to be classified as cash equivalents, which the contract period in 12 months that are readily convertible to amounts of cash and which are insignificant risk.

(7) The transaction of Repo notes and bonds

The transaction of notes and bonds with repurchase or reverse repurchase is recognized as liabilities of notes and bonds with repurchase agreement and investment of notes and bonds with reverse repurchase agreement according to the law of financing; the difference between book value and strike price is recognized as interest revenue or interest expense.

(8) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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(a) Financial assets

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

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 at fair value through profit or loss. A financial asset is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

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Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment). If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Derivative financial assets for hedging

The Group uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

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Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

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A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- i significant financial difficulty of the issuer or obligor; or
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
or
- iii.it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- iv.the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss; loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired
- ii. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- iii. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

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If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the Group allocates the previous carrying amount of the larger financial asset between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

The reclassification of financial assets

According to IAS 39 *Financial Instruments: Recognition and Measurement*, the group reclassified financial instruments based on the requirements listed below:

- i. The disallowance of reclassification of derivatives instruments held or issued at fair value through profit and loss.
- ii. The disallowance of reclassification of any financial instrument which was originally designed as at fair value through profit and loss.
- iii. The disallowance of reclassification from any financial instrument to the category recorded at fair value through profit and loss.
- iv. If the change of intention or ability resulting in the impropriety that the investment is classified as held-to-maturity financial assets, such investment should be reclassified to available-for-sale financial assets remeasurement at fair value. The difference between book value and fair value should be recognized as the items of OCI.
- v. If the investment is sold or reclassified as held-to-maturity financial assets before the date of maturity in the current period or previous two fiscal years, the amount of investment is not less than material, it is banned to classify any financial asset into held-to-maturity. If there is remaining held-to-maturity financial asset, it should be reclassified to available-for-sale financial assets.

(b) Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

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Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39 *Financial Instruments: Recognition and Measurement*.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

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Financial liabilities

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. A financial liability is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid is recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

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Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(d) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

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(9) Derivative financial instrument

The Group uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(10) Investments accounted for using the equity method

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

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

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The Group recognizes its interest in the jointly controlled entities using the equity method other than those that meet the criteria to be classified as held for sale. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity.

(11) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

Buildings	5~70 years
Machinery and equipment	3~8 years
Transportation equipment	3~8 years
Other equipment	3~15 years
Leasehold improvements	The shorter of lease terms or economic useful lives
Leased assets	3 years

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

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

(12) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

Buildings - 5~70 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

(13) Leases

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

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A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(14) Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

The cost of other intangible assets is amortized on a straight-line basis over the estimated useful life (4 to 8 years).

(15) Impairment of non-financial assets

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

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

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A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(16) Provisions

Insurance liabilities

A. Cathay Life Insurance

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:

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 based on the relevant information of each case and the amount deposited is further classified by the type of insurance.

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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 Section 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the manual published by the respective insurance product regulator.

Starting from policy year of 2003, for valid insurance contract whose bonus calculation shall be subject to 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 1 January 2012, insurance company shall reserve the amount of special reserve for major incidents which is recovered in accordance with 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 to compute reserve for life insurance liabilities was amended by the competent authority on 28 December 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 Capital Reserve—Special Reserve for Major Incidents” and “Special Capital Reserve—Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

(a) Special capital reserve—Special reserve 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. The post-tax amount of the recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

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(b) Special capital reserve—Special reserve 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 purposes. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30 percent of self-retention earned premium, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authority may designate or restrict the use of the recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for fluctuation of risks under equity.

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in special capital reserve under equity.

- (B) Cathay Life Insurance sells participating life insurance policy. According to the “Rule Governing application of revenues and expenses related to participating / non-participating policy”, Cathay Life Insurance 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.
- (C) According to Article 32 of 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 the first-time adoption of TIFRS on other accounts, the exceeds shall be recognized as special reserve for revaluation increments of property under liabilities.

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e. Premium deficiency reserve

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

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

f. Liability adequacy reserve

This is the reserve that is set aside based on the adequacy test of liability required by IFRS 4 *Insurance Contracts*.

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 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”.

i. Liability adequacy test

Liability adequacy test is based on integrated insurance contract and related regulations following “ASP of IFRS 4 - 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 at each reporting date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

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B. Cathay Century Insurance

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

a. Unearned premium reserve

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

b. Claims reserve

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

c. Special reserve

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

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According to the “Precautions of Strengthening Natural Disaster Insurance Reserve of Property Insurance Industry (Commercial Earthquake and Typhoon Flood Insurance)”, the industry that offers these insurance products shall, from 1 January 2013, set aside special reserve recognized under liability prior to 31 December 2012 for the Company’s commercial earthquake insurance and typhoons flood insurance, excluding compulsory automobile liability insurance, nuclear energy insurance, government-directed housing earthquake insurance, commercial earthquake insurance and typhoons flood insurance. The decrease or withdrawing of special reserve for major incident and special reserve for fluctuation of risks of commercial earthquake insurance and typhoons flood insurance should follow the Precautions.

(A) Special reserve for major incident

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

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

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

(B) Special reserve for fluctuation of risks

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

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

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

d. Premiums deficiency reserve

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

C. Cathay life (China) and Cathay Century (China)

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

Other provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

(17) Treasury stocks

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

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(18) Post-employment benefits

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

Defined contribution plan

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Defined benefit plan

Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. The Group recognizes all actuarial gains and losses in the period in which they occur in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

Employee preferential interest rate deposits

Cathay United Bank offers its employees with preferential deposit, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

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The finite amount preferential deposits that Cathay United Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as “Employee benefits expenses”. In accordance with Article 28 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it shall be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “*Employee Benefits*” since the employee’s retirement date.

(19) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

Handling fee revenue

The group charge customers by providing a variety of services.

Dividends

Revenue is recognized when the Group’s right to receive the payment is established.

Rental income

Rental income arising from operating leases is accounted for on a straight line basis over the lease terms.

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(20) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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- i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its qualifying subsidiaries have selected the consolidated income tax return for tax filings and pay a 10% surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the consolidated tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

Effective from 1 January, 2006, the Company and its subsidiaries have considered the impact of the “Alternative Minimum Tax Act” to estimate their income tax liabilities.

(21) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

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If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) The classification of financial assets

The management must make judgment for the classification of financial assets which would affect the method of accounting, the financial position of The Company and the outcome of operation.

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(b) Investment properties

Certain properties of the Group comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Group accounts for the portions separately as investment properties and property, plant and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

(c) Operating lease commitment – Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, retaining all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and receivables

The Group review their loan and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Group determine whether to recognize impairment losses, they mainly decide if there is any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable change in debtor payment status, or sovereign or the local economic situation related to debt payment in appears. While analyzing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Group periodically review methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

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(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example, the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

(c) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.(The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis.)

(d) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions including the determination of the discount rate, future salary increases, mortality rates and future pension increases.

The finite amount preferential deposits that the Cathay United Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as "Employee benefits expenses". In accordance with Article 28 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it should be considered the actuarial amount according to defined benefit plan regulated on IAS 19 "*Employee Benefits*" since the employee's retirement date.

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- (e) The liability of the insurance contract (including the liability of investment contract with discretionary participation feature)

The insurance contract and investment contract with discretionary participation feature are based on current assumption or the assumption when the contract was formed initially to reflect the best estimation. To arrive at the best estimation of future cash flow from management, all contracts are required to pass the liability adequacy test.

- (f) Revenue recognition – Customer loyalty program

The Group estimates the fair value of points awarded under the customer loyalty program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

- (g) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

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

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6. Cash and cash equivalents

	2013.12.31	
	NT\$	US\$
Petty cash and cash on hand	\$14,461,722	\$484,805
Cash in banks	28,536,508	956,638
Time deposits	226,485,422	7,592,538
Cash equivalents	8,210,983	275,259
Checks for clearance	3,315,374	111,142
Due from commercial banks	50,656,069	1,698,159
Total	<u>\$331,666,078</u>	<u>\$11,118,541</u>

	2012.12.31	
	NT\$	US\$
Petty cash and cash on hand	\$13,493,296	\$464,485
Cash in banks	67,388,184	2,319,731
Time deposits	185,720,653	6,393,138
Cash equivalents	25,367,336	873,230
Checks for clearance	8,326,315	286,621
Due from commercial banks	13,367,602	460,158
Total	<u>\$313,663,386</u>	<u>\$10,797,363</u>

	2012.1.1	
	NT\$	US\$
Petty cash and cash on hand	\$12,199,045	\$403,008
Cash in banks	78,220,073	2,584,079
Time deposits	220,073,303	7,270,344
Cash equivalents	6,241,142	206,182
Checks for clearance	8,641,570	285,483
Due from commercial banks	9,487,981	313,445
Total	<u>\$334,863,114</u>	<u>\$11,062,541</u>

Time deposits include deposits that have maturities of 12 months from the date of acquisition and can be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

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7. Financial assets at fair value through profit or loss

	2013.12.31	
	NT\$	US\$
Common stock	\$15,162,795	\$508,307
Funds and beneficiary certificates	42,506,734	1,424,966
Short-term notes	142,879,991	4,789,809
Corporate bonds	8,166,792	273,778
Government bonds	7,136,362	239,234
Structured time deposits	12,434,800	416,856
Margin for futures trading-own funds	407,066	13,646
Derivative financial instruments	13,587,578	455,500
Overseas financial instruments	1,741,128	58,368
Total	<u>\$244,023,246</u>	<u>\$8,180,464</u>

	2012.12.31	
	NT\$	US\$
Common stock	\$13,933,929	\$479,653
Funds and beneficiary certificates	36,983,400	1,273,094
Short-term notes	58,526,767	2,014,691
Corporate bonds	2,996,054	103,134
Government bonds	4,588,851	157,964
Structured time deposits	18,334,342	631,131
Margin for futures trading-own funds	170,491	5,869
Derivative financial instruments	4,603,749	158,477
Overseas financial instruments	6,609,089	227,507
Total	<u>\$146,746,672</u>	<u>\$5,051,520</u>

	2012.1.1	
	NT\$	US\$
Common stock	\$8,727,562	\$288,324
Funds and beneficiary certificates	32,909,574	1,087,201
Short-term notes	14,410,525	476,066
Corporate bonds	2,152,029	71,095
Government bonds	2,608,737	86,182
Structured time deposits	10,972,727	362,495
Margin for futures trading-own funds	77,584	2,563
Derivative financial instruments	4,795,154	158,413
Overseas financial instruments	7,607,271	251,314
Total	<u>\$84,261,163</u>	<u>\$2,783,653</u>

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- (1) As of 31 December 2012, certain financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$2,950,500 (US\$101,566) thousands. Such repurchase agreements amounting to NT\$3,252,317 (US\$111,956) thousands are recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to 31 December 2012 are settled at NT\$3,255,003 (US\$112,048) thousands, prior to 31 March 2013.
- (2) Please refer to Note 36 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 31 December 2013, 31 December 2012, and 1 January 2012.

8. Available-for-sale financial assets

	2013.12.31	
	NT\$	US\$
Common stock	\$301,182,150	\$10,096,619
Funds and beneficiary certificates	25,805,922	865,100
Collateralized loans obligation and collateralized bonds obligation	5,704,214	191,224
Government bonds	239,377,149	8,024,712
Corporate bonds	74,735,796	2,505,391
Financial debentures	169,682,258	5,688,309
Overseas financial instruments	550,130,528	18,442,190
Less: Litigation deposits	(37,307)	(1,251)
Less: Securities serving as deposits paid-bonds	(9,473,934)	(317,598)
Total	<u>\$1,357,106,776</u>	<u>\$45,494,696</u>
	2012.12.31	
	NT\$	US\$
Common stock	\$218,513,045	\$7,521,964
Funds and beneficiary certificates	23,462,894	807,672
Collateralized loans obligation and collateralized bonds obligation	6,430,972	221,376
Government bonds	228,054,133	7,850,400
Corporate bonds	70,704,273	2,433,882
Financial debentures	200,618,738	6,905,981
Overseas financial instruments	564,482,514	19,431,413
Less: Securities serving as deposits paid-bonds	(9,523,307)	(327,825)
Total	<u>\$1,302,743,262</u>	<u>\$44,844,863</u>

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	2012.1.1	
	NT\$	US\$
Common stock	\$210,170,508	\$6,943,195
Funds and beneficiary certificates	20,326,188	671,496
Collateralized loans obligation and collateralized bonds obligation	8,916,718	294,573
Government bonds	201,211,507	6,647,225
Corporate bonds	64,990,217	2,147,017
Financial debentures	194,860,184	6,437,403
Overseas financial instruments	658,837,232	21,765,353
Less: Securities serving as deposits paid-bonds	(10,615,126)	(350,681)
Total	<u>\$1,348,697,428</u>	<u>\$44,555,581</u>

- (1) As of 31 December 2013, 31 December 2012, and 1 January 2012, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$14,414,200 (US\$483,212) thousands, NT\$15,936,600 (US\$548,592) thousands, and NT\$13,088,400 (US\$432,389) thousands, respectively. Such repurchase agreements amounting to NT\$14,071,807 (US\$471,733) thousands, NT\$17,116,932 (US\$589,223) thousands, and NT\$13,546,462 (US\$447,521) thousands, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to 31 December 2013, 31 December 2012, and 1 January 2012 are settled at NT\$14,079,632 (US\$471,996) thousands, NT\$17,125,290 (US\$589,511) thousands, and NT\$13,557,277 (US\$447,878) thousands, prior to 30 June 2014, 30 June 2013 and 31 March 2012, respectively; as of 31 December 2013, certain available-for-sale financial assets were sold under repurchase agreement with notional amounts of NT\$1,411,144(US\$47,306) thousands, but didn’t have repurchase agreements date.
- (2) An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with stocks and collateralized loans obligation held by Cathay Life and subsidiaries. As of 31 December 2013, 31 December 2012, and 1 January 2012, Cathay Life and subsidiaries recognized impairment losses amounting to NT\$1,669,430 (US\$55,965) thousands, NT\$1,697,370 (US\$58,429) thousands, and NT\$1,667,019 (US\$55,072) thousands, respectively.

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- (3) Cathay United Bank has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of NT\$163,785 (US\$5,491) thousands, and NT\$438,311 (US\$15,088) thousands as of 31 December 2013 and 2012, respectively, due to the existence of objective impairment evidence.
- (4) Please refer to Note 36 for related information on the above available-for-sale financial assets being pledged as collaterals as of 31 December 2013, 31 December 2012, and 1 January 2012.

9. Receivable -net

	2013.12.31	
	NT\$	US\$
Notes receivable	\$2,540,478	\$85,165
Accounts receivable	52,532,967	1,761,078
Interest receivable	30,143,010	1,010,493
Foreign currency receivable	103,526	3,471
Acceptances	1,378,174	46,201
Others	85,099,243	2,852,807
Subtotal	171,797,398	5,759,215
Adjustment for discounts and premiums	(6,519)	(219)
Less: Allowance for bad debts	(2,199,913)	(73,748)
Total	<u>\$169,590,966</u>	<u>\$5,685,248</u>
	2012.12.31	
	NT\$	US\$
Notes receivable	\$3,238,517	\$111,481
Accounts receivable	40,152,466	1,382,185
Interest receivable	28,194,033	970,534
Foreign currency receivable	88,657	3,052
Acceptances	1,639,721	56,445
Others	38,727,015	1,333,116
Subtotal	112,040,409	3,856,813
Adjustment for discounts and premiums	(5,602)	(193)
Less: Allowance for bad debts	(2,123,529)	(73,099)
Total	<u>\$109,911,278</u>	<u>\$3,783,521</u>

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	2012.1.1	
	NT\$	US\$
Notes receivable	\$3,687,311	\$121,814
Accounts receivable	44,981,235	1,486,000
Interest receivable	23,930,085	790,555
Foreign currency receivable	2,078,036	68,650
Acceptances	1,249,855	41,290
Others	19,980,209	660,066
Subtotal	95,906,731	3,168,375
Adjustment for discounts and premiums	(2,637)	(87)
Less: Allowance for bad debts	(2,902,512)	(95,887)
Total	<u>\$93,001,582</u>	<u>\$3,072,401</u>

(1) Information on bad and doubtful accounts is as follows:

	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Balance, beginning of the period	\$2,123,529	\$71,188	\$2,902,512	\$99,914
Reversal of doubtful accounts	(144,040)	(4,829)	(956,039)	(32,911)
Write-offs	(368,455)	(12,352)	(430,049)	(14,804)
Debt counseling recoveries	133,567	4,478	148,839	5,124
Recoveries	585,707	19,635	561,498	19,329
Reclassification	(133,567)	(4,478)	(102,241)	(3,519)
Effect of exchange rates change	3,172	106	(991)	(34)
Balance, end of the period	<u>\$2,199,913</u>	<u>\$73,748</u>	<u>\$2,123,529</u>	<u>\$73,099</u>

(2) Allowance for bad debt receivables are shown as follows:

Item		Total receivables	
		2013.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$11,247,366	\$377,049
	Collective assessment of impairment	168,765	5,657
Objective evidence of impairment does not exist individually	Collective assessment of impairment	160,381,267	5,376,509

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Item		Total receivables	
		2012.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$24,591,363	\$846,519
	Collective assessment of impairment	140,445	4,835
Objective evidence of impairment does not exist individually	Collective assessment of impairment	87,308,601	3,005,459

Item		Total receivables	
		2012.1.1	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$45,757,104	\$1,511,632
	Collective assessment of impairment	154,121	5,092
Objective evidence of impairment does not exist individually	Collective assessment of impairment	49,995,506	1,651,651

Item		Allowance for bad debts	
		2013.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$62,751	\$2,104
	Collective assessment of impairment	128,609	4,311
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,008,553	67,333

Item		Allowance for bad debts	
		2012.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$39,675	\$1,366
	Collective assessment of impairment	110,930	3,819
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,972,924	67,914

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Item		Allowance for bad debts	
		2012.1.1	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$59,883	\$1,978
	Collective assessment of impairment	125,533	4,147
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,717,096	89,762

Note: Total receivables equal the original amount before subtracting (adding) the allowance for bad debts and adjustment for discount (premium).

10.Loans -net

	2013.12.31	
	NT\$	US\$
Inward-outward documentary bills	\$6,669,210	\$223,574
Loans	1,673,190,609	56,090,869
Overdrafts	867,731	29,089
Delinquent accounts	4,188,586	140,415
Subtotal	1,684,916,136	56,483,947
Adjustment for discounts and premiums	982,481	32,936
Less: Allowance for bad debts	(18,506,935)	(620,414)
Total	<u>\$1,667,391,682</u>	<u>\$55,896,469</u>

	2012.12.31	
	NT\$	US\$
Inward-outward documentary bills	\$1,764,969	\$60,756
Loans	1,529,906,451	52,664,594
Overdrafts	594,231	20,456
Delinquent accounts	4,532,217	156,014
Subtotal	1,536,797,868	52,901,820
Adjustment for discounts and premiums	1,097,492	37,779
Less: Allowance for bad debts	(16,183,237)	(557,082)
Total	<u>\$1,521,712,123</u>	<u>\$52,382,517</u>

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	2012.1.1	
	NT\$	US\$
Inward-outward documentary bills	\$355,418	\$11,742
Loans	1,499,441,747	49,535,571
Overdrafts	497,529	16,436
Delinquent accounts	3,550,847	117,306
Subtotal	1,503,845,541	49,681,055
Adjustment for discounts and premiums	866,689	28,632
Less: Allowance for bad debts	(11,017,946)	(363,989)
Total	<u>\$1,493,694,284</u>	<u>\$49,345,698</u>

(1) Information on bad and doubtful accounts is as follows:

	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Balance, beginning of the period	\$16,183,237	\$542,515	\$11,017,946	\$379,275
Provision of doubtful accounts	1,905,689	63,885	4,475,986	154,079
Write-offs	(967,485)	(32,433)	(1,072,929)	(36,934)
Debt counseling recoveries	115,565	3,874	97,772	3,366
Recoveries	1,233,367	41,347	1,530,884	52,698
Reclassification	133,567	4,478	204,230	7,030
Effect of exchange rates change	(97,005)	(3,252)	(70,652)	(2,432)
Balance, end of the period	<u>\$18,506,935</u>	<u>\$620,414</u>	<u>\$16,183,237</u>	<u>\$557,082</u>

(2) Assessment for loans are showed as followed:

Item		Total loans	
		2013.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$69,180,130	\$2,319,146
	Collective assessment of impairment	10,188,010	341,536
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,605,547,996	53,823,265

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Item		Total loans	
		2012.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$57,128,853	\$1,966,570
	Collective assessment of impairment	4,574,126	157,457
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,475,094,889	50,777,793

Item		Total loans	
		2012.1.1	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$37,425,783	\$1,236,399
	Collective assessment of impairment	5,526,447	182,572
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,460,893,311	48,262,084

Item		Allowance for bad debts	
		2013.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$4,925,984	\$165,135
	Collective assessment of impairment	1,679,630	56,307
Objective evidence of impairment does not exist individually	Collective assessment of impairment	11,901,321	398,972

Item		Allowance for bad debts	
		2012.12.31	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$4,887,318	\$168,238
	Collective assessment of impairment	713,956	24,577
Objective evidence of impairment does not exist individually	Collective assessment of impairment	10,581,963	364,267

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Item		Allowance for bad debts	
		2012.1.1	
		NT\$	US\$
Objective evidence of impairment exists individually	Individual assessment of impairment	\$3,211,518	\$106,096
	Collective assessment of impairment	898,460	29,682
Objective evidence of impairment does not exist individually	Collective assessment of impairment	6,907,968	228,211

Note: Total loans equal the original amount before subtracting (adding) the allowance for bad debts and adjustment for discount (premium).

11.Held-to-maturity financial assets

	2013.12.31	
	NT\$	US\$
Government bonds	\$951,287	\$31,890
Overseas financial instruments	54,018,866	1,810,891
Total	\$54,970,153	\$1,842,781
	2012.12.31	
	NT\$	US\$
Government bonds	\$962,741	\$33,141
Financial debentures	200,000	6,885
Overseas financial instruments	23,218,244	799,251
Total	\$24,380,985	\$839,277
	2012.1.1	
	NT\$	US\$
Government bonds	\$1,275,423	\$42,135
Financial debentures	200,000	6,607
Overseas financial instruments	20,480,142	676,582
Total	\$21,955,565	\$725,324

Please refer to Note 36 for related information on the above held-to-maturity financial assets being pledged as collaterals as of 31 December 2013, 12 December 2012, and 1 January 2012.

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12. Investments accounted for using the equity method

Investee	2013.12.31	
	NT\$	US\$
Investments in subsidiaries exclude from consolidated:		
Cathay Securities Investment Consulting	\$207,884	\$6,969
Seaward Card	39,107	1,311
Cathay Insurance (Bermuda)	114,759	3,847
Subtotal	361,750	12,127
Investments in associates:		
WK Technology Fund VI Co., Ltd	280,880	9,416
Vista Technology Venture Capital Corp.	5,935	199
Omnitek Venture Capital Corp.	39,704	1,331
Taiwan Real-estate Management Corp.	99,359	3,331
Taiwan Finance Corp.	1,487,419	49,863
IBT Venture Capital Corp.	29,365	984
Tien-Tai energy Corp.	42,598	1,428
Tien-Tai one energy Corp.	21,107	708
Tien-Tai Management Consulting Co., Ltd.	150	5
CDBS Cathay Asset Management Co., Ltd.	298,036	9,991
Cathay Conning Asset Management Ltd.	81,032	2,717
Symphox Information Co., Ltd.	405,985	13,610
Subtotal	2,791,570	93,583
Total	\$3,153,320	\$105,710
Investee	2012.12.31	
	NT\$	US\$
Investments in subsidiaries exclude from consolidated:		
Cathay Securities Investment Consulting	\$170,659	\$5,875
Seaward Card	39,753	1,368
Cathay Insurance (Bermuda)	101,761	3,503
Subtotal	312,173	10,746
Investments in associates:		
WK Technology Fund VI Co., Ltd	279,441	9,619
Vista Technology Venture Capital Corp.	10,532	362
Omnitek Venture Capital Corp.	31,694	1,091
Taiwan Real-estate Management Corp.	105,357	3,627
Taiwan Finance Corp.	1,418,699	48,836
IBT Venture Capital Corp.	56,435	1,943
Cathay Conning Asset Management Ltd.	21,543	742
Subtotal	1,923,701	66,220
Total	\$2,235,874	\$76,966

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Investee	2012.1.1	
	NT\$	US\$
Investments in subsidiaries exclude from consolidated:		
Cathay Securities Investment Consulting	\$161,913	\$5,349
Seaward Card	39,202	1,295
Cathay Insurance (Bermuda)	126,731	4,187
Subtotal	327,846	10,831
Investments in associates:		
WK Technology Fund VI Co., Ltd	336,537	11,118
Vista Technology Venture Capital Corp.	38,265	1,264
Omnitek Venture Capital Corp.	63,705	2,105
Taiwan Real-estate Management Corp.	98,115	3,241
Taiwan Finance Corp.	1,405,308	46,426
IBT Venture Capital Corp.	77,733	2,568
Subtotal	2,019,663	66,722
Prepayment for investment-Cathay Conning Assets Management Ltd.	29,883	987
Total	\$2,377,392	\$78,540

The following table illustrates summarized financial information of the Group's investment in the associates:

	2013.12.31	
	NT\$	US\$
Total assets (100%)	\$49,834,525	\$1,670,618
Total liabilities (100%)	(40,072,134)	(1,343,350)
	2012.12.31	
	NT\$	US\$
Total assets (100%)	\$40,808,912	1,404,782
Total liabilities (100%)	(32,986,134)	(1,135,495)
	2012.1.1	
	NT\$	US\$
Total assets (100%)	38,621,981	1,275,916
Total liabilities (100%)	(30,328,673)	(1,001,938)

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	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Revenue (100%)	\$2,811,359	\$94,246	\$284,396	\$9,790
Profit (loss) (100%)	310,081	10,395	(272,055)	(9,365)

- (1) There are no public prices at the Group's investment in the associates and the associates are not restricted to issue cash dividends, repay the borrowings or transfer the capital to the investors in the way of advance.
- (2) Cathay Life disposed the subsidiaries of Symprox Information Co., Ltd.'s investment of equity in 11% and its proceeds from disposal amount of NT\$90,297 (US\$3,027) thousands, and results in decrease net carrying amount of the equity amount of NT\$61,155 (US\$2,050) thousands during November 2013. The difference amount of NT\$29,142(US\$977) thousands between the sales proceeds and the carrying amount is recognized in equity. Cathay Venture disposed the investments accounted for using the equity method of Symprox Information Co., Ltd.'s investment of equity in 39.88%, and its proceeds from disposal amount of NT\$327,365 (US\$10,974) thousands, and profit from disposal amount of NT\$109,828 (US\$3,682) thousands.

The Group loses control of a subsidiary of Symprox Information Co., Ltd. and remaining 49.12% interest investment whose fair value at the date of was NT\$404,431(US\$13,558) thousands and the NT\$131,174 (US\$4,397) thousands profit represented. Although losing control over the subsidiary not losing significant influence, the Group is using the equity method of accounting.

This transaction resulted in the recognition of a gain in profit or loss, calculated as follows:

	NT\$	US\$
Retained investment is measured at fair value	\$404,431	\$13,558
Carrying amount of the investment at the date when control is lost	(273,274)	(9,161)
Share of other equity of associates and joint ventures accounted for using equity method turn into profit or loss	17	-
Recognized in profit	<u>\$131,174</u>	<u>\$4,397</u>

- (3) The Group has no share of any contingent liabilities or capital commitments as at 31 December 2013, 31 December 2012, and 1 January 2012.

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13. Other financial assets

	2013.12.31	
	NT\$	US\$
Investments in debt securities with no active market	\$1,305,675,228	\$43,770,540
Separate account product assets	376,252,736	12,613,233
Structured time deposits	40,900,000	1,371,103
Other miscellaneous financial assets	1,969,853	66,036
Total	<u>\$1,724,797,817</u>	<u>\$57,820,912</u>

	2012.12.31	
	NT\$	US\$
Investments in debt securities with no active market	\$1,242,279,799	\$42,763,504
Separate account product assets	329,557,246	11,344,484
Structured time deposits	23,500,000	808,950
Other miscellaneous financial assets	9,963,164	342,966
Total	<u>\$1,605,300,209</u>	<u>\$55,259,904</u>

	2012.1.1	
	NT\$	US\$
Investments in debt securities with no active market	\$941,402,270	\$31,100,174
Separate account product assets	294,051,012	9,714,272
Structured time deposits	13,300,000	439,379
Other miscellaneous financial assets	9,952,981	328,807
Total	<u>\$1,258,706,263</u>	<u>\$41,582,632</u>

Investments in debt securities with no active market

	2013.12.31	
	NT\$	US\$
Preferred stocks	\$8,481,017	\$284,312
Corporate bonds	29,000,000	972,176
Overseas financial instruments	987,603,783	33,107,737
Time deposit	280,490,428	9,402,964
Beneficial right of real estate	100,000	3,352
Total	<u>\$1,305,675,228</u>	<u>\$43,770,541</u>

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	2012.12.31	
	NT\$	US\$
Preferred stocks	\$8,481,017	\$291,945
Corporate bonds	22,949,999	790,017
Overseas financial instruments	781,710,341	26,909,134
Time deposit	429,138,442	14,772,408
Total	\$1,242,279,799	\$42,763,504

	2012.1.1	
	NT\$	US\$
Preferred stocks	\$3,091,730	\$102,139
Corporate bonds	16,000,000	528,576
Overseas financial instruments	509,886,984	16,844,631
Time deposit	412,423,556	13,624,828
Total	\$941,402,270	\$31,100,174

- (1) A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by Cathay Life and subsidiaries. As of 31 December 2013, 31 December 2012, and 1 January 2012, Cathay Life and subsidiaries recognized impairment losses amounting to NT\$389,350 (US\$13,052) thousands, NT\$378,768 (US\$13,038) thousands, and NT\$393,770 (US\$13,009) thousands, respectively.
- (2) Cathay United Bank has recognized accumulated impairment loss for the investments in debt securities with no active market in the amount of NT\$1,199,326 (US\$40,205) thousands, NT\$1,167,518 (US\$40,190) thousands, and NT\$1,425,790 (US\$47,102) thousands as of 31 December 2013, 31 December 2012, and 1 January 2012, respectively, due to credit deterioration of securitization and financial debentures.
- Cathay United Bank has recognized accumulated impairment loss for the investment in debt securities with no active market in the amount of NT\$95,586 (US\$3,204) thousands, NT\$106,215 (US\$3,656) thousands, and NT\$121,794 (US\$4,024) thousands as of 31 December 2013, 31 December 2012, and 1 January 2012, respectively, due to the default on the convertible bonds.
- (3) Please refer to Note 36 for related information on the above investments in debt securities with no active market being pledged as collaterals as of 31 December 2013, 31 December 2012, and 1 January 2012.

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14. Investment property

	NT\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Cost:					
1 January 2013	\$125,008,800	\$47,059,094	\$7,519,477	\$1,581,767	\$181,169,138
Additions	-	2,413	8,203,432	3,591,688	11,797,533
Transfers from (to) property and equipment	4,591,992	7,125,533	(15,197)	-	11,702,328
Transfers	126,636	70,497	(137,590)	(5,305)	54,238
Disposal	-	(4,959)	-	-	(4,959)
Exchange difference	-	79,472	-	5,002	84,474
31 December 2013	<u>\$129,727,428</u>	<u>\$54,332,050</u>	<u>\$15,570,122</u>	<u>\$5,173,152</u>	<u>\$204,802,752</u>

	US\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Cost:					
1 January 2013	\$4,190,707	\$1,577,576	\$252,077	\$53,026	\$6,073,386
Additions	-	81	275,006	120,405	395,492
Transfers from (to) property and equipment	153,939	238,871	(509)	-	392,301
Transfers	4,245	2,363	(4,612)	(178)	1,818
Disposal	-	(166)	-	-	(166)
Exchange difference	-	2,665	-	168	2,833
31 December 2013	<u>\$4,348,891</u>	<u>\$1,821,390</u>	<u>\$521,962</u>	<u>\$173,421</u>	<u>\$6,865,664</u>

	NT\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Cost:					
1 January 2012	\$125,932,722	\$47,408,977	\$5,459,223	\$20,469	\$178,821,391
Additions	-	1,875	3,074,039	23,835,287	26,911,201
Transfers from (to) property and equipment	(12,912,394)	(6,773,448)	-	-	(19,685,842)
Transfers	12,240,144	6,704,434	(1,013,785)	(22,273,989)	(4,343,196)
Disposal	(251,672)	(282,744)	-	-	(534,416)
31 December 2012	<u>\$125,008,800</u>	<u>\$47,059,094</u>	<u>\$7,519,477</u>	<u>\$1,581,767</u>	<u>\$181,169,138</u>

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	US\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Cost:					
1 January 2012	\$4,335,034	\$1,631,978	\$187,925	\$705	\$6,155,642
Additions	-	65	105,819	820,492	926,376
Transfers from (to) property and equipment	(444,489)	(233,165)	-	-	(677,654)
Transfers	421,347	230,789	(34,898)	(766,747)	(149,509)
Disposal	(8,663)	(9,733)	-	-	(18,396)
31 December 2012	\$4,303,229	\$1,619,934	\$258,846	\$54,450	\$6,236,459

	NT\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Depreciation and impairment:					
1 January 2013	\$193,950	\$9,871,270	\$-	\$-	\$10,065,220
Depreciation	-	2,026,114	-	-	2,026,114
Reductions	23,871	1,954	-	-	25,825
Transfers (from) to property and equipment	-	1,685,890	-	-	1,685,890
Transfers	(8,135)	(17,425)	-	-	(25,560)
Disposal	-	(1,010)	-	-	(1,010)
Exchange difference	-	2,700	-	-	2,700
31 December 2013	\$209,686	\$13,569,493	\$-	\$-	\$13,779,179

	US\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Depreciation and impairment:					
1 January 2013	\$6,502	\$330,918	\$-	\$-	\$337,420
Depreciation	-	67,922	-	-	67,922
Reductions	800	66	-	-	866
Transfers (from) to property and equipment	-	56,517	-	-	56,517
Transfers	(273)	(585)	-	-	(858)
Disposal	-	(34)	-	-	(34)
Exchange difference	-	91	-	-	91
31 December 2013	\$7,029	\$454,895	\$-	\$-	\$461,924

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	NT\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Depreciation and impairment:					
1 January 2012	\$200,450	\$10,708,758	\$-	\$-	\$10,909,208
Depreciation	-	93,233	-	-	93,233
Transfers (from) to property and equipment	-	(581,061)	-	-	(581,061)
Transfers	-	(308,102)	-	-	(308,102)
Disposal	(6,500)	(41,558)	-	-	(48,058)
31 December 2012	\$193,950	\$9,871,270	\$-	\$-	\$10,065,220

	US\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Depreciation and impairment:					
1 January 2012	\$6,900	\$368,632	\$-	\$-	\$375,532
Depreciation	-	3,209	-	-	3,209
Transfers (from) to property and equipment	-	(20,002)	-	-	(20,002)
Transfers	-	(10,606)	-	-	(10,606)
Disposal	(223)	(1,431)	-	-	(1,654)
31 December 2012	\$6,677	\$339,802	\$-	\$-	\$346,479

	NT\$				
	Land	Buildings	Construction	Prepayments for buildings and land	Total
Net carrying amount as at:					
31 December 2013	\$129,517,742	\$40,762,557	\$15,570,122	\$5,173,152	\$191,023,573
31 December 2012	\$124,814,850	\$37,187,824	\$7,519,477	\$1,581,767	\$171,103,918
1 January 2012	\$125,732,272	\$36,700,219	\$5,459,223	\$20,469	\$167,912,183

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	US\$				
	Land	Buildings	Construction	Prepayments	Total
				for buildings and land	
Net carrying amount as at:					
31 December 2013	\$4,341,862	\$1,366,495	\$521,962	\$173,421	\$6,403,740
31 December 2012	\$4,296,552	\$1,280,132	\$258,846	\$54,450	\$5,889,980
1 January 2012	\$4,328,134	\$1,263,346	\$187,925	\$705	\$5,780,110

	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
	Rent revenue from investment properties	\$7,052,097	\$236,410	\$6,439,949
Less: Direct operating expense related to investment properties	(282,079)	(9,456)	(273,507)	(9,415)
Direct operating expense related to investment properties not generating rent revenue	(99,899)	(3,349)	(99,817)	(3,436)
Subtotal	\$6,670,119	\$223,605	\$6,066,625	\$208,834

The fair value of investment properties held by the Group at 31 December 2013, 31 December 2012, and 1 January 2012 were NT\$351,202,084 (US\$11,773,452) thousands, NT\$309,114,023 (US\$10,640,758) thousands, and NT\$246,580,895 (US\$8,146,049) thousands, respectively. The fair value evaluated by independent experts of appraisal are NT\$350,836,322 (US\$11,761,191) thousands, NT\$308,624,200 (US\$10,623,897) thousands, and NT\$246,185,802 (US\$8,132,996) thousands, respectively. Such valuation of fair value was supported by the evidence of market and technique used was weighted average of market comparison approach and income approach. The fair value from internal appraisal are NT\$365,762 (US\$12,262) thousands, NT\$489,823 (US\$16,861) thousands, and NT\$395,093 (US\$13,052) thousands, respectively. The valuation of fair value derived from the value of use of investment properties calculated by the rate of return method.

- (1) The real estate investments are held mainly for leasing purposes.
- (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.

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- (3) Rents from real estate investment are received annually, semiannually, quarterly, monthly or in a lump sum.
- (4) No investments in real estate were pledged as collaterals as of 31 December 2013, 31 December 2012, and 1 January 2012.

15. Property and equipment

NT\$

Cost:								Construction in progress and prepayment	Total
	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	for real estate	
1 January 2013	\$77,417,886	\$52,463,527	\$7,093,302	\$124,337	\$10,766,236	\$311,353	\$275,652	\$426,058	\$148,878,351
Additions	9,259	46,153	583,539	4,491	336,909	102,393	147,565	809,691	2,040,000
Transfers	(4,778,664)	(6,788,995)	84,392	(80)	126,106	(3,999)	-	(470,454)	(11,831,694)
Disposal	(142)	(465,511)	(455,496)	(16,387)	(166,581)	(22,490)	-	-	(1,126,607)
Loss of control of the subsidiary transfers out	-	-	-	-	(695,006)	-	-	-	(695,006)
Exchange difference	3,529	117,490	29,830	2,312	6,861	11,610	-	4,013	175,645
31 December 2013	\$72,651,868	\$45,372,664	\$7,335,567	\$114,673	\$10,374,525	\$398,867	\$423,217	\$769,308	\$137,440,689

US\$

Cost:								Construction in progress and prepayment	Total
	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	for real estate	
1 January 2013	\$2,595,303	\$1,758,750	\$237,791	\$4,168	\$360,920	\$10,438	\$9,241	\$14,283	\$4,990,894
Additions	310	1,547	19,562	151	11,294	3,433	4,947	27,144	68,388
Transfers	(160,196)	(227,590)	2,829	(3)	4,227	(134)	-	(15,771)	(396,638)
Disposal	(5)	(15,605)	(15,270)	(549)	(5,584)	(754)	-	-	(37,767)
Loss of control of the subsidiary transfers out	-	-	-	-	(23,299)	-	-	-	(23,299)
Exchange difference	118	3,939	1,000	77	230	389	-	134	5,887
31 December 2013	\$2,435,530	\$1,521,041	\$245,912	\$3,844	\$347,788	\$13,372	\$14,188	\$25,790	\$4,607,465

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NT\$									
Cost:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
1 January 2012	\$60,580,893	\$42,444,003	\$6,946,054	\$100,080	\$10,736,637	\$267,906	\$-	\$179,212	\$121,254,785
Additions	-	3,317,468	199,792	9,300	297,787	28,283	275,652	455,638	4,583,920
Equated in business combinations	126,327	27,151	139,248	21,814	8,707	11,244	-	-	334,491
Transfers	17,079,237	6,769,120	83,542	-	159,283	20,229	-	(204,070)	23,907,341
Disposal	(368,571)	(75,049)	(260,064)	(4,684)	(431,849)	(10,238)	-	-	(1,150,455)
Exchange difference	-	(19,166)	(15,270)	(2,173)	(4,329)	(6,071)	-	(4,722)	(51,731)
31 December 2012	\$77,417,886	\$52,463,527	\$7,093,302	\$124,337	\$10,766,236	\$311,353	\$275,652	\$426,058	\$148,878,351

US\$									
Cost:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
1 January 2012	\$2,085,401	\$1,461,067	\$239,107	\$3,445	\$369,592	\$9,222	\$-	\$6,169	\$4,174,003
Additions	-	114,199	6,878	320	10,251	974	9,489	15,685	157,796
Equated in business combinations	4,349	935	4,793	751	300	387	-	-	11,515
Transfers	587,925	233,016	2,876	-	5,483	696	-	(7,025)	822,971
Disposal	(12,687)	(2,583)	(8,952)	(161)	(14,866)	(352)	-	-	(39,601)
Exchange difference	-	(661)	(527)	(75)	(150)	(209)	-	(163)	(1,785)
31 December 2012	\$2,664,988	\$1,805,973	\$244,175	\$4,280	\$370,610	\$10,718	\$9,489	\$14,666	\$5,124,899

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NT\$

Depreciation and impairment:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction	Total
								in progress and prepayment for real estate	
1 January 2013	\$ 105,610	\$ 18,750,826	\$ 6,138,136	\$ 89,828	\$ 8,910,897	\$ 220,281	\$ 28,714	\$-	\$ 34,244,292
Depreciation	-	819,143	508,859	9,042	553,708	44,169	75,281	-	2,010,202
Transfers	-	(1,599,603)	14,356	37	(4,166)	-	-	-	(1,589,376)
Disposal	-	(324,368)	(427,574)	(14,880)	(139,331)	(18,932)	-	-	(925,085)
Loss of control of the subsidiary transfers out	-	-	-	-	(605,421)	-	-	-	(605,421)
Exchange difference	-	2,870	(19,138)	1,434	5,392	8,709	-	-	(733)
31 December 2013	\$ 105,610	\$ 17,648,868	\$ 6,214,639	\$ 85,461	\$ 8,721,079	\$ 254,227	\$ 103,995	\$-	\$ 33,133,879

US\$

Depreciation and impairment:	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction	Total
								in progress and prepayment for real estate	
1 January 2013	\$ 3,540	\$ 628,590	\$ 205,771	\$ 3,011	\$ 298,723	\$ 7,385	\$ 963	\$-	\$ 1,147,983
Depreciation	-	27,460	17,059	303	18,562	1,481	2,524	-	67,389
Transfers	-	(53,624)	481	1	(140)	-	-	-	(53,282)
Disposal	-	(10,874)	(14,334)	(498)	(4,671)	(635)	-	-	(31,012)
Loss of control of the subsidiary transfers out	-	-	-	-	(20,296)	-	-	-	(20,296)
Exchange difference	-	96	(642)	48	181	292	-	-	(25)
31 December 2013	\$ 3,540	\$ 591,648	\$ 208,335	\$ 2,865	\$ 292,359	\$ 8,523	\$ 3,487	\$-	\$ 1,110,757

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Depreciation and impairment:								Construction in progress and prepayment	Total
	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets for real estate		
1 January 2012	\$105,610	\$15,189,020	\$5,784,893	\$77,192	\$8,739,504	\$187,262	\$-	\$-	\$30,083,481
Depreciation	-	2,722,800	537,798	7,074	586,502	41,284	28,714	-	3,924,172
Equated in business combinations	-	11,663	79,463	11,612	6,852	6,117	-	-	115,707
Transfers	-	889,163	756	(8)	-	-	-	-	889,911
Disposal	-	(60,134)	(254,616)	(4,684)	(418,197)	(10,238)	-	-	(747,869)
Exchange difference	-	(1,686)	(10,158)	(1,358)	(3,764)	(4,144)	-	-	(21,110)
31 December 2012	\$105,610	\$18,750,826	\$6,138,136	\$89,828	\$8,910,897	\$220,281	\$28,714	\$-	\$34,244,292

US\$

Depreciation and impairment:								Construction in progress and prepayment	Total
	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets for real estate		
1 January 2012	\$3,636	\$522,858	\$199,136	\$2,657	\$300,844	\$6,446	\$-	\$-	\$1,035,577
Depreciation	-	93,728	18,513	243	20,189	1,421	988	-	135,082
Equated in business combinations	-	401	2,735	400	236	211	-	-	3,983
Transfers	-	30,608	26	-	-	-	-	-	30,634
Disposal	-	(2,070)	(8,765)	(161)	(14,396)	(352)	-	-	(25,744)
Exchange difference	-	(58)	(350)	(47)	(130)	(143)	-	-	(728)
31 December 2012	\$3,636	\$645,467	\$211,295	\$3,092	\$306,743	\$7,583	\$988	\$-	\$1,178,804

NT\$

Net book value								Construction in progress and prepayment	Total
	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets for real estate		
31 December 2013	\$72,546,258	\$27,723,796	\$1,120,928	\$29,212	\$1,653,446	\$144,640	\$319,222	\$769,308	\$104,306,810
31 December 2012	\$77,312,276	\$33,712,701	\$955,166	\$34,509	\$1,855,339	\$91,072	\$246,938	\$426,058	\$114,634,059
1 January 2012	\$60,475,283	\$27,254,983	\$1,161,161	\$22,888	\$1,997,133	\$80,644	\$-	\$179,212	\$91,171,304

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US\$									
Net book value	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
31 December 2013	\$2,431,990	\$929,393	\$37,577	\$979	\$55,429	\$4,849	\$10,701	\$25,790	\$3,496,708
31 December 2012	\$2,661,352	\$1,160,506	\$32,880	\$1,188	\$63,867	\$3,135	\$8,501	\$14,666	\$3,946,095
1 January 2012	\$2,081,765	\$938,209	\$39,971	\$788	\$68,748	\$2,776	\$-	\$6,169	\$3,138,426

(1) No property and equipment were pledged as collaterals as of 31 December 2013, 31 December 2012, and 1 January 2012.

(2) Composition from property and equipment are building, air conditioning equipment and elevators, and the service life is limited and depreciated by straight-tine method within 3 to 70 years.

16.Intangible assets

Cost:	Goodwill		Computer software		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
1 January 2013	\$8,571,250	\$287,337	\$3,552,107	\$119,078	\$12,123,357	\$406,415
Addition-individual acquisition	-	-	159,983	5,363	159,983	5,363
Reduction	-	-	(232,592)	(7,797)	(232,592)	(7,797)
Transfer	-	-	42,341	1,419	42,341	1,419
Loss of control of the subsidiary transfers out	-	-	(30,188)	(1,012)	(30,188)	(1,012)
Exchange difference	8,604	288	12,792	429	21,396	717
31 December 2013	\$8,579,854	\$287,625	\$3,504,443	\$117,480	\$12,084,297	\$405,105

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	Goodwill		Computer software		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cost:						
1 January 2012	\$8,263,270	\$284,450	\$3,498,679	\$120,436	\$11,761,949	\$404,886
Addition-individual						
acquisition	-	-	125,773	4,330	125,773	4,330
Reduction	-	-	(132,497)	(4,561)	(132,497)	(4,561)
Transfer	-	-	47,329	1,629	47,329	1,629
Equated in business						
combination	307,980	10,602	20,981	722	328,961	11,324
Exchange difference	-	-	(8,158)	(281)	(8,158)	(281)
31 December 2012	\$8,571,250	\$295,052	\$3,552,107	\$122,275	\$12,123,357	\$417,327

	Goodwill		Computer software		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Amortization and impairment:						
1 January 2013	\$-	\$-	\$2,730,350	\$91,530	\$2,730,350	\$91,530
Amortization	-	-	371,790	12,464	371,790	12,464
Reduction	-	-	(232,592)	(7,797)	(232,592)	(7,797)
Transfer	-	-	12,356	414	12,356	414
Loss of control of the subsidiary						
transfers out	-	-	(28,328)	(950)	(28,328)	(950)
Exchange difference	-	-	7,289	244	7,289	244
31 December 2013	\$-	\$-	\$2,860,865	\$95,905	\$2,860,865	\$95,905

	Goodwill		Computer software		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Amortization and impairment:						
1 January 2012	\$-	\$-	\$2,424,442	\$83,458	\$2,424,442	\$83,458
Amortization	-	-	427,656	14,721	427,656	14,721
Reduction	-	-	(132,496)	(4,561)	(132,496)	(4,561)
Transfer	-	-	8	-	8	-
Equated in business						
combination	-	-	(14,884)	512	(14,884)	512
Exchange difference	-	-	4,144	(142)	4,144	(142)
31 December 2012	\$-	\$-	\$2,730,350	\$93,988	\$2,730,350	\$93,988

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	Goodwill		Computer software		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net Book value:						
31 December 2013	\$8,579,854	\$287,625	\$643,578	\$21,575	\$9,223,432	\$309,200
31 December 2012	\$8,571,250	\$295,052	\$821,757	\$28,287	\$9,393,007	\$323,339
1 January 2012	\$8,263,270	\$284,450	\$1,074,237	\$36,978	\$9,337,507	\$321,428

The service life for computer software is limited and depreciated by straight-line method within 3 to 5 years.

17. Financial liabilities at fair value through profit or loss

	2013.12.31	
	NT\$	US\$
Derivative financial instruments	\$27,290,672	\$914,873
Bond Investment	497,002	16,661
Security lending payables hedging	147,557	4,947
Security lending payables non-hedging	819,390	27,469
Total	\$28,754,621	\$963,950
	2012.12.31	
	NT\$	US\$
Derivative financial instruments	\$7,582,664	\$261,021
Security lending payables hedging	287,312	9,890
Security lending payables non-hedging	1,216,370	41,872
Total	\$9,086,346	\$312,783
	2012.1.1	
	NT\$	US\$
Derivative financial instruments	\$21,801,787	\$720,244
Security lending payables hedging	374,345	12,367
Security lending payables non-hedging	960,011	31,715
Total	\$23,136,143	\$764,326

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18. Commercial paper payables

	2013.12.31	
	NT\$	US\$
Commercial paper payable	\$10,050,000	\$336,909
Less: Discount on commercial paper payable	-	-
Total	\$10,050,000	\$336,909

	2012.12.31	
	NT\$	US\$
Commercial paper payable	\$5,540,000	\$190,706
Less: Discount on commercial paper payable	-	-
Total	\$5,540,000	\$190,706

	2012.1.1	
	NT\$	US\$
Commercial paper payable	\$8,720,000	\$288,074
Less: Discount on commercial paper payable	-	-
Total	\$8,720,000	\$288,074

As at 31 December 2013, 31 December 2012, and January 2012, the average interest rates for the commercial paper payables were 0.60%~0.97%, 0.74%~0.93% and 0.47%~0.94%, respectively.

19. Deposits

	2013.12.31	
	NT\$	US\$
Check deposits	\$16,080,928	\$539,086
Demand deposits	294,045,326	9,857,369
Demand savings deposits	618,233,159	20,725,215
Time deposits	655,284,136	21,967,286
Remittances	1,387,452	46,512
Total	\$1,585,031,001	\$53,135,468

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	2012.12.31	
	NT\$	US\$
Check deposits	\$15,963,648	\$549,523
Demand deposits	249,757,411	8,597,501
Demand savings deposits	577,491,231	19,879,216
Time deposits	613,620,928	21,122,924
Remittances	1,559,758	53,692
Total	<u>\$1,458,392,976</u>	<u>\$50,202,856</u>

	2012.1.1	
	NT\$	US\$
Check deposits	\$14,256,907	\$470,991
Demand deposits	224,538,903	7,417,869
Demand savings deposits	559,952,874	18,498,609
Time deposits	615,086,848	20,320,015
Remittances	586,296	19,369
Total	<u>\$1,414,421,828</u>	<u>\$46,726,853</u>

20. Bonds payable

	2013.12.31	
	NT\$	US\$
Subordinated bonds payable-net	\$40,000,000	\$1,340,932
Subordinated financial debentures	51,705,031	1,733,323
Discount on financial debentures	(16,366)	(548)
Valuation adjustment	728,548	24,423
Total	<u>\$92,417,213</u>	<u>\$3,098,130</u>

	2012.12.31	
	NT\$	US\$
Subordinated bonds payable-net	\$40,000,000	\$1,376,936
Convertible bonds	7,412,199	255,153
Discount on convertible bonds	(99,823)	(3,436)
Subordinated financial debentures	41,438,544	1,426,456
Discount on financial debentures	(23,666)	(815)
Valuation adjustment	1,103,753	37,995
Total	<u>\$89,831,007</u>	<u>\$3,092,289</u>

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	2012.1.1	
	NT\$	US\$
Subordinated bonds payable-net	\$40,000,000	\$1,321,440
Subordinated financial debentures	34,724,925	1,147,173
Discount on financial debentures	(32,218)	(1,064)
Valuation adjustment	1,331,118	43,975
Total	<u>\$76,023,825</u>	<u>\$2,511,524</u>

(1) To strengthen the financial structure, with the Approval Letter No.1010016452 from Financial Supervisory Commission, the Company issued the second Unsecured Euro-Convertible bonds at Singapore Exchange Limited. The main issue terms are as follows:

A. The total amount of issuance: US\$254,400 thousands.

B. The par-value and the price of issuance: each par-value is US\$200 thousands, issued by full par-value.

C. Coupon rate: The annual interest rate is 0%.

D. The maturity of bonds: From 14 August 2012 to 14 August 2014.

E. The method of redemption:

(a) From 15 August 2013 to maturity date, if the closing price, transferred to US dollars at then-current exchange rate, of the Company's common stock issued at Taiwan Stock Exchange Corporation reaches over 120% of the amount of call provision divided by the conversion ratio (the par value over the conversion price (converted to US dollars at the fixed exchange rate agreed on the pricing date) for 20 consecutive operating days, the Company is entitled to notify the bondholders that the Company will fully redeem the bonds, however no partial redemption is allowed, at the par value plus the interest calculated by an annual rate of 0.25%.

(b) The company is entitled to redeem all of the bonds with the price of call provision when over 90% of the Company's bonds have been redeemed, repurchased and canceled or exercised conversion rights.

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- (c) The Company is entitled to redeem all of the bonds at the price of call provision, if its cost rises due to change of relevant R. O. C tax laws.
 - (d) The bondholders may demand the Company to redeem fully or partly the bonds at the price of call provision, if the Company's common stock issued at Taiwan Stock Exchange Corporation is delisted or is prohibited from trading in the market for consecutive thirty days or more.
 - (e) The bondholders may demand the Company to redeem fully or partly the bonds at the price of call provision, if a change of controlling rights specified in the entrusted contract occurs.
- F. Redemption at maturity: the Company redeems the bonds at par value plus an annual interest rate of 0.25% unless any of the following event occurs prior to maturity:
- (a) The bonds have been redeemed because the Company or the bondholders exercise the option.
 - (b) The bondholders already exercised the conversion right.
 - (c) The Company has redeemed or repurchased and cancelled the bonds.
- G. Conversion:
- (a) Underlying stock: Common stock of the Company
 - (b) The period of conversion: The bondholders may demand to convert bonds into issued common stocks of the Company from 24 September 2012 to 4 August 2014.
 - (c) The conversion price was set at NT\$38.10 per share. The exchange rate used when conversion is 1:29.938. The conversion price is adjusted by the formula specified in the issuance prospectus if events relating to the Company's common stock identified in the prospectus occur.

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According to R.O.C GAAP No.34” Financial Instruments: Recognition and Measurement” and No.36” Financial Instruments: Disclosure and Presentation”, The Company recognized discount amortization expense of the second Euro convertible bonds issued by the Company in the amount of NT\$55,116 (US\$1,848) thousands for the year ended 31 December 2013. Loss on valuation of financial liabilities NT\$1,685,577 (US\$56,506) thousands and loss on disposal of financial liabilities NT\$85,139 (US\$2,854) thousands, which were recorded under “Interest Expense”, “Loss on valuation of financial liabilities at fair value through profit or loss” and “Loss on disposal of financial liabilities at fair value through profit or loss”, respectively.

The Company did meet Early Redemption and announced for by exercising the conversion right of the second Euro convertible bonds issued by the Company from 29 October 2013.

On conversion of a convertible bond before maturity at 11 October 2013 of conversion is transferred to common stock 1,011,703 per share and the conversion price was set at NT\$35.51 per share. As of 8 November 2013, the Company distributed as share dividends NT\$0.678 (US\$0.02) per share and from 8 November 2013, the Company issued the second Unsecured Euro-Convertible bonds which exercise price was reduced from NT\$35.51(US\$1.19) dollars to the price of NT\$33.26(US\$1.11) dollars.

As of 28 November 2013, all the bondholders exercise the conversion right and its underlying stock was treasure stock of the Company 200,000 thousand shares which the shortage was paid in cash.

- (2) Cathay United Bank issued a 15-year US\$500,000 thousands subordinated financial debenture with a stated interest rate of 5.5% on 5 October 2005, and the interest is payable semiannually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures. Cathay United Bank has bought back the bonds amounting to US\$172,620 thousands on 12 May 2009.
- (3) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$1,200,000 (US\$40,228) thousands with a stated interest rate of 2.95% in September 2008, and the interest is payable quarterly.
- (4) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$1,000,000 (US\$33,523) thousands with floating interest rate in September 2008, and the interest is payable quarterly.

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- (5) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$2,800,000 (US\$93,865) thousands with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly.
- (6) Cathay United Bank issued an eight-year subordinated financial debentures totaling NT\$3,650,000 (US\$122,360) thousands with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (7) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 (US\$50,285) thousands with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.
- (8) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$1,500,000 (US\$50,285) thousands with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (9) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$3,850,000 (US\$129,065) thousands with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.
- (10) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$3,900,000 (US\$130,741) thousands with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.
- (11) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$2,500,000 (US\$83,808) thousands with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.
- (12) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$200,000 (US\$6,705) thousands with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- (13) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$4,200,000 (US\$140,798) thousands with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.

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- (14) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$5,600,000 (US\$187,730) thousands with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- (15) Cathay United Bank issued a seven-year subordinated financial debentures totaling NT\$100,000 (US\$3,352) thousands with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- (16) Cathay United Bank issued a ten-year subordinated financial debentures totaling NT\$9,900,000 (US\$331,881) thousands with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.
- (17) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.
- (18) Indovina Bank issued a two-year financial debentures totaling VND \$2,000 billion in 2010 with the first year interest rate of 13.5% and the second year interest rate of average interest rate of VND deposit plus 2.5%. These financial debentures have matured before 2012.

21. Other financial liabilities

	2013.12.31	
	NT\$	US\$
Separate account insurance products-liabilities	\$376,252,736	\$12,613,233
Principle received from the sale of structured products	36,113,309	1,210,637
Borrowed funds	31,849	1,068
Other financial liabilities	1,016,323	34,070
Total	<u>\$413,414,217</u>	<u>\$13,859,008</u>

	2012.12.31	
	NT\$	US\$
Separate account insurance products-liabilities	\$329,557,246	\$11,344,483
Principle received from the sale of structured products	17,340,691	596,926
Borrowed funds	85,500	2,943
Other financial liabilities	1,246,500	42,909
Total	<u>\$348,229,937</u>	<u>\$11,987,261</u>

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	2012.1.1	
	NT\$	US\$
Separate account insurance products-liabilities	\$294,051,012	\$9,714,272
Principle received from the sale of structured products	10,475,555	346,070
Borrowed funds	135,518	4,477
Other financial liabilities	1,104,358	36,484
Total	<u>\$305,766,443</u>	<u>\$10,101,303</u>

22.Provisions

	2013.12.31	
	NT\$	US\$
Unearned premium reserve	\$23,779,676	\$797,173
Reserve for life insurance liabilities	3,298,323,062	110,570,669
Special reserve	49,775,293	1,668,632
Reserve for claims	10,682,607	358,116
Premium deficiency reserve	19,872,859	666,204
Reserve for insurance contracts with feature of financial instruments	57,596,449	1,930,823
Foreign exchange volatility reserve	10,482,181	351,397
Reserve for Guarantees	24,892	835
Reserve for employee benefits liabilities	5,959,721	199,790
Contingent liabilities reserve	921,412	30,889
Other operating reserve	22,680	760
Total	<u>\$3,477,440,832</u>	<u>\$116,575,288</u>

	2012.12.31	
	NT\$	US\$
Unearned premium reserve	\$22,176,220	\$763,381
Reserve for life insurance liabilities	2,993,462,480	103,045,180
Special reserve	59,874,744	2,061,093
Reserve for claims	10,356,844	356,518
Premium deficiency reserve	17,198,784	592,041
Reserve for insurance contracts with feature of financial instruments	61,350,872	2,111,906
Foreign exchange volatility reserve	4,270,856	147,017
Reserve for Guarantees	24,892	857
Reserve for employee benefits liabilities	5,813,917	200,134
Contingent liabilities reserve	1,158,682	39,886
Total	<u>\$3,175,688,291</u>	<u>\$109,318,013</u>

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	2012.1.1	
	NT\$	US\$
Unearned premium reserve	\$21,175,033	\$699,539
Reserve for life insurance liabilities	2,697,468,563	89,113,596
Special reserve	64,689,886	2,137,096
Reserve for claims	9,664,737	319,284
Premium deficiency reserve	13,624,753	450,107
Reserve for insurance contracts with feature of financial instruments	66,884,711	2,209,604
Reserve for Guarantees	24,892	822
Reserve for employee benefits liabilities	5,699,240	188,281
Contingent liabilities reserve	1,171,399	38,698
Total	\$2,880,403,214	\$95,157,027

(1) Life insurance subsidiaries

As of 31 December 2013, 31 December 2012, and 1 January 2012, the details and changes of insurance contracts and financial instruments with discretionary participation feature are summarized below:

A. Reserve for life insurance liabilities:

	2013.12.31(NT\$)			2013.12.31(US\$)		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	\$2,830,815,643	\$41,698,426	\$2,872,514,069	\$94,898,277	\$1,397,869	\$96,296,146
Injury insurance	7,948,252	-	7,948,252	266,452	-	266,452
Health insurance	317,416,493	-	317,416,493	10,640,848	-	10,640,848
Annuity insurance	1,230,168	98,089,349	99,319,517	41,239	3,288,279	3,329,518
Investment-linked insurance	1,061,439	-	1,061,439	35,583	-	35,583
Recover from major incident reserve	63,292	-	63,292	2,122	-	2,122
Total	\$3,158,535,287	\$139,787,775	\$3,298,323,062	\$105,884,521	\$4,686,148	\$110,570,669

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	2012.12.31(NT\$)			2012.12.31(US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$2,543,865,959	\$44,435,855	\$2,588,301,814	\$87,568,535	\$1,529,634	\$89,098,169
Injury insurance	7,888,169	-	7,888,169	271,538	-	271,538
Health insurance	270,572,717	-	270,572,717	9,314,035	-	9,314,035
Annuity insurance	1,226,217	124,300,017	125,526,234	42,210	4,278,830	4,321,040
Investment-linked insurance	1,110,254	-	1,110,254	38,219	-	38,219
Recover from major incident reserve	63,292	-	63,292	2,179	-	2,179
Total	\$2,824,726,608	\$168,735,872	\$2,993,462,480	\$97,236,716	\$5,808,464	\$103,045,180

	2012.1.1 (NT\$)			2012.1.1 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance	\$2,264,820,789	\$44,410,268	\$2,309,231,057	\$74,820,640	\$1,467,138	\$76,287,778
Injury insurance	7,663,561	-	7,663,561	253,173	-	253,173
Health insurance	228,646,823	-	228,646,823	7,553,579	-	7,553,579
Annuity insurance	1,468,242	149,221,880	150,690,122	48,505	4,929,695	4,978,200
Investment-linked insurance	1,237,000	-	1,237,000	40,866	-	40,866
Recover from major incident reserve	-	-	-	-	-	-
Total	\$2,503,836,415	\$193,632,148	\$2,697,468,563	\$82,716,763	\$6,396,833	\$89,113,596

Reserve for life insurance liabilities is summarized below:

	2013.1.1~2013.12.31 (NT\$)			2013.1.1~2013.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$2,824,726,608	\$168,735,872	\$2,993,462,480	\$94,694,154	\$5,656,583	\$100,350,737
Reserve	441,189,747	13,042,010	454,231,757	14,790,136	437,211	15,227,347
Recover	(113,727,355)	(41,077,350)	(154,804,705)	(3,812,516)	(1,377,048)	(5,189,564)
Losses (gains) on foreign exchange	6,346,287	(912,757)	5,433,530	212,748	(30,599)	182,149
Ending balance	\$3,158,535,287	\$139,787,775	\$3,298,323,062	\$105,884,522	\$4,686,147	\$110,570,669

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	2012.1.1~2012.12.31 (NT\$)			2012.1.1~2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$2,503,836,415	\$193,632,148	\$2,697,468,563	\$86,190,582	\$6,665,478	\$92,856,060
Reserve	467,393,946	1,012,224	468,406,170	16,089,292	34,844	16,124,136
Recover	(141,049,631)	(25,790,701)	(166,840,332)	(4,855,409)	(887,804)	(5,743,213)
Losses (gains) on foreign exchange	(5,454,122)	(117,799)	(5,571,921)	(187,746)	(4,055)	(191,801)
Ending balance	\$2,824,726,608	\$168,735,872	\$2,993,462,480	\$97,236,719	\$5,808,463	\$103,045,182

B. Unearned premium reserve:

	2013.12.31 (NT\$)			2013.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$354,815	\$-	\$354,815	\$11,895	\$-	\$11,895
Individual injury insurance	4,695,925	-	4,695,925	157,423	-	157,423
Individual health insurance	6,457,104	-	6,457,104	216,463	-	216,463
Group insurance	946,897	-	946,897	31,743	-	31,743
Investment-linked insurance	111,466	-	111,466	3,737	-	3,737
Total	12,566,207	-	\$12,566,207	421,261	-	\$421,261
Less ceded unearned premium reserve:						
Individual life insurance	132,364	-	132,364	4,437	-	4,437
Individual injury insurance	151,009	-	151,009	5,063	-	5,063
Individual health insurance	6,151	-	6,151	206	-	206
Group insurance	32,458	-	32,458	1,088	-	1,088
Total	321,982	-	321,982	10,794	-	10,794
Net	\$12,244,225	\$-	\$12,244,225	\$410,467	\$-	\$410,467

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	2012.12.31 (NT\$)			2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$286,321	\$-	\$286,321	\$9,856	\$-	\$9,856
Individual injury insurance	4,536,860	-	4,536,860	156,174	-	156,174
Individual health insurance	6,137,375	-	6,137,375	211,269	-	211,269
Group insurance	1,025,604	-	1,025,604	35,305	-	35,305
Investment-linked insurance	118,616	-	118,616	4,083	-	4,083
Total	12,104,776	-	12,104,776	416,687	-	416,687
Less ceded unearned premium reserve:						
Individual life insurance	3,686,674	-	3,686,674	126,907	-	126,907
Individual injury insurance	4,690,485	-	4,690,485	161,462	-	161,462
Individual health insurance	2,862	-	2,862	99	-	99
Group insurance	4,260	-	4,260	147	-	147
Total	8,384,281	-	8,384,281	288,615	-	288,615
Net	\$3,720,495	\$-	\$3,720,495	\$128,072	\$-	\$128,072

	2012.1.1 (NT\$)			2012.1.1 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$209,502	\$4	\$209,506	\$6,921	\$-	\$6,921
Individual injury insurance	4,356,325	-	4,356,325	143,916	-	143,916
Individual health insurance	5,764,803	-	5,764,803	190,446	-	190,446
Group insurance	1,808,627	-	1,808,627	59,750	-	59,750
Investment-linked insurance	120,773	-	120,773	3,990	-	3,990
Total	12,260,030	4	12,260,034	405,023	-	405,023
Less ceded unearned premium reserve:						
Individual life insurance	2,513,092	-	2,513,092	83,023	-	83,023
Individual injury insurance	4,807,335	-	4,807,335	158,815	-	158,815
Individual health insurance	2,937	-	2,937	97	-	97
Group insurance	5,106	-	5,106	169	-	169
Investment-linked insurance	1,289,194	-	1,289,194	42,590	-	42,590
Total	8,617,664	-	8,617,664	284,694	-	284,694
Net	\$3,642,366	\$4	\$3,642,370	\$120,329	\$-	\$120,329

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Unearned premium reserve is summarized below:

	2013.1.1~2013.12.31 (NT\$)			2013.1.1~2013.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$12,104,776	\$-	\$12,104,776	\$405,792	\$-	\$405,792
Reserve	12,605,216	-	12,605,216	422,568	-	422,568
Recover	(12,158,408)	-	(12,158,408)	(407,590)	-	(407,590)
Losses (gains) on foreign exchange	14,623	-	14,623	491	-	491
Ending balance	12,566,207	-	12,566,207	421,261	-	421,261
Less ceded unearned premium reserve:						
Beginning balance-Net	8,384,281	-	8,384,281	281,069	-	281,069
Increase	30,477	-	30,477	1,022	-	1,022
Decrease	(8,094,077)	-	(8,094,077)	(271,340)	-	(271,340)
Gain or loss on foreign exchange	1,301	-	1,301	43	-	43
Total	321,982	-	321,982	10,794	-	10,794
Ending balance-Net	\$12,244,225	\$-	\$12,244,225	\$410,467	\$-	\$410,467

	2012.1.1~2012.12.31 (NT\$)			2012.1.1~2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$12,260,030	\$4	\$12,260,034	\$422,032	\$-	\$422,032
Reserve	12,118,527	-	12,118,527	417,161	-	417,161
Recover	(12,266,713)	(4)	(12,266,717)	(422,262)	-	(422,262)
Exchange	(7,068)	-	(7,068)	(244)	-	(244)
Ending balance	12,104,776	-	12,104,776	416,687	-	416,687
Less ceded unearned premium reserve:						
Beginning balance-Net	8,617,664	-	8,617,664	296,649	-	296,649
Increase	1,307	-	1,307	45	-	45
Decrease	(234,479)	-	(234,479)	(8,072)	-	(8,072)
Gain or loss on foreign exchange	(211)	-	(211)	(7)	-	(7)
Total	8,384,281	-	8,384,281	288,615	-	288,615
Ending balance-Net	\$3,720,495	\$-	\$3,720,495	\$128,072	\$-	\$128,072

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C. Reserve for claims:

	2013.12.31 (NT\$)			2013.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
— Reported but not paid claim	\$120,787	\$1,091	\$121,878	\$4,049	\$37	\$4,086
— Unreported claim	55,499	-	55,499	1,861	-	1,861
Individual injury insurance						
— Reported but not paid claim	104,922	-	104,922	3,517	-	3,517
— Unreported claim	1,136,476	-	1,136,476	38,098	-	38,098
Individual health insurance						
— Reported but not paid claim	161,210	-	161,210	5,404	-	5,404
— Unreported claim	1,668,718	-	1,668,718	55,941	-	55,941
Group insurance						
— Reported but not paid claim	133,679	-	133,679	4,481	-	4,481
— Unreported claim	1,254,846	-	1,254,846	42,067	-	42,067
Investment-linked insurance						
— Reported but not paid claim	3,856	-	3,856	129	-	129
Total	4,639,993	1,091	\$4,641,084	155,547	37	155,584
Less ceded reserve for claims:						
Individual injury insurance	16,875	-	16,875	566	-	566
Net	\$4,623,118	\$1,091	\$4,624,209	\$154,981	\$37	\$155,018

	2012.12.31 (NT\$)			2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
— Reported but not paid claim	\$110,006	\$797	\$110,803	\$3,787	\$27	\$3,814
— Unreported claim	52,108	-	52,108	1,794	-	1,794
Individual injury insurance						
— Reported but not paid claim	150,906	-	150,906	5,195	-	5,195
— Unreported claim	1,027,670	-	1,027,670	35,376	-	35,376

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	2012.12.31 (NT\$)			2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual health insurance						
– Reported but not paid claim	127,591	-	127,591	4,392	-	4,392
– Unreported claim	1,542,886	-	1,542,886	53,111	-	53,111
Group insurance						
– Reported but not paid claim	102,306	-	102,306	3,522	-	3,522
– Unreported claim	1,432,384	-	1,432,384	49,308	-	49,308
Investment-linked insurance						
– Reported but not paid claim	4,600	-	4,600	158	-	158
Total	4,550,457	797	4,551,254	156,643	27	156,670
Less ceded reserve for claims:						
Individual injury insurance	781,354	-	781,354	26,897	-	26,897
Net	\$3,769,103	\$797	\$3,769,900	\$129,746	\$27	\$129,773

	2012.1.1 (NT\$)			2012.1.1 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance						
– Reported but not paid claim	\$139,339	\$3,242	\$142,581	\$4,603	\$107	\$4,710
– Unreported claim	35,995	-	35,995	1,189	-	1,189
Individual injury insurance						
– Reported but not paid claim	195,470	-	195,470	6,457	-	6,457
– Unreported claim	789,700	-	789,700	26,088	-	26,088
Individual health insurance						
– Reported but not paid claim	117,473	-	117,473	3,881	-	3,881
– Unreported claim	1,326,391	-	1,326,391	43,819	-	43,819
Group insurance						
– Reported but not paid claim	40,850	-	40,850	1,350	-	1,350
– Unreported claim	1,641,113	-	1,641,113	54,216	-	54,216
Investment-linked insurance						
– Reported but not paid claim	10,510	-	10,510	347	-	347
Total	4,296,841	3,242	4,300,083	141,950	107	142,057
Less ceded reserve for claims:						
Individual injury insurance	550,769	-	550,769	18,195	-	18,195
Net	\$3,746,072	\$3,242	\$3,749,314	\$123,755	\$107	\$123,862

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Reserve for claims is summarized below:

	2013.1.1~2013.12.31 (NT\$)			2013.1.1~2013.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$4,550,457	\$797	\$4,551,254	\$152,545	\$27	\$152,572
Reserve	4,710,771	1,091	4,711,862	157,921	37	157,958
Recover	(4,645,854)	(797)	(4,646,651)	(155,744)	(27)	(155,771)
Gains (loss) on foreign exchange	24,619	-	24,619	825	-	825
Ending balance	4,639,993	1,091	4,641,084	155,547	37	155,584
Less ceded reserve for claims:						
Beginning balance-Net	781,354	-	781,354	26,194	-	26,194
Increase	15,861	-	15,861	532	-	532
Decrease	(780,831)	-	(780,831)	(26,176)	-	(26,176)
Gains (loss) on foreign exchange	491	-	491	16	-	16
Total	16,875	-	16,875	566	-	566
Net	\$4,623,118	\$1,091	\$4,624,209	\$154,981	\$37	\$155,018

	2012.1.1~2013.12.31 (NT\$)			2012.1.1~2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$4,296,841	\$3,242	\$4,300,083	\$147,912	\$112	\$148,024
Reserve	4,896,439	797	4,897,236	168,552	27	168,579
Recover	(4,630,718)	(3,242)	(4,633,960)	(159,405)	(112)	(159,517)
Gains (loss) on foreign exchange	(12,105)	-	(12,105)	(416)	-	(416)
Ending balance	4,550,457	797	4,551,254	156,643	27	156,670
Less ceded reserve for claims:						
Beginning balance-Net	550,769	-	550,769	18,959	-	18,959
Increase	231,240	-	231,240	7,960	-	7,960
Decrease	(624)	-	(624)	(21)	-	(21)
Gains (loss) on foreign exchange	(31)	-	(31)	(1)	-	(1)
Total	781,354	-	781,354	26,897	-	26,897
Net	\$3,769,103	\$797	\$3,769,900	\$129,746	\$27	\$129,773

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D. Special reserve:

	2013.12.31 (NT\$)				2013.12.31 (US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	\$1,931	\$-	\$-	\$1,931	\$65	\$-	\$-	\$65
Special reserve for revaluation increments of property	-	-	45,416,619	45,416,619	-	-	1,522,515	1,522,515
Others	1,751	-	-	1,751	58	-	-	58
Total	\$3,682	\$-	\$45,416,619	\$45,420,301	\$123	\$-	\$1,522,515	\$1,522,638

	2012.12.31 (NT\$)				2012.12.31 (US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	\$1,970	\$-	\$-	\$1,970	\$68	\$-	\$-	\$68
Special reserve for revaluation increments of property	517	-	55,416,619	55,417,136	18	-	1,907,629	1,907,647
Others	-	-	-	-	-	-	-	-
Total	\$2,487	\$-	\$55,416,619	\$55,419,106	\$86	\$-	\$1,907,629	\$1,907,715

	2012.1.1 (NT\$)				2012.1.1 (US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	\$227	\$-	\$-	\$227	\$7	\$-	\$-	\$7
Special reserve for revaluation increments of property	-	-	55,416,619	55,416,619	-	-	1,830,744	1,830,744
Reclassify to foreign exchange volatility reserve	4,511,406	-	-	4,511,406	149,039	-	-	149,039
Others	533	-	-	533	18	-	-	18
Total	\$4,512,166	\$-	\$55,416,619	\$59,928,785	\$149,064	\$-	\$1,830,744	\$1,979,808

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Special reserve is summarized below:

	2013.1.1~2013.12.31 (NT\$)				2013.1.1~2013.12.31 (US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$2,487	-	\$55,416,619	\$55,419,106	\$83	\$-	\$1,857,748	\$1,857,831
Reserves for participating policies								
dividends reserve	1,156	-	-	1,156	39	-	-	39
Recover for participating policies								
dividends reserve	(1,195)	-	-	(1,195)	(40)	-	-	(40)
Reclassify to foreign exchange								
volatility reserve	1,221	-	-	1,221	41	-	-	41
Recover from special reserve for revaluation increments of property (Note)	-	-	(10,000,000)	(10,000,000)	-	-	(335,233)	(335,233)
Exchange difference	13	-	-	13	-	-	-	-
Ending balance	\$3,682	\$-	\$45,416,619	\$45,420,301	\$123	\$-	\$1,522,515	\$1,522,638

	2012.1.1~2012.12.31 (NT\$)				2012.1.1~2012.12.31 (US\$)			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$4,512,166	\$-	\$55,416,619	\$59,928,785	\$155,324	\$-	\$1,907,629	\$2,062,953
Reserves for participating policies								
dividends reserve	2,064	-	-	2,064	71	-	-	71
Recover for participating policies								
dividends reserve	(321)	-	-	(321)	(11)	-	-	(11)
Reclassify to foreign exchange								
volatility reserve	(4,511,406)	-	-	(4,511,406)	(155,298)	-	-	(155,298)
Recover from special reserve for revaluation increments of property (Note)	-	-	-	-	-	-	-	-
Exchange difference	(16)	-	-	(16)	-	-	-	-
Ending balance	\$2,487	\$-	\$55,416,619	\$55,419,106	\$86	\$-	\$1,907,629	\$1,907,715

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Note: According to the regulations established by the authorities on 30 November 2012 and authorized by the FSC on 28 January 2013, Cathay Life can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2013 was NT\$10 billion.

E. Premium deficiency reserve:

	2013.12.31 (NT\$)			2013.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$19,012,225	\$-	\$19,012,225	\$637,352	\$-	\$637,352
Individual health insurance	615,791	-	615,791	20,643	-	20,643
Group insurance	1,237	-	1,237	42	-	42
Total	\$19,629,253	\$-	\$19,629,253	\$658,037	\$-	\$658,037

	2012.12.31 (NT\$)			2012.12.31 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$16,389,516	\$-	\$16,389,516	\$564,183	\$-	\$564,183
Individual health insurance	690,546	-	690,546	23,771	-	23,771
Group insurance	41,573	-	41,573	1,431	-	1,431
Total	\$17,121,635	\$-	\$17,121,635	\$589,385	\$-	\$589,385

	2012.1.1 (NT\$)			2012.1.1 (US\$)		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Individual life insurance	\$12,872,878	\$-	\$12,872,878	\$425,269	\$-	\$425,269
Individual health insurance	673,880	-	673,880	22,262	-	22,262
Group insurance	52,969	-	52,969	1,749	-	1,749
Total	\$13,599,727	\$-	\$13,599,727	\$449,280	\$-	\$449,280

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Premium deficiency reserve is summarized below:

	2013.1.1~2013.12.31 (NT\$)			2013.1.1~2013.12.31 (US\$)		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Beginning balance	\$17,121,635	\$-	\$17,121,635	\$573,974	\$-	\$573,974
Reserve	2,762,327	-	2,762,327	92,602	-	92,602
Recover	(446,571)	-	(446,571)	(14,971)	-	(14,971)
Losses (gains) on foreign exchange	191,862	-	191,862	6,432	-	6,432
Ending balance	\$19,629,253	\$-	\$19,629,253	\$658,037	\$-	\$658,037

	2012.1.1~2012.12.31 (NT\$)			2012.1.1~2012.12.31 (US\$)		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Beginning balance	\$13,599,727	\$-	\$13,599,727	\$468,149	\$-	\$468,149
Reserve	3,754,578	-	3,754,578	129,245	-	129,245
Recover	-	-	-	-	-	-
Losses (gains) on foreign exchange	(232,670)	-	(232,670)	(8,009)	-	(8,009)
Ending balance	\$17,121,635	\$-	\$17,121,635	\$589,385	\$-	\$589,385

F. Liability adequacy reserve

	2013.12.31	2013.12.31
	(NT\$)	(US\$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,298,323,062	\$110,570,669
Unearned premium reserve	12,566,207	421,261
Premium deficiency reserve	19,629,253	658,037
Total	\$3,330,518,522	\$111,649,967
Book value of insurance liabilities	\$3,330,518,522	\$111,649,967
Estimated present value of cash flows	\$2,611,105,371	\$87,532,865
Balance of liability adequacy reserve	\$-	\$-

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	2012.12.31 (NT\$)	2012.12.31 (US\$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,993,462,480	\$103,045,180
Unearned premium reserve	12,104,776	416,687
Premium deficiency reserve	17,121,635	589,385
Total	\$3,022,688,891	\$104,051,252
Book value of insurance liabilities	\$3,022,688,891	\$104,051,252
Estimated present value of cash flows	\$2,176,699,004	\$74,929,398
Balance of liability adequacy reserve	\$-	\$-
	2012.1.1 (NT\$)	2012.1.1 (US\$)
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$2,697,468,563	\$89,113,596
Unearned premium reserve	12,260,034	405,023
Premium deficiency reserve	13,599,727	449,280
Total	\$2,723,328,324	\$89,967,899
Book value of insurance liabilities	\$2,723,328,324	\$89,967,899
Estimated present value of cash flows	\$2,370,460,405	\$78,310,552
Balance of liability adequacy reserve	\$-	\$-

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 and therefore not included in the test.

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

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Cathay Life's liability adequacy testing methodologies are listed as follows:

	2013.12.31
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2013. (2) Discount rate: Under assets allocation plan on September 2013, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2012, with neutral assumption for discount rates after 30 years.
	2012.12.31
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 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 the actuary report of 2011, with neutral assumption for discount rates after 30 years.
	2012.1.1
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 1 January 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 the actuary report of 2010, with neutral assumption for discount rates after 30 years (after 2041).

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Cathay Life (China)'s liability adequacy testing methodology are listed as follows:

	2013.12.31
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2013. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2012, with neutral assumption for discount rates after 30 years.
	2012.12.31
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2012. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2011, with neutral assumption for discount rates after 30 years.
	2012.1.1
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 1 January 2012. (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 the actuary report of 2009.

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

Life insurance subsidiaries issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of 31 December 2013, 31 December 2012 and 1 January 2012, reserve for insurance contract with feature of financial instruments is summarized below:

	2013.12.31	
	NT\$	US\$
Life insurance	\$57,595,990	\$1,930,808
Investment-linked insurance	459	15
Total	<u>\$57,596,449</u>	<u>\$1,930,823</u>

	2012.12.31	
	NT\$	US\$
Life insurance	<u>\$61,350,872</u>	<u>\$2,111,906</u>

	2012.1.1	
	NT\$	US\$
Life insurance	<u>\$66,884,711</u>	<u>\$2,209,604</u>

	2013.1.1~2013.12.31	
	NT\$	US\$
Beginning balance	\$61,350,872	\$2,056,684
Premiums (returned) received	1,312,323	43,993
Insurance claim payments	(4,995,302)	(167,459)
Net provision of statutory reserve	(343,325)	(11,509)
Gain (losses) on foreign exchange	271,881	9,114
Ending balance	<u>\$57,596,449</u>	<u>\$1,930,823</u>

	2012.1.1~2012.12.31	
	NT\$	US\$
Beginning balance	\$66,884,711	\$2,302,400
Premiums (returned) received	1,243,425	42,803
Insurance claim payments	(5,822,441)	(200,428)
Net provision of statutory reserve	(780,170)	(26,856)
Gain (losses) on foreign exchange	(174,653)	(6,013)
Ending balance	<u>\$61,350,872</u>	<u>\$2,111,906</u>

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H. 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, life insurance subsidiaries consistently adjusts the hedge ratios and risk exposure position under the risk control.

(B) Adjustment in foreign exchange volatility reserve:

	2013.1.1~2013.12.31	
	NT\$	US\$
Beginning balance	\$4,270,856	\$143,173
Reserve:		
Compulsory reserve	2,293,471	76,885
Extra reserve	4,933,651	165,392
Subtotal	7,227,122	242,277
Recover	(1,015,797)	(34,053)
Total	<u>\$10,482,181</u>	<u>\$351,397</u>
	2012.1.1~2012.12.31	
	NT\$	US\$
Beginning balance	\$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	<u>\$4,270,856</u>	<u>\$147,017</u>

Note: Cathay Life is subject to requirements to use foreign exchange volatility reserve from 1 March 2012.

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(C) Effects due to foreign exchange volatility reserve:

2013.12.31 Item	Inapplicable amount (1)		Applicable amount (2)		Effects(3)= (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Consolidated income	34,175,511	1,145,676	29,020,111	972,850	(5,155,400)	(172,826)
Earnings per share	2.94	0.10	2.50	0.08	(0.44)	(0.02)
Foreign exchange volatility reserve	-	-	10,482,181	351,397	10,482,181	351,397
Equity	290,215,794	9,728,991	285,260,051	9,562,858	(4,955,743)	(166,133)

2012.12.31 Item	Inapplicable amount (1)		Applicable amount (2)		Effects(3)= (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Consolidated income	15,972,272	549,820	16,171,929	556,693	199,657	6,873
Earnings per share	1.39	0.05	1.41	0.05	0.02	-
Foreign exchange volatility reserve	-	-	4,270,856	147,017	4,270,856	147,017
Equity	247,949,506	8,535,267	248,149,163	8,542,140	199,657	6,873

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

Item	2013.12.31							
	Unearned premium reserve				Ceded unearned premium reserve			
			Assumed reinsurance		Ceded reinsurance		Retained business	
	Direct business		business		business			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,026,423	\$67,932	\$54,083	\$1,813	\$964,076	\$32,319	\$1,116,430	\$37,426
Marine insurance	139,775	4,686	14,955	501	104,044	3,488	50,686	1,699
Land and air insurance	3,590,802	120,376	8,625	289	178,898	5,997	3,420,529	114,668
Liability insurance	538,568	18,055	597	20	166,651	5,587	372,514	12,488
Bonding insurance	35,730	1,198	722	24	18,958	636	17,494	586
Other property insurance	1,477,530	49,532	30,213	1,013	475,846	15,952	1,031,897	34,593
Accident insurance	1,510,910	50,650	2,591	87	71,337	2,391	1,442,164	48,346
Health insurance	48,879	1,638	-	-	156	5	48,723	1,633
Compulsory automobile liability insurance	1,544,803	51,787	188,263	6,311	515,124	17,269	1,217,942	40,829
Total	\$10,913,420	\$365,854	\$300,049	\$10,058	\$2,495,090	\$83,644	\$8,718,379	\$292,268

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2012.12.31								
Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Fire insurance	\$2,100,879	\$72,320	\$56,882	\$1,958	\$916,559	\$31,551	\$1,241,202
Marine insurance	241,010	8,296	17,432	600	209,087	7,197	49,355	1,699
Land and air insurance	2,926,171	100,729	13,196	454	161,337	5,554	2,778,030	95,629
Liability insurance	514,215	17,701	173	6	171,208	5,894	343,180	11,813
Bonding insurance	26,491	912	537	18	9,156	315	17,872	615
Other property insurance	1,152,073	39,658	15,942	549	514,617	17,715	653,398	22,492
Accident insurance	1,529,451	52,649	3,976	137	84,690	2,915	1,448,737	49,871
Health insurance	88,102	3,033	-	-	1,154	40	86,948	2,993
Compulsory automobile liability insurance	1,198,010	41,240	186,904	6,434	479,228	16,497	905,686	31,177
Total	\$9,776,402	\$336,538	\$295,042	\$10,156	\$2,547,036	\$87,678	\$7,524,408	\$259,016

2012.1.1								
Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Fire insurance	\$1,800,538	\$59,483	\$40,517	\$1,338	\$729,560	\$24,102	\$1,111,495
Marine insurance	257,526	8,508	1,423	47	218,534	7,219	40,415	1,336
Land and air insurance	2,464,496	81,417	5,322	176	149,756	4,947	2,320,062	76,646
Liability insurance	397,266	13,124	119	4	118,700	3,921	278,685	9,207
Bonding insurance	24,722	817	397	13	6,733	223	18,386	607
Other property insurance	894,846	29,562	15,099	499	496,357	16,398	413,588	13,663
Accident insurance	1,510,001	49,884	25,875	855	73,958	2,443	1,461,918	48,296
Health insurance	147,642	4,877	-	-	2,417	80	145,225	4,797
Compulsory automobile liability insurance	1,147,140	37,897	182,070	6,015	458,858	15,159	870,352	28,753
Total	\$8,644,177	\$285,569	\$270,822	\$8,947	\$2,254,873	\$74,492	\$6,660,126	\$220,024

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

Item	2013.1.1~2013.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$10,071,444	\$337,628	\$2,547,036	\$85,385
Reserve	11,172,233	374,530	2,483,170	83,244
Recover	(10,104,776)	(338,745)	(2,539,928)	(85,146)
Effects of exchange rate changes	74,568	2,499	4,812	161
Ending balance	<u>\$11,213,469</u>	<u>\$375,912</u>	<u>\$2,495,090</u>	<u>\$83,644</u>

Item	2012.1.1~2012.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$8,914,999	\$306,885	\$2,254,873	\$77,621
Reserve	10,103,403	347,794	2,547,943	87,709
Recover	(8,917,903)	(306,985)	(2,252,464)	(77,538)
Effects of exchange rate changes	(29,055)	(1,000)	(3,316)	(114)
Ending balance	<u>\$10,071,444</u>	<u>\$346,694</u>	<u>\$2,547,036</u>	<u>\$87,678</u>

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2013.12.31							
	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(1)	(2)	(3)	(4)
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,886,032	\$130,274	\$307,234	\$10,299	\$1,350,564	\$45,275	\$2,842,702	\$95,298
Unreported claims	1,789,128	59,977	59,129	1,982	313,203	10,500	1,535,054	51,459
Total	<u>\$5,675,160</u>	<u>\$190,251</u>	<u>\$366,363</u>	<u>\$12,281</u>	<u>\$1,663,767</u>	<u>\$55,775</u>	<u>\$4,377,756</u>	<u>\$146,757</u>

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2012.12.31								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,111,890	\$141,545	\$293,676	\$10,109	\$1,723,922	\$59,343	\$2,681,644	\$92,311
Unreported claims	1,362,292	46,895	37,732	1,299	290,394	9,996	1,109,630	38,198
Total	\$5,474,182	\$188,440	\$331,408	\$11,408	\$2,014,316	\$69,339	\$3,791,274	\$130,509

2012.1.1								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,061,939	\$134,190	\$196,679	\$6,498	\$1,896,762	\$62,661	\$2,361,856	\$78,027
Unreported claims	1,058,601	34,972	47,435	1,567	278,507	9,201	827,529	27,338
Total	\$5,120,540	\$169,162	\$244,114	\$8,065	\$2,175,269	\$71,862	\$3,189,385	\$105,365

b. Net changes for claims reserve and ceded claims reserve

2013.1.1~2013.12.31								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
Claims reported but not paid off	\$3,865,122	\$4,125,832	\$307,234	\$293,677	\$(247,153)	\$1,346,448	\$1,728,657	\$(382,209)
Unreported claims	1,778,041	1,370,391	58,901	39,583	426,968	310,964	292,295	18,669
Total	\$5,643,163	\$5,496,223	\$366,135	\$333,260	\$179,815	\$1,657,412	\$2,020,952	\$(363,540)

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2013.1.1~2013.12.31								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	(8)=(6)-(7)
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	
Claims reported but not paid off	\$129,572	\$138,311	\$10,299	\$9,845	\$(8,285)	\$45,137	\$57,950	\$(12,813)
Unreported claims	59,606	45,941	1,975	1,327	14,313	10,425	9,799	626
Total	\$189,178	\$184,252	\$12,274	\$11,172	\$6,028	\$55,562	\$67,749	\$(12,187)
2012.1.1~2012.12.31								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	(8)=(6)-(7)
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	
Claims reported but not paid off	\$4,114,351	\$4,057,820	\$293,676	\$196,679	\$153,528	\$1,724,852	\$1,895,417	\$(170,565)
Unreported claims	1,363,648	1,054,855	39,580	47,492	300,881	290,744	276,662	14,082
Total	\$5,477,999	\$5,112,675	\$333,256	\$244,171	\$454,409	\$2,015,596	\$2,172,079	\$(156,483)
2012.1.1~2012.12.31								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2)	Reserve	Recover	(8)=(6)-(7)
	(1)	(2)	(3)	(4)	+(3)-(4)	(6)	(7)	
Claims reported but not paid off	\$141,630	\$139,684	\$10,109	\$6,770	\$5,285	\$59,375	\$65,247	\$(5,872)
Unreported claims	46,941	36,312	1,363	1,635	10,357	10,008	9,523	485
Total	\$188,571	\$175,996	\$11,472	\$8,405	\$15,642	\$69,383	\$74,770	\$(5,387)

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

Item	2013.12.31					
	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$859,480	\$28,813	\$134,727	\$4,516	\$994,207	\$33,329
Marine insurance	621,182	20,824	176,133	5,905	797,315	26,729
Land and air insurance	820,143	27,494	620,039	20,786	1,440,182	48,280
Liability insurance	259,018	8,683	281,177	9,426	540,195	18,109
Bonding insurance	19,789	663	1,837	62	21,626	725
Other property insurance	654,657	21,946	189,141	6,341	843,798	28,287
Accident insurance	67,805	2,273	350,047	11,735	417,852	14,008
Health insurance	6,149	206	44,518	1,492	50,667	1,698
Compulsory automobile liability insurance	885,043	29,670	50,638	1,697	935,681	31,367
Total	\$4,193,266	\$140,572	\$1,848,257	\$61,960	\$6,041,523	\$202,532

Item	2012.12.31					
	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,338,560	\$46,078	\$19,362	\$666	\$1,357,922	\$46,744
Marine insurance	794,556	27,351	159,313	5,484	953,869	32,835
Land and air insurance	690,396	23,766	491,381	16,915	1,181,777	40,681
Liability insurance	249,023	8,572	226,183	7,786	475,206	16,358
Bonding insurance	19,834	683	14,294	492	34,128	1,175
Other property insurance	487,486	16,781	145,645	5,014	633,131	21,795
Accident insurance	68,515	2,358	284,938	9,809	353,453	12,167
Health insurance	6,816	235	39,229	1,350	46,045	1,585
Compulsory automobile liability insurance	750,380	25,831	19,679	677	770,059	26,508
Total	\$4,405,566	\$151,655	\$1,400,024	\$48,193	\$5,805,590	\$199,848

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Item	2012.1.1					
	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,055,544	\$67,907	\$162,754	\$5,377	\$2,218,298	\$73,284
Marine insurance	614,939	20,315	189,501	6,260	804,440	26,575
Land and air insurance	506,703	16,739	456,465	15,080	963,168	31,819
Liability insurance	234,807	7,757	53,728	1,775	288,535	9,532
Bonding insurance	23,232	768	4,660	154	27,892	922
Other property insurance	297,847	9,840	55,435	1,831	353,282	11,671
Accident insurance	128,888	4,258	160,770	5,311	289,658	9,569
Health insurance	9,821	324	2,213	73	12,034	397
Compulsory automobile liability insurance	386,837	12,780	20,510	678	407,347	13,458
Total	\$4,258,618	\$140,688	\$1,106,036	\$36,539	\$5,364,654	\$177,227

d. Reinsurance asset- Ceded claims reserve for policyholder

Item	2013.12.31					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$286,597	\$9,607	\$32,707	\$1,097	\$319,304	\$10,704
Marine insurance	439,425	14,731	121,983	4,089	561,408	18,820
Land and air insurance	61,353	2,057	17,045	571	78,398	2,628
Liability insurance	71,041	2,381	89,780	3,010	160,821	5,391
Bonding insurance	18,180	609	695	24	18,875	633
Other property insurance	181,717	6,092	13,811	463	195,528	6,555
Accident insurance	5,034	169	28,494	955	33,528	1,124
Health insurance	-	-	692	23	692	23
Compulsory automobile liability insurance	287,217	9,629	7,996	268	295,213	9,897
Total	\$1,350,564	\$45,275	\$313,203	\$10,500	\$1,663,767	\$55,775

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

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

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e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2013.1.1~2013.12.31			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,805,590	\$194,623	\$2,014,316	\$67,527
Reserve	6,009,298	201,452	1,657,412	55,562
Recover	(5,829,483)	(195,424)	(2,020,952)	(67,749)
Effects of exchange rate changes	56,118	1,881	12,991	435
Ending balance	<u>\$6,041,523</u>	<u>\$202,532</u>	<u>\$1,663,767</u>	<u>\$55,775</u>

Item	2012.1.1~2012.12.31			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,364,654	\$184,670	\$2,175,269	\$74,880
Reserve	5,811,255	200,043	2,015,596	69,383
Recover	(5,356,846)	(184,401)	(2,172,079)	(74,770)
Effects of exchange rate changes	(13,473)	(464)	(4,470)	(154)
Ending balance	<u>\$5,805,590</u>	<u>\$199,848</u>	<u>\$2,014,316</u>	<u>\$69,339</u>

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2013.1.1~2013.12.31	
	NT\$	US\$
Beginning balance	\$2,307,591	\$77,358
Reserve	260,936	8,747
Recover	(342,855)	(11,493)
Ending balance	<u>\$2,225,672</u>	<u>\$74,612</u>

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Item	2012.1.1~2012.12.31	
	NT\$	US\$
Beginning balance	\$2,434,891	\$83,817
Reserve	199,736	6,876
Recover	(327,036)	(11,258)
Ending balance	<u>\$2,307,591</u>	<u>\$79,435</u>

b. Special reserve - Non-compulsory automobile liability insurance

Item	2013.1.1~2013.12.31					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,113,068	\$37,314	\$1,034,979	\$34,696	\$2,148,047	\$72,010
Reserve	-	-	-	-	-	-
Recover	(18,727)	(628)	-	-	(18,727)	(628)
Ending balance	<u>\$1,094,341</u>	<u>\$36,686</u>	<u>\$1,034,979</u>	<u>\$34,696</u>	<u>\$2,129,320</u>	<u>\$71,382</u>

Item	2012.1.1~2012.12.31					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,172,396	\$40,358	\$1,153,815	\$39,718	\$2,326,211	\$80,076
Reserve	-	-	-	-	-	-
Recover	(59,328)	(2,042)	(118,836)	(4,091)	(178,164)	(6,133)
Ending balance	<u>\$1,113,068</u>	<u>\$38,316</u>	<u>\$1,034,979</u>	<u>\$35,627</u>	<u>\$2,148,047</u>	<u>\$73,943</u>

According to “Precautions of Strengthening Natural Disaster Insurance Reserves of Property Insurance Industry (Commercial Earthquake and Typhoon Flood Insurance)”, Cathay Century has not set aside full reserves for commercial earthquake and typhoon flood insurance yet. The special reserve cannot be transferred to special capital reserve, and had no impact on profit and loss.

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A. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

2013.12.31									
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business		
	Direct business		Assumed reinsurance business		Ceded reinsurance business				
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Fire insurance	\$4,237	\$142	\$92	\$3	\$-	\$-	\$4,329	\$145	
Marine insurance	160	5	2	-	(8,736)	(293)	8,898	298	
Land and air insurance	-	-	377	13	(329)	(11)	706	24	
Liability insurance	27,518	923	12	-	3,485	117	24,045	806	
Bonding insurance	10,288	345	-	-	9,698	325	590	20	
Other property insurance	161,090	5,400	424	15	-	-	161,514	5,415	
Accident insurance	-	-	97	3	-	-	97	3	
Health insurance	-	-	-	-	-	-	-	-	
Compulsory automobile liability insurance	39,309	1,318	-	-	-	-	39,309	1,318	
Total	\$242,602	\$8,133	\$1,004	\$34	\$4,118	\$138	\$239,488	\$8,029	

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

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2012.1.1								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$-	\$-	\$432	\$14	\$(5,485)	\$(181)	\$5,917	\$195
Marine insurance	9,806	324	54	2	1,867	62	7,993	264
Land and air insurance	-	-	2	-	(1,480)	(49)	1,482	49
Liability insurance	-	-	49	2	49	2	-	-
Bonding insurance	11,296	373	6	-	11,186	369	116	4
Other property insurance	3,316	110	54	2	-	-	3,370	112
Accident insurance	-	-	11	-	-	-	11	-
Health insurance	-	-	-	-	-	-	-	-
Total	\$24,418	\$807	\$608	\$20	\$6,137	\$203	\$18,889	\$624

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

2013.1.1~2013.12.31									
NT\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(5)=(1)-(2)+(3)-(4)	(6)		
Fire insurance	\$4,117	\$6,352	\$89	\$24	\$(2,170)	\$-	\$-	\$-	\$(2,170)
Marine insurance	155	9,329	2	726	(9,898)	(8,737)	(7,182)	(1,555)	(8,343)
Land and air insurance	-	-	377	9,319	(8,942)	(329)	-	(329)	(8,613)
Liability insurance	26,743	13,433	11	10	13,311	3,387	-	3,387	9,924
Bonding insurance	10,285	2,207	-	-	8,078	9,698	2,096	7,602	476
Other property insurance	156,551	36,701	413	448	119,815	-	35	(35)	119,850
Accident insurance	-	-	95	200	(105)	-	-	-	(105)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	38,201	-	-	-	38,201	-	-	-	38,201
Total	\$236,052	\$68,022	\$987	\$10,727	\$158,290	\$4,019	\$(5,051)	\$9,070	\$149,220

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2013.1.1~2013.12.31

Item	US\$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$138	\$213	\$3	\$1	\$(73)	\$-	\$-	\$-	\$(73)
Marine insurance	5	313	-	24	(332)	(293)	(240)	(53)	(279)
Land and air insurance	-	-	13	313	(300)	(11)	-	(11)	(289)
Liability insurance	896	450	-	-	446	114	-	114	332
Bonding insurance	345	74	-	-	271	325	70	255	16
Other property insurance	5,248	1,230	14	15	4,017	-	1	(1)	4,018
Accident insurance	-	-	3	7	(4)	-	-	-	(4)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	1,281	-	-	-	1,281	-	-	-	1,281
Total	\$7,913	\$2,280	\$33	\$360	\$5,306	\$135	\$(169)	\$304	\$5,002

2012.1.1~2012.12.31

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

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2012.1.1~2012.12.31									
US\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$214	\$-	\$1	\$15	\$200	\$-	\$(189)	\$189	\$11
Marine insurance	321	338	25	2	6	(247)	64	(311)	317
Land and air insurance	-	-	321	-	321	-	(51)	51	270
Liability insurance	452	-	-	2	450	-	2	(2)	452
Bonding insurance	76	389	-	-	(313)	72	385	(313)	-
Other property insurance	1,233	111	15	2	1,135	1	-	1	1,134
Accident insurance	-	-	7	-	7	-	-	-	7
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$2,296	\$838	\$369	\$21	\$1,806	\$(174)	\$211	\$(385)	\$2,191

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

2013.1.1~2013.12.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$77,149	\$2,587	\$(5,055)	\$(169)
Reserve	237,039	7,946	4,019	135
Recover	(78,749)	(2,640)	5,051	169
Effects of exchange rate changes	8,167	274	103	3
Ending balance	\$243,606	\$8,167	\$4,118	\$138

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Item	2012.1.1~2012.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$25,026	\$862	\$6,137	\$211
Reserve	77,402	2,665	(5,054)	(174)
Recover	(24,941)	(859)	(6,136)	(211)
Effects of exchange rate changes	(338)	(12)	(2)	-
Ending balance	<u>\$77,149</u>	<u>\$2,656</u>	<u>\$(5,055)</u>	<u>\$(174)</u>

d. Effects for the change of estimation and assumption

Premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio referred to the loss experience in the past three years, huge claims and the trend of loss. The expected operation expense ratio referred to the insurance expense exhibits in the past three years excluding entertainment expense and membership fee. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

23. Post-employment benefits

(1) Defined contribution plans

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

The subsidiaries located in Republic of China contributed social endowment insurance in certain proportion of gross salary of employees to government, depositing the contribution in each employee's independent account.

The other overseas subsidiaries and branches made pension contribution to related pension administration entities.

The Group recognized expenses for defined contribution plan for the year ended 31 December 2013 and 2012, amounted to NT\$1,288,617 (US\$43,199) thousands and NT\$1,203,193 (US\$41,418) thousands, respectively.

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(2) Defined benefit plans

The Group established defined benefit plan according to Labor Standard Act which requires the payment of pension in accordance with the base of service period and average monthly wages when the retirement has been approved. If the service period is less than (including) 15 years, each service year is regarded as 2 wage bases. If the service period is greater than 15 years, each service year is regarded as 1 wage base. The accumulated wage bases should be limited to 45 wage bases. The Company and subsidiaries made monthly pension contribution proportionate to 2% of gross salary to the pension funds, deposited in a special account by Supervisory Committee of Workers' Retirement Preparation Fund in Bank of Taiwan, Co., Ltd.

Pension costs recognized in profit or loss for the years ended 31 December 2013 and 2012:

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	NT\$	NT\$
Current period service costs	\$515,356	\$498,484
Interest cost	241,416	245,736
Expected return on plan assets	(188,167)	(160,728)
Past service cost	(9,549)	-
Effect of Exchange rate	(407)	2,539
Others	8,669	(89)
Total	<u>\$567,318</u>	<u>\$585,942</u>

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	US\$	US\$
Current period service costs	\$17,276	\$17,160
Interest cost	8,093	8,459
Expected return on plan assets	(6,308)	(5,533)
Past service cost	(320)	-
Effect of Exchange rate	(14)	87
Others	291	(3)
Total	<u>\$19,018</u>	<u>\$20,170</u>

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The Group recognized expenses for defined benefit plans for the year ended 31 December 2013 and 2012, amounted to NT\$567,318 (US\$19,018) thousands and NT\$585,942 (US\$20,170) thousands, respectively, and were recorded as “Employee benefits expenses”.

The reconciliation for the present value of defined benefit obligation and the fair value of planned assets is summarized below:

	2013.12.31	2012.12.31	2012.1.1
	NT\$	NT\$	NT\$
Defined benefit obligation	\$ (17,418,915)	\$ (16,387,745)	\$ (15,253,105)
Fair value of planned assets	14,472,974	12,050,087	10,163,150
Contribution	(2,945,941)	(4,337,658)	(5,089,955)
Unrecognized pension losses (gains)	(2,381,536)	(843,320)	(2,040)
Book value of accrued pension liabilities	<u>\$ (5,327,477)</u>	<u>\$ (5,180,978)</u>	<u>\$ (5,091,995)</u>

	2013.12.31	2012.12.31	2012.1.1
	US\$	US\$	US\$
Defined benefit obligation	\$ (583,940)	\$ (564,122)	\$ (503,902)
Fair value of planned assets	485,182	414,805	335,750
Contribution	(98,758)	(149,317)	(168,152)
Unrecognized pension losses (gains)	(79,837)	(29,030)	(67)
Book value of accrued pension liabilities	<u>\$ (178,595)</u>	<u>\$ (178,347)</u>	<u>\$ (168,219)</u>

The change in the present value of defined benefit obligation :

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	NT\$	NT\$
Beginning balance of defined benefit obligation	\$ 16,387,745	\$ 15,244,869
Current service cost	515,356	498,484
Interest cost	241,416	245,736
Benefits paid	(1,037,459)	(613,954)
Actuarial losses (gains)	1,311,857	1,012,610
Ending balance of defined benefit obligation	<u>\$ 17,418,915</u>	<u>\$ 16,387,745</u>

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	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	US\$	US\$
Beginning balance of defined benefit obligation	\$549,371	\$524,780
Current service cost	17,276	17,160
Interest cost	8,093	8,459
Benefits paid	(34,779)	(21,134)
Actuarial losses (gains)	43,978	34,857
Ending balance of defined benefit obligation	<u>\$583,939</u>	<u>\$564,122</u>

The change in the fair value of planned assets :

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	NT\$	NT\$
Beginning fair value of planned assets	\$12,050,087	\$10,151,797
The expected return of planned assets	172,480	147,098
Contribution from employer	402,688	494,107
Benefits paid	(1,027,591)	(612,456)
Actuarial gains (losses)	2,875,311	1,869,541
Ending fair value of planned assets	<u>\$14,472,975</u>	<u>\$12,050,087</u>

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	US\$	US\$
Beginning fair value of planned assets	\$403,959	\$349,459
The expected return of planned assets	5,782	5,064
Contribution from employer	13,499	17,009
Benefits paid	(34,448)	(21,083)
Actuarial gains (losses)	96,390	64,356
Ending fair value of planned assets	<u>\$485,182</u>	<u>\$414,805</u>

As of 31 December 2013, the Group's defined benefit plan will make a contribution of NT\$392,080 (US\$13,144) thousands within the next 12 months.

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The percentages of primary components of total planned assets are summarized as below :

	Pension plan (%)		
	2013.12.31	2012.12.31	2012.1.1
Cash	23.31	29.18	30.84
Equity instruments	69.33	62.99	56.27
Debt instruments	3.72	4.00	4.47
Others	3.64	3.83	8.42

The actual return on planned assets for the year ended 31 December 2013 and 2012 amounted to NT\$3,047,855 (US\$102,174) thousands and NT\$2,016,725 (US\$69,423) thousands, respectively.

The employee retirement funds are fully deposited in the trust division of Bank of Taiwan, Co., Ltd. The expected rate of return on planned assets is concluded from the trend of historical return, the estimation from the analyst based on the planned asset market expectation, the investment made by the Supervisory Committee of Workers' Retirement Preparation using funds from Labor Retirement Pension of Labor and a minimum return of no less than the interest rate of 2-Year Time Deposits of local banks.

The following are the assumptions used to determine the defined benefit plans :

	2013.12.31	2012.12.31	2012.1.1
Discount rate	1.92%~2.00%	1.50%~1.54%	1.54%~2.00%
Expected return on planned assets	1.68%~3.00%	1.54%~3.00%	1.54%~3.00%
Expected growth rate of wage	1.50%~2.50%	1.50%~2.50%	1.50%~2.50%

If the discount rate increase or decrease by 0.5%, the results are summarized below :

	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$		NT\$	
The effect on defined benefit obligation	Discounted rate (+0.5%)	Discounted rate (-0.5%)	Discounted rate (+0.5%)	Discounted rate (-0.5%)
		\$(744,605)	\$795,474	\$(744,471)

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	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	US\$		US\$	
	Discounted rate (+0.5%)	Discounted rate (-0.5%)	Discounted rate (+0.5%)	Discounted rate (-0.5%)
The effect on defined benefit obligation	\$(24,962)	\$26,667	\$(25,627)	\$27,912

The amounts related to defined benefit plans for the year ended 31 December 2013 and 2012 are summarized as below :

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	NT\$	NT\$
Ending present value of defined benefit obligation	\$17,418,915	\$16,387,745
Ending fair value of planned assets	(14,472,975)	(12,050,087)
The surplus or shortage of ending planned assets	\$2,945,940	\$4,337,658
The experience adjustments of planned liabilities	\$1,043,789	\$875,816
The experience adjustments of planned assets	\$2,894,937	\$1,886,283

	2013.1.1~ 2013.12.31	2012.1.1~ 2012.12.31
	US\$	US\$
Ending present value of defined benefit obligation	\$583,939	\$564,122
Ending fair value of planned assets	485,182	414,805
The surplus or shortage of ending planned assets	98,757	149,317
The experience adjustments of planned liabilities	34,991	30,149
The experience adjustments of planned assets	97,048	64,932

(3) Employee preferential interest deposit plan

Cathay United Bank has the obligation to pay the preferential interest deposits for current employees and retired employees according to the "Regulation for Employee Preferential Interest Rate Deposits of Cathay United Bank".

Expenses under preferential interest rate deposits plan amounted to NT\$294,476 (US\$9,872) thousands and NT\$289,956 (US\$9,981) thousands, respectively, were recognized for the year ended 31 December 2013 and 2012, respectively, and were recorded as "Employee benefits expenses".

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24.Common stock

- (1) As of 31 December 2013, 31 December 2012, and 1 January 2012, the authorized share capital amounted to NT\$120,000,000 (US\$4,022,796) thousands, and the issued share capital amounted NT\$119,649,621 (US\$4,011,050) thousands, NT\$108,653,851 (US\$3,740,236) thousands, and NT\$103,575,096 (US\$3,421,708) thousands, respectively.
- (2) The recapitalization of cash by issuing 353,000 thousand shares with par value of NT\$10 (US\$0.33) was resolved at the Company's shareholders' meeting on 24 May 2013 and approved by the Financial Supervisory commission on 17 June 2013. The company set the issue par value at NT\$36 (US\$1.20). the authorized share capital amounted to NT\$12,708,000(US\$426,014) thousands, and the recapitalization record date was 9 September 2013.
- (3) The recapitalization of undistributed earnings of NT\$ 7,465,770 (US\$250,277) thousands by issuing 746,577 thousand shares with par value of NT\$10 (US\$0.33) was resolved at the Company's shareholders' meeting on 14 June 2013. Approved by the Financial Supervisory commission on 3 October 2013, and the recapitalization record date was 8 November 2013.
- (4) The recapitalization of undistributed earnings of NT\$5,078,755 (US\$174,828) thousands by issuing 507,875 thousand shares with par value of NT\$10 (US\$0.34) was resolved at the Company's shareholders' meeting on 15 June 2012 and approved by the Financial Supervisory commission on 12 July 2012. The recapitalization record date was 8 August 2012.
- (5) On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

25.Capital surplus

	2013.12.31	
	NT\$	US\$
Additional paid-in capital	\$85,126,187	\$2,853,711
Treasury share transactions	2,539,377	85,128
Value difference between price of subsidiary stock paid and book value	29,142	977
Additional paid-in capital-Employee stock option	203,408	6,819
Convertible bonds to convert	1,144,486	38,367
Others	20,584	690
Total	<u>\$89,063,184</u>	<u>\$2,985,692</u>

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	2012.12.31	
	NT\$	US\$
Additional paid-in capital	\$75,948,187	\$2,614,395
Treasury share transactions	2,539,377	87,414
Others	20,584	709
Total	<u>\$78,508,148</u>	<u>\$2,702,518</u>

	2012.1.1	
	NT\$	US\$
Additional paid-in capital	\$75,948,187	\$2,509,025
Treasury share transactions	2,539,377	83,891
Others	20,584	680
Total	<u>\$78,508,148</u>	<u>\$2,593,596</u>

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$89,063,184 (US\$2,985,692) 、 NT\$78,508,148 (US\$2,702,518) 、 NT\$78,508,148 (US\$2,593,596) thousands as of 31 December 2013, 31 December 2012, and 1 January 2012. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to NT\$267,215 (US\$8,958) thousands were included in the capital surplus as of 31 December 2013, 31 December 2012, and 1 January 2012.
- (2) The capital surplus of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends or to be capitalized.
- (3) According to the statutory regulations, capital reserves are exclusively used to compensate the company's deficit. When the company has surplus, the capital reserves generated from the premium of stock issuance in excess of par value and from donation received may be capitalized in certain proportion to actual receipt capital. The capital reserves mentioned previously also are allowed to be distributed in cash in the proportion to the original shares held by stockholders.

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26.Retained earnings

(1) Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficits. For companies with no accumulated deficits, legal reserve may be used for new share issuance or return cash to shareholders with the approval of stockholders' meeting.

(2) Special reserve

A. According to the legal interpretations No.1010012865 issued by Financial Supervisory Commission at 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The Group is not required to appropriate special reserves because the unrealized increments of revaluation should be treated in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the Group did not select to recognize accumulated translation difference as zero at the date of transition to IFRS.

B. For Cathay United Bank, Cathay Securities and Cathay Futures, the remaining balance should be reclassified as special reserve as of 31 December 2010 according to the relevant regulation. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock.

C. Cathay Life's special reserves for major incidents and special reserve for fluctuation of risks shall be recorded as special reserve at the end of year. As of 31 December 2013, the reserves amounted to NT\$2,658,684 (US\$89,128) thousands.

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- D. Cathay Life has elected to use the fair value of certain investment properties on transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall be set aside an equal amount of retained earnings; the residual amount should be recognized under special reserves. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount shall be set aside under special capital reserve in accordance with Order Jin-Guan-Bao-Cai-Zi No.10102508861. Cathay Life will recognize special capital reserve NT\$2,994,565 (US\$100,388) thousands retrospectively in the third quarter of 2013.
- E. Cathay Century's special reserves for major incidents and special reserve for fluctuation of risks shall be recorded as special reserve at the end of year. As of 31 December 2013, the reserves amounted to NT\$1,364,645 (US\$45,747) thousands.

(3) Undistributed earnings

- A. According to Article 30 of the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting losses from previously years, if any, shall be appropriated as legal reserve and then 0.01%~0.05% of the remaining amount for employees' bonus. Finally, the remainder after deducting the aforementioned items must be appropriated in accordance with the resolutions passed at the shareholders' meeting.
- B. The Company is required to pay 10% surtax in the forthcoming tax year for undistributed earnings.
- C. When distributing distributable earnings, the Company has to set aside special reserve, for other net deductions from shareholders' equity of the period. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.
- D. The estimation of employee bonus and remuneration of directors for the year ended 31 December 2013 and 2012 were NT\$5,400 (US\$181) 、 NT\$5,400 (US\$186) based on the average actual payment over the past three year and recognized as operating expense. Resolution approved at the subsequent shareholders' meeting might differ from the estimates mentioned above and the difference, if any, will be recognized as income or expense in the next year.

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E. Details of the 2012 and 2011 earnings distribution and dividends per share as approved by the shareholders' meeting on 14 June 2013 and 15 June 2012, respectively, are as follows:

	<u>Appropriation of earnings</u>		<u>Dividend per share (NT\$)</u>	
	<u>2012.1.1~ 2012.12.31</u>	<u>2011.1.1~ 2011.12.31</u>	<u>2012.1.1~ 2012.12.31</u>	<u>2011.1.1~ 2011.12.31</u>
Legal reserve	\$1,700,174	\$1,117,140	\$-	\$-
Common stock -cash dividend	7,465,770	5,078,755	0.7	0.5
Common stock-stock dividend	7,465,770	5,078,755	0.7	0.5
Directors' remuneration	5,400	5,400	-	-
Employee bonus — cash	1,494	1,016	-	-

	<u>Appropriation of earnings</u>		<u>Dividend per share (US\$)</u>	
	<u>2012.1.1~ 2012.12.31</u>	<u>2011.1.1~ 2011.12.31</u>	<u>2012.1.1~ 2012.12.31</u>	<u>2011.1.1~ 2011.12.31</u>
Legal reserve	\$56,995	\$38,456	\$-	\$-
Common stock -cash dividend	250,277	174,828	0.02	0.02
Common stock-stock dividend	250,277	174,828	0.02	0.02
Directors' remuneration	181	186	-	-
Employee bonus — cash	50	35	-	-

There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the 2011's earnings and the estimated amount in the financial statements for the year ended 2011.

F. Information regarding the board of directors' recommendations and shareholders' approval regarding the employee bonuses and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of TWSE.

27. Treasury stock

As of 31 December 2013, 31 December 2012, and 1 January 2012, the amount and share number of treasury stocks were NT\$0(US\$0) thousands, NT\$7,179,872 (US\$247,156) thousands, and NT\$7,179,872 (US\$237,194) thousands, and 0 thousands shares, 200,000 thousands shares and 200,000 thousands shares, respectively.

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28. Non-Controlling Interests

	2013.1.1~2013.12.31	
	NT\$	US\$
Beginning balance	\$3,751,614	\$125,767
Net income attributed to non-controlling interests	204,336	6,850
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	129,870	4,354
Unrealized gains from available-for-sale financial assets	(27,481)	(921)
The movement of non-controlling interests	121,999	4,089
Ending balance	<u>\$4,180,338</u>	<u>\$140,139</u>

	2012.1.1~2012.12.31	
	NT\$	US\$
Beginning balance	\$4,050,638	\$139,437
Net income attributed to non-controlling interests	56,296	1,938
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	(147,494)	(5,077)
Unrealized gains from available-for-sale financial assets	53,981	1,858
The movement of non-controlling interests	(261,807)	(9,012)
Ending balance	<u>\$3,751,614</u>	<u>\$129,144</u>

29. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Employee benefits expense				
Salary and wages	\$26,329,445	\$882,650	\$25,417,289	\$874,950
Labor and health insurance	3,358,669	112,593	3,129,099	107,714
Pension expense	1,947,108	65,273	1,901,676	65,462
Other employee benefits	2,662,644	89,261	2,275,574	78,333
Depreciation	4,111,027	137,815	4,017,406	138,293
Amortization	372,264	12,480	430,618	14,823

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30.The Components of other comprehensive income

For the year ended 31 December 2013:

	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$733,397	\$-	\$733,397	\$(59,841)	\$673,556
Unrealized gains (losses) from available-for-sale financial assets	12,237,424	(19,117,379)	(6,879,955)	1,177,261	(5,702,694)
Gain (loss) on cash flow hedges	(19,545)	(695,114)	(714,659)	120,282	(594,377)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(14,204)	-	(14,204)	-	(14,204)
Total of other comprehensive income	\$12,937,072	\$(19,812,493)	\$ (6,875,421)	\$1,237,702	\$(5,637,719)

	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$24,586	\$-	\$24,586	\$(2,006)	\$22,580
Unrealized gains (losses) from available-for-sale financial assets	410,239	(640,878)	(230,639)	39,466	(191,173)
Gain (loss) on cash flow hedges	(655)	(23,303)	(23,958)	4,032	(19,926)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(476)	-	(476)	-	(476)
Total of other comprehensive income	\$433,694	\$(664,181)	\$ (230,487)	\$41,492	\$188,995

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For the year ended 31 December 2012:

	NT\$						
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of			
				comprehensive income	Other comprehensive income, net of tax		
						other comprehensive income	Other comprehensive income
						comprehensive income	comprehensive income
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (959,568)	\$ -	\$ (959,568)	\$ 112,656	\$ (846,912)		
Unrealized gains (losses) from available-for-sale financial assets	35,790,633	(14,787,664)	21,002,969	(1,452,786)	19,550,183		
Gain (loss) on cash flow hedges	(57,308)	(795,211)	(852,519)	142,993	(709,526)		
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(24,244)	-	(24,244)	-	(24,244)		
Total of other comprehensive income	\$34,749,513	\$(15,582,875)	\$19,166,638	\$(1,197,137)	\$17,969,501		

	US\$						
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of			
				comprehensive income	Other comprehensive income, net of tax		
						other comprehensive income	Other comprehensive income
						comprehensive income	comprehensive income
Exchange differences resulting from translating the financial statements of a foreign operation	\$ (33,032)	\$ -	\$ (33,032)	\$ 3,878	\$ (29,154)		
Unrealized gains (losses) from available-for-sale financial assets	1,232,036	(509,042)	722,994	(50,010)	672,984		
Gain (loss) on cash flow hedges	(1,973)	(27,374)	(29,347)	4,922	(24,425)		
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(834)	-	(834)	-	(834)		
Total of other comprehensive income	\$1,196,197	\$(536,416)	\$659,781	\$(41,210)	\$618,571		

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31. Income taxes

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

Income tax expense (income) recognized in profit or loss

	2013.1.1~2013.12.31	
	NT\$	US\$
Current income tax expense (income):		
Current income tax charge	\$2,265,985	\$75,963
Adjustments in respect of current income tax of prior periods	(252,462)	(8,463)
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	1,930,854	64,729
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	(577,406)	(19,327)
Other	(416,031)	(13,947)
Total income tax expense (income)	<u>\$2,950,940</u>	<u>\$98,925</u>
	2012.1.1~2012.12.31	
	NT\$	US\$
Current income tax expense (income):		
Current income tax charge	\$2,162,751	\$74,449
Adjustments in respect of current income tax of prior periods	24,133	831
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(3,502,748)	(120,577)
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	539,649	18,577
Tax expense (income) recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	50,222	1,729
Other	268,603	9,246
Total income tax expense (income)	<u>\$(457,390)</u>	<u>\$(15,745)</u>

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Income tax relating to components of other comprehensive income

	2013.1.1~2013.12.31	
	NT\$	US\$
Deferred tax expense (income):		
Exchange difference resulting from translating the financial statements of a foreign operation	\$59,841	\$2,006
Unrealized gains (losses) from available-for-sale financial assets	(1,177,261)	(39,466)
Loss on cash flow hedges	(120,282)	(4,032)
Income tax relating to components of other comprehensive income	<u><u>\$(1,237,702)</u></u>	<u><u>\$(41,492)</u></u>

	2012.1.1~2012.12.31	
	NT\$	US\$
Deferred tax expense (income):		
Exchange difference resulting from translating the financial statements of a foreign operation	\$(112,656)	\$(3,878)
Unrealized gains (losses) from available-for-sale financial assets	1,452,786	50,010
Loss on cash flow hedges	(142,993)	(4,922)
Income tax relating to components of other comprehensive income	<u><u>\$1,197,137</u></u>	<u><u>\$41,210</u></u>

Income tax charged directly to equity

	2012.1.1~2012.12.31	
	NT\$	US\$
Current income tax expense (income):		
Adjustments in respect of current income tax of prior periods	<u><u>\$160,849</u></u>	<u><u>\$5,537</u></u>

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

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	2013.1.1~2013.12.31	
	NT\$	US\$
Accounting profit (loss) before tax from continuous operations	\$31,971,051	\$1,071,775
Tax at the domestic rates applicable to profits in the country concerned	\$10,782,809	\$361,475
Tax effect of revenues exempt from taxation	(11,423,893)	(382,967)
Tax effect of expenses not deductible for tax purposes	209,950	7,038
Return of cash dividends	1,878,734	62,981
Unrecognized tax losses of deferred tax assets	1,963,673	65,829
Tax effect of deferred tax assets/liabilities	162,149	5,436
10% surtax on undistributed retained earnings	37,003	1,241
Adjustments in respect of current income tax of prior periods	(437,308)	(14,660)
Others	(222,177)	(7,448)
Total income tax expense (income) recognized in profit or loss	\$2,950,940	\$98,925
	2012.1.1~2012.12.31	
	NT\$	US\$
Accounting profit (loss) before tax from continuous operations	\$15,714,539	\$540,948
Tax at the domestic rates applicable to profits in the country concerned	\$5,536,496	\$190,585
Tax effect of revenues exempt from taxation	(6,846,408)	(235,677)
Tax effect of expenses not deductible for tax purposes	178,435	6,142
Return of cash dividends	331	12
Unrecognized tax losses of deferred tax assets	47,545	1,637
Tax effect of deferred tax assets/liabilities	238,701	8,217
10% surtax on undistributed retained earnings	-	-
Adjustments in respect of current income tax of prior periods	149,556	5,148
Others	237,954	8,191
Total income tax expense (income) recognized in profit or loss	\$(457,390)	\$(15,745)

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(3) The remaining balance of deferred income tax assets (liabilities):

	2013.1.1~2013.12.31(NT\$)					
	Beginning balance	Recognition in profit or loss	Recognition in other comprehensive income or loss	Acquired in business combinations	Exchange differences	Ending balance
Temporary differences:						
Property, plant and equipment	\$729,378	\$(404,888)	\$-	\$-	\$-	\$324,490
Investment property	(7,798,917)	416,935	-	-	-	(7,381,982)
Financial assets at fair value through profit and loss	(818,484)	264,331	-	-	-	(554,153)
Available-for-sale financial assets	(5,827,941)	(2,249)	1,815,981	-	-	(4,014,209)
Derivative financial assets for hedging	(196,534)	-	119,408	-	-	(77,126)
Impairment on bond investments for which no active market	50,801	158,769	-	-	-	209,570
Investments accounted for using the equity method	(77,649)	(8,622)	-	-	-	(86,271)
Preferential interest rate deposits	107,150	(121)	-	-	-	107,029
Financial liabilities at fair value through profit or loss	358,911	2,406,775	-	-	-	2,765,686
Derivative financial liabilities for hedging	-	-	875	-	-	875
Other receivables	(46,622)	(8,170)	-	-	-	(54,792)
Provisions for employee benefits liabilities	882,302	26,471	-	-	-	908,773
Bad debt losses	650,376	(19,281)	-	-	-	631,095
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	14,565,624	(5,416,373)	(698,562)	-	(4)	8,450,685
Provisions	(781,403)	744,240	-	-	-	(37,163)
Convertible bonds payables	31,087	(31,087)	-	-	-	-
Deferred revenue on customer loyalty programs	102,821	106,845	-	-	-	209,666
Fair value adjustments from business consolidation	(261,404)	(60,820)	-	-	-	(322,224)
Guarantee deposits paid	1,250	(101,354)	-	-	-	(100,104)
Office supplies	5,596	(2,783)	-	-	-	2,813
Others	127,251	528	-	(113,064)	-	14,715
Unused tax losses	1,197,871	577,406	-	-	-	1,775,277
Tax effect under consolidated income tax	(263,101)	-	-	(242,234)	-	(505,335)
Deferred income tax expenses (income)		<u>\$(1,353,448)</u>	<u>\$1,237,702</u>	<u>\$(355,298)</u>	<u>\$(4)</u>	
Deferred income tax assets (liabilities)-net	<u>\$2,738,363</u>					<u>\$2,267,315</u>
Reflected in balance sheet as flows:						
Deferred income tax assets	<u>\$19,046,245</u>					<u>\$15,038,697</u>
Deferred income tax liabilities	<u>\$(16,307,882)</u>					<u>\$(12,771,382)</u>

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	2013.1.1~2013.12.31(US\$)					
	Beginning	Recognition in	Recognition in	Acquired in	Exchange	Ending balance
	balance	profit or loss	other comprehensive income or loss	business combinations	differences	
Temporary differences:						
Property, plant and equipment	\$24,451	\$(13,573)	\$-	\$-	\$-	\$10,878
Investment property	(261,446)	13,977	-	-	-	(247,469)
Financial assets at fair value through profit and loss	(27,438)	8,861	-	-	-	(18,577)
Available-for-sale financial assets	(195,372)	(75)	60,878	-	-	(134,569)
Derivative financial assets for hedging	(6,589)	-	4,003	-	-	(2,586)
Impairment on bond investments for which no active market	1,703	5,322	-	-	-	7,025
Investments accounted for using the equity method	(2,603)	(289)	-	-	-	(2,892)
Preferential interest rate deposits	3,592	(4)	-	-	-	3,588
Financial liabilities at fair value through profit or loss	12,032	80,683	-	-	-	92,715
Derivative financial liabilities for hedging	-	-	29	-	-	29
Other receivables	(1,563)	(274)	-	-	-	(1,837)
Provisions for employee benefits liabilities	29,578	887	-	-	-	30,465
Bad debt losses	21,803	(646)	-	-	-	21,157
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	488,288	(181,575)	(23,418)	-	-	283,295
Provisions	(26,195)	24,949	-	-	-	(1,246)
Convertible bonds payables	1,042	(1,042)	-	-	-	-
Deferred revenue on customer loyalty programs	3,447	3,582	-	-	-	7,029
Fair value adjustments from business consolidation	(8,763)	(2,039)	-	-	-	(10,802)
Guarantee deposits paid	42	(3,398)	-	-	-	(3,356)
Office supplies	188	(93)	-	-	-	95
Others	4,266	18	-	(3,790)	-	494
Unused tax losses	40,156	19,357	-	-	-	59,513
Tax effect under consolidated income tax	(8,820)	-	-	(8,121)	-	(16,941)
Deferred income tax expenses (income)		<u>\$(45,372)</u>	<u>\$41,492</u>	<u>\$(11,911)</u>	<u>\$-</u>	
Deferred income tax assets (liabilities)-net	<u>\$91,799</u>					<u>\$76,008</u>
Reflected in balance sheet as flows:						
Deferred income tax assets	<u>\$638,493</u>					<u>\$504,147</u>
Deferred income tax liabilities	<u>\$(546,694)</u>					<u>\$(428,139)</u>

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	2012.1.1~2012.12.31(NT\$)						
	Beginning	Recognition in	Recognition in	Charged directly	Equated in	Exchange	Ending balance
	balance	profit or loss	other comprehensive income or loss	to equity	business combinations	differences	
Temporary differences:							
Property, plant and equipment	\$466,028	\$263,350	\$-	\$-	\$-	\$-	\$729,378
Investment property	(7,604,517)	(194,400)	-	-	-	-	(7,798,917)
Financial assets at fair value							
through profit and loss	(789,597)	(28,887)	-	-	-	-	(818,484)
Available-for-sale financial assets	(3,542,299)	15,165	(2,300,807)	-	-	-	(5,827,941)
Derivative financial assets for							
hedging	(339,526)	-	142,992	-	-	-	(196,534)
Impairment on bond investments							
for which no active market	48,034	2,767	-	-	-	-	50,801
Investments accounted for using							
the equity method	(113,464)	35,815	-	-	-	-	(77,649)
Preferential interest rate deposits	104,570	2,580	-	-	-	-	107,150
Financial liabilities at fair value							
through profit or loss	3,013,504	(2,654,593)	-	-	-	-	358,911
Other receivables	(61,699)	15,077	-	-	-	-	(46,622)
Provisions for employee benefits							
liabilities	866,486	15,797	-	19	-	-	882,302
Bad debt losses	198,352	452,024	-	-	-	-	650,376
Deferred income tax assets							
(liabilities) resulted from income							
or loss on foreign exchange	8,001,645	5,603,231	960,678	-	-	70	14,565,624
Provisions	(804,925)	23,522	-	-	-	-	(781,403)
Convertible bonds payables	-	31,087	-	-	-	-	31,087
Deferred revenue on customer							
loyalty programs	100,827	1,994	-	-	-	-	102,821
Fair value adjustments from							
business consolidation	(200,584)	(60,820)	-	-	-	-	(261,404)
Office supplies	3,796	1,800	-	-	-	-	5,596
Guarantee deposits paid	109	1,141	-	-	-	-	1,250
Others	89,820	(20,277)	-	-	57,708	-	127,251
Unused tax losses	1,737,520	(539,649)	-	-	-	-	1,197,871
Unused tax credits	53,847	(53,847)	-	-	-	-	-
Tax effect under consolidated							
income tax	167,054	-	-	-	(430,155)	-	(263,101)
Deferred income tax expenses							
(income)		\$2,912,877	\$(1,197,137)	\$19	\$(372,447)	\$70	
Deferred income tax assets							
(liabilities)-net	\$1,394,981						\$2,738,363
Reflected in balance sheet as flows:							
Deferred income tax assets	\$15,428,347						\$19,046,245
Deferred income tax liabilities	\$(14,033,366)						\$(16,307,882)

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	2012.1.1~2012.12.31(US\$)						
	Beginning balance	Recognition in profit or loss	Recognition in other comprehensive income or loss	Charged directly to equity	Equated in business combinations	Exchange differences	Ending balance
Temporary differences:							
Property, plant and equipment	\$16,042	\$9,065	\$-	\$-	\$-	\$-	\$25,107
Investment property	(261,773)	(6,692)	-	-	-	-	(268,465)
Financial assets at fair value							
through profit and loss	(27,181)	(994)	-	-	-	-	(28,175)
Available-for-sale financial assets	(121,938)	522	(79,202)	-	-	-	(200,618)
Derivative financial assets for hedging	(11,688)	-	4,922	-	-	-	(6,766)
Impairment on bond investments for which no active market	1,653	95	-	-	-	-	1,748
Investments accounted for using the equity method	(3,906)	1,233	-	-	-	-	(2,673)
Preferential interest rate deposits	3,600	89	-	-	-	-	3,689
Financial liabilities at fair value							
through profit or loss	103,735	(91,380)	-	-	-	-	12,355
Other receivables	(2,124)	519	-	-	-	-	(1,605)
Provisions for employee benefits liabilities	29,827	544	-	1	-	-	30,372
Bad debt losses	6,828	15,560	-	-	-	-	22,388
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	275,444	192,882	33,070	-	-	2	501,398
Provisions	(27,708)	810	-	-	-	-	(26,898)
Convertible bonds payables	-	1,070	-	-	-	-	1,070
Deferred revenue on customer loyalty programs	3,471	69	-	-	-	-	3,540
Fair value adjustments from business consolidation	(6,905)	(2,094)	-	-	-	-	(8,999)
Office supplies	131	62	-	-	-	-	193
Guarantee deposits paid	4	39	-	-	-	-	43
Others	3,092	(697)	-	-	1,987	-	4,382
Unused tax losses	59,811	(18,577)	-	-	-	-	41,234
Unused tax credits	1,854	(1,854)	-	-	-	-	-
Tax effect under consolidated income tax	5,751	-	-	-	(14,807)	-	(9,056)
Deferred income tax expenses (income)		\$100,271	\$41,210	\$1	\$(12,820)	\$2	
Deferred income tax assets (liabilities)-net	\$48,020						\$94,264
Reflected in balance sheet as flows:							
Deferred income tax assets	\$531,096						\$655,637
Deferred income tax liabilities	\$(483,076)						\$(561,373)

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(4) Unrecognized deferred income tax assets

Until to 31 December 2013, 31 December 2012, and 1 January 2012, the amount of deferred income tax assets arisen from not probable taxable income were NT\$5,483,708 (US\$183,832) thousands, NT\$5,341,957 (US\$183,888) thousands, and NT\$5,126,149 (US\$169,348) thousands, respectively.

(5) Unrecognized deferred tax liabilities relating to the investments in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As at 31 December 2013, 31 December 2012, and 1 January 2012, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liability has not been recognized, aggregate to NT\$12,760 (US\$428) thousands, NT\$10,550 (US\$363) thousands and NT\$14,795 (US\$489) thousands, respectively.

(6) Income tax returns:

	2013.12.31	
	Income tax returns examined by tax authorities	Notes
The Company	through 2007	The Company was in the process of administrative procedure for 2003 and 2005 tax return, and re-examination of 2006 and 2007 tax returns.
Cathay Life	through 2007	Cathay Life re-examination of 2003 tax return, and was in the process of administrative litigation procedure for 2006 and 2007 tax returns.
Cathay United Bank	through 2007	Cathay United Bank was in the process of administrative litigation procedure for 2006 and 2007.
Cathay Century	through 2006	Cathay Century was in the process of administrative litigation procedure for 2006 and 2007.
Cathay Securities	through 2007	Cathay Securities was in the process of administrative remedy for 2007 tax returns.
Cathay Venture	through 2009	-
Cathay Securities Investment Trust	through 2011	Cathay Security Investment Trust has not been examined for 2009 tax return.
Cathay Futures	through 2011	-

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In accordance with the Financial Holding Company Act, the Group elected to file consolidated income tax return along with 10% surtax on undistributed retained earning tax for all subsidiaries being held over 12 months within a taxable year by the Group.

(7) Information related to imputation credit account:

	2013.12.31	
	NT\$	US\$
Balance of imputation credit account	\$702,818	\$23,561

	2012.12.31	
	NT\$	US\$
Balance of imputation credit account	\$1,962,845	\$67,568

	2012.1.1	
	NT\$	US\$
Balance of imputation credit account	\$1,360,670	\$44,951

The Company's cash dividends-imputed and stock dividends-imputed tax credit ratio applied to actual distribution was 18.68% and 20.66% in 2012, respectively. And the cash dividends-imputed and stock dividends-imputed tax credit rate applied to actual distribution was 26.62% and 31.32% in 2011, respectively.

Undistributed earnings occurred before 1997 in the amount of NT\$267,215 (US\$8,958) thousands was appropriated as capital reserve which may be distributed as cash dividends.

32.Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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	2013.1.1~2013.12.31	
	NT\$	US\$
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	\$28,815,775	\$966,000
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	11,546,414	11,546,414
Basic earnings per share	<u>\$2.50</u>	<u>\$0.08</u>

	2012.1.1~2012.12.31	
	NT\$	US\$
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	\$16,115,633	\$554,755
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	11,411,962	11,411,962
Basic earnings per share	<u>\$1.41</u>	<u>\$0.05</u>

- (1) There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.
- (2) The diluted earnings per share for the year ended 31 December 2012 had an antidilutive effect; as a result, diluted earnings per share was not calculated

33. Business combinations

Cathay Life and Cathay Venture disposed the subsidiaries of Symphox Information Co., Ltd.'s investment of equity in 11% and 39.88% during the November 2013, respectively. As of December 2013, Symphox Information Co., Ltd. excluded from condensed consolidated financial statements.

Cathay United Bank acquired 70% of the voting shares of CUBC Bank on 13 December 2012, and acquired the rest 30% of the voting shares by US\$11,418 on 30 September 2013, became 100% holding subsidiary. CUBC Bank was incorporated in Cambodia, mainly engaged in the wholesale banking business.

Cathay United Bank has elected to measure the non-controlling interest in CUBC Bank at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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34. Information of insurance contract

(1). Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

A. Objectives of risk management

Cathay Life's principal financial risk management objective is to promote operational efficiency, ensure assets safety, increase shareholder value, and ensure legal compliance; thereby accomplishing objectives of steady growth and sustainable management.

B. 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 Cathay Life'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 for reporting the execution results to the board periodically and make necessary improvement suggestions.

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- 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 with drafting and executing the risk management policies set by the board of directors.
 - (b) Assist to determine 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 with the pressure testing, 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 deliver risk management information periodically to the risk management department.

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b. Operating departments:

- (a) Identify and measure risks and report the exposure and impact.
- (b) Periodically review risks and limits. If exception happens, report the exceptions as well as the responsive measures 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 relevant regulation and Cathay Life's risk management policies.
- (e) Assist with gathering risk management related data.

(E) Audit department

The department is required to audit all departments to determine the implementation of risk management policies complies with the relevant regulations and Cathay Life's risk management policies.

C. Reporting risk or measuring the range and characteristics of the system

Cathay Life's risk management procedures include risk identification, risk measurement, risk control system, and risk management reporting. Cathay Life sets its risk management standards based on markets, credibility, sovereign state, liquidity, operations, insurance, risks of matching between assets / liability positions and the capital adequacy. Cathay Life also periodically provides the risk management report to monitor Cathay Life's risks.

(A) Market risk

The risk represents decrease in value of Cathay Life's financial asset due to the price fluctuation of the financial instrument market. Cathay Life applies the 95% and 99% confidence levels as the benchmark to measure weekly market risk. Cathay Life also applies back testing periodically to the market risk to ensure accuracy of the model. Furthermore, Cathay Life applies scenario analysis and stress test to evaluate the change in value of the asset portfolio due to significant domestic and international incidents. To work in line with the adoption of foreign exchange volatility reserve, Cathay Life sets the ceiling of foreign exchange risk and early warning system of the reserve, to monitor foreign exchange risk regularly.

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(B) Credit risk

This risk represents Cathay Life's loss due to the default of counterparty or debtors. The measurements that Cathay Life uses include credit rating, concentration analysis and value at risk (VAR) under 95% confidence level. Furthermore, Cathay Life applies scenario analysis and stress test to evaluate the change in value of the asset portfolio due to significant domestic and international incidents.

(C) Sovereign risk

This represents risks of Cathay Life's investment positions caused by changes of the local government's politics or economy which lead to price fluctuation or default that eventually results in a loss. Cathay Life takes international credit rating companies' rating and other economic indexes into consideration to measure the sovereign risk and set the investment ceiling for specific countries. Cathay Life reviews and adjusts 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 Cathay Life's commitment when due. Cathay Life uses current ratio to measure funding liquidity risk and maintain the ratio below high risk. Operating departments have established a funding information reporting 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 to 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 which further causes 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 not strategic risk and reputation risks. Cathay Life had set the standard operating procedure based on all characteristics of operations and established loss reporting system to manage operating risk loss information.

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(F) Insurance risk

This risk occurs after collecting premium from the policy holder. Cathay Life assumes the risk transferred from the policy holder and when Cathay Life pays the claim, Cathay Life may assume loss due to unexpected changes. 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 risk happens when the changes in value of assets and liability do not match. Cathay Life 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. Cathay Life applies capital adequacy rate as the indicator to manage capital adequacy.

D. 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. Stipulate Cathay Life's risk management standards including the definition and scope 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 to supervise insurance risks and develop insurance risk management strategies.
- d. When a risk related incident occurs, related departments should draft a responsive plan and submit it to the risk management committee and Cathay Financial Holding's risk management committee.

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

- a. Underwriters should ensure clients' financial underwriting, check insurance notification for exceptions, considering the amount insured, types of insurance, age, family members, reason for insurance, employment, etc. to confirm client's condition with respect to the amount insured and the ability to meet premium deadlines.
- b. Cathay Life has an underwriting team dealing with disputes such as new policies and change of conservation, and to clarify related underwriting regulations.
- c. Cathay Life has a review team for major insurances to enhance its risk management and prevent adverse selection and moral hazard.

E. 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 excessive 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 Cathay Life's credit rating and creditworthiness.
- e. Claim risks: This type of risk arises from inappropriate operation or mistakes while handling claims.
- f. Risk of insufficient reserve: This type of risk arises from insufficient reserve due to underestimated liability. As a result, Cathay Life fails to perform its anticipated responsibility.

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(B) Range of managing insurance risks

- a. Establish Cathay Life's insurance risk management standards as the guideline to perform risk management.
- b. Establish Cathay Life'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 Cathay Life's expanding strategy and responds to the changes of financial environment worldwide.
- d. Establish measurement approaches for insurance risks.
- e. Periodically provide insurance risks management report to monitor insurance risk and draft insurance managing strategy.
- f. Other issues related to insurance risks management.

F. Methods to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks

The method that Cathay Life mainly uses to limit or transfer insurance risk exposure and to prevent inappropriate concentration of risks is the reinsurance management plan. Cathay Life estimates the risk that Cathay Life is able to assume by characteristics of the risk, compliance issues and development technology factors all together to determine the scope of reinsurance. In order to maintain safety of risk transfer and control the risk of reinsurance transactions, Cathay Life has established reinsurer selection standards.

G. Methods for managing assets and liabilities

- (A) Cathay Life has assets and liabilities management 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.

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(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 abnormal situation occurs, related departments should hold a meeting to formulate an action plan and deliver the report to assets and liabilities managing committee, risk management committee and the risk management committee of Cathay Financial Holding.

H. When specific incident occurs, the managing, monitoring and controlling procedures relating to additional liability or commitment of contributing additional owner equity are as follows:

Cathay Life is required by law to maintain its capital adequacy rate in a certain range. In order to enhance Cathay Life's capital management and maintain its capital adequacy ratio, Cathay Life has established its capital adequacy management standards as follows:

(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. Conduct scenario analysis for capital adequacy ratio focusing on Cathay Life's use of funding, changes of the financial environment including updates of laws and regulations.
- d. Periodically review the capital adequacy ratio and related control standards to manage capital adequacy.

(B) Exception management process

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

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I. Risk mitigation and sustainable risk monitoring procedures of hedging instruments

(A) Cathay Life also engages in derivative transactions such as stock index options, index futures, interest rate futures, interest rate swaps, exchange forwards, cross currency swap and credit default swaps to protect against the price risk of stock, interest rate risk, foreign exchange risk and credit risk from investment activities. Cathay Life does not engage in derivative transactions to increase investment income; however, if the derivatives do not meet hedge accounting standards, they are measured at fair value through profit or loss.

(B) Hedging instrument against business risks and hedging implementation are made preliminarily based on the risk tolerance levels. Cathay Life executes hedges and exercises authorized financial instruments to adjust overall risk level to the tolerable levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

(C) Cathay Life assesses and reviews the effectiveness of the hedging instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is authorized by board of directors; the copy of the assessment report is delivered to the compliance office for future reference.

J. The policies and procedures against the concentration of credit and investment risks

Management control indicators of credit and investment risks are set by Cathay Life. When indicators shows Cathay Life reaches the credit and investment limit or the increase of the credit line or investment capital will exceed the limit, Cathay Life does not undertake the loan or investment in general. However, if for any particular reason Cathay Life is required to undertake such credit, the anticipated investment or loan needs to be reviewed by loan review or investment decision committee and approved by the risk management department of Cathay Financial Holdings.

Information of insurance risk

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

A. Cathay Life

		2013.1.1~2013.12.31(NT\$)	
		Change in income	
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	1,987,332	1,649,485
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,702,501	2,243,076
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	343,952	285,480
Rate of return	+0.1%	Increase 3,290,658	Increase 2,731,246
Rate of return	-0.1%	Decrease 3,293,883	Decrease 2,733,923

		2013.1.1~2013.12.31(US\$)	
		Change in income	
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	66,622	55,296
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	90,597	75,195
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	11,530	9,570
Rate of return	+0.1%	Increase 110,314	Increase 91,560
Rate of return	-0.1%	Decrease 110,422	Decrease 91,650

		2012.1.1~2012.12.31(NT\$)	
		Change in income	
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	2,037,788	1,691,364
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,642,541	2,193,309
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	332,635	276,087
Rate of return	+0.1%	Increase 2,945,451	Increase 2,444,724
Rate of return	-0.1%	Decrease 2,948,340	Decrease 2,447,122

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2012.1.1~2012.12.31(US\$)			
Change in income			
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	70,148	58,223
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	90,965	75,501
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	11,450	9,504
Rate of return	+0.1%	Increase 101,392	Increase 84,156
Rate of return	-0.1%	Decrease 101,492	Decrease 84,238

B. Cathay life (China)

2013.1.1~2013.12.31(NT\$)			
Change in income			
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	82,912	62,184
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	74,639	55,980
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	26,345	19,759
Rate of return	+0.25%	Increase 318,944	Increase 239,208
Rate of return	-0.25%	Decrease 288,664	Decrease 216,498

2013.1.1~2013.12.31(US\$)			
Change in income			
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	2,779	2,085
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,502	1,877
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	883	662
Rate of return	+0.25%	Increase 10,692	Increase 8,019
Rate of return	-0.25%	Decrease 9,677	Decrease 7,258

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2012.1.1~2012.12.31(NT\$)			
Change in income			
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	33,798	25,348
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	32,500	24,375
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	17,374	13,030
Rate of return	+0.25%	Increase 112,403	Increase 84,302
Rate of return	-0.25%	Decrease 122,476	Decrease 91,857

2012.1.1~2012.12.31(US\$)			
Change in income			
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	1,163	873
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,119	839
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	598	449
Rate of return	+0.25%	Increase 3,869	Increase 2,902
Rate of return	-0.25%	Decrease 4,216	Decrease 3,162

C. Cathay Life (Vietnam)

2013.1.1~2013.12.31(NT\$)			
Change in income			
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	207	155
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	9,523	7,142
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	647	486
Rate of return	+0.1%	Increase 2,300	Increase 1,725
Rate of return	-0.1%	Decrease 2,302	Decrease 1,727

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2013.1.1~2013.12.31(US\$)			
Change in income			
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	7	5
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	319	239
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	22	16
Rate of return	+0.1%	Increase 77	Increase 58
Rate of return	-0.1%	Decrease 77	Decrease 58
2012.1.1~2012.12.31(NT\$)			
Change in income			
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	243	182
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	12,285	9,214
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	2,199	1,649
Rate of return	+0.1%	Increase 1,438	Increase 1,079
Rate of return	-0.1%	Decrease 1,440	Decrease 1,080
2012.1.1~2012.12.31(US\$)			
Change in income			
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	8	6
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	423	317
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	76	57
Rate of return	+0.1%	Increase 50	Increase 37
Rate of return	-0.1%	Decrease 50	Decrease 37

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- (A) Changes in income before tax listed above refer to the effects of income before tax arising from by the assumption for the years ended 31 December 2013 and 2012. The influence on equities of Cathay Life, Cathay Life (China) and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 25% individually.
- (B) An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows Cathay Life's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.
- (C) Sensitivity Test
- a. Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
 - b. Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
 - c. Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.
 - d. The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.

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Note 2: The rate of returns is measured by $2 \times (\text{net profits or losses on investment} - \text{finance costs}) / (\text{the beginning balance of usable capital} + \text{the ending balance of usable capital} - \text{net profits or losses on investment} + \text{finance costs})$ and it needs to be annualized.

(3) Interpretation of concentration of insurance risks

Cathay Life's insurance business is mainly in Taiwan, Republic of China. All the insurance policies have similar risks 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 single specific event (ex: the simultaneous exposure of life insurance, health insurance, and accidental insurance caused by one earthquake). Cathay Life reduces the risk of exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

Cathay Life reviews the profits and losses on compensation and the capability of assuming risk as a whole periodically. Cathay Life will also evaluate the retention amount according to the risk features and approve by competent authority. For the excess of retention amount, Cathay Life cedes this portion of amounts to reinsurers. At the same time, Cathay Life takes the possibility of unexpected human and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on losses.

Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", the annual increase of after-tax amount of special capital reserve for major incidents and fluctuation of risks for the abnormal changes of the loss ratio of each type of insurance and claims needs to be recognized and recorded in special capital reserve of equity in accordance with IAS 12.

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(4) Claim development trend

A. Cathay Life

(A) Direct business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	12,452,527	14,654,222	14,777,445	14,836,106	14,885,981	14,940,094	14,948,612	-
2008Q1~2008Q4	13,213,167	15,502,203	15,690,933	15,752,002	15,809,213	15,839,773	15,848,695	8,922
2009Q1~2009Q4	14,440,987	17,222,987	17,462,074	17,540,479	17,599,063	17,647,658	17,657,638	58,575
2010Q1~2010Q4	14,132,667	17,063,839	17,346,231	17,430,285	17,489,544	17,534,983	17,544,836	114,551
2011Q1~2011Q4	14,898,732	18,205,420	18,544,232	18,623,797	18,687,105	18,738,210	18,748,770	204,538
2012Q1~2012Q4	14,630,779	17,675,242	17,912,361	17,982,878	18,037,036	18,080,758	18,090,733	415,491
2013Q1~2013Q4	13,886,331	16,557,476	16,775,654	16,836,627	16,880,398	16,923,382	16,932,523	3,046,192

Expected future payment	\$3,848,269
Less: Expected reported but not paid claim	137,736
Add: Assumed reserve for incurred but not reported claim	44,961
Reserve for unreported claim	3,755,494
Add: Reported but not paid claim	414,294
Claims reserve balance	<u>\$4,169,788</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	417,450	491,258	495,389	497,355	499,027	500,841	501,127	-
2008Q1~2008Q4	442,949	519,685	526,012	528,059	529,977	531,001	531,300	299
2009Q1~2009Q4	484,110	577,371	585,386	588,015	589,978	591,608	591,942	1,964
2010Q1~2010Q4	473,774	572,036	581,503	584,321	586,307	587,830	588,161	3,840
2011Q1~2011Q4	499,455	610,306	621,664	624,331	626,453	628,167	628,521	6,857
2012Q1~2012Q4	490,472	592,532	600,481	602,845	604,661	606,127	606,461	13,929
2013Q1~2013Q4	465,516	555,061	562,375	564,419	565,887	567,328	567,634	102,118

Expected future payment	\$129,007
Less: Expected reported but not paid claim	4,618
Add: Assumed reserve for incurred but not reported claim	1,507
Reserve for unreported claim	125,896
Add: Reported but not paid claim	13,889
Claims reserve balance	<u>\$139,785</u>

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(B) Retained business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	12,511,875	14,746,056	14,880,374	14,941,312	14,990,347	15,052,573	15,063,896	-
2008Q1~2008Q4	13,301,115	15,620,140	15,813,154	15,873,328	15,938,820	15,972,749	15,981,772	9,023
2009Q1~2009Q4	13,555,642	15,901,693	16,095,594	16,169,716	16,221,698	16,271,117	16,281,211	59,513
2010Q1~2010Q4	12,303,727	14,591,585	14,804,437	14,873,976	14,934,056	14,980,211	14,990,164	116,188
2011Q1~2011Q4	12,997,884	15,670,499	15,918,577	15,999,085	16,063,260	16,115,121	16,125,785	207,208
2012Q1~2012Q4	12,822,686	15,264,178	15,504,705	15,576,161	15,631,184	15,675,661	15,685,741	421,563
2013Q1~2013Q4	12,938,427	15,637,365	15,858,770	15,920,633	15,965,224	16,008,922	16,018,162	3,079,735

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

Expected future payment	\$3,893,230
Less: Expected reported but not paid claim	137,736
Add: Reported but not paid claim	414,294
Retained claims reserve balance	<u>\$4,169,788</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	419,439	494,336	498,839	500,882	502,526	504,612	504,991	-
2008Q1~2008Q4	445,897	523,639	530,109	532,126	534,322	535,459	535,762	303
2009Q1~2009Q4	454,430	533,077	539,577	542,062	543,805	545,462	545,800	1,995
2010Q1~2010Q4	412,462	489,158	496,294	498,625	500,639	502,186	502,520	3,895
2011Q1~2011Q4	435,732	525,327	533,643	536,342	538,493	540,232	540,589	6,946
2012Q1~2012Q4	429,859	511,706	519,769	522,164	524,009	525,500	525,838	14,132
2013Q1~2013Q4	433,739	524,216	531,638	533,712	535,207	536,672	536,982	103,243

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

Expected future payment	\$130,514
Less: Expected reported but not paid claim	4,618
Add: Reported but not paid claim	13,889
Retained claims reserve balance	<u>\$139,785</u>

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B. Cathay life (China)

(A) Direct business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	28	54	56	56	56	56	56	-
2008Q1~2008Q4	829	3,332	3,345	3,345	3,345	3,345	3,345	-
2009Q1~2009Q4	9,519	18,333	19,144	19,144	19,144	19,144	19,144	-
2010Q1~2010Q4	52,481	118,588	124,812	124,812	124,812	124,812	124,812	-
2011Q1~2011Q4	98,654	197,435	210,072	210,072	210,072	210,072	210,072	-
2012Q1~2012Q4	132,788	365,511	384,903	384,903	384,903	384,903	384,903	19,392
2013Q1~2013Q4	150,954	497,073	524,048	524,048	524,048	524,048	524,048	373,094

Expected future payment	\$392,486
Less: Expected reported but not paid claim	32,757
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	359,729
Add: Reported but not paid claim	110,666
Claims reserve balance	<u>\$470,395</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	1	2	2	2	2	2	2	-
2008Q1~2008Q4	28	112	112	112	112	112	112	-
2009Q1~2009Q4	319	615	642	642	642	642	642	-
2010Q1~2010Q4	1,759	3,975	4,184	4,184	4,184	4,184	4,184	-
2011Q1~2011Q4	3,307	6,619	7,042	7,042	7,042	7,042	7,042	-
2012Q1~2012Q4	4,451	12,253	12,903	12,903	12,903	12,903	12,903	650
2013Q1~2013Q4	5,060	16,664	17,568	17,568	17,568	17,568	17,568	12,508

Expected future payment	\$13,158
Less: Expected reported but not paid claim	1,098
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	12,060
Add: Reported but not paid claim	3,709
Claims reserve balance	<u>\$15,769</u>

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(B) Retained business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	28	54	56	56	56	56	56	-
2008Q1~2008Q4	829	3,332	3,345	3,345	3,345	3,345	3,345	-
2009Q1~2009Q4	9,519	18,333	19,144	19,144	19,144	19,144	19,144	-
2010Q1~2010Q4	52,481	118,588	124,812	124,812	124,812	124,812	124,812	-
2011Q1~2011Q4	98,654	197,296	209,931	209,931	209,931	209,931	209,931	-
2012Q1~2012Q4	122,483	371,529	382,914	382,914	382,914	382,914	382,914	11,385
2013Q1~2013Q4	141,506	490,536	505,732	505,732	505,732	505,732	505,732	364,226

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

Expected future payment	\$375,611
Less: Expected reported but not paid claim	32,757
Add: Reported but not paid claim	110,666
Retained claims reserve balance	<u>\$453,520</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q1~2007Q4	1	2	2	2	2	2	2	-
2008Q1~2008Q4	28	112	112	112	112	112	112	-
2009Q1~2009Q4	319	615	642	642	642	642	642	-
2010Q1~2010Q4	1,759	3,975	4,184	4,184	4,184	4,184	4,184	-
2011Q1~2011Q4	3,307	6,614	7,038	7,038	7,038	7,038	7,038	-
2012Q1~2012Q4	4,106	12,455	12,837	12,837	12,837	12,837	12,837	382
2013Q1~2013Q4	4,744	16,444	16,954	16,954	16,954	16,954	16,954	12,210

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

Expected future payment	\$12,592
Less: Expected reported but not paid claim	1,098
Add: Reported but not paid claim	3,709
Retained claims reserve balance	<u>\$15,203</u>

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Cathay Life and Cathay Life (China) recognize claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Life and Cathay Life (China). Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis 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 event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	NT\$				
	1	2	3	4	5
2009Q1~2009Q4	10	16	16	16	16
2010Q1~2010Q4	260	283	283	283	283
2011Q1~2011Q4	329	564	564	564	564
2012Q1~2012Q4	1,121	1,385	1,385	1,385	1,385
2013Q1~2013Q4	535	699	699	699	699

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Accident year	Development year				
	US \$				
	1	2	3	4	5
2009Q1~2009Q4	-	1	1	1	1
2010Q1~2010Q4	9	9	9	9	9
2011Q1~2011Q4	11	19	19	19	19
2012Q1~2012Q4	38	46	46	46	46
2013Q1~2013Q4	18	23	23	23	23

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts that need to be paid for each event year as time passes.

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments.

Credit risk, liquidity risk, and market risk for insurance contracts

(5) Credit risk

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

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Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of concentration of credit risk in reinsurers. To reduce this risk, Cathay Life chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with Cathay Life's "Reinsurance Risk Management Plan" and "Evaluation Standard for Reinsurers."

The credit ratings of Cathay Life's reinsurers are satisfactory and above certain level, complying with Cathay Life's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to Cathay Life in terms of assets; therefore, no significant credit risks exist.

(6) Liquidity risk

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

31 December 2013	Unit: Billion		
NT\$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments			
with discretionary participation features	(63.9)	151.9	10,591.0

31 December 2013	Unit: Billion		
US\$	Within 1 year	1 to 5 year	Over 5 year
Insurance contracts and financial instruments			
with discretionary participation features	(2.14)	5.09	355.05

Note: Separate account products are not included.

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(7) Market risk

When Cathay Life measures insurance liabilities, the discounted rate required by the regulator is applied. The regulator reviews the discount rate assumption which has been used for reserves periodically. However, the discount rate assumption does not move at the same time in the same direction with the market price and interest rate, and is only applied to new businesses. Thus, those possible variables in market risk to Cathay Life's valid insurance contracts have slight impact on profit and loss or equity. When the regulator 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 reasonably possible change on the market risk will probably have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonably possible changes of current market risk, it has little impact on the adequacy of current recognized insurance liabilities.

(8) Century insurance subsidiaries

A. The objectives, policies, procedures and methods of risk management :

The framework, organization, and responsibility of risk management

Responsibility :

(A) Board of directors

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

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(B) Risk Management Committee

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

(C) Risk management department

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

Responsibility of risk management division :

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

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(D) Business unit

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

(a) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.

(b) To oversee the sharing of risk management information to risk management on a regular basis.

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

(a) To identify risk and report risk exposure.

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

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

(d) To oversee risk exposure and report when over-limit occur, including measures taken against it.

(e) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.

(f) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of Cathay Century.

(g) To assist in collecting information regarding operation risk.

(E) Internal audit room

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

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

(A) Risks reporting

a. Each business unit within Cathay Century should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.

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- b. Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the risk management committee and board of director to oversee risks on a regular basis.

(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

Item	2013		2012	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$673,000	\$22,561	\$613,000	\$21,102
Marine insurance	673,000	22,561	613,000	21,102
Engineering insurance	673,000	22,561	613,000	21,102
Other property insurance	673,000	22,561	613,000	21,102
Automobile insurance	673,000	22,561	613,000	21,102
Health and injury insurance	673,000	22,561	613,000	21,102

F. Methods of asset/liability management

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

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

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

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

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

(9) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)		
	NT\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$605,859	\$665,154	\$342,994
Marine insurance	266,869	369,048	477,307
Land and air insurance	852,082	748,157	638,561
Liability insurance	173,230	217,416	135,547
Bonding insurance	27,737	13,983	11,456
Other property insurance	427,980	345,181	440,887
Accident insurance	270,300	288,526	235,275
Health insurance	25,735	22,994	87,566
Compulsory automobile liability insurance	286,025	268,872	251,058
Total	2,935,817	2,939,331	2,620,651
Less: Allowance for bad debts	(64,162)	(69,978)	(78,752)
Net	\$2,871,655	\$2,869,353	\$2,541,899

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Item	Premiums receivable(Note)		
	US\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$20,310	\$22,897	\$11,331
Marine insurance	8,946	12,704	15,768
Land and air insurance	28,565	25,754	21,096
Liability insurance	5,807	7,484	4,478
Bonding insurance	930	481	378
Other property insurance	14,347	11,882	14,565
Accident insurance	9,061	9,932	7,773
Health insurance	863	792	2,893
Compulsory automobile liability insurance	9,589	9,255	8,294
Total	98,418	101,181	86,576
Less: Allowance for bad debts	(2,151)	(2,408)	(2,602)
Net	\$96,267	\$98,773	\$83,974

Note : As of 31 December 2013, 31 December 2012, and 1 January 2012, the receivables included overdue receivables amounted to NT\$484,663 (US\$16,248) thousands, NT\$497,914 (US\$17,140) thousands, and NT\$281,695 (US\$9,307) thousands, the allowance for bad debts amounted to NT\$20,634 (US\$692) thousands, NT\$31,767 (US\$1,094) thousands, NT\$42,183 (US\$1,394) thousands.

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

Item	Claims reported and paid off		
	NT\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$22,767	\$241,267	\$76,577
Marine insurance	37,647	42,699	58,775
Land and air insurance	25,154	40,214	18,463
Liability insurance	21,545	13,506	14,907
Bonding insurance	(2)	8	2,406
Other property insurance	31,352	8,231	25,509
Accident insurance	15,040	23,435	17,873
Health insurance	-	-	-
Compulsory automobile liability insurance	179,208	144,232	53,741
Total	332,711	513,592	268,251
Less: Allowance for bad debts	-	-	-
Net	\$332,711	\$513,592	\$268,251

English Translation of Financial Statements Originally Issued in Chinese

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

Item	Claims reported and paid off		
	US\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$763	\$8,305	\$2,530
Marine insurance	1,262	1,470	1,942
Land and air insurance	843	1,385	610
Liability insurance	722	465	493
Bonding insurance	-	-	79
Other property insurance	1,051	283	843
Accident insurance	504	807	590
Health insurance	-	-	-
Compulsory automobile liability insurance	6,008	4,965	1,775
Total	11,153	17,680	8,862
Less: Allowance for bad debts	-	-	-
Net	\$11,153	\$17,680	\$8,862

C. Payables of insurance contract

Item	2013.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,411	\$114	\$7,178	\$241	\$10,589	\$355
Marine insurance	2,394	80	3,529	118	5,923	198
Land and air insurance	5,524	185	91,621	3,072	97,145	3,257
Liability insurance	2,554	86	7,166	240	9,720	326
Bonding insurance	74	2	210	7	284	9
Other property insurance	44,466	1,491	6,082	204	50,548	1,695
Accident insurance	206	7	26,940	903	27,146	910
Health insurance	210	7	5,959	200	6,169	207
Compulsory automobile liability insurance	89,457	2,999	-	-	89,457	2,999
Total	\$148,296	\$4,971	\$148,685	\$4,985	\$296,981	\$9,956

English Translation of Financial Statements Originally Issued in Chinese

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

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

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

Item	2013.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$56,061	\$1,879	\$211,063	\$7,075
Kann An	35,266	1,182	-	-
Best Re	31,477	1,055	9,269	311
Central Re	20,166	676	80,543	2,700
JLT	698	23	75,250	2,523
Guy Carpenter	-	-	76,301	2,558
Marsh	25,101	842	174,020	5,834
Swiss Re	4,675	157	108,591	3,640
Others	402,720	13,501	628,209	21,060
Total	576,164	19,315	1,363,246	45,701
Less: Allowance for bad debts	(14,624)	(490)	-	-
Net	\$561,540	\$18,825	\$1,363,246	\$45,701

Item	2012.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$54,422	\$1,873	\$197,276	\$6,791
FP Marine	76,332	2,628	68,251	2,349
JLT	-	-	83,049	2,859
Marsh	37,557	1,293	90,672	3,121
Swiss Re	531	18	83,848	2,886
Wilson Re	26,994	929	20,931	721
Zurich	2,336	81	70,029	2,411
Others	252,010	8,675	591,045	20,346
Total	450,182	15,497	1,205,101	41,484
Less: Allowance for bad debts	(5,494)	(189)	-	-
Net	\$444,688	\$15,308	\$1,205,101	\$41,484

English Translation of Financial Statements Originally Issued in Chinese

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

Item	2012.1.1			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$55,981	\$1,849	\$147,763	\$4,881
Taian	33,319	1,101	5,721	189
Fubon	44,104	1,457	1,851	61
Huanan	31,318	1,035	13,855	458
FP Marine	54,730	1,808	126,004	4,163
JLT	3,126	103	72,801	2,405
Marsh	67,883	2,242	97,473	3,220
Miller	39,307	1,298	37,488	1,239
Swiss Re	2,168	72	106,862	3,530
Wilson Re	10,318	341	72,590	2,398
Zurich	17	1	87,163	2,880
Others	207,694	6,862	491,866	16,249
Total	549,965	18,169	1,261,437	41,673
Less: Allowance for bad debts	(52,091)	(1,721)	-	-
Net	<u>\$497,874</u>	<u>\$16,448</u>	<u>\$1,261,437</u>	<u>\$41,673</u>

Notes : As of 31 December 2013, 31 December 2012, and 1 January 2012, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$46,239 (US\$1,550) thousands, NT\$54,939 (US\$1,891) thousands, and NT\$52,091 (US\$1,721) thousands, the allowance for bad debts amounted to NT\$14,624 (US\$490) thousands, NT\$5,494 (US\$189) thousands, and NT\$52,091 (US\$1,721) thousands.

(10) Information of management achievements

A. Acquisition cost for insurance contracts

English Translation of Financial Statements Originally Issued in Chinese

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

2013.1.1 ~ 2013.12.31 (NT\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$45,119	\$8,926	\$28,880	\$3,810	\$93,153	\$179,888
Marine insurance	9,782	2,536	7,376	3,093	48,744	71,531
Land and air insurance	67,894	3,789	-	1,727	804,316	877,726
Liability insurance	26,058	2,220	44,221	183	62,395	135,077
Bonding insurance	3,032	48	302	22	1,402	4,806
Other property insurance	15,170	1,801	241,717	7,750	77,737	344,175
Accident insurance	17,883	2,288	-	22	356,361	376,554
Health insurance	14,132	1,197	-	-	15,312	30,641
Compulsory automobile liability insurance	-	-	478,336	-	12,032	490,368
Total	\$199,070	\$22,805	\$800,832	\$16,607	\$1,471,452	\$2,510,766

2013.1.1 ~ 2013.12.31 (US\$)

Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$1,513	\$299	\$968	\$128	\$3,123	\$6,031
Marine insurance	328	85	247	104	1,634	2,398
Land and air insurance	2,276	127	-	58	26,963	29,424
Liability insurance	874	74	1,482	6	2,092	4,528
Bonding insurance	102	2	10	-	47	161
Other property insurance	509	60	8,103	260	2,606	11,538
Accident insurance	598	77	-	1	11,947	12,623
Health insurance	474	40	-	-	513	1,027
Compulsory automobile liability insurance	-	-	16,036	-	403	16,439
Total	\$6,674	\$764	\$26,846	\$557	\$49,328	\$84,169

English Translation of Financial Statements Originally Issued in Chinese

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

2012.1.1 ~ 2012.12.31 (NT\$)						
Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$25,156	\$7,930	\$34,858	\$2,218	\$91,186	\$161,348
Marine insurance	9,934	2,769	7,772	3,223	69,367	93,065
Land and air insurance	36,318	2,166	-	3,211	680,747	722,442
Liability insurance	17,277	1,703	37,870	214	55,730	112,794
Bonding insurance	764	20	640	4	1,847	3,275
Other property insurance	21,072	2,736	86,035	8,258	82,891	200,992
Accident insurance	11,462	974	6	521	336,110	349,073
Health insurance	4,150	334	-	-	11,892	16,376
Compulsory automobile liability insurance	-	-	393,394	-	11,055	404,449
Total	\$126,133	\$18,632	\$560,575	\$17,649	\$1,340,825	\$2,063,814

2012.1.1 ~ 2012.12.31 (US\$)						
Item	Commission			Reinsurance commission		Total
	expense	Agency fee	Surcharge	expense	Other cost	
Fire insurance	\$866	\$273	\$1,200	\$76	\$3,139	\$5,554
Marine insurance	342	95	267	111	2,388	3,203
Land and air insurance	1,250	74	-	111	23,434	24,869
Liability insurance	595	59	1,304	8	1,918	3,884
Bonding insurance	26	1	22	-	64	113
Other property insurance	725	94	2,962	284	2,853	6,918
Accident insurance	395	34	-	18	11,570	12,017
Health insurance	143	11	-	-	409	563
Compulsory automobile liability insurance	-	-	13,542	-	381	13,923
Total	\$4,342	\$641	\$19,297	\$608	\$46,156	\$71,044

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

English Translation of Financial Statements Originally Issued in Chinese

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

2013.1.1 ~ 2013.12.31 (NT\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	
		reserve	contract			
Fire insurance	\$2,904,496	\$80,201	\$(176,078)	\$(1,014,465)	\$427,411	\$2,221,565
Marine insurance	656,565	101,443	(68,438)	(461,897)	134,581	362,254
Land and air insurance	6,166,184	(632,003)	(875,999)	(3,399,267)	(253,414)	1,005,501
Liability insurance	1,043,375	(18,849)	(134,894)	(482,483)	(51,425)	355,724
Bonding insurance	72,404	(9,191)	(4,784)	5,855	12,619	76,903
Other property insurance	2,218,619	(302,472)	(336,425)	(808,192)	(185,643)	585,887
Accident insurance	2,517,703	18,500	(376,532)	(932,756)	(66,496)	1,160,419
Health insurance	160,344	39,223	(30,641)	(119,103)	(4,621)	45,202
Compulsory automobile liability insurance	3,488,449	(339,553)	(490,368)	(2,142,371)	(159,952)	356,205
Total	\$19,228,139	\$(1,062,701)	\$(2,494,159)	\$(9,354,679)	\$(146,940)	\$6,169,660

2013.1.1 ~ 2013.12.31 (US\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	
		reserve	contract			
Fire insurance	\$97,368	\$2,689	\$(5,903)	\$(34,008)	\$14,328	\$74,474
Marine insurance	22,010	3,401	(2,294)	(15,485)	4,512	12,144
Land and air insurance	206,711	(21,187)	(29,366)	(113,955)	(8,495)	33,708
Liability insurance	34,978	(632)	(4,522)	(16,175)	(1,724)	11,925
Bonding insurance	2,427	(308)	(161)	197	423	2,578
Other property insurance	74,376	(10,140)	(11,278)	(27,093)	(6,224)	19,641
Accident insurance	84,402	620	(12,622)	(31,269)	(2,229)	38,902
Health insurance	5,375	1,315	(1,027)	(3,993)	(155)	1,515
Compulsory automobile liability insurance	116,944	(11,383)	(16,439)	(71,819)	(5,362)	11,941
Total	\$644,591	\$(35,625)	\$(83,612)	\$(313,600)	\$(4,926)	\$206,828

English Translation of Financial Statements Originally Issued in Chinese

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2012.1.1 ~ 2012.12.31 (NT\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	
		reserve	contract			
Fire insurance	\$2,985,247	\$(304,110)	\$(159,130)	\$(1,319,195)	\$854,615	\$2,057,427
Marine insurance	837,375	16,353	(89,842)	(424,162)	(83,675)	256,049
Land and air insurance	5,046,347	(480,858)	(719,231)	(2,885,578)	(215,172)	745,508
Liability insurance	987,686	(118,926)	(112,580)	(325,192)	(189,940)	241,048
Bonding insurance	63,146	(1,826)	(3,271)	(4,116)	(6,372)	47,561
Other property insurance	1,309,640	(260,993)	(192,734)	(390,286)	(286,323)	179,304
Accident insurance	2,372,577	(19,527)	(348,552)	(1,008,751)	(61,379)	934,368
Health insurance	124,417	59,541	(16,376)	(157,658)	(34,125)	(24,201)
Compulsory automobile liability insurance	2,818,880	(50,870)	(404,449)	(1,769,121)	(342,953)	251,487
Total	\$16,545,315	\$(1,161,216)	\$(2,046,165)	\$(8,284,059)	\$(365,324)	\$4,688,551

2012.1.1 ~ 2012.12.31 (US\$)						
Item	Direct	Net change	Acquisition	Insurance	Net change	Net gain(loss)
	premium	for unearned	cost for	claims	for claims	
	income	premiums	insurance	paid	reserve	
		reserve	contract			
Fire insurance	\$102,762	\$(10,469)	\$(5,478)	\$(45,411)	\$29,419	\$70,823
Marine insurance	28,825	563	(3,093)	(14,601)	(2,880)	8,814
Land and air insurance	173,712	(16,553)	(24,758)	(99,331)	(7,407)	25,663
Liability insurance	34,000	(4,094)	(3,876)	(11,194)	(6,538)	8,298
Bonding insurance	2,174	(63)	(113)	(142)	(219)	1,637
Other property insurance	45,082	(8,984)	(6,634)	(13,435)	(9,856)	6,173
Accident insurance	81,672	(672)	(11,999)	(34,725)	(2,113)	32,163
Health insurance	4,283	2,050	(563)	(5,427)	(1,175)	(832)
Compulsory automobile liability insurance	97,035	(1,751)	(13,923)	(60,899)	(11,806)	8,656
Total	\$569,545	\$(39,973)	\$(70,437)	\$(285,165)	\$(12,575)	\$161,395

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

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2013.1.1 ~ 2013.12.31 (NT\$)

Item	Reinsurance premium income	Net change			Net change for claims reserve	Net (loss) gain for assumed reinsurance business
		for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid		
Fire insurance	\$108,304	\$2,871	\$(3,810)	\$(2,686)	\$(53,193)	\$51,486
Marine insurance	42,917	2,477	(3,093)	(56,882)	25,727	11,146
Land and air insurance	14,659	4,571	(1,727)	(10,653)	(4,904)	1,946
Liability insurance	1,106	(421)	(183)	(138)	(36)	328
Bonding insurance	1,224	(185)	(22)	(168)	21	870
Other property insurance	41,367	(14,115)	(7,750)	(15,522)	(1,817)	2,163
Accident insurance	5,791	1,405	(22)	(3,502)	2,117	5,789
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	283,158	(1,359)	-	(299,178)	(790)	(18,169)
Total	\$498,526	\$(4,756)	\$(16,607)	\$(388,729)	\$(32,875)	\$55,559

2013.1.1 ~ 2013.12.31 (US\$)

Item	Reinsurance premium income	Net change			Net change for claims reserve	Net (loss) gain for assumed reinsurance business
		for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid		
Fire insurance	\$3,631	\$96	\$(128)	\$(90)	\$(1,783)	\$1,726
Marine insurance	1,439	83	(104)	(1,907)	862	373
Land and air insurance	491	153	(58)	(357)	(164)	65
Liability insurance	37	(14)	(6)	(5)	(1)	11
Bonding insurance	41	(6)	-	(6)	-	29
Other property insurance	1,387	(473)	(260)	(520)	(61)	73
Accident insurance	194	47	(1)	(117)	71	194
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	9,492	(46)	-	(10,029)	(26)	(609)
Total	\$16,712	\$(160)	\$(557)	\$(13,031)	\$(1,102)	\$1,862

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2012.1.1 ~ 2012.12.31 (NT\$)

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

2012.1.1 ~ 2012.12.31 (US\$)

Item	Reinsurance premium income	Net change			Net change for claims reserve	Net (loss) gain for assumed reinsurance business
		for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid		
Fire insurance	\$3,429	\$(564)	\$(76)	\$(169)	\$51	\$2,671
Marine insurance	1,376	(551)	(111)	119	(2,316)	(1,483)
Land and air insurance	691	(271)	(111)	(832)	(121)	(644)
Liability insurance	23	(2)	(7)	(6)	39	47
Bonding insurance	41	(5)	-	(12)	-	24
Other property insurance	1,558	(31)	(284)	(344)	99	998
Accident insurance	278	754	(18)	(464)	(84)	466
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	9,641	(166)	-	(9,021)	(739)	(285)
Total	\$17,037	\$(836)	\$(607)	\$(10,729)	\$(3,067)	\$1,798

English Translation of Financial Statements Originally Issued in Chinese

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

Item	2013.1.1 ~ 2013.12.31 (NT\$)					
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,879,554	\$(44,094)	\$(132,720)	\$(354,524)	\$245,823	\$1,594,039
Marine insurance	476,225	103,972	(62,408)	(337,863)	187,704	367,630
Land and air insurance	297,904	(20,302)	(61,209)	(108,120)	(24,475)	83,798
Liability insurance	338,876	7,813	(93,267)	(138,615)	(10,713)	104,094
Bonding insurance	38,672	(9,791)	(7,866)	11,856	5,093	37,964
Other property insurance	432,999	40,706	(68,778)	(89,909)	(23,500)	291,518
Accident insurance	145,979	13,353	(43,171)	(65,656)	4,951	55,456
Health insurance	513	997	(182)	(160)	780	1,948
Compulsory automobile liability insurance	835,549	(35,896)	-	(825,404)	(22,123)	(47,874)
Total	\$4,446,271	\$56,758	\$(469,601)	\$(1,908,395)	\$363,540	\$2,488,573

Item	2013.1.1 ~ 2013.12.31 (US\$)					
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$63,009	\$(1,478)	\$(4,449)	\$(11,885)	\$8,241	\$53,438
Marine insurance	15,965	3,485	(2,092)	(11,326)	6,292	12,324
Land and air insurance	9,987	(681)	(2,052)	(3,625)	(820)	2,809
Liability insurance	11,361	262	(3,127)	(4,647)	(359)	3,490
Bonding insurance	1,296	(328)	(264)	398	171	1,273
Other property insurance	14,516	1,364	(2,305)	(3,014)	(788)	9,773
Accident insurance	4,893	448	(1,447)	(2,201)	166	1,859
Health insurance	17	33	(6)	(5)	26	65
Compulsory automobile liability insurance	28,010	(1,203)	-	(27,670)	(742)	(1,605)
Total	\$149,054	\$1,902	\$(15,742)	\$(63,975)	\$12,187	\$83,426

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Item	2012.1.1 ~ 2012.12.31 (NT\$)					
	Reinsurance expense	Net change	Reinsurance commission earned	Claims	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		for unearned premiums reserve ceded		recovered from reinsurers		
Fire insurance	\$1,816,933	\$(188,202)	\$(117,309)	\$(635,370)	\$586,924	\$1,462,976
Marine insurance	669,899	10,579	(99,571)	(216,764)	(172,707)	191,436
Land and air insurance	223,738	(8,848)	(40,092)	(129,925)	(30,304)	14,569
Liability insurance	352,536	(54,420)	(93,372)	(82,613)	(41,749)	80,382
Bonding insurance	26,895	(2,431)	(5,074)	(7,009)	(3,821)	8,560
Other property insurance	396,432	(22,319)	(67,490)	(66,411)	(37,940)	202,272
Accident insurance	166,776	(10,732)	(40,382)	(90,722)	(5,378)	19,562
Health insurance	1,950	1,264	(679)	(1,110)	(1,341)	84
Compulsory automobile liability insurance	771,320	(20,370)	-	(696,501)	(137,201)	(82,752)
Total	\$4,426,479	\$(295,479)	\$(463,969)	\$(1,926,425)	\$156,483	\$1,897,089

Item	2012.1.1 ~ 2012.12.31 (US\$)					
	Reinsurance expense	Net change	Reinsurance commission earned	Claims	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		for unearned premiums reserve ceded		recovered from reinsurers		
Fire insurance	\$62,545	\$(6,479)	\$(4,038)	\$(21,872)	\$20,204	\$50,360
Marine insurance	23,060	364	(3,428)	(7,462)	(5,945)	6,589
Land and air insurance	7,702	(305)	(1,380)	(4,472)	(1,043)	502
Liability insurance	12,135	(1,873)	(3,214)	(2,844)	(1,437)	2,767
Bonding insurance	926	(84)	(175)	(241)	(132)	294
Other property insurance	13,647	(768)	(2,323)	(2,286)	(1,306)	6,964
Accident insurance	5,741	(369)	(1,390)	(3,123)	(185)	674
Health insurance	67	44	(23)	(38)	(46)	4
Compulsory automobile liability insurance	26,551	(701)	-	(23,976)	(4,723)	(2,849)
Total	\$152,374	\$(10,171)	\$(15,971)	\$(66,314)	\$5,387	\$65,305

C. Sensitivity of insurance risk

(A) Cathay Century

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Insurance type	Premium income		Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%			
	NT\$	US\$		Before reinsurance		After reinsurance	
				NT\$	US\$	NT\$	US\$
Fire insurance	\$2,581,363	\$86,536	64.05	\$129,068	\$4,327	\$75,664	\$2,536
Marine insurance	610,530	20,467	63.32	30,527	1,023	8,246	276
Land and air insurance	6,124,428	205,311	65.17	306,221	10,266	195,703	6,561
Liability insurance	769,757	25,805	67.98	38,488	1,290	21,792	731
Bonding insurance	69,528	2,331	68.63	3,476	116	469	16
Other property insurance	761,205	25,518	62.89	38,060	1,276	18,820	631
Accident insurance	2,511,653	84,199	72.35	125,583	4,210	87,845	2,945
Health insurance	160,344	5,375	62.79	8,017	269	5,014	168
Compulsory automobile liability insurance	3,027,440	101,489	N/A	N/A	N/A	N/A	N/A

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

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

(B) Cathay Century (China)

Insurance type	Premium income		The impact to profit and loss when the expected loss ratio increases 5%			
	NT\$	US\$	Before reinsurance		After reinsurance	
			NT\$	US\$	NT\$	US\$
Fire insurance	\$271,122	\$9,089	\$13,556	\$454	\$6,499	\$218
Marine insurance	41,346	1,386	2,067	69	1,552	52
Liability insurance	271,196	9,091	13,560	455	7,932	266
Bonding insurance	2,877	96	144	5	111	3
Other property insurance	1,446,457	48,490	72,323	2,424	71,953	2,412
Compulsory automobile liability insurance	461,010	15,455	23,050	773	23,050	773

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According to the above chart, with every 5% increase in the ending loss rate of every insurance contract of Cathay Century (China), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

D. Concentration Risk

Cathay Century

(A) Situations that might cause concentration of insurance risk :

a. Single insurance contract or few related contracts

For the years ended 31 December 2013, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

b. Exposure to unanticipated change in trend

For the years ended 31 December 2013, the loss rates of the rest insurance categories are still within reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the years ended 31 December 2013, no material lawsuit or legal risks has taken place.

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d. Correlation and mutual influence between different risks °

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely endangered by these derived risks, Cathay Century has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to guard financial order. For the years ended 31 December 2013, there is no catastrophe has taken place.

e. The significant non-linear relationship when a key variable has approached a degree which may dramatically impact Cathay Century’s future cash flow. For example, Loss limit or Excess of loss

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

f. Concentration risks in geographic regions and operating segments

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

(B) Following table summarizes the concentration risk of Cathay Century before and after reinsurance by types of insurance:

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Insurance type	2013.1.1 ~ 2013.12.31 (NT\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$10,138,571	\$286,735	\$1,032,529	\$9,392,777
Fire insurance	2,601,993	95,982	1,680,131	1,017,844
Marine insurance	697,306	47,945	556,919	188,332
Engineering insurance	597,774	16,243	345,457	268,560
Health and injury insurance	1,459,908	5,384	124,731	1,340,561
Other insurance	1,115,218	14,278	343,149	786,347
Total	\$16,610,770	\$466,567	\$4,082,916	\$12,994,421

Insurance type	2013.1.1 ~ 2013.12.31 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$339,878	\$9,612	\$34,613	\$314,877
Fire insurance	87,228	3,218	56,324	34,122
Marine insurance	23,376	1,607	18,670	6,313
Engineering insurance	20,039	545	11,581	9,003
Health and injury insurance	48,941	180	4,181	44,940
Other insurance	37,386	479	11,504	26,361
Total	\$556,848	\$15,641	\$136,873	\$435,616

(C) Disclosure the prior management performance in the risk, which had huge effect but relative low occurrence frequency, to help financial statement user to evaluate the uncertainty of this risk related cash flow.

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

Cathay Century in order to control the occurrence of low frequency, but will affect greatly the risk of an event, the event has special coverage for natural disasters, the subject of risk assessment and loss prevention seminars are held regularly to help customers reduce the incidence of disasters.

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E. Cathay Century (China)

(A) Situations that might cause to the concentration of insurance risk :

a. The exposure of unanticipated change in trend

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

b. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the years ended 31 December 2013.

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

Insurance type	2013.1.1 ~ 2013.12.31 (NT\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$1,855,348	\$11,542	\$2,053	\$1,864,837
Fire insurance	279,264	10,116	157,182	132,198
Marine insurance	41,346	6,002	16,312	31,036
Engineering insurance	21,144	1,473	12,437	10,180
Health and injury insurance	-	21	-	21
Other insurance	296,905	-	113,737	183,168
Total	\$2,494,007	\$29,154	\$301,721	\$2,221,440

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Insurance type	2013.1.1 ~ 2013.12.31 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$62,197	\$387	\$69	\$62,515
Fire insurance	9,362	339	5,269	4,432
Marine insurance	1,386	202	547	1,041
Engineering insurance	709	49	417	341
Health and injury insurance	-	1	-	1
Other insurance	9,953	-	3,813	6,140
Total	\$83,607	\$978	\$10,115	\$74,470

(11) Claim development table

A. Cathay Century

Underwriting Year (NT\$)	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.12.31	Total
Estimate of cumulative claims incurred:							
At end of underwriting year	\$3,062,273	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,773,901	
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,687,982	-	
Two year later	4,184,209	4,142,479	4,895,061	5,171,294	-	-	
Three year later	4,048,332	4,178,118	6,227,365	-	-	-	
Four year later	4,058,322	4,142,281	-	-	-	-	
Five year later	4,788,529	-	-	-	-	-	
Estimate of cumulative claims incurred	4,788,529	4,142,281	6,227,365	5,171,294	5,687,982	5,773,901	31,791,352
Cumulative payment to date	4,645,484	4,068,028	5,897,493	5,019,223	5,201,686	3,359,505	28,191,419
Subtotal	143,045	74,253	329,872	152,071	486,296	2,414,396	3,599,933
Reconciliation	-	-	-	-	-	63,764	63,764
Recorded in balance sheet	\$143,045	\$74,253	\$329,872	\$152,071	\$486,296	\$2,478,160	\$3,663,697

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	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.12.31	Total
Underwriting Year (US\$)							
Estimate of cumulative claims incurred:							
At end of underwriting year	\$102,657	\$111,391	\$131,802	\$181,303	\$162,637	\$193,560	
One year later	136,804	135,406	163,338	190,002	190,680	-	
Two year later	140,268	138,870	164,099	173,359	-	-	
Three year later	135,713	140,064	208,762	-	-	-	
Four year later	136,048	138,864	-	-	-	-	
Five year later	160,527	-	-	-	-	-	
Estimate of cumulative claims incurred	160,527	138,864	208,762	173,359	190,680	193,560	1,065,752
Cumulative payment to date	155,732	136,374	197,703	168,261	174,378	112,622	945,070
Subtotal	4,795	2,490	11,059	5,098	16,302	80,938	120,682
Reconciliation	-	-	-	-	-	2,138	2,138
Recorded in balance sheet	\$4,795	\$2,490	\$11,059	\$5,098	\$16,302	\$83,076	\$122,820

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. It's excluded claim reserve of compulsory automobile liability insurance NT\$828,004(US\$27,758) thousands and assumed reinsurance from the upper table (except compulsory automobile liability insurance) NT\$268,301(US\$8,994) thousands.

B. Cathay Century (China)

NT\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.12.31	
Estimated accumulation amount of claim							
As to 2008/12/31	\$2,708						
As to 2009/12/31	2,580	\$157,116					
As to 2010/12/31	2,576	150,988	\$332,803				
As to 2011/12/31	2,604	147,947	298,877	\$361,592			
As to 2012/12/31	1,353	128,429	298,902	323,840	\$1,005,815		
As to 2013/12/31	1,353	128,430	298,902	340,842	844,933	\$1,470,741	

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Estimated accumulation of claim	1,353	128,430	298,902	340,842	844,933	1,470,741	\$3,085,201
Accumulated claim paid	<u>1,353</u>	<u>128,294</u>	<u>296,429</u>	<u>315,413</u>	<u>684,874</u>	<u>587,157</u>	<u>2,013,520</u>
Subtotal	-	136	2,473	25,429	160,059	883,584	1,071,681
Indirect claim expense, discount and risk margin						51,463	<u>51,463</u>
Recognized amount on balance sheet							<u><u>\$1,123,144</u></u>

US\$	For the first quarter of						Total
	2008.1.1-	2009.1.1-	2010.1.1-	2011.1.1-	2012.1.1-	2013.1.1-	
	<u>2008.12.31</u>	<u>2009.12.31</u>	<u>2010.12.31</u>	<u>2011.12.31</u>	<u>2012.12.31</u>	<u>2013.12.31</u>	
Estimated accumulation amount of claim							
As to 2008/12/31	\$91						
As to 2009/12/31	86	\$5,267					
As to 2010/12/31	86	5,062	\$11,157				
As to 2011/12/31	87	4,960	10,019	\$12,122			
As to 2012/12/31	45	4,305	10,020	10,856	\$33,718		
As to 2013/12/31	45	4,305	10,020	11,426	28,325	\$49,304	
Estimated accumulation of claim	45	4,305	10,020	11,426	28,325	49,304	\$103,425
Accumulated claim paid	<u>45</u>	<u>4,301</u>	<u>9,937</u>	<u>10,574</u>	<u>22,959</u>	<u>19,683</u>	<u>67,499</u>
Subtotal	-	4	83	852	5,366	29,621	35,926
Indirect claim expense, discount and risk margin							<u>1,725</u>
Recognized amount on balance sheet							<u><u>\$37,651</u></u>

C. Cathay Century (Vietnam)

As Cathay Century (Vietnam) has only been operated for less than one year, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QCBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

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35.Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Venture	"
Cathay Securities Investment Trust	"
Cathay Life (China)	"
Cathay Life (Vietnam)	"
Cathay Insurance (Bermuda)	"
Cathay Securities Investment Consulting	"
Lin Yuan	"
Cathay Century (China)	"
Cathay Century (Vietnam)	"
Indovina Bank	"
Seaward Card	"
CUBC Bank	"
Cathay Futures	"
Taiwan Real-estate Management Corp.	Associate
Symphox Information Co., Ltd.	"
Tien-Tai Energy Corp.	"
Vietinbank	Other related party
Cathay Dragon Fund etc.	"
Lin Yuan Property Management Co., Ltd.	"
Cathay General Hospital	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Healthcare Management Co., Ltd.	"
Cathay Hospitality Management Co., Ltd.	"
Culture and Charity Foundation of the CUB	"
Others	"

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Call loans to banks

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Vietinbank	\$6,554,374	\$219,724	\$6,376,067	\$219,486	\$5,731,948	\$189,361

Name	Interest income			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Vietinbank	\$273,916	\$9,183	\$217,002	\$7,470

(B) Due from commercial banks

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Vietinbank	\$16,175	\$542	\$5,722	\$197	\$23,666	\$782

Name	Interest income			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Vietinbank	\$24	\$1	\$-	\$-

(C) Call loans from banks

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Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Vietinbank	<u>\$3,844,124</u>	<u>\$128,868</u>	<u>\$2,797,772</u>	<u>\$96,309</u>	<u>\$4,072,018</u>	<u>\$134,523</u>

Name	Interest expense			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Vietinbank	<u>\$241,197</u>	<u>\$8,086</u>	<u>\$132,414</u>	<u>\$4,558</u>

(D) Due to commercial banks

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Vietinbank	<u>\$1,601</u>	<u>\$54</u>	<u>\$5,722</u>	<u>\$197</u>	<u>\$1,395</u>	<u>\$46</u>

B. Financial assets at fair value through profit or loss

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Cathay Dragon Fund etc.	<u>\$2,038,855</u>	<u>\$68,349</u>	<u>\$2,319,889</u>	<u>\$79,858</u>	<u>\$1,676,355</u>	<u>\$55,380</u>

C. Receivables

Name	2013.12.31			2012.12.31			2012.1.1		
	NT\$	US\$	%	NT\$	US\$	%	NT\$	US\$	%
Subsidiary									
Cathay Insurance (Bermuda)	\$43,145	\$1,446	0.03	-	-	-	\$1,035	\$34	-
Other related party									
Cathay Dragon Fund etc.	<u>84,454</u>	<u>2,831</u>	0.05	<u>76,453</u>	<u>2,632</u>	0.07	<u>68,121</u>	<u>2,250</u>	0.07
Total	<u>\$127,599</u>	<u>\$4,277</u>		<u>\$76,453</u>	<u>\$2,632</u>		<u>\$69,156</u>	<u>\$2,284</u>	

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D. Loans

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Associates						
Taiwan Real-estate						
Management Corp.	\$60,000	\$2,011	\$65,000	\$2,238	\$80,000	\$2,643
Tien-Tai Energy Corp.	120,859	4,052	-	-	-	-
Other related parties						
Cathay Real Estate						
Development Co., Ltd.	100,000	3,352	-	-	-	-
Cathay General Hospital	3,025,691	101,431	3,313,519	114,063	3,588,571	118,552
Others	1,617,682	54,230	890,843	30,666	692,627	22,882
Total	\$4,924,232	\$165,076	\$4,269,362	\$146,967	\$4,361,198	\$144,077

Name	Interest income			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Associates				
Taiwan Real-estate Management Corp.	\$1,174	\$39	\$1,397	\$48
Tien-Tai Energy Corp.	1,932	65	-	-
Other related parties				
Cathay Real Estate Development Co., Ltd.	11,677	391	602	21
Cathay General Hospital	75,147	2,519	86,319	2,971
Others	27,939	937	7,042	242
Total	\$117,869	\$3,951	\$95,360	\$3,282

E. Available-for-sale financial assets

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related parties						
Cathay Dragon Fund etc.	\$290,068	\$9,724	\$236,464	\$8,140	\$209,614	\$6,925
Cathay Healthcare						
Management Co., Ltd.	64,868	2,175	34,125	1,175	37,500	1,239
Total	\$354,936	\$11,899	\$270,589	\$9,315	\$247,114	\$8,164

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F. Deposit

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Associate						
Symphox Information Co., Ltd.	\$142,617	\$4,781	\$167,730	\$5,774	\$277,215	\$9,158
			(Note)	(Note)	(Note)	(Note)
Other related parties						
Cathay Real Estate						
Development Co., Ltd.	226,980	7,609	279,019	9,605	215,767	7,128
Cathay Dragon Fund etc.	1,970,907	66,071	3,258,081	112,154	3,533,073	116,719
Others	8,558,652	286,914	7,234,987	249,053	6,719,624	221,990
Total	<u>\$10,899,156</u>	<u>\$365,375</u>	<u>\$10,939,817</u>	<u>\$376,586</u>	<u>\$10,745,679</u>	<u>\$354,995</u>

Name	Interest expense			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Associate				
Symphox Information Co., Ltd.	\$1,425	\$48	\$2,306 (Note)	\$79 (Note)
Other related parties				
Cathay Real Estate Development Co., Ltd.	177	6	189	7
Cathay Dragon Fund etc.	14,680	492	19,652	676
Others	94,286	3,161	67,847	2,336
Total	<u>\$110,568</u>	<u>\$3,707</u>	<u>\$89,994</u>	<u>\$3,098</u>

Note: Being the subsidiary of the company in the period.

G. Property transactions

(A) Transactions between Cathay Life 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 and the contracts of both parties.

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Name	2013.1.1~2013.12.31		
	Item	NT\$	US\$
Other related parties			
Cathay Real Estate Development Co., Ltd.			
	Cathay Land Mark, etc.	\$18,870	\$633
San Ching Engineering Co., Ltd.			
	Cathay Land Mark, etc.	2,570,241	86,163
Lin Yuan Property Management Co., Ltd.			
	Cathay Cosmos Building, etc.	46,575	1,561
Total		<u>\$2,635,686</u>	<u>\$88,357</u>

Name	2012.1.1~2012.12.31		
	Item	NT\$	US\$
Other related parties			
Cathay Real Estate Development Co., Ltd.			
	Cathay Land Mark, etc.	\$34,623	\$1,192
San Ching Engineering Co., Ltd.			
	Cathay Land Mark, etc.	1,409,314	48,513
Lin Yuan Property Management Co., Ltd.			
	Cathay Cosmos Building, etc.	21,297	733
Total		<u>\$1,465,234</u>	<u>\$50,438</u>

The total amounts of contracted projects for real estate as of 31 December 2013, 31 December 2012 and 1 January 2012, between Cathay Life and Lin Yuan Property Management Co., Ltd. were NT\$95,481 (US\$3,201) thousands , NT\$3,408 (US\$117) thousands and NT\$0 (US\$0) thousands, respectively.

The total amounts of contracted projects for real estate as of 31 December 2013, 31 December 2012 and 1 January 2012, between Cathay Life and San Ching Engineering Co., Ltd. were NT\$5,535,807 (US\$185,579) thousands , 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 31 December 2013, 31 December 2012 and 1 January 2012, between Cathay Life and Cathay Real Estate Development Co., Ltd. were NT\$49,306 (US\$1,653) thousands , NT\$49,306 (US\$1,697) thousands and NT\$49,306 (US\$1,629) thousands, respectively.

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(B) Real estate rental income from Cathay Life:

Name	Rental income			
	2013.1.1~2013.12.31		2012.1.1~2013.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Securities Investment Consulting	\$8,805	\$295	\$9,244	\$318
Other related parties				
Cathay Real Estate Development Co., Ltd.	17,405	583	17,351	597
San Ching Engineering Co., Ltd.	5,808	195	6,120	211
Cathay General Hospital	174,863	5,862	174,620	6,011
Cathay Healthcare Management Co., Ltd.	34,421	1,154	31,440	1,082
Cathay Hospitality Management Co., Ltd.	27,667	927	694	24
Total	\$268,969	\$9,016	\$239,469	\$8,243

Name	Guarantee deposits received					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Associate						
Symphox Information Co., Ltd.	\$5,922	\$199	\$3,942	\$136	\$3,836	\$127
			(Note)	(Note)	(Note)	(Note)
Other related parties						
Cathay Real Estate						
Development Co., Ltd.	4,028	135	4,028	139	4,028	133
Cathay General Hospital	10,166	341	10,166	350	13,194	436
Cathay Healthcare						
Management Co., Ltd.	8,012	269	8,012	276	6,894	228
Total	\$28,128	\$944	\$26,148	\$901	\$27,952	\$924

Note: Being the subsidiary of the company in the period.

Lease terms are usually between 2 to 5 years and rental incomes are collected monthly.

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(C) Real estate rental expense from Cathay Life and Cathay United Bank:

Name	Rental income			
	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Culture and Charity Foundation of the CUB	\$4,819	\$162	\$2,643	\$91

Name	Rental expense			
	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Real Estate Development Co., Ltd.	\$69,204	\$2,320	\$37,949	\$1,306

Name	Guarantee deposits received					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Cathay Real Estate Development Co., Ltd.	\$13,932	\$467	\$13,932	\$480	\$3,786	\$125

According to the contracts, lease terms generally were 3 years and rents were paid monthly.

H. Guarantee deposits

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Other related party					
Lin Yuan Property Management Co., Ltd.	\$5,000	\$168	\$5,000	\$172	\$5,000	\$165

I. Futures traders' equity

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Other related party					
Cathay Dragon Fund etc.	\$153,195	\$5,136	\$166,848	\$5,743	\$-	\$-

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J. Securities sold under agreements to repurchase

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related parties						
Others	\$-	\$-	\$60,081	\$2,068	\$1,300,456	\$42,962

Name	Interest expense			
	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Other	\$121	\$4	\$251	\$9

K. Payables

Name	2013.12.31			2012.12.31			2012.1.1		
	NT\$	US\$	%	NT\$	US\$	%	NT\$	US\$	%
Subsidiaries									
Cathay Insurance (Bermuda)	\$14,109	\$473	0.04	\$-	\$-	-	\$64	\$2	-
Seaward Card	24,857	833	0.07	26,131	900	0.04	27,223	899	0.06
Associate									
Symphox Information Co., Ltd.	21,559	723	0.06	16,368	563	0.03	15,746	520	0.04
				(Note)	(Note)		(Note)	(Note)	
Other related parties									
Lin Yuan Property Management Co., Ltd.	1,383	46	-	3,580	123	0.01	5,294	175	0.01
San Ching Engineering Co., Ltd.	-	-	-	326	11	-	23,331	771	0.05
Vietinbank	119,800	4,016	0.32	407,904	14,041	0.67	-	-	-
Total	\$181,708	\$6,091		\$454,309	\$15,638		\$71,658	\$2,367	

Note: Being the subsidiary of the company in the period.

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L. Sales of securities

Name	Securities	2013.1.1~2013.12.31(NT\$)		
		Shares	Amount	Gain on disposal
Associates				
Cathay Real Estate Development Co., Ltd.	Symphox Information Co., Ltd.	5,489 (in thousands)	\$90,297	Note
San Ching Engineering Co., Ltd.	Symphox Information Co., Ltd.	19,900 (in thousands)	327,365	\$109,828

Name	Securities	2013.1.1~2013.12.31(US\$)		
		Shares	Amount	Gain on disposal
Associates				
Cathay Real Estate Development Co., Ltd.	Symphox Information Co., Ltd.	5,489 (in thousands)	\$3,027	Note
San Ching Engineering Co., Ltd.	Symphox Information Co., Ltd.	19,900 (in thousands)	10,974	\$3,682

Note: The price differences between the net proceeds from selling of Symphox Information Co., Ltd. to Cathay Real Estate Development Co., Ltd. and the net carrying amount had been recognized in equity.

There is no significant related parties transactions for the year ended 31 December 2012.

M. Net commission and handling fee

(A) Handling fee income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Securities Investment Consulting	\$20,787	\$697	\$7,943	\$273

(B) Reinsurance handling fee paid

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda)	\$8,938	\$300	\$9,412	\$324

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N. Net premiums from insurance business

(A) Insurance income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Real Estate Development Co., Ltd.	\$7,923	\$266	\$8,324	\$287
Cathay General Hospital	44,912	1,506	47,979	1,652
Lin Yuan Property Management Co., Ltd.	3,001	101	2,925	101
San Ching Engineering Co., Ltd.	511	17	6,054	208
Others	123,255	4,132	103,346	3,558
Total	<u>\$179,602</u>	<u>\$6,022</u>	<u>\$168,628</u>	<u>\$5,806</u>

(B) Reinsurance income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda)	<u>\$131,331</u>	<u>\$4,403</u>	<u>\$130,785</u>	<u>\$4,502</u>

On 1 April 2000, Cathay Insurance (Bermuda) engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the years ended 2013 and 2012, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda)	<u>\$132,439</u>	<u>\$4,440</u>	<u>\$136,340</u>	<u>\$4,693</u>

(D) Reinsurance commission expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda)	<u>\$3,755</u>	<u>\$126</u>	<u>\$3,105</u>	<u>\$107</u>

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O. Net other non-interest income

(A) Sales

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay General Hospital	\$48,929	\$1,640	\$37,295	\$1,284

(B) Management fee income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Dragon Fund etc.	\$992,052	\$33,257	\$874,607	\$30,107

(C) Other income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay General Hospital	\$5,461	\$183	\$5,467	\$188

P. Operating expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Securities Investment Consulting	\$22,855	\$766	\$25,358	\$873
Seaward Card	323,846	10,856	336,741	11,592
Associate				
Symphox Information Co., Ltd.	490,493	16,443	476,378	16,399
			(Note)	(Note)
Other related parties				
Cathay Real Estate Development Co., Ltd.	22,838	766	24,451	842
Lin Yuan Property Management Co., Ltd.	683,390	22,909	637,411	21,942

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Cathay Healthcare Management Co., Ltd.	13,427	450	9,551	329
Cathay General Hospital	3,008	101	5,772	199
San Ching Engineering Co., Ltd.	3,592	120	3,769	130
Total	<u>\$1,563,449</u>	<u>\$52,411</u>	<u>\$1,519,431</u>	<u>\$52,306</u>

Note: Being the subsidiary of the company in the period.

Q. Key management personnel compensation

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$470,397	\$15,769	\$356,756	\$12,281
Post-employment pension	12,450	417	10,148	349
Termination benefits	2,708	91	-	-
Total	<u>\$485,555</u>	<u>\$16,277</u>	<u>\$366,904</u>	<u>\$12,630</u>

The key management personnel of the Group include chairman, directors, supervisors, and vice general managers.

(3) The Company

Significant intercompany transactions within the Group have been eliminated upon consolidation.

A. Cash in bank

Name	Item	Ending balance					
		2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary							
Cathay United Bank	Time deposit	\$-	\$-	\$87,408	\$3,009	\$-	\$-
	Cash in bank	3,982	133	5,981	206	60,579	2,001
		<u>\$3,982</u>	<u>\$133</u>	<u>\$93,389</u>	<u>\$3,215</u>	<u>\$60,579</u>	<u>\$2,001</u>

As of the years ended 31 December 2013 and 2012, interest revenue earned from deposits in Cathay United Bank described above were NT\$1,831(US\$61) thousands and NT\$2,274(US\$78) thousands, respectively.

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B. Receivables

Name	Item	2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiaries							
Cathay Life	Interest	\$3,458,995	\$115,957	\$2,550,995	\$87,814	\$1,642,995	\$54,278
Cathay Century	Receivables due to consolidated income tax and interest	212,790	7,133	172,887	5,951	103,717	3,426
Cathay Securities	Receivables due to consolidated income tax	-	-	111,308	3,832	-	-
Cathay Securities Investment Trust	Receivables due to consolidated income tax	58,705	1,968	19,154	659	-	-
Total		<u>\$3,730,490</u>	<u>\$125,058</u>	<u>\$2,854,344</u>	<u>\$98,256</u>	<u>\$1,746,712</u>	<u>\$57,704</u>

C. Guarantee deposits paid

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary						
Cathay Life	\$8,505	\$285	\$6,604	\$227	\$5,816	\$192

D. Held-to-maturity financial asset

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiaries						
Cathay Life	\$30,000,000	\$1,005,699	\$30,000,000	\$1,032,702	\$30,000,000	\$991,080
Cathay Century	1,000,000	33,523	1,000,000	34,423	1,000,000	33,036
Total	<u>\$31,000,000</u>	<u>\$1,039,222</u>	<u>\$31,000,000</u>	<u>\$1,067,125</u>	<u>\$31,000,000</u>	<u>\$1,024,116</u>

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E. Payables

Name	Item	2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiaries							
Cathay Life	Payable due to consolidated income tax	\$7,550,281	\$253,110	\$5,235,287	\$180,216	\$3,055,618	\$100,945
Cathay United Bank	Payable due to consolidated income tax	256,312	8,592	246,573	8,488	554,163	18,307
Cathay Securities	Payable due to consolidated income tax	6,495	218	-	-	155,365	5,133
Total		<u>\$7,813,088</u>	<u>\$261,920</u>	<u>\$5,481,860</u>	<u>\$188,704</u>	<u>\$3,765,146</u>	<u>\$124,385</u>

F. Interest income

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Life	\$908,000	\$30,439	\$908,000	\$31,256
Cathay Century	18,600	624	18,600	640
Total	<u>\$926,600</u>	<u>\$31,063</u>	<u>\$926,600</u>	<u>\$31,896</u>

G. Operating expenses

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Life	\$31,354	\$1,051	\$27,960	\$962
Cathay United Bank	3,313	111	2,383	82
Total	<u>\$34,667</u>	<u>\$1,162</u>	<u>\$30,343</u>	<u>\$1,044</u>

(4) Subsidiaries' significant transactions with related parties are follows:

Significant intercompany transactions within the Group have been eliminated upon consolidation.

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A. Cathay Life and its subsidiaries

a. Cash in banks

Name	Item	Ending balance					
		2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiaries							
Cathay United	Time deposit	\$7,482	\$251	\$57,338,698	\$1,973,793	\$53,383,921	\$1,763,592
Bank							
	Cash in bank	24,802,249	831,453	15,791,906	543,611	8,973,412	296,446
	Check deposits	747,053	25,044	954,116	32,844	638,623	21,098
	Security deposit	6	-	6	-	6	-
Indovina Bank	Time deposit	-	-	471	16	32,811	1,084
	Cash in bank	5,226	175	2,737	94	1,622	54
		<u>\$25,562,016</u>	<u>\$856,923</u>	<u>\$74,087,934</u>	<u>\$2,550,358</u>	<u>\$63,030,395</u>	<u>\$2,082,274</u>

As of the years ended 31 December 2013 and 2012, interest revenue earned from deposits in Cathay United Bank described above were NT\$325,925(US\$10,926) thousands and NT\$462,751 (US\$15,929) thousands, respectively.

As of the years ended 31 December 2013 and 2012, interest revenue earned from deposits in Indovina Bank described above were NT\$3,487(US\$117) thousands and NT\$1,499 (US\$52) thousands, respectively.

As of 31 December 2013, 31 December 2012 and 1 January 2012, pledged deposits inclusive of deposits in related parties described above were NT\$7,482(US\$251) thousands, NT\$8,698(US\$299) thousands and NT\$38,698 (US\$1,278) thousands, respectively.

b. Debt investments without active market

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary						
Cathay United Bank	\$3,000	\$101	\$3,000	\$103	\$-	\$-

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c. Other receivables

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial						
Holding (Note)	\$7,550,281	\$253,110	\$5,235,287	\$180,216	\$3,055,618	\$100,945
Subsidiary						
Cathay Century	164,984	5,531	141,412	4,868	217,861	7,197
Total	<u>\$7,715,265</u>	<u>\$258,641</u>	<u>\$5,376,699</u>	<u>\$185,084</u>	<u>\$3,273,479</u>	<u>\$108,142</u>

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

d. Secured loans

Name	2013.1.1~2013.12.31						
	Maximum amount		Interest Income			Ending balance	
	NT\$	US\$	NT\$	US\$	Rate	NT\$	US\$
Other related parties							
Cathay General Hospital	\$3,210,519	\$107,627	\$72,197	\$2,420	2.01%~2.55%	\$2,926,691	\$98,112
Others	717,643	24,058	10,153	340	1.34%~3.88%	694,214	23,272
Total			<u>\$82,350</u>	<u>\$2,760</u>		<u>\$3,620,905</u>	<u>\$121,384</u>

Name	2012.1.1~2012.31						
	Maximum amount		Interest income			Ending balance	
	NT\$	US\$	NT\$	US\$	Rate	NT\$	US\$
Other related parties							
Cathay General Hospital	\$3,485,571	\$119,985	\$83,272	\$2,867	2.43%~2.55%	\$3,210,519	\$110,517
Others	510,342	17,568	768	26	1.53%~3.78%	466,722	16,066
Total			<u>\$84,040</u>	<u>\$2,893</u>		<u>\$3,677,241</u>	<u>\$126,583</u>

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e. Financial assets at fair value through profit or loss-beneficiary certificates

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Cathay Dragon Fund etc.	<u>\$2,008,405</u>	<u>\$67,328</u>	<u>\$2,319,889</u>	<u>\$79,858</u>	<u>\$1,666,355</u>	<u>\$55,050</u>

f. Guarantee deposits paid

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary						
Cathay Futures	<u>\$711,826</u>	<u>\$23,863</u>	<u>\$364,739</u>	<u>\$12,556</u>	<u>\$511,844</u>	<u>\$16,909</u>

The guarantee deposits are futures margins of Cathay Futures. As of the years ended 31 December 2013 and 2012, interest revenue earned from guarantee deposits were NT\$990(US\$33) thousands and NT\$474 (US\$16) thousands, respectively.

g. Other payables

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding (Note)	<u>\$3,458,995</u>	<u>\$115,957</u>	<u>\$2,550,995</u>	<u>\$87,814</u>	<u>\$1,642,995</u>	<u>\$54,278</u>

Note: Interest payable accrued from preferred stock liability.

h. Preferred stock liability

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding	<u>\$30,000,000</u>	<u>\$1,005,699</u>	<u>\$30,000,000</u>	<u>\$1,032,702</u>	<u>\$30,000,000</u>	<u>\$991,080</u>

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i. Property transactions

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

Real estate contracted projects of Cathay Life:

Name	Item	2013.1.1~2013.12.31	
		NT\$	US\$
Other related party			
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	<u>\$2,570,241</u>	<u>\$86,163</u>

Name	Item	2012.1.1~2012.12.31	
		NT\$	US\$
Other related party			
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	<u>\$1,409,314</u>	<u>\$48,513</u>

As of 31 December 2013, 31 December 2012 and 1 January 2012, the prices of construction contracts between Cathay Life and San Ching Engineering Co., Ltd. are in the amount of NT\$5,535,807 (US\$185,579), NT\$5,483,615 (US\$188,765) and NT\$5,483,615 (US\$181,157) thousands, respectively.

j. Real estate rental income

Name	Item	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
		NT\$	US\$	NT\$	US\$
Subsidiaries					
Cathay United Bank	Rental real estate	\$376,345	\$12,616	\$352,726	\$12,142
Cathay Century	Rental real estate	102,738	3,444	92,860	3,197
Other related party					
Cathay General Hospital	Rental real estate	<u>174,863</u>	<u>5,862</u>	<u>174,620</u>	<u>6,011</u>
Total		<u>\$653,946</u>	<u>\$21,922</u>	<u>\$620,206</u>	<u>\$21,350</u>

Lease terms are usually between 2 to 5 years and rental incomes are collected monthly.

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

k. Insurance income

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay United Bank	\$428,978	\$14,381	\$651,850	\$22,439
Other related parties				
Others	123,255	4,132	103,346	3,558
Total	<u>\$552,233</u>	<u>\$18,513</u>	<u>\$755,196</u>	<u>\$25,997</u>

l. Insurance expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Century	<u>\$108,543</u>	<u>\$3,639</u>	<u>\$111,560</u>	<u>\$3,840</u>

m. Reinsurance income

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda)	<u>\$131,331</u>	<u>\$4,403</u>	<u>\$130,785</u>	<u>\$4,502</u>

n. Reinsurance claims payment

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda)	<u>\$132,439</u>	<u>\$4,440</u>	<u>\$136,340</u>	<u>\$4,693</u>

o. Other revenues

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay United Bank	<u>\$429,214</u>	<u>\$14,389</u>	<u>\$430,341</u>	<u>\$14,814</u>

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p. Miscellaneous income

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Century	\$1,296,926	\$43,477	\$1,176,280	\$40,492
Cathay United Bank	122,537	4,108	94,630	3,257
Cathay Securities Investment Trust	143,054	4,796	139,359	4,797
Total	<u>\$1,562,517</u>	<u>\$52,381</u>	<u>\$1,410,269</u>	<u>\$48,546</u>

q. Operating expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay United Bank	\$2,957,714	\$99,152	\$2,506,115	\$86,269
Cathay Securities Investment Trust	134,493	4,509	133,040	4,580
Other related party				
Lin Yuan Property Management Co., Ltd.	675,726	22,653	629,076	21,655
Total	<u>\$3,767,933</u>	<u>\$126,314</u>	<u>\$3,268,231</u>	<u>\$112,504</u>

r. Non-operating expenses and losses

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
The Company				
Cathay Financial Holding (Note)	<u>\$908,000</u>	<u>\$30,439</u>	<u>\$908,000</u>	<u>\$31,256</u>

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

s. Other disclosures

As of 31 December 2013, 31 December 2012 and 1 January 2012, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

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Item	2013.12.31	2012.12.31	2012.1.1
CS contracts	USD1,045,000	USD985,000	USD1,900,000

B. Cathay United Bank and its subsidiaries

a. Loans and deposits

Account/Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>Loans</u>						
Associate						
Tien-Tai Energy Corp.	\$120,859	\$4,052	\$-	\$-	\$-	\$-
Other related parties						
Cathay Real Estate						
Development Co., Ltd.	100,000	3,352	-	-	-	-
Cathay General Hospital	99,000	3,319	103,000	3,546	103,000	3,403
Others	890,965	29,868	385,830	13,282	363,719	12,016
Total	\$1,210,824	\$40,591	\$488,830	\$16,828	\$466,719	\$15,419

Account/Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>Deposits</u>						
Subsidiaries						
Cathay Life	\$25,559,790	\$856,848	\$73,919,996	\$2,544,578	\$62,695,468	\$2,071,208
Cathay Century	1,470,311	49,290	1,285,715	44,259	1,335,125	44,107
Cathay Securities	1,300,263	43,589	1,797,618	61,880	746,384	24,658
Cathay Futures	1,920,210	64,372	1,978,796	68,117	2,289,023	75,620
Cathay Securities						
Investment Trust	344,818	11,559	1,745,795	60,096	1,695,233	56,004
Cathay Century (Vietnam)	179,870	6,030	326,295	11,232	433,340	14,316
Associate						
Symphox Information Co., Ltd.	142,617	4,781	167,730	5,774	277,215	9,158
			(Note)	(Note)	(Note)	(Note)
Other related parties						

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Cathay Real Estate						
Development Co., Ltd.	226,980	7,609	279,019	9,605	215,767	7,128
Cathay Dragon Fund etc.	1,970,907	66,071	3,258,081	112,154	3,533,073	116,719
Others	8,558,652	286,914	7,234,987	249,053	6,719,624	221,990
Total	\$41,674,418	\$1,397,063	\$91,994,032	\$3,166,748	\$79,940,252	\$2,640,908

Account/Name	Interest income			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
<u>Loans</u>				
Associate				
Tien-Tai Energy Corp.	\$1,932	\$65	\$-	\$-
Other related parties				
Cathay Real Estate Development Co., Ltd.	11,677	391	602	21
Cathay General Hospital	2,950	99	3,047	105
Others	17,138	575	5,506	190
Total	\$33,697	\$1,130	\$9,155	\$316

Account/Name	Interest expense			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
<u>Deposits</u>				
Subsidiaries				
Cathay Life	\$324,350	\$10,873	\$460,387	\$15,848
Cathay Century	9,449	317	11,091	382
Cathay Securities	8,560	287	7,040	242
Cathay Futures	25,717	862	21,587	743
Cathay Securities Investment Trust	7,003	235	12,388	426
Cathay Century (Vietnam)	116,380	3,901	24,397	840
Associate				
Symphox Information Co., Ltd.	1,425	48	2,306	79
			(Note)	(Note)
Other related parties				
Cathay Real Estate Development Co., Ltd.	177	6	189	7
Cathay Dragon Fund etc.	14,680	492	19,652	676
Others	94,286	3,161	67,847	2,336
Total	\$602,027	\$20,182	\$626,884	\$21,579

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Note: Being the subsidiary of the company in the period.

Account/Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>Call loans to banks</u>						
Other related party						
Vietinbank	\$6,554,374	\$219,724	\$6,376,067	\$219,486	\$5,731,948	\$189,361
<u>Call loans from banks</u>						
Other related party						
Vietinbank	3,844,124	128,868	2,797,772	96,309	4,072,018	134,523

Account/Name	Interest income			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
<u>Call loans to banks</u>				
Other related party				
Vietinbank	\$273,916	\$9,183	\$217,002	\$7,470

Account/Name	Interest expense			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
<u>Call loans from banks</u>				
Other related party				
Vietinbank	\$241,197	\$8,086	\$132,414	\$4,558

Transaction terms with related parties are similar to those with third parties.

b. Securities sold under agreements to repurchase

Name	Ending balance					
	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related parties						
Others	\$-	\$-	\$60,081	\$2,068	\$1,300,456	\$42,962

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Name	Interest expense			
	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Other related parties				
Others	\$121	\$4	\$251	\$9

c. Receivables due to consolidated income tax

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding	\$256,312	\$8,592	\$246,573	\$8,488	\$554,163	\$18,307

d. Preferred stock liability

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party						
Vietinbank	\$119,800	\$4,016	\$407,904	\$14,041	\$-	\$-

e. Rental expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Life	\$376,345	\$12,616	\$352,726	\$12,142

g. Handling fees income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Life	\$2,957,714	\$99,152	\$2,506,115	\$86,269

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h. Accrued insurance expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Life	\$428,978	\$14,381	\$651,850	\$22,439
Cathay Century	101,014	3,386	98,341	3,385
Total	<u>\$529,992</u>	<u>\$17,767</u>	<u>\$750,191</u>	<u>\$25,824</u>

i. General expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Life	\$122,537	\$4,108	\$94,630	\$3,257
Seaward Card	212,710	7,131	227,914	7,846
Associate				
Symphox Information Co., Ltd.	429,214	14,389	430,341	14,814
			(Note)	(Note)
Total	<u>\$764,461</u>	<u>\$25,628</u>	<u>\$752,885</u>	<u>\$25,917</u>

Note: Being the subsidiary of the company in the period.

C. Cathay Century and its subsidiaries

a. Cash in banks

Name	Item	Ending balance					
		2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary							
Cathay United	Time deposit	\$693,131	\$23,236	\$695,800	\$23,952	\$915,000	\$30,228
Bank							
	Cash in bank	619,878	20,780	416,944	14,353	305,576	10,095
	Check deposit	157,302	5,273	172,971	5,954	114,549	3,784
	Total	<u>\$1,470,311</u>	<u>\$49,289</u>	<u>\$1,285,715</u>	<u>\$44,259</u>	<u>\$1,335,125</u>	<u>\$44,107</u>

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As of the years ended 31 December 2013 and 2012, interest revenue earned from deposits in Cathay United Bank described above were NT\$9,449(US\$317) thousands and NT\$11,091(US\$382) thousands, respectively.

As of 31 December 2013, 31 December 2012 and 1 January 2012, pledged deposits inclusive of deposits in related parties described above were NT\$25,000(US\$838) thousands, NT\$20,000(US\$688) thousands and NT\$20,000 (US\$661) thousands, respectively.

b. Available-for-sale financial assets

Name	Item	2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Other related party							
Cathay Dragon	Beneficiary						
Fund etc.	certificates	<u>\$146,836</u>	<u>\$4,922</u>	<u>\$67,557</u>	<u>\$2,326</u>	<u>\$50,845</u>	<u>\$1,680</u>

c. Other payables

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding	\$212,790	\$7,133	\$172,887	\$5,951	\$103,717	\$3,426
Subsidiary						
Cathay Life	<u>164,984</u>	<u>5,531</u>	<u>141,412</u>	<u>4,868</u>	<u>217,861</u>	<u>7,197</u>
Total	<u>\$377,774</u>	<u>\$12,664</u>	<u>\$314,299</u>	<u>\$10,819</u>	<u>\$321,578</u>	<u>\$10,623</u>

d. Preferred stock liability

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding	<u>\$1,000,000</u>	<u>\$33,523</u>	<u>\$1,000,000</u>	<u>\$34,423</u>	<u>\$1,000,000</u>	<u>\$33,036</u>

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e. Insurance income

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiaries				
Cathay Life	\$108,543	\$3,639	\$111,560	\$3,840
Cathay United Bank	101,014	3,386	98,341	3,385
Total	<u>\$209,557</u>	<u>\$7,025</u>	<u>\$209,901</u>	<u>\$7,225</u>

f. Operating expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Life	<u>\$1,296,926</u>	<u>\$43,477</u>	<u>\$1,176,280</u>	<u>\$40,492</u>

g. Rental expense

Name	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Life	<u>\$102,738</u>	<u>\$3,444</u>	<u>\$92,860</u>	<u>\$3,197</u>

h. Other disclosure

As of 31 December 2013, 31 December 2012 and 1 January 2012, the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	2013.12.31	2012.12.31	2012.1.1
CS contracts	USD 57,450	USD 75,250	USD 41,050
IRS	NTD400,000	NTD 400,000	NTD 600,000

D. Cathay Securities and its subsidiaries

a. Cash in bank

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Name	Item	Ending balance					
		2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary							
Cathay United	Time deposit	\$1,000,000	\$33,523	\$1,000,000	\$34,423	\$587,900	\$19,422
Bank							
	Cash in bank	623,394	20,898	1,690,322	58,187	523,889	17,307
	Total	<u>\$1,623,394</u>	<u>\$54,421</u>	<u>\$2,690,322</u>	<u>\$92,610</u>	<u>\$1,111,789</u>	<u>\$36,729</u>

As of the years ended 31 December 2013 and 2012, interest revenue earned from deposits in Cathay United Bank described above were NT\$34,277(US\$1,149) thousands and NT\$28,627(US\$985) thousands, respectively.

As of 31 December 2013, 31 December 2012 and 1 January 2012, pledged deposits inclusive of deposits in related parties described above were NT\$1,000,000 (US\$33,523) thousands, NT\$1,000,000 (US\$34,423) thousands and NT\$587,900 (US\$19,422) thousands, respectively.

b. Customer's margin accounts

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary						
Cathay United Bank	<u>\$1,597,079</u>	<u>\$53,539</u>	<u>\$1,086,092</u>	<u>\$37,387</u>	<u>\$1,923,618</u>	<u>\$63,549</u>

c. Other receivables

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding						
(Note)	<u>\$6,495</u>	<u>\$218</u>	<u>\$-</u>	<u>\$-</u>	<u>\$155,365</u>	<u>\$5,133</u>

Note : Receivable are refundable tax under system.

d. Other payables

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Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
The Company						
Cathay Financial Holding	\$-	\$-	\$111,308	\$3,832	\$-	\$-

e. Futures trader's equity

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary						
Cathay Life	\$711,826	\$23,863	\$364,739	\$12,556	\$511,844	\$16,909
Other related party						
Cathay Dragon Fund etc.	153,195	5,136	166,848	5,743	-	-
Total	\$865,021	\$28,999	\$531,587	\$18,299	\$511,844	\$16,909

E. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Guarantee deposit

Name	Item	Ending balance					
		2013.12.31		2012.12.31		2012.1.1	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary							
Cathay United	Time deposit						
Bank	(Note)	\$323,850	\$10,857	\$1,720,550	\$59,227	\$1,679,450	\$55,482
	Cash in bank	75	3	28	1	27	1
	Check deposits	20,893	700	25,217	868	15,756	521
	Total	\$344,818	\$11,560	\$1,745,795	\$60,096	\$1,695,233	\$56,004

Note: As of 31 December 2013, 31 December 2012 and 1 January 2012, according to “Standards Governing the Establishment of Futures Trust Enterprises and Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust reserved NT\$50,000 (US\$1,676) thousands, NT\$50,000 (US\$1,721) thousands and NT\$50,000 (US\$1,652) thousands respectively of its time deposits in Cathay United Bank as operating deposit.

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In addition, Cathay Securities Investment Trust reserved NT\$160,100 (US\$5,367) thousands, NT\$145,000 (US\$4,991) thousands and NT\$128,500 (US\$4,245) thousands, respectively, as performance bond according to Discretionary Investment Services Contract.

As of the years ended 31 December 2013 and 2012, interest revenue earned from deposits in Cathay United Bank described above were NT\$7,003(US\$235) thousands and NT\$12,388(US\$426) thousands, respectively.

b. Available-for-sale financial assets

Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Subsidiary						
Cathay Dragon Fund etc.	\$143,232	\$4,802	\$128,032	\$4,407	\$118,147	\$3,903

c. Securities sold under agreements to repurchase

Name	2013.1.1~2013.12.31						
	Maximum balance		Ending balance		Rate	Interest income	
	NT\$	US\$	NT\$	US\$		NT\$	US\$
Subsidiary							
Cathay United Bank	\$1,475,128	\$49,451	\$-	\$-	0.52%~0.55%	\$797	\$27

Name	2012.1.1~2012.12.31						
	Maximum balance		Ending balance		Rate	Interest income	
	NT\$	US\$	NT\$	US\$		NT\$	US\$
Subsidiary							
Cathay United Bank	\$778,000	\$26,781	\$20,000	\$688	0.42%~0.46%	\$492	\$17

d. Operating expense

Name	Item	2013.1.1~2013.12.31		2012.1.1~2012.31	
		NT\$	US\$	NT\$	US\$
Subsidiary					
Cathay Life	Advertising and selling expenses	\$143,054	\$4,796	\$139,359	\$4,797

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e. Management fee income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Other related party Cathay Dragon Fund etc.	\$992,052	\$33,257	\$874,607	\$30,107

f. Other commission income

Name	2013.1.1~2013.12.31		2012.1.1~2012.31	
	NT\$	US\$	NT\$	US\$
Subsidiary Cathay Life	\$134,493	\$4,509	\$133,040	\$4,580

36.Pledged assets

As of 31 December 2013, 31 December 2012, and 1 January 2012, the Company and its subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount	
		NT\$	US\$
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$2,830,092	\$94,874
Guarantee deposits paid	Government bonds and court guarantees	10,553,803	353,798
Financial assets at fair value through profit or loss	Business reserves and guarantees, the operation of electronic gift certificate and customers' rights	-	-
Available-for-sale financial assets	Business reserves and guarantees	1,473,453	49,395
Held-to-maturity financial assets	Business reserves and guarantees	862,710	28,921
Investments in debt securities with no active market	Business reserves and guarantees	50,100,000	1,679,517
Other financial assets	Trust accounts	-	-
Total		\$65,820,058	\$2,206,505

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Item	Guarantee purpose	Carrying amount	
		2012.12.31	
		NT\$	US\$
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$2,559,994	\$88,124
Guarantee deposits paid	Government bonds and court guarantees	10,277,450	353,785
Financial assets at fair value through profit or loss	Business reserves and guarantees, the operation of electronic gift certificate and customers' rights	45,103	1,552
Available-for-sale financial assets	Business reserves and guarantees	1,603,158	55,186
Held-to-maturity financial assets	Business reserves and guarantees	610,570	21,018
Investments in debt securities with no active market	Business reserves and guarantees	50,100,000	1,724,613
Other financial assets	Trust accounts	10	-
Total		\$65,196,285	\$2,244,278

Item	Guarantee purpose	Carrying amount	
		2012.1.1	
		NT\$	US\$
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$2,194,023	\$72,482
Guarantee deposits paid	Government bonds and court guarantees	11,153,999	368,484
Financial assets at fair value through profit or loss	Business reserves and guarantees, the operation of electronic gift certificate and customers' rights	39,313	1,299
Available-for-sale financial assets	Business reserves and guarantees	1,504,328	49,697
Held-to-maturity financial assets	Business reserves and guarantees	635,080	20,980
Investments in debt securities with no active market	Business reserves and guarantees	38,500,000	1,271,886
Other financial assets	Trust accounts	-	-
Total		\$54,026,743	\$1,784,828

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37. Commitment and contingent liabilities

(1) Cathay United Bank

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted to NT\$0.99 billion (US\$33 million) and NT\$3.09 billion (US\$104 million). The case brought by Lee and Li was in litigation process in July 2007 and is still pending in Taipei District Court. Cathay United Bank is in mediation procedure with SanDisk Corporation. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will be resolved in the bank's favor and accordingly no provision for such claims has been made in these financial statements.

(2) Cathay Securities

As of 31 December 2013, Cathay Securities requested financial institutions issue letters of guarantees for security borrowing of NT\$630,000 (US\$21,120) thousands.

(3) As of 31 December 2013, 31 December 2012, and 1 January 2012, Cathay United Bank had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	2013.12.31	
	NT\$	US\$
Trust and security held for safekeeping	\$438,098,386	\$14,686,503
Travelers checks for sale	559,217	18,747
Bills for collection	44,881,814	1,504,586
Book-entry for government bonds and depository for short-term marketable securities under management	573,257,300	19,217,476
Entrusted financial management business	3,190,719	106,963
Guarantees on duties and contracts	11,270,885	377,837
Unused commercial letters of credit	4,285,167	143,653
Irrevocable loan commitments	165,758,492	5,556,771
Credit card lines commitments	379,995,132	12,738,690
Stamp tax, securities and memorial currency consignments	1,006	34
Financial guarantee contracts	575,284	19,285

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Item	2012.12.31	
	NT\$	US\$
Trust and security held for safekeeping	\$337,334,621	\$11,612,207
Travelers checks for sale	462,167	15,909
Bills for collection	39,523,311	1,360,527
Book-entry for government bonds and depository for short-term marketable securities under management	564,494,500	19,431,824
Entrusted financial management business	2,385,838	82,129
Guarantees on duties and contracts	12,081,454	415,885
Unused commercial letters of credit	4,933,417	169,825
Irrevocable loan commitments	34,415,264	1,184,691
Credit card lines commitments	295,794,164	10,182,243
Stamp tax, securities and memorial currency consignments	1,006	35
Financial guarantee contracts	852,596	29,349

Item	2012.1.1	
	NT\$	US\$
Trust and security held for safekeeping	\$283,313,658	\$9,359,553
Travelers checks for sale	419,563	13,861
Bills for collection	46,271,479	1,528,625
Book-entry for government bonds and depository for short-term marketable securities under management	548,802,600	18,130,248
Entrusted financial management business	2,670,038	88,207
Guarantees on duties and contracts	13,245,165	437,567
Unused commercial letters of credit	5,477,941	180,969
Irrevocable loan commitments	51,897,159	1,714,475
Credit card lines commitments	282,315,962	9,326,593
Stamp tax, securities and memorial currency consignments	1,006	33
Financial guarantee contracts	643,612	21,262

- (4) According to the effective operating leases agreement (the longest lease term being 5 years), rentals for the next five years are as follows:

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Name	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Within 1 year	\$966,282	\$32,393	\$884,866	\$30,460	\$1,211,016	\$40,007
1 to 5 years	1,552,038	52,030	1,214,969	41,823	1,374,263	45,400
Over 5 year	71,450	2,395	118,602	4,083	28,380	938
	<u>\$2,589,770</u>	<u>\$86,818</u>	<u>\$2,218,437</u>	<u>\$76,366</u>	<u>\$2,613,659</u>	<u>\$86,345</u>

38. Significant disaster losses: None.

39. Subsequent events: None.

40. Other significant matters

(1) Financial instruments related information

The Group

A. Categories of financial instruments

	2013.12.31	2012.12.31	2012.1.1
	NT\$	NT\$	NT\$
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	\$244,023,246	\$146,746,672	\$84,261,163
Available-for-sale financial assets -net	1,357,106,776	1,302,743,262	1,348,697,428
Derivative financial assets for hedging	1,300,914	2,362,366	3,425,140
Held-to-maturity financial assets -net	54,970,153	24,380,985	21,955,565
Other financial assets - investments with no active market	1,305,675,228	1,242,272,317	941,402,270
Loans and receivables:			
Cash and cash equivalents (petty cash and cash on hand excluded)	317,204,356	300,170,090	322,664,069
Due from the Central Bank and call loans to banks	151,945,066	109,003,762	100,101,541
Securities purchased under agreements to resell	12,960,817	15,749,244	11,617,967
Receivables -net	169,590,966	109,911,278	93,001,582
Loans -net	1,667,391,682	1,521,712,123	1,493,694,284
Other financial assets	419,122,589	363,027,892	317,303,993
Guarantee deposits paid	83,128,253	66,270,817	56,931,479
Subtotal	<u>2,821,343,729</u>	<u>2,485,845,206</u>	<u>2,395,314,915</u>
Total	<u>\$5,784,420,046</u>	<u>\$5,204,350,808</u>	<u>\$4,795,056,481</u>
<u>Financial liabilities</u>			

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Financial liabilities at fair value through profit or loss	\$28,754,621	\$9,086,346	\$23,136,143
Derivative financial liabilities for hedging	5,148	-	-
Financial liabilities at amortized cost:			
Due to the Central Bank and call loans from banks	56,985,225	56,934,246	62,275,073
Bankers acceptances and funds borrowed	1,497,500	1,456,800	1,514,500
Securities sold under agreements to repurchase	60,931,600	22,046,517	14,686,609
Commercial paper payable -net	10,050,000	5,540,000	8,720,000
Payables	37,548,440	60,740,926	44,204,197
Deposits	1,585,031,001	1,458,392,976	1,414,421,828
Bonds payable	92,417,213	89,831,007	76,023,825
Other financial liabilities	413,414,217	348,229,937	305,766,443
Guarantee deposits received	3,167,092	3,139,941	2,798,826
Subtotal	2,261,042,288	2,046,312,350	1,930,411,301
Total	\$2,289,802,057	\$2,055,398,696	\$1,953,547,444

2013.12.31	2012.12.31	2012.1.1
US\$	US\$	US\$

Financial assets

Financial assets at fair value through profit or loss	\$8,180,464	\$5,051,520	\$2,783,653
Available-for-sale financial assets -net	45,494,696	44,844,863	44,555,581
Derivative financial assets for hedging	43,611	81,321	113,153
Held-to-maturity financial assets -net	1,842,781	839,277	725,324
Other financial assets - investments with no active market	43,770,541	42,763,247	31,100,174
Loans and receivables:			
Cash and cash equivalents (exclude petty cash and cash on hand)	10,633,736	10,332,878	\$10,659,533
Due from the Central Bank and call loans to banks	5,093,700	3,752,281	3,306,955
Securities purchased under agreements to resell	434,489	542,142	383,811
Receivables -net	5,685,248	3,783,521	3,072,401
Loans -net	55,896,469	52,382,517	49,345,698
Other financial assets	14,050,372	12,496,657	10,482,458
Guarantee deposits paid	2,786,734	2,281,267	1,880,789
Subtotal	94,580,748	85,571,263	79,131,645
Total	\$193,912,841	\$179,151,491	\$158,409,530

Financial liabilities

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Financial liabilities at fair value through profit or loss	\$963,950	\$312,783	\$764,326
Derivative financial liabilities for hedging	173	-	-
Financial liabilities at amortized cost:			
Due to the Central Bank and call loans from banks	1,910,333	1,959,871	2,057,320
Bankers acceptances and funds borrowed	50,201	50,148	50,033
Securities sold under agreements to repurchase	2,042,628	758,916	485,187
Commercial paper payable -net	336,909	190,706	288,074
Payables	1,258,747	2,090,910	1,460,330
Deposits	53,135,468	50,202,856	46,726,853
Bonds payable	3,098,130	3,092,289	2,511,524
Other financial liabilities	13,859,008	11,987,261	10,101,303
Guarantee deposits received	106,171	108,088	92,461
Subtotal	75,797,595	70,441,045	63,773,085
Total	\$76,761,718	\$70,753,828	\$64,537,411

B. The methods and hypothesis for estimation of fair value measurement:

- a. For short-term financial instruments, their book value shown on consolidated balance statement was used to estimate the fair value. Due to the upcoming expiration, the fair values of short-term financial instruments are reasonable to be estimated based on book values. Such method mentioned above is applicable to Cash and cash equivalents, Receivables, Securities sold under agreements to repurchase (resell), Payables, Deposits, Remittances and Call loans to or from Banks.
- b. If there are active markets for financial assets or liabilities at fair value through profit and loss, available-for-sale financial assets, held-to-maturity financial assets, bonds investments without active market and derivative financial assets for hedging, such offer prices are regarded as fair value. If offer prices in active market are not available, valuation method is adopted alternatively. The basis of parameter used in valuation method are derived from available data in market, such as yield curve, exchange rate and reference to the condition and character of financial instruments, including credit rating, duration of bonds, currency and other condition and character similar to current fair value of financial instruments which results in consistency between valuation method and hypothesis of financial instruments valuation with market involvement.
- c. Discounts, loans and deposits are interest bearing financial instruments, resulting in the approximation between book value and current fair value. The book value of overdue receivables is derived from expected collectible amount less allowance of bad debts. As result, the book value is regarded as fair value.

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- d. The fair value of bonds payables are calculated from the discounted value of expected cash flows, equaling its book value.
- e. The book values of guarantee deposits paid and guarantee deposits received are regarded as their fair value due to insignificant difference between amount received and paid in the future.

C. Fair value of financial instruments at amortized cost:

Other than those listed in the table below, the carrying amount of the Group's financial assets and liabilities measured at amortized cost approximate their fair value:

	Book value		
	2013.12.31	2012.12.31	2012.1.1
	NT\$	NT\$	NT\$
Financial assets			
Held-to-maturity financial assets -net	\$54,970,153	\$24,380,985	\$21,955,565
Investments with no active market	1,305,675,228	1,242,272,317	941,402,270
Total	\$1,360,645,381	\$1,266,653,302	\$963,357,835

	Book value		
	2013.12.31	2012.12.31	2012.1.1
	US\$	US\$	US\$
Financial assets			
Held-to-maturity financial assets -net	\$1,842,781	\$839,277	\$725,324
Investments with no active market	43,770,541	42,763,247	31,100,174
Total	\$45,613,322	\$43,602,524	\$31,825,498

	Fair value		
	2013.12.31	2012.12.31	2012.1.1
	NT\$	NT\$	NT\$
Financial assets			
Held-to-maturity financial assets -net	\$55,977,454	\$27,346,777	\$22,191,852
Investments with no active market	1,277,291,734	1,292,288,382	941,784,982
Total	\$1,333,269,188	\$1,319,635,159	\$963,976,834

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	Fair value		
	2013.12.31	2012.12.31	2012.1.1
	US\$	US\$	US\$
Financial assets			
Held-to-maturity financial assets -net	\$1,876,549	\$941,369	\$733,130
Investments with no active market	42,819,032	44,484,970	31,112,818
Total	\$44,695,581	\$45,426,339	\$31,845,948

D. Financial instruments related information

To provide information of disclosure, the Group adopted the fair value levels reflecting the importance of inputs during measurement and classified the measurements of fair values into the following levels:

1st level: The offer prices in active market (without adjustments) were the basis of fair value measurement.

2nd level: The fair value measurement was derived from direct use of price or observable inputs concluded from price indirectly.

3rd level: Unobservable inputs were the basis of fair value measurement and observable inputs that require significant adjustments based on unobservable parameters.

a. The fair values of financial assets or liabilities determined by quoted market price are classified as level 1 or pricing models are classified as level 2 and 3 are summarized as following :

Financial instruments measured at fair value item	2013.12.31							
	Total		1 st Level		2 nd Level		3 rd Level	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss:								
Stocks	\$15,213,250	\$509,998	\$15,213,250	\$509,998	\$-	\$-	\$-	\$-
Bonds	16,042,556	537,799	10,011,547	335,620	6,031,009	202,179	-	-
Others	198,454,918	6,652,864	42,353,577	1,419,832	156,101,341	5,233,032	-	-
Available-for-sale financial assets:								

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Stocks	437,387,787	14,662,682	424,158,056	14,219,177	13,229,731	443,505	-	-
Bonds	783,310,158	26,259,140	26,135,059	876,133	757,175,099	25,383,007	-	-
Others	136,408,831	4,572,874	100,186,287	3,358,575	23,119,841	775,053	13,102,703	439,246
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	1,463,948	49,076	966,947	32,415	497,001	16,661	-	-
<u>Derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss	14,312,522	479,803	418,957	14,045	13,893,565	465,758	-	-
Other financial assets:								
Derivatives financial assets for hedging	1,300,914	43,611	10,022	336	1,290,892	43,275	-	-
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	27,290,673	914,874	368,464	12,353	26,922,209	902,521	-	-
Other financial liabilities:								
Derivatives financial liabilities for hedging	5,148	173	-	-	5,148	173	-	-
2012.12.31								
	Total		1 st Level		2 nd Level		3 rd Level	
Financial instruments measured at fair value item	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss:								
Stocks	\$14,896,788	\$512,798	\$14,896,788	\$512,798	\$-	\$-	\$-	\$-
Bonds	7,721,892	265,814	2,866,200	98,664	4,855,692	167,150	-	-
Others	114,073,343	3,926,793	36,619,578	1,260,570	77,453,765	2,666,223	-	-
Available-for-sale financial assets:								
Stocks	295,434,057	10,169,847	285,026,021	9,811,567	10,408,036	358,280	-	-
Bonds	891,487,105	30,688,024	56,266,713	1,936,892	835,220,392	28,751,132	-	-
Others	115,822,100	3,986,992	88,229,855	3,037,173	19,951,630	686,803	7,640,615	263,016
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	1,503,682	51,762	1,503,682	51,762	-	-	-	-
<u>Derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss	10,054,649	346,115	648,848	22,335	9,405,801	323,780	-	-
Other financial assets:								
Derivatives financial assets for hedging	2,362,366	81,321	17,134	590	2,345,232	80,731	-	-
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	7,582,664	261,021	203,241	6,996	7,379,423	254,025	-	-

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Financial instruments measured at fair value item	2012.1.1							
	Total		1 st Level		2 nd Level		3 rd Level	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss:								
Stocks	\$9,105,722	\$300,817	\$9,105,722	\$300,817	\$-	\$-	\$-	\$-
Bonds	5,497,968	181,631	3,527,286	116,527	1,970,682	65,104	-	-
Others	60,432,251	1,996,440	45,535,824	1,504,322	14,896,427	492,118	-	-
Available-for-sale financial assets:								
Stocks	257,223,933	8,497,652	248,475,655	8,208,644	8,748,278	289,008	-	-
Bonds	999,881,697	33,032,101	22,887,071	756,097	976,994,626	32,276,004	-	-
Others	91,591,798	3,025,828	65,948,265	2,178,668	20,427,218	674,834	5,216,315	172,326
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	1,379,357	45,569	1,379,357	45,569	-	-	-	-
<u>Derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss	9,225,222	304,765	558,665	18,456	8,666,559	286,309	-	-
Other financial assets:								
Derivatives financial assets for hedging	3,425,140	113,153	28,521	942	3,396,619	112,211	-	-
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	21,756,786	718,757	200,363	6,619	21,556,423	712,138	-	-

b. Statements of changes in financial assets measured at fair value classified as 3rd level are summarized as follows:

(a) The statement of changes in financial assets whose fair value measurement was attributed to 3rd level.

2013.1.1~2013.12.31(NT\$)								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into 3 rd level	Disposal or settlements	Transfer out of 3 rd level	
Available-for-sale financial assets	\$7,640,615	419,851	680,788	7,729,295	-	(3,367,846)	-	\$13,102,703

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2013.1.1~2013.12.31(US\$)								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into 3 rd level	Disposal or settlements	Transfer out of 3 rd level	
Available-for-sale financial assets	\$256,139	\$14,075	\$22,822	\$259,111	\$-	\$(112,901)	\$-	\$439,246

2012.1.1~2012.12.31(NT\$)								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into 3 rd level	Disposal or settlements	Transfer out of 3 rd level	
Available-for-sale financial assets	\$5,216,315	607,352	(488,878)	5,400,786	-	(3,094,960)	-	\$7,640,615

2012.1.1~2012.12.31(US\$)								
Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into 3 rd level	Disposal or settlements	Transfer out of 3 rd level	
Available-for-sale financial assets	\$179,563	20,907	(16,829)	185,914	\$-	(106,539)	\$-	\$263,016

(b)The transition between 1st level and 2nd level:

During current year, the transition of financial assets and liabilities between 1st level and 2nd level did not occur in the Group.

(2) Management on financial risks

A. Cathay Life and its subsidiaries

(A) Credit risk analysis

English Translation of Financial Statements Originally Issued in Chinese

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

a. Sources of credit risk

Credit risks from financial transactions include issuer credit risk, counterparty risk and underlying assets credit risk:

- (a) Issuer credit risk represents a risk that the Cathay Life may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Life holds.
- (b) Counterparty credit risk represents the risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Life is exposed to the risk of financial losses.
- (c) Underlying asset credit risk represents the risk that Cathay Life may encounter the losses from the fact that the credit quality turns weak and credit risk premium increases, credit rating is downgraded, or the terms of contract are violated from underlying asset which is related to a certain financial instruments.

b. Concentration risk

Regional distribution of credit risk exposure for financial assets of Cathay Life:

2013.12.31(NT\$)

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$134,624,532	\$4,943,631	\$-	\$23,319,137	\$117,149,519	\$280,036,819
Financial assets at fair value through profit or loss	16,908,980	410,534	1,501,611	1,506,966	-	20,328,091
Available-for-sale financial assets	440,630,404	16,945,885	68,005,787	171,005,291	30,862,036	727,449,403
Derivative financial assets for hedging	158,096	-	233,862	61,755	-	453,713
Bond investments for which no active market exists	42,484,287	65,885,399	245,015,385	407,120,305	259,636,340	1,020,141,716
Other financial assets	37,400,000	-	3,500,000	-	-	40,900,000
Total	\$672,206,299	\$88,185,449	\$318,256,645	\$603,013,454	\$407,647,895	\$2,089,309,742
Proportion	32.2%	4.2%	15.2%	28.9%	19.5%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

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

2013.12.31(US\$)

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$4,513,059	\$165,727	\$-	\$781,734	\$3,927,238	\$9,387,758
Financial assets at fair value through profit or loss	566,845	13,762	50,339	50,519	-	681,465
Available-for-sale financial assets	14,771,385	568,082	2,279,778	5,732,661	1,034,598	24,386,504
Derivative financial assets for hedging	5,300	-	7,840	2,070	-	15,210
Bond investments for which no active market exists	1,424,213	2,208,696	8,213,724	13,648,016	8,703,866	34,198,515
Other financial assets	1,253,771	-	117,332	-	-	1,371,103
Total	\$22,534,573	\$2,956,267	\$10,669,013	\$20,215,000	\$13,665,702	\$70,040,555
Proportion	32.2%	4.2%	15.2%	28.9%	19.5%	100.0%

2012.12.31(NT\$)

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$258,608,542	\$584,173	\$-	\$58,326,827	\$45,054,311	\$362,573,853
Financial assets at fair value through profit or loss	21,526,712	539,836	2,428,269	1,266,554	-	25,761,371
Available-for-sale financial assets	459,194,110	17,971,724	101,366,905	224,125,202	37,659,604	840,317,545
Derivative financial assets for hedging	292,518	33,903	661,251	154,422	-	1,142,094
Bond investments for which no active market exists	46,944,287	45,480,295	198,308,459	288,690,084	235,030,705	814,453,830
Other financial assets	19,000,000	-	4,500,000	-	-	23,500,000
Total	\$805,566,169	\$64,609,931	\$307,264,884	\$572,563,089	\$317,744,620	\$2,067,748,693
Proportion	39.0%	3.1%	14.8%	27.7%	15.4%	100.0%

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2012.12.31(US\$)

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$8,902,188	\$20,109	\$-	\$2,007,808	\$1,550,923	\$12,481,028
Financial assets at fair value through profit or loss	741,023	18,583	83,589	43,600	-	886,795
Available-for-sale financial assets	15,807,026	618,648	3,489,394	7,715,153	1,296,372	28,926,593
Derivative financial assets for hedging	10,069	1,167	22,763	5,316	-	39,315
Bond investments for which no active market exists	1,615,982	1,565,587	6,826,453	9,937,696	8,090,558	28,036,276
Other financial assets	654,045	-	154,905	-	-	808,950
Total	\$27,730,333	\$2,224,094	\$10,577,104	\$19,709,573	\$10,937,853	\$71,178,957
Proportion	39.0%	3.1%	14.8%	27.7%	15.4%	100.0%

2012.1.1(NT\$)

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$249,558,854	\$2,272,850	\$-	\$77,704,927	\$42,321,940	\$371,858,571
Financial assets at fair value through profit or loss	13,226,453	149,567	3,082,507	1,772,838	-	18,231,365
Available-for-sale financial assets	425,780,216	17,290,834	141,002,858	319,162,107	59,602,578	962,838,593
Derivative financial assets for hedging	476,092	58,573	1,153,942	269,239	-	1,957,846
Bond investments for which no active market exists	19,908,000	31,273,782	161,572,591	177,478,409	121,571,482	511,804,264
Other financial assets	10,800,000	-	2,500,000	-	-	13,300,000
Total	\$719,749,615	\$51,045,606	\$309,311,898	\$576,387,520	\$223,496,000	\$1,879,990,639
Proportion	38.3%	2.7%	16.4%	30.7%	11.9%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

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

2012.1.1(US\$)

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$8,244,428	\$75,086	\$-	\$2,567,061	\$1,398,148	\$12,284,723
Financial assets at fair value through profit or loss	436,950	4,941	101,834	58,567	-	602,292
Available-for-sale financial assets	14,066,079	571,220	4,658,172	10,543,842	1,969,031	31,808,344
Derivative financial assets for hedging	15,728	1,935	38,121	8,895	-	64,679
Bond investments for which no active market exists	657,681	1,033,161	5,337,714	5,863,178	4,016,237	16,907,971
Other financial assets	356,789	-	82,590	-	-	439,379
Total	\$23,777,655	\$1,686,343	\$10,218,431	\$19,041,543	\$7,383,416	\$62,107,388
Proportion	38.3%	2.7%	16.4%	30.7%	11.9%	100.0%

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

2013.12.31(NT\$)

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$280,036,819	\$-	\$-	\$-	\$-	\$280,036,819
Financial assets at fair value through profit or loss	18,737,079	1,591,012	-	-	-	20,328,091
Available-for-sale financial assets	720,271,652	7,146,940	-	765,811	(735,000)	727,449,403
Derivative financial assets for hedging	453,713	-	-	-	-	453,713
Bond investments for which no active market exists	1,018,771,685	1,370,031	-	389,350	(389,350)	1,020,141,716
Other financial assets	40,900,000	-	-	-	-	40,900,000
Total	\$2,079,170,948	\$10,107,983	\$-	\$1,155,161	\$(1,124,350)	\$2,089,309,742
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

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2013.12.31(US\$)

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$9,387,758	\$-	\$-	\$-	\$-	\$9,387,758
Financial assets at fair value through profit or loss	628,129	53,336	-	-	-	681,465
Available-for-sale financial assets	24,145,882	239,589	-	25,673	(24,640)	24,386,504
Derivative financial assets for hedging	15,210	-	-	-	-	15,210
Bond investments for which no active market exists	34,152,587	45,928	-	13,052	(13,052)	34,198,515
Other financial assets	1,371,103	-	-	-	-	1,371,103
Total	\$69,700,669	\$338,853	\$-	\$38,725	\$(37,692)	\$70,040,555
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

2012.12.31(NT\$)

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$362,571,784	\$2,069	\$-	\$-	\$-	\$362,573,853
Financial assets at fair value through profit or loss	25,123,049	638,322	-	-	-	25,761,371
Available-for-sale financial assets	828,187,237	12,024,780	-	840,528	(735,000)	840,317,545
Derivative financial assets for hedging	1,142,094	-	-	-	-	1,142,094
Bond investments for which no active market exists	809,745,213	4,708,617	-	378,768	(378,768)	814,453,830
Other financial assets	23,500,000	-	-	-	-	23,500,000
Total	\$2,050,269,377	\$17,373,788	\$-	\$1,219,296	\$(1,113,768)	\$2,067,748,693
Proportion	99.2%	0.8%	-	0.1%	(0.1)%	100.0%

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2012.12.31(US\$)

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$12,480,957	\$71	\$-	\$-	\$-	\$12,481,028
Financial assets at fair value through profit or loss	864,821	21,974	-	-	-	886,795
Available-for-sale financial assets	28,509,027	413,933	-	28,934	(25,301)	28,926,593
Derivative financial assets for hedging	39,315	-	-	-	-	39,315
Bond investments for which no active market exists	27,874,190	162,086	-	13,038	(13,038)	28,036,276
Other financial assets	808,950	-	-	-	-	808,950
Total	\$70,577,260	\$598,064	\$-	\$41,972	\$(38,339)	\$71,178,957
Proportion	99.2%	0.8%	-	0.1%	(0.1)%	100.0%

2012.1.1(NT\$)

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$371,856,505	\$2,066	\$-	\$-	\$-	\$371,858,571
Financial assets at fair value through profit or loss	17,427,130	804,235	-	-	-	18,231,365
Available-for-sale financial assets	953,687,768	9,010,797	-	875,028	(735,000)	962,838,593
Derivative financial assets for hedging	1,957,846	-	-	-	-	1,957,846
Bond investments for which no active market exists	499,911,200	11,893,064	-	393,770	(393,770)	511,804,264
Other financial assets	13,300,000	-	-	-	-	13,300,000
Total	\$1,858,140,449	\$21,710,162	\$-	\$1,268,798	\$(1,128,770)	\$1,879,990,639
Proportion	98.8%	1.2%	-	0.1%	(0.1)%	100.0%

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2012.1.1(US\$)

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade and unrated				
Cash and cash equivalents	\$12,284,654	\$69	\$-	\$-	\$-	\$12,284,723
Financial assets at fair value through profit or loss	575,723	26,569	-	-	-	602,292
Available-for-sale financial assets	31,506,038	297,681	-	28,907	(24,282)	31,808,344
Derivative financial assets for hedging	64,679	-	-	-	-	64,679
Bond investments for which no active market exists	16,515,072	392,899	-	13,008	(13,008)	16,907,971
Other financial assets	439,379	-	-	-	-	439,379
Total	\$61,385,545	\$717,218	\$-	\$41,915	\$(37,290)	\$62,107,388
Proportion	98.8%	1.2%	-	0.1%	(0.1)%	100.0%

Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

d. Regional distribution of credit risk exposure for secured loans and overdue receivables:

2013.12.31				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$318,886,288	\$53,103,848	\$88,704,401	\$460,694,537
Overdue receivables	35,422	402,651	28,555	466,628
Total	\$318,921,710	\$53,506,499	\$88,732,956	\$461,161,165
Proportion	69%	12%	19%	100%

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2013.12.31				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$10,690,120	\$1,780,216	\$2,973,664	\$15,444,000
Overdue receivables	1,188	13,498	957	15,643
Total	\$10,691,308	\$1,793,714	\$2,974,621	\$15,459,643
Proportion	69%	12%	19%	100%

2012.12.31				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$213,209,485	\$42,689,731	\$80,842,510	\$336,741,726
Overdue receivables	60,188	425,950	72,737	558,875
Total	\$213,269,673	\$43,115,681	\$80,915,247	\$337,300,601
Proportion	63%	13%	24%	100%

2012.12.31				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$7,339,397	\$1,469,526	\$2,782,875	\$11,591,798
Overdue receivables	2,072	14,662	2,504	19,238
Total	\$7,341,469	\$1,484,188	\$2,785,379	\$11,611,036
Proportion	63%	13%	24%	100%

2012.1.1				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$172,316,301	\$46,878,325	\$83,321,975	\$302,516,601
Overdue receivables	100,706	96,439	127,842	324,987
Total	\$172,417,007	\$46,974,764	\$83,449,817	\$302,841,588
Proportion	57%	15%	28%	100%

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2012.1.1				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$5,692,643	\$1,548,673	\$2,752,625	\$9,993,941
Overdue receivables	3,327	3,186	4,223	10,736
Total	\$5,695,970	\$1,551,859	\$2,756,848	\$10,004,677
Proportion	57%	15%	28%	100%

e. Secured loans and overdue receivables

2013.12.31

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$213,530,264	\$148,542,793	\$41,575,836	\$123,468	\$4,465,378	\$408,237,739	\$2,084,777	\$406,152,962
Corporate finance	41,397,033	3,346,512	2,264,486	-	5,915,395	52,923,426	1,753,713	51,169,713
Total	\$254,927,297	\$151,889,305	\$43,840,322	\$123,468	\$10,380,773	\$461,161,165	\$3,838,490	\$457,322,675

2013.12.31

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$7,158,239	\$4,979,644	\$1,393,759	\$4,139	\$149,694	\$13,685,475	\$69,888	\$13,615,587
Corporate finance	1,387,765	112,186	75,913	-	198,304	1,774,168	58,790	1,715,378
Total	\$8,546,004	\$5,091,830	\$1,469,672	\$4,139	\$347,998	\$15,459,643	\$128,678	\$15,330,965

2012.12.31

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$160,007,455	\$111,309,534	\$31,154,571	\$183,942	\$2,199,549	\$304,855,051	\$1,225,852	\$303,629,199
Corporate finance	15,399,631	7,254,616	2,541,775	-	7,249,528	32,445,550	1,481,761	30,963,789
Total	\$175,407,086	\$118,564,150	\$33,696,346	\$183,942	\$9,449,077	\$337,300,601	\$2,707,613	\$334,592,988

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2012.12.31

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$5,508,002	\$3,831,654	\$1,072,446	\$6,332	\$75,716	\$10,494,150	\$42,198	\$10,451,952
Corporate finance	530,108	249,728	87,497	-	249,553	1,116,886	51,007	1,065,879
Total	\$6,038,110	\$4,081,382	\$1,159,943	\$6,332	\$325,269	\$11,611,036	\$93,205	\$11,517,831

2012.1.1

NT\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$146,316,092	\$101,785,108	\$28,488,767	\$179,570	\$3,635,491	\$280,405,028	\$794,405	\$279,610,623
Corporate finance	4,264,375	6,898,548	3,549,871	-	7,723,766	22,436,560	606,027	21,830,533
Total	\$150,580,467	\$108,683,656	\$32,038,638	\$179,570	\$11,359,257	\$302,841,588	\$1,400,432	\$301,441,156

2012.1.1

US\$

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$4,833,700	\$3,362,574	\$941,155	\$5,932	\$120,102	\$9,263,463	\$26,244	\$9,237,219
Corporate finance	140,878	227,900	117,274	-	255,162	741,214	20,020	721,194
Total	\$4,974,578	\$3,590,474	\$1,058,429	\$5,932	\$375,264	\$10,004,677	\$46,264	\$9,958,413

f. Ageing analysis of past due but not impaired secured loans and overdue receivables:

Based on the historical default rate, Cathay Life believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

Past due but not impaired

NT\$

	Due in 1~2 months	Due in 2~3 months	Total
2013.12.31	\$109,251	\$14,217	\$123,468
2012.12.31	157,700	26,242	183,942
2012.1.1	162,914	16,656	179,570

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	Past due but not impaired		
	US\$		
	Due in 1~2 months	Due in 2~3 months	Total
2013.12.31	\$3,662	\$477	\$4,139
2012.12.31	5,429	903	6,332
2012.1.1	5,382	550	5,932

(B) Liquidity risk analysis

a. Sources of liquidity risk

Liquidity risks of the financial instruments are classified to “funding liquidity risk” and “market liquidity risk.” “Funding liquidity risk” represents that Cathay Life is not able to obtain sufficient funds at a reasonable funding cost to meet the demands within reasonable time. “Market liquidity risk” represents the risk that Cathay Life sells at loss to meet the demand for cash.

b. Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, Cathay Life makes an emergency management operating procedure to deal with significant liquidity risks.

c. Maturity Analysis of non-derivative financial liabilities:

The analysis of cash outflows to Cathay Life and Subsidiaries is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on consolidated balance sheet.

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2013.12.31	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	\$15,566,483	\$521,840	\$3,458,995	\$115,957	\$198	\$6
Preferred stock liability	-	-	-	-	908,000	30,439

2013.12.31	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	\$-	\$-	\$-	\$-	\$19,025,676	\$637,803
Preferred stock liability	31,441,259	1,054,015	-	-	32,349,259	1,084,454

2012.12.31	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$297,268	\$10,233	\$-	\$-	\$-	\$-
Payables	35,522,453	1,222,804	-	-	2,551,202	87,821
Preferred stock liability	-	-	-	-	908,000	31,257

2012.12.31	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$297,268	\$10,233
Payables	-	-	-	-	38,073,655	1,310,625
Preferred stock liability	27,176,254	935,499	5,173,005	178,072	33,257,259	1,144,828

2012.1.1	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$201,158	\$6,646	\$-	\$-	\$-	\$-
Payables	20,967,886	692,696	-	-	1,643,365	54,290
Preferred stock liability	-	-	-	-	908,000	29,997

2012.1.1	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$201,158	\$6,646
Payables	-	-	-	-	22,611,251	746,986
Preferred stock liability	27,713,931	915,558	5,543,328	183,129	34,165,259	1,128,684

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d. Maturity analysis of derivative financial liability:

2013.12.31	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$21,501	\$721	\$9,505	\$318	\$(10,901)	\$(365)
Forward	5,002,896	167,714	78,514	2,632	-	-
CS	10,599,472	355,329	1,026,096	34,398	853,795	28,622

2013.12.31	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$34,514	\$1,157	\$-	\$-	\$54,619	\$1,831
Forward	-	-	-	-	5,081,410	170,346
CS	-	-	-	-	12,479,363	418,349

2012.12.31	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$29,350	\$1,010	\$24,891	\$857	\$42,985	\$1,480
Forward	1,844,950	63,509	-	-	-	-
CS	4,047,504	139,329	2,333,184	80,316	370,735	12,762

2012.12.31	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$9,010	\$310	\$-	\$-	\$106,236	\$3,657
Forward	-	-	-	-	1,844,950	63,509
CS	-	-	-	-	6,751,423	232,407

2012.1.1	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$62,826	\$2,076	\$62,017	\$2,049	\$111,846	\$3,695
Forward	1,285,060	42,453	234,750	7,755	-	-
CS	16,388,288	541,404	(8,290)	(274)	-	-

2012.1.1	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$125,998	\$4,162	\$-	\$-	\$362,687	\$11,982
Forward	-	-	-	-	1,519,810	50,208
CS	-	-	-	-	16,379,998	541,130

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(C) Market risk analysis

a. Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

b. Cathay Life assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

(a) Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. Cathay Life uses one-week 95% and 99% VaR to measure market risk.

(b) Stress testing

Cathay Life measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

Cathay Life performs position stress testing regularly by using “Sensitivity Analysis” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

- Sensitivity Analysis

Sensitivity Analysis is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

- Scenario Analysis

Scenario Analysis is to measure the dollar amount changes for the total value of investment positions if possible future events occur. The types of scenario include:

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i. Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, Cathay Life simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

ii. Hypothetical scenario

Cathay Life makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life's risk analysis, early warning, and business management are in accordance with the stress testing report.

For the year ended 31 December 2013

Table of Stress Testing

Risk Factors	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(47,016,346)	\$(1,576,143)
Interest rate risk (Yield curve)	+20bps	(9,234,642)	(309,576)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(23,904,845)	(801,369)
Commodity risk (Price)	-10%	-	-

For the year ended 31 December 2012

Table of Stress Testing

Risk Factors	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(31,974,015)	\$(1,100,655)
Interest rate risk (Yield curve)	+20bps	(10,722,521)	(369,106)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(22,551,965)	(776,315)
Commodity risk (Price)	-10%	-	-

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(c) Sensitivity Analysis

For the year ended 31 December 2013

Summarization of Sensitivity Analysis

NT\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$4,884,171	\$2,310,059
	CNY appreciates 1%	1,979,293	115,983
	HKD appreciates 1%	8,545	421,556
	EUR appreciates 1%	296,561	147,289
	GBP appreciates 1%	226,751	30,291
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(165,981)
	Yield curve (AUD) shifts up 1 bp	-	(727)
	Yield curve (EUR) shifts up 1 bp	-	(2,368)
	Yield curve (NTD) shifts up 1 bp	(256)	(288,750)
Equity price risk	Equity price increases 1%	163,132	4,538,502

For the year ended 31 December 2013

Summarization of Sensitivity Analysis

US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$163,734	\$77,441
	CNY appreciates 1%	66,352	3,888
	HKD appreciates 1%	286	14,132
	EUR appreciates 1%	9,942	4,938
	GBP appreciates 1%	7,601	1,015
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(5,564)
	Yield curve (AUD) shifts up 1 bp	-	(24)
	Yield curve (EUR) shifts up 1 bp	-	(79)
	Yield curve (NTD) shifts up 1 bp	(9)	(9,680)
Equity price risk	Equity price increases 1%	5,469	152,146

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For the year ended 31 December 2012

Summarization of Sensitivity Analysis

NT\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$5,096,913	\$1,517,342
	CNY appreciates 1%	946,048	51,090
	HKD appreciates 1%	30,081	285,206
	EUR appreciates 1%	281,205	27,991
	GBP appreciates 1%	248,267	54,702
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(260,374)
	Yield curve (AUD) shifts up 1 bp	-	(2,885)
	Yield curve (EUR) shifts up 1 bp	-	(1,568)
	Yield curve (NTD) shifts up 1 bp	(401)	(268,164)
Equity price risk	Equity price increases 1%	114,551	3,082,851

For the year ended 31 December 2012

Summarization of Sensitivity Analysis

US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$175,453	\$52,232
	CNY appreciates 1%	32,566	1,759
	HKD appreciates 1%	1,035	9,818
	EUR appreciates 1%	9,680	964
	GBP appreciates 1%	8,546	1,883
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(8,963)
	Yield curve (AUD) shifts up 1 bp	-	(99)
	Yield curve (EUR) shifts up 1 bp	-	(54)
	Yield curve (NTD) shifts up 1 bp	(14)	(9,231)
Equity price risk	Equity price increases 1%	3,943	106,122

Note 1: Impacts of credit charges are not included.

Note 2: Impacts of change in income are not included in the calculation of change in equity.

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(D) Hedged accounting disclosures

Cash flow hedges

The following table summarizes the terms of Cathay Life's interest rate swaps for bonds used as hedging instruments as of 31 December 2013, 31 December 2012 and 1 January 2012:

2013.12.31					
Hedged item	Hedging instrument	Fair Value		Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
		NT\$	US\$		
Floating rate bonds	IRS	\$448,565	\$15,037	23 January 2014 ~ 23 September 2020	23 January 2014 ~ 23 September 2020
2012.12.31					
Hedged item	Hedging instrument	Fair Value		Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
		NT\$	US\$		
Floating rate bonds	IRS	\$1,142,094	\$39,315	23 January 2013 ~ 23 September 2020	23 January 2013 ~ 23 September 2020
2012.1.1					
Hedged item	Hedging instrument	Fair Value		Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
		NT\$	US\$		
Floating rate bonds	IRS	\$1,957,846	\$64,679	11 January 2012 ~ 23 September 2020	11 January 2012 ~ 23 September 2020

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

Cathay Life's interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

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	2013.1.1~2013.12.31	2012.1.1~2012.12.31
	NT\$	NT\$
Amount recognized in other comprehensive income	\$(693,322)	\$(821,690)
Amount reclassified from equity to profit or loss	208	(5,938)
	2013.1.1~2013.12.31	2012.1.1~2012.12.31
	US\$	US\$
Amount recognized in other comprehensive income	\$(23,242)	\$(28,285)
Amount reclassified from equity to profit or loss	7	(204)

Fair value hedges

The following table summarizes the terms of Cathay Life's futures for bonds used as hedging instruments as of 31 December 2013:

Par value (USD)	Hedged item	Maturity date
\$880,650	Bond investments for which no active market exists	14 February 2034 ~ 11 September 2042

Cathay Life's futures agreements are considered to be highly effective fair value hedges. For the year ended 31 December 2013, the profit of hedging instrument is NT\$541,887 (US\$18,166), and unrealized losses attributed to hedging bonds is NT\$729,446 (US\$24,453). Both of them are recognized as financial costs in the statement of comprehensive income.

B. Cathay United Bank and its subsidiaries

(A) Risk control and hedging strategy

Cathay United Bank's risk control and hedging strategy followed the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopted different risk management methods to identify its risks and Cathay United Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

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Cathay United Bank organized the risk management committee and its responsibilities are as illustrated below:

- a. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- b. To manage and decide the strategy about Cathay United Bank's credit risk, market risk and operating risk management.
- c. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- d. To analyze the issues that Cathay United Bank's business unit brought up for discussion.
- e. Other issues.

Cathay United Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

(B) Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

Cathay United Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine Cathay United Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of Cathay United Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

Market risk management process

- a. Identification and measurement

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The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DVO1, Delta, Vega, Gamma) and Value at Risk (VaR)...etc, to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

b. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall be report to the executive management for approval by executive management and report to the board of directors regularly.

Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio held for trading is which intended to earn the profit from bid-ask spread. Except positions from the above trading book, they will be called banking book.

a. Strategy

In order to control market risk effectively and ensure the operating departments operate the transaction strategy with flexibility, Cathay United Bank evaluates various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

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b. Policy and procedure

Cathay United Bank set the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

c. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it's evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

d. Method of measurement

- (a) The assumption and calculation of VaR: see VaR section.
- (b) Cathay United Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

Interest risk management of trading book

a. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

b. Interest risk management procedure of trading book

Cathay United Bank prudently choose its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, Cathay United Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment...etc.) of the trading book that are reported to the executive management or the board of directors for approval.

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c. Method of measurement

- (a) The assumption and calculation of VaR: see VaR section.
- (b) Cathay United Bank measures the investment portfolio's interest risk exposure monthly.

Interest risk management of banking book

The main objective of interest risk management of the banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

a. Strategy

Interest risk management enhances Cathay United Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.

b. Management procedure

When undertaking the operations relating to interest rate instruments, Cathay United Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In additional, Cathay United Bank also measures the potential impact of interest rate changes on the profit and economic value of Cathay United Bank. Cathay United Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

c. Method of measurement

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The interest rate risk of Cathay United Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, Cathay United Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

Foreign exchange risk management

a. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange in different times. Cathay United Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option...etc. Cathay United Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, Cathay United Bank suffers little foreign exchange risk.

b. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, Cathay United Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, Cathay United Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, Cathay United Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

Risk management of equity price

a. Definition of risk of equity price

The market risk of equity securities held by Cathay United Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

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b. Purpose of risk management in equity prices

To avoid the massive fluctuation of equity price to worsen Cathay United Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

c. Procedure of risk management of equity prices

Cathay United Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

d. Measured methodology

The risk of equity prices in trading book is mainly controlled by VaR.

Cathay United Bank's risk of equity prices from its non-trading portfolio should be control by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

2013.12.31						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Interest rate	\$555,070	\$18,608	\$772,357	\$25,892	\$311,353	\$10,438
Foreign exchange	148,142	4,966	154,844	5,191	144,266	4,836
Equity Securities price	231,969	7,776	352,855	11,829	133,386	4,472

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2012.12.31						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Interest rate	\$611,347	\$21,045	\$876,417	\$30,169	\$457,036	\$15,733
Foreign exchange	156,656	5,393	162,280	5,586	146,608	5,047
Equity Securities price	124,933	4,301	165,277	5,689	60,704	2,090

2012.1.1						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Interest rate	\$358,300	\$11,837	\$590,383	\$19,504	\$258,043	\$8,525
Foreign exchange	133,656	4,415	177,844	5,875	92,593	3,059
Equity Securities price	138,602	4,579	207,076	6,841	100,824	3,331

Cathay United Bank enters into a variety of derivatives transactions for both trading and nontrading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. Cathay United Bank's stress testing considers various types of risk factors and reporting the results to the executive management.

Stress Test			
Market/ Product	Scenarios	2013.12.31	
		NT\$	US\$
Stock Market	Major Stock Exchanges + 15%	\$1,211,069	\$40,599
	Major Stock Exchanges - 15%	(1,211,069)	(40,599)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(4,564,436)	(153,015)
	Major Interest Rate - 100bp	4,796,889	160,808
Foreign Exchange Market	Major Currencies + 3%	1,703,503	57,107
	Major Currencies - 3%	(1,703,201)	57,097
Composite	Major Stock Exchanges -15%	(4,702,002)	(157,627)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

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Stress Test			
Market/ Product	Scenarios	2012.12.31	
		NT\$	US\$
Stock Market	Major Stock Exchanges + 15%	\$1,025,960	\$35,317
	Major Stock Exchanges - 15%	(1,025,960)	(35,317)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,821,676)	(97,132)
	Major Interest Rate - 100bp	2,496,083	85,924
Foreign Exchange Market	Major Currencies + 3%	1,450,437	49,929
	Major Currencies - 3%	(1,365,947)	(47,021)
Composite	Major Stock Exchanges -15%	(2,397,199)	(82,520)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

Stress Test			
Market/ Product	Scenarios	2012.1.1	
		NT\$	US\$
Stock Market	Major Stock Exchanges +15%	\$656,831	\$21,699
	Major Stock Exchanges -15%	(656,831)	(21,699)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,034,384)	(67,208)
	Major Interest Rate - 100bp	2,018,467	66,682
Foreign Exchange Market	Major Currencies +3%	1,331,737	43,995
	Major Currencies -3%	(1,254,207)	(41,434)
Composite	Major Stock Exchanges -15%	(1,359,477)	(44,912)
	Major Interest Rate + 100bp		
	Major Currencies +3%		

Sensitivity analysis

a. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank’s interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

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b. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

c. Equity price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

Market risk factor sensitivity of Cathay United Bank

	2013.12.31			
	Sensitivity of profit or loss		Sensitivity of equity	
	NT\$	US\$	NT\$	US\$
Foreign exchange rate factor sensitivity (FX Delta)				
USD+1%	\$463,690	\$15,544	\$1,294	\$43
HKD+1%	123,646	4,145	-	-
JPY+1%	-	-	3,736	125
AUD+1%	16,696	560	-	-
CNY+1%	4,261	143	-	-
NTD+1%	(594,806)	(19,940)	(6,258)	(210)
Interest rate factor sensitivity (PVBP)				
Yield curves (USD) parallel shift+1bp	(249)	(8)	(27,121)	(909)
Yield curves (HKD) parallel shift+1bp	-	-	(29)	(1)
Yield curves (AUD) parallel shift+1bp	-	-	(923)	(31)
Yield curves (CNY) parallel shift+1bp	-	-	(637)	(21)
Yield curves (NTD) parallel shift+1bp	(5,171)	(173)	(12,667)	(425)
Equity securities price factor sensitivity (Equity Delta)	-	-	80,738	2,707

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	2012.12.31			
	Sensitivity of profit or loss		Sensitivity of equity	
	NT\$	US\$	NT\$	US\$
Foreign exchange rate factor sensitivity (FX Delta)				
USD+1%	\$411,904	\$14,179	\$5,220	\$180
HKD+1%	3,042	105	-	-
JPY+1%	1	-	-	-
NTD+1%	(458,563)	(15,785)	(5,769)	(199)
Interest rate factor sensitivity (PVBP)				
Yield curves (USD) parallel shift+1bp	(349)	(12)	(18,027)	(621)
Yield curves (HKD) parallel shift+1bp	-	-	(30)	(1)
Yield curves (JPY) parallel shift+1bp	-	-	(1)	-
Yield curves (NTD) parallel shift+1bp	(771)	(27)	(8,373)	(288)
Equity securities price factor sensitivity (Equity Delta)	-	-	68,397	2,354

	2012.1.1			
	Sensitivity of profit or loss		Sensitivity of equity	
	NT	US	NT	US
Foreign exchange rate factor sensitivity (FX Delta)				
USD+1%	\$412,143	\$13,616	\$3,791	\$125
HKD+1%	5,454	180	-	-
JPY+1%	3,944	130	-	-
NTD+1%	(422,515)	(13,958)	(3,817)	(126)
Interest rate factor sensitivity (PVBP)				
Yield curves (USD) parallel shift+1bp	(158)	(5)	(15,172)	(501)
Yield curves (JPY) parallel shift+1bp	-	-	(8)	-
Yield curves (NTD) parallel shift+1bp	(210)	(7)	(5,390)	(178)
Equity securities price factor sensitivity (Equity Delta)	-	-	43,789	1,447

(C) Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if counterparty fails to perform its contractual obligations.

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To centralize risk management functions currently handled by different departments, Cathay United Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. Cathay United Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. Cathay United Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

Cathay United Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank and its subsidiaries retain the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in Cathay United Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

a. Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

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b. Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistic methods and the professional judgement from the experts. Cathay United Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank's corporate borrowers is classified as excellent, good, and average.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

Due from and call loans to other banks

Cathay United Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

c. Hedge of credit risk and easing policy

(a) Collateral

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Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. For ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

(b) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

(c) Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

d. Cathay United Bank's maximum exposures to credit risk

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Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

(a) Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk	
	2013.12.31	
	NT\$	US\$
Irrevocable loan commitments	\$165,615,358	\$5,551,973
Credit card commitments	424,006,617	14,214,100
Unused commercial letters of credit	3,202,955	107,374
Guarantees on duties and contracts	11,270,885	377,837
Total	\$604,095,815	\$20,251,284

Off balance sheet items	Maximum exposure to credit risk	
	2012.12.31	
	NT\$	US\$
Irrevocable loan commitments	\$34,415,264	\$1,184,691
Credit card commitments	328,719,949	11,315,661
Unused commercial letters of credit	4,281,218	147,374
Guarantees on duties and contracts	12,081,454	415,885
Total	\$379,497,885	\$13,063,611

Off balance sheet items	Maximum exposure to credit risk	
	2012.1.1	
	NT\$	US\$
Irrevocable loan commitments	\$51,897,159	\$1,714,475
Credit card commitments	316,507,785	10,456,154
Unused commercial letters of credit	4,308,561	142,338
Guarantees on duties and contracts	13,245,165	437,567
Total	\$385,958,670	\$12,750,534

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(b) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2013.12.31	
	NT\$	US\$
Finance guarantee contracts	\$535,478	\$17,951
Unused commercial letters of credit	1,080,247	36,213
Total	\$1,615,725	\$54,164

Off balance sheet items	Maximum exposure to credit risk	
	2012.12.31	
	NT\$	US\$
Finance guarantee contracts	\$852,596	\$29,349
Unused commercial letters of credit	652,199	22,451
Total	\$1,504,795	\$51,800

Off balance sheet items	Maximum exposure to credit risk	
	2012.1.1	
	NT\$	US\$
Finance guarantee contracts	\$643,612	\$21,262
Unused commercial letters of credit	1,169,380	38,632
Total	\$1,812,992	\$59,894

(c) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2013.12.31	
	NT\$	US\$
Finance guarantee contracts	\$39,806	\$1,335
Irrevocable loan commitments	143,134	4,798
Credit card commitments	201,715	6,762
Unused commercial letters of credit	1,965	66
Total	\$386,620	\$12,961

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Off balance sheet items	Maximum exposure to credit risk	
	2012.12.31	
	NT\$	US\$
Finance guarantee contracts	\$20,350	\$701
Irrevocable loan commitments	99,998	3,442
Credit card commitments	199,925	6,882
Unused commercial letters of credit	60,683	2,089
Total	\$380,956	\$13,114

The management deems Cathay United Bank and its subsidiaries are able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

e. Credit risk concentration of Cathay United Bank and its subsidiaries

While the counterparties are obviously the same party, or there are several counterparties but all engage in similar business activities and share similar economic characteristics, so they are vulnerable to the same economic impacts or other changes, the credit risk concentration is apparent.

Credit risk concentration of Cathay United Bank and its subsidiaries derives from the assets, liabilities and off-balance-sheet items, and arise from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. Cathay United Bank and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for Cathay United Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of Cathay United Bank and its subsidiaries according to industry, country and collateral are listed below:

Item	2013.12.31		
	NT\$	US\$	%
Industry type			
Manufacturing	\$108,789,196	\$3,646,973	10.28
Financial institutions and insurance	28,292,338	948,452	2.67
Leasing and real estate	83,652,734	2,804,316	7.91
Individuals	477,139,793	15,995,300	45.10
Others	360,081,097	12,071,106	34.04
Total	\$1,057,955,158	\$35,466,147	100.00

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Item	2012.12.31		
	NT\$	US\$	%
Industry type			
Manufacturing	\$125,610,955	\$4,323,957	12.20
Financial institutions and insurance	29,912,516	1,029,691	2.90
Leasing and real estate	83,834,530	2,885,870	8.14
Individuals	492,107,196	16,940,007	47.77
Others	298,671,240	10,281,282	28.99
Total	<u>\$1,030,136,437</u>	<u>\$35,460,807</u>	<u>100.00</u>

Item	2012.1.1		
	NT\$	US\$	%
Industry type			
Manufacturing	\$138,134,019	\$4,563,397	13.47
Financial institutions and insurance	31,290,029	1,033,698	3.05
Leasing and real estate	90,742,485	2,997,769	8.85
Individuals	484,825,562	16,016,702	47.26
Others	280,810,821	9,276,869	27.37
Total	<u>\$1,025,802,916</u>	<u>\$33,888,435</u>	<u>100.00</u>

Item	2013.12.31		
	NT\$	US\$	%
Geographic Region			
Domestic	\$898,556,006	\$30,122,562	84.93
Asia	68,771,004	2,305,431	6.50
America	23,009,706	771,361	2.18
Others	67,618,442	2,266,793	6.39
Total	<u>\$1,057,955,158</u>	<u>\$35,466,147</u>	<u>100.00</u>

Item	2012.12.31		
	NT\$	US\$	%
Geographic Region			
Domestic	\$876,857,476	\$30,184,423	85.12
Asia	69,497,214	2,392,331	6.75
America	22,560,687	776,616	2.19
Others	61,221,060	2,107,437	5.94
Total	<u>\$1,030,136,437</u>	<u>\$35,460,807</u>	<u>100.00</u>

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Item	2012.1.1		
	NT\$	US\$	%
Geographic Region			
Domestic	\$891,970,478	\$29,467,145	86.95
Asia	44,761,460	1,478,740	4.37
America	15,206,114	502,350	1.48
Others	73,864,864	2,440,200	7.20
Total	\$1,025,802,916	\$33,888,435	100.00

f. Credit quality analysis of the financial assets

Some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

(a) Credit quality analysis to loans and receivables of Cathay United Bank

2013.12.31 (NT\$)	Neither past due nor impaired				Past due but not impaired	Impaired	Total (A)+(B)+(C)	Impairment allowances		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	\$30,215,292	\$7,679,461	\$3,204,791	\$41,099,544	\$130,931	\$151,472	\$41,381,947	\$125,544	\$1,609,517	\$39,646,886
Others	80,203,880	447,702	45,872	80,697,454	3,618	51,375	80,752,447	18,918	328,925	80,404,604
Discounts and loans	739,025,064	228,815,151	36,817,565	1,004,657,780	501,519	21,967,737	1,027,127,036	4,267,369	10,119,032	1,012,740,639

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	Neither past due nor impaired				Past due but not impaired	Impaired	Total (A)+(B)+(C)	Impairment allowances		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2013.12.31 (US\$)										
Receivables										
Credit card business	\$1,012,916	\$257,441	\$107,435	\$1,377,792	\$4,389	\$5,078	\$1,387,259	\$4,209	\$53,956	\$1,329,094
Others	2,688,699	15,008	1,538	2,705,245	121	1,722	2,707,088	634	11,027	2,695,427
Discounts and loans	24,774,558	7,670,639	1,234,246	33,679,443	16,812	736,431	34,432,686	143,056	339,223	33,950,407

	Neither past due nor impaired				Past due but not impaired	Impaired	Total (A)+(B)+(C)	Impairment allowances		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2012.12.31 (NT\$)										
Receivables										
Credit card business	\$26,857,133	\$6,221,934	\$2,874,072	\$35,953,139	\$111,701	\$127,992	\$36,192,832	\$108,337	\$1,798,623	\$34,285,872
Others	15,398,473	1,046,175	47,366	16,492,014	5,871	49,694	16,547,579	7,801	91,694	16,448,084
Discounts and loans	670,693,846	255,821,555	44,369,776	970,885,177	816,751	26,753,925	998,455,853	3,838,785	9,198,147	985,418,921

	Neither past due nor impaired				Past due but not impaired	Impaired	Total (A)+(B)+(C)	Impairment allowances		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2012.12.31 (US\$)										
Receivables										
Credit card business	\$924,514	\$214,180	\$98,936	\$1,237,630	\$3,845	\$4,406	\$1,245,881	\$3,729	\$61,915	\$1,180,237
Others	530,068	36,013	1,630	567,711	202	1,711	569,624	269	3,156	566,199
Discounts and loans	23,087,568	8,806,250	1,527,359	33,421,177	28,115	920,961	34,370,253	132,144	316,632	33,921,477

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2012.1.1 (NT\$)	Neither past due nor impaired				Past due but not impaired	Impaired	Total (A)+(B)+(C)	Impairment allowances		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card										
business	\$24,972,407	\$6,686,738	\$3,229,365	\$34,888,510	\$111,061	\$140,798	\$35,140,369	\$122,260	\$2,538,626	\$32,479,483
Others	10,926,713	2,128,310	97,277	13,152,300	6,987	35,839	13,195,126	7,600	86,025	13,101,501
Discounts and loans	683,187,435	234,443,058	58,306,958	975,937,451	976,060	15,628,820	992,542,331	3,059,807	6,247,744	983,234,780

2012.1.1 (US\$)	Neither past due nor impaired				Past due but not impaired	Impaired	Total (A)+(B)+(C)	Impairment allowances		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card										
business	\$824,989	\$220,903	\$106,685	\$1,152,577	\$3,669	\$4,652	\$1,160,898	\$4,039	\$83,866	\$1,072,993
Others	360,975	70,311	3,214	434,500	231	1,184	435,915	251	2,842	432,822
Discounts and loans	22,569,787	7,745,063	1,926,229	32,241,079	32,245	516,314	32,789,638	101,084	206,401	32,482,153

(b) The credit quality analysis on neither past due nor impaired discounts and loans

2013.12.31	Excellent		Good		Average		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Consumer banking								
Residential								
mortgage loans	\$195,160,827	\$6,542,435	\$55,381,641	\$1,856,575	\$9,553,020	\$320,249	\$260,095,488	\$8,719,259
Unsecured								
personal loans	8,689,745	291,309	4,770,432	159,921	1,242,249	41,644	14,702,426	492,874
Other	160,151,631	5,368,811	40,060,781	1,342,969	6,522,148	218,644	206,734,560	6,930,424
Corporate banking								
Secured	134,047,160	4,493,703	54,414,909	1,824,168	17,794,173	596,519	206,256,242	6,914,390
Unsecured	240,975,701	8,078,300	74,187,388	2,487,006	1,705,975	57,190	316,869,064	10,622,496
Total	\$739,025,064	\$24,774,558	\$228,815,151	\$7,670,639	\$36,817,565	\$1,234,246	\$1,004,657,780	\$33,679,443

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2012.12.31	Excellent		Good		Average		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Consumer banking								
Residential								
mortgage loans	\$210,365,875	\$7,241,510	\$57,522,974	\$1,980,137	\$11,752,064	\$404,546	\$279,640,913	\$9,626,193
Unsecured								
personal loans	5,023,910	172,940	2,625,973	90,395	1,097,468	37,779	8,747,351	301,114
Other	142,126,809	4,892,489	38,303,966	1,318,553	7,442,926	256,211	187,873,701	6,467,253
Corporate banking								
Secured	119,997,846	4,130,735	78,926,054	2,716,904	17,549,751	604,122	216,473,651	7,451,761
Unsecured	193,179,406	6,649,894	78,442,588	2,700,261	6,527,567	224,701	278,149,561	9,574,856
Total	\$670,693,846	\$23,087,568	\$255,821,555	\$8,806,250	\$44,369,776	\$1,527,359	\$970,885,177	\$33,421,177

2012.1.1	Excellent		Good		Average		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Consumer banking								
Residential								
mortgage loans	\$207,094,380	\$6,841,572	\$66,179,715	\$2,186,313	\$15,177,100	\$501,391	\$288,451,195	\$9,529,276
Unsecured								
personal loans	3,394,782	112,150	2,455,049	81,105	1,076,075	35,549	6,925,906	228,804
Other	106,414,451	3,515,509	35,962,558	1,188,060	8,015,814	264,810	150,392,823	4,968,379
Corporate banking								
Secured	139,020,781	4,592,692	58,924,067	1,946,616	22,981,734	759,225	220,926,582	7,298,533
Unsecured	227,263,041	7,507,864	70,921,669	2,342,969	11,056,235	365,254	309,240,945	10,216,087
Total	\$683,187,435	\$22,569,787	\$234,443,058	\$7,745,063	\$58,306,958	\$1,926,229	\$975,937,451	\$32,241,079

(c) Credit quality analysis on securities investment

2013.12.31 (NT\$)	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment(D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal(A)					
Available-for-sale financial assets								
Bonds	\$49,647,356	\$2,239,679	\$51,887,035	\$-	\$-	\$51,887,035	\$-	\$51,887,035
Stocks	4,545,008	9,663,348	14,208,356	-	163,785	14,372,141	163,785	14,208,356
Others	100,148	851,026	951,174	-	-	951,174	-	951,174
Held-to-maturity financial assets								
Bonds	50,117,106	594,572	50,711,678	-	-	50,711,678	-	50,711,678
Investments in debt securities with no active market								
Bonds	7,060,075	362,208	7,422,283	-	1,294,912	8,717,195	1,294,912	7,422,283
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	272,300,000	-	272,300,000	-	-	272,300,000	-	272,300,000

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2013.12.31 (US\$)	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment(D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal(A)					
Available-for-sale financial assets								
Bonds	\$1,664,343	\$75,082	\$1,739,425	\$-	\$-	\$1,739,425	\$-	\$1,739,425
Stocks	152,364	323,947	476,311	-	5,491	481,802	5,491	476,311
Others	3,357	28,529	31,886	-	-	31,886	-	31,886
Held-to-maturity financial assets								
Bonds	1,680,091	19,932	1,700,023	-	-	1,700,023	-	1,700,023
Investments in debt securities with no active market								
Bonds	236,677	12,142	248,819	-	43,410	292,229	43,410	248,819
Preferred Stocks	-	18,429	18,429	-	-	18,429	-	18,429
Others	9,128,394	-	9,128,394	-	-	9,128,394	-	9,128,394

2012.12.31 (NT\$)	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment(D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal(A)					
Available-for-sale financial assets								
Bonds	\$48,134,737	\$2,029,777	\$50,164,514	\$-	\$-	\$50,164,514	\$-	\$50,164,514
Stocks	4,542,271	6,709,298	11,251,569	-	438,311	11,689,880	438,311	11,251,569
Others	-	1,770,324	1,770,324	-	-	1,770,324	-	1,770,324
Held-to-maturity financial assets								
Bonds	19,965,414	577,456	20,542,870	-	-	20,542,870	-	20,542,870
Investments in debt securities with no active market								
Bonds	12,637,782	756,057	13,393,839	-	1,273,827	14,667,666	1,273,733	13,393,933
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	410,100,000	-	410,100,000	-	-	410,100,000	-	410,100,000

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2012.12.31 (US\$)	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment(D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal(A)					
Available-for-sale financial assets								
Bonds	\$1,656,962	\$69,872	\$1,726,834	\$-	\$-	\$1,726,834	\$-	\$1,726,834
Stocks	156,360	230,957	387,317	-	15,088	402,405	15,088	387,317
Others	-	60,941	60,941	-	-	60,941	-	60,941
Held-to-maturity financial assets								
Bonds	687,278	19,878	707,156	-	-	707,156	-	707,156
Investments in debt securities with no active market								
Bonds	435,036	26,026	461,062	-	43,849	504,911	43,846	461,065
Preferred Stocks	-	18,923	18,923	-	-	18,923	-	18,923
Others	14,117,040	-	14,117,040	-	-	14,117,040	-	14,117,040

2012.1.1 (NT\$)	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment(D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal(A)					
Available-for-sale financial assets								
Bonds	\$37,471,680	\$1,560,900	\$39,032,580	\$-	\$-	\$39,032,580	\$-	\$39,032,580
Stocks	6,765,923	-	6,765,923	-	-	6,765,923	-	6,765,923
Others	-	1,524,130	1,524,130	-	-	1,524,130	-	1,524,130
Held-to-maturity financial assets								
Bonds	18,176,146	-	18,176,146	-	-	18,176,146	-	18,176,146
Investments in debt securities with no active market								
Bonds	15,874,513	1,365,792	17,240,305	-	1,547,815	18,788,120	1,547,584	17,240,536
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	407,350,000	-	407,350,000	-	-	407,350,000	-	407,350,000

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2012.1.1 (US\$)	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment(D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade and non-credit rating	Subtotal(A)					
Available-for-sale financial assets								
Bonds	\$1,237,915	\$51,566	\$1,289,481	\$-	\$-	\$1,289,481	\$-	\$1,289,481
Stocks	223,519	-	223,519	-	-	223,519	-	223,519
Others	-	50,351	50,351	-	-	50,351	-	50,351
Held-to-maturity financial assets								
Bonds	600,467	-	600,467	-	-	600,467	-	600,467
Investments in debt securities with no active market								
Bonds	524,431	45,120	569,551	-	51,134	620,685	51,126	569,559
Preferred Stocks	-	18,161	18,161	-	-	18,161	-	18,161
Others	13,457,218	-	13,457,218	-	-	13,457,218	-	13,457,218

(d) Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2013.12.31	Less than 30 days		31 - 60 days		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Receivables						
Credit card business	\$70,578	\$2,366	\$60,353	\$2,023	\$130,931	\$4,389
Others	2,263	76	1,355	45	3,618	121
Discounts and loans						
Consumer banking						
Residential mortgage loans	191,508	6,420	65,998	2,212	257,506	8,632
Unsecured personal loans	19,377	650	9,937	333	29,314	983
Others	142,730	4,784	70,097	2,350	212,827	7,134
Corporate banking						
Secured	-	-	1,872	63	1,872	63

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2012.12.31	Less than 30 days		31 - 60 days		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Receivables						
Credit card business	\$67,641	\$2,328	\$44,060	\$1,517	\$111,701	\$3,845
Others	4,123	142	1,748	60	5,871	202
Discounts and loans						
Consumer banking						
Residential mortgage loans	375,157	12,914	92,963	3,200	468,120	16,114
Unsecured personal loans	6,895	237	3,132	108	10,027	345
Others	239,662	8,250	94,270	3,245	333,932	11,495
Corporate banking						
Secured	3,216	111	-	-	3,216	111
Unsecured	1,456	50	-	-	1,456	50

2012.1.1	Less than 30 days		31 - 60 days		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Receivables						
Credit card business	\$68,540	\$2,264	\$42,521	\$1,405	\$111,061	\$3,669
Others	4,788	158	2,199	73	6,987	231
Discounts and loans						
Consumer banking						
Residential mortgage loans	400,535	13,232	141,421	4,672	541,956	17,904
Unsecured personal loans	5,005	165	2,366	78	7,371	243
Others	335,722	11,091	87,666	2,896	423,388	13,987
Corporate banking						
Secured	3,345	111	-	-	3,345	111
Unsecured						

(D) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Cathay United Bank's assets and liabilities management committee is responsible for overall liquidity risk management. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning.

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a. Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

(a) Financial assets were held to manage liquidity risk

Cathay United Bank holds highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investments in debt securities with no active market.

(b) Maturity analysis of non-derivative financial liabilities

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2013.12.31 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$29,171,990	\$9,424,870	\$7,667,625	\$4,516,515	\$50,781,000
Funds borrowed from Central Bank and other banks	1,497,640	-	-	-	1,497,640
Financial liabilities at fair value through profit or loss	-	-	500,298	-	500,298
Securities sold under agreements to repurchase	56,051,595	2,640,870	2,677	-	58,695,142
Payables	8,272,115	1,057,094	1,030,517	2,061,034	12,420,760
Deposits and remittances	265,034,724	655,147,509	615,056,779	62,792,426	1,598,031,438
Financial debentures payable	-	-	-	52,064,160	52,064,160
Other capital outflow at maturity	16,425,665	13,555,552	4,233,144	2,053,266	36,267,627

2013.12.31 (US\$)	0-30 days	30-180 days	181 days -	Over 1 year	Total
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			1 year		
Due to the Central Bank and call loans from banks	\$977,941	\$315,953	\$257,044	\$151,409	\$1,702,347
Funds borrowed from Central Bank and other banks	50,206	-	-	-	50,206
Financial liabilities at fair value through profit or loss	-	-	16,772	-	16,772
Securities sold under agreements to repurchase	1,879,034	88,531	90	-	1,967,655
Payables	277,309	35,437	34,546	69,093	416,385
Deposits and remittances	8,884,838	21,962,706	20,618,732	2,105,009	53,571,285
Financial debentures payable	-	-	-	1,745,362	1,745,362
Other capital outflow at maturity	550,642	454,427	141,909	68,832	1,215,810

2012.12.31 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$25,883,672	\$12,422,707	\$13,630,818	\$109,750	\$52,046,947
Funds borrowed from Central Bank and other banks	-	1,456,954	-	-	1,456,954
Securities sold under agreements to repurchase	17,597,555	2,777,732	-	-	20,375,287
Payables	14,818,499	951,629	1,032,113	2,064,225	18,866,466
Deposits and remittances	360,040,039	590,081,222	515,784,166	56,739,824	1,522,645,251
Financial debentures payable	-	-	-	41,699,146	41,699,146
Other capital outflow at maturity	3,722,458	4,336,869	-	9,393,224	17,452,551

2012.12.31 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$891,004	\$427,632	\$469,219	\$3,778	\$1,791,633
Funds borrowed from Central Bank and other banks	-	50,153	-	-	50,153
Securities sold under agreements to repurchase	605,768	95,619	-	-	701,387
Payables	510,103	32,758	35,529	71,058	649,448
Deposits and remittances	12,393,805	20,312,607	17,755,049	1,953,178	52,414,639
Financial debentures payable	-	-	-	1,435,427	1,435,427
Other capital outflow at maturity	128,139	149,290	-	323,347	600,776

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2012.1.1 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$28,718,209	\$16,451,519	\$8,720,496	\$64,302	\$53,954,526
Funds borrowed from Central Bank and other banks	1,514,762	-	-	-	1,514,762
Securities sold under agreements to repurchase	1,878,764	11,669,969	-	-	13,548,733
Payables	13,823,700	907,002	988,985	1,977,971	17,697,658
Deposits and remittances	333,395,392	604,141,166	486,545,814	47,182,336	1,471,264,708
Financial debentures payable	-	-	-	31,981,003	31,981,003
Other capital outflow at maturity	3,479,447	1,550,810	-	5,594,762	10,625,019

2012.1.1 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$948,735	\$543,493	\$288,090	\$2,124	\$1,782,442
Funds borrowed from Central Bank and other banks	50,042	-	-	-	50,042
Securities sold under agreements to repurchase	62,067	385,529	-	-	447,596
Payables	456,680	29,964	32,672	65,344	584,660
Deposits and remittances	11,014,054	19,958,413	16,073,532	1,558,716	48,604,715
Financial debentures payable	-	-	-	1,056,525	1,056,525
Other capital outflow at maturity	114,947	51,232	-	184,829	351,008

b. Maturity analysis of derivative financial liabilities

(a) Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

- Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- Interest rate derivative instruments: swaptions, net settled interest rate swaps and other interest rate agreements.

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The table below shows the net settled derivation financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2013.12.31 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$315,261	\$471,071	\$(53,722)	\$2,722	\$735,332
- Interest rate derivative instruments	434	20,450	55,428	3,745,737	3,822,049
Total	\$315,695	\$491,521	\$1,706	\$3,748,459	\$4,557,381

2013.12.31 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$10,569	\$15,792	\$(1,801)	\$91	\$24,651
- Interest rate derivative instruments	14	685	1,858	125,570	128,127
Total	\$10,583	\$16,477	\$57	\$125,661	\$152,778

2012.12.31 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$57,407	\$127,037	\$103,663	\$(1,353)	\$286,754
- Interest rate derivative instruments	11,759	50,023	37,435	1,240,323	1,339,540
Total	\$69,166	\$177,060	\$141,098	\$1,238,970	\$1,626,294

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2012.12.31 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$1,976	\$4,373	\$3,568	\$(46)	\$9,871
- Interest rate derivative instruments	405	1,722	1,289	42,696	46,112
Total	\$2,381	\$6,095	\$4,857	\$42,650	\$55,983

2012.1.1 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$33,407	\$52,531	\$2,470	\$-	\$88,408
- Interest rate derivative instruments	4,829	94,881	185,159	1,237,790	1,522,659
Total	\$38,236	\$147,412	\$187,629	\$1,237,790	\$1,611,067

2012.1.1 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$1,104	\$1,736	\$81	\$-	\$2,921
- Interest rate derivative instruments	159	3,134	6,117	40,892	50,302
Total	\$1,263	\$4,870	\$6,198	\$40,892	\$53,223

(b) Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by Cathay United Bank include:

- Foreign exchange derivative instruments: currency futures and swaps;
- Interest rate derivative instruments: cross currency swaps;
- Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

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The table below shows the gross settled derivation financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2013.12.31 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(1,971,525)	\$(1,549,325)	\$(329,735)	\$21,208	\$(3,829,377)
-Cash inflow	72,633	80,445	75,659	13,976	242,713
- Interest rate derivative instruments					
-Cash outflow	55,641	173,683	68,360	109,897	407,581
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,915,884)	(1,375,642)	(261,375)	131,105	(3,421,796)
Cash inflow subtotal	72,633	80,445	75,659	13,976	242,713
Net cash flow	\$(1,843,251)	\$(1,295,197)	\$(185,716)	\$145,081	\$(3,179,083)

2013.12.31 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(66,092)	\$(51,938)	\$(11,054)	\$711	\$(128,373)
-Cash inflow	2,435	2,697	2,536	469	8,137
- Interest rate derivative instruments					
-Cash outflow	1,865	5,822	2,292	3,684	13,663
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(64,227)	(46,116)	(8,762)	4,395	(114,710)
Cash inflow subtotal	2,435	2,697	2,536	469	8,137
Net cash flow	\$(61,792)	\$(43,419)	\$(6,226)	\$4,864	\$(106,573)

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2012.12.31 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(1,029,082)	\$(1,271,583)	\$(273,293)	\$(242,322)	\$(2,816,280)
-Cash inflow	77,581	223,841	180,734	19,235	501,391
- Interest rate derivative instruments					
-Cash outflow	-	(19,228)	(35,377)	(178,560)	(233,165)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,029,082)	(1,290,811)	(308,670)	(420,882)	(3,049,445)
Cash inflow subtotal	77,581	223,841	180,734	19,235	501,391
Net cash flow	\$(951,501)	\$(1,066,970)	\$(127,936)	\$(401,647)	\$(2,548,054)

2012.12.31 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(35,425)	\$(43,772)	\$(9,407)	\$(8,342)	\$(96,946)
-Cash inflow	2,671	7,705	6,221	662	17,259
- Interest rate derivative instruments					
-Cash outflow	-	(662)	(1,218)	(6,146)	(8,027)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(35,425)	(44,434)	(10,625)	(14,488)	(104,972)
Cash inflow subtotal	2,671	7,705	6,221	662	17,259
Net cash flow	\$(32,754)	\$(36,729)	\$(4,404)	\$(13,826)	\$(87,713)

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2012.1.1 (NT\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(308,472)	\$(562,531)	\$(100,903)	\$(418)	\$(972,324)
-Cash inflow	50,663	8,095	1,886	-	60,644
- Interest rate derivative instruments					
-Cash outflow	-	-	-	(303,957)	(303,957)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(308,472)	(562,531)	(100,903)	(304,375)	(1,276,281)
Cash inflow subtotal	50,663	8,095	1,886	-	60,644
Net cash flow	\$(257,809)	\$(554,436)	\$(99,017)	\$(304,375)	\$(1,215,637)

2012.1.1 (US\$)	0-30 days	30-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(10,191)	\$(18,584)	\$(3,333)	\$(14)	\$(32,122)
-Cash inflow	1,674	267	62	-	2,003
- Interest rate derivative instruments					
-Cash outflow	-	-	-	(10,041)	(10,041)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(10,191)	(18,584)	(3,333)	(10,055)	(42,163)
Cash inflow subtotal	1,674	267	62	-	2,003
Net cash flow	\$(8,517)	\$(18,317)	\$(3,271)	\$(10,055)	\$(40,160)

c. Maturity analysis of off-balance sheet items

- (a) Irrevocable commitments include irrevocable loan commitments and credit card commitments.
- (b) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

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(c) Leasing commitments: Cathay United Bank acts as a lessor/lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

	Not later than 1 year		1~5 year		Later than 5 year		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
2013.12.31								
Irrevocable								
commitments	\$209,239,328	\$7,014,392	\$125,932,919	\$4,221,687	\$254,449,728	\$8,529,994	\$589,621,975	\$19,766,073
Financial guarantee								
contracts	13,695,430	459,116	763,290	25,588	15,120	507	14,473,840	485,211
Leasing commitments								
Non-cancellable								
operating lease								
payments	597,184	20,020	740,153	24,812	63,081	2,115	1,400,418	46,947
Total	\$223,531,942	\$7,493,528	\$127,436,362	\$4,272,087	\$254,527,929	\$8,532,616	\$605,496,233	\$20,298,231

	Not later than 1 year		1~5 year		Later than 5 year		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
2012.12.31								
Irrevocable								
commitments	\$58,419,184	\$2,010,988	\$136,578,962	\$4,701,513	\$168,137,067	\$5,787,851	\$363,135,213	\$12,500,352
Financial guarantee								
contracts	15,532,327	534,676	821,920	28,293	8,425	290	16,362,672	563,259
Leasing commitments								
Non-cancellable								
operating lease								
payments	553,733	19,061	553,135	19,041	-	-	1,106,868	38,102
Total	\$74,505,244	\$2,564,725	\$137,954,017	\$4,748,847	\$168,145,492	\$5,788,141	\$380,604,753	\$13,101,713

	Not later than 1 year		1~5 year		Later than 5 year		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
2012.1.1								
Irrevocable								
commitments	\$77,473,704	\$2,559,422	\$128,265,893	\$4,237,393	\$162,665,347	\$5,373,814	\$368,404,944	\$12,170,629
Financial guarantee								
contracts	15,757,476	520,564	1,524,860	50,375	271,390	8,966	17,553,726	579,905
Leasing commitments								
Non-cancellable								
operating lease								
payments	824,175	27,228	652,680	21,562	-	-	1,476,855	48,790
Total	\$94,055,355	\$3,107,214	\$130,443,433	\$4,309,330	\$162,936,737	\$5,382,780	\$387,435,525	\$12,799,324

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C. Cathay Century and its subsidiaries

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

Cathay Century holds derivative financial instruments, including futures options contracts, forward contracts and swaps to avoid share price risk, foreign exchange risk and interest rate risk. Cathay Century does not engage in derivatives transactions for trading purposes.

Cathay Century's financial instruments are mainly exposed to market risk, credit risk and liquidity risk. The risk management policies approved by board of directors are as follows:

(A) Market risk

a. Foreign currency risk

Cathay Century and its subsidiaries are exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, Cathay Century engage in forward foreign exchange contracts for hedging purposes.

Cathay Century is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

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b. Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century's interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

c. Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under held for trading financial assets or available-for-sale financial assets. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

(B) Credit risk

a. Credit risk management policies

Cathay Century and its subsidiaries trade only with established and creditworthy third parties. Cathay Century and its subsidiaries' policy is that all customers who trade on credit terms are subject to credit verification procedures and that premium receivable and notes receivable collections are monitored on an ongoing basis. Therefore, Cathay Century and its subsidiaries' bad debt are insignificant. On the other hand, in the event counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

Cathay Century and its subsidiaries' secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorates, Cathay Century may exercise under their own discretion the relevant security rights upon presentation, to protect Cathay Century's interests.

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Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

- (a) Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which Cathay Century and its subsidiaries maintains deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and Cathay Century and its subsidiaries incurs financial losses as a result.
- (b) Counterparty risk is the risk that a counterparty of Cathay Century and its subsidiaries to deliver as obligated before the settlement date which then cause losses to Cathay Century and its subsidiaries
- (c) Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underling assets linked to a financial instrument.

b. Credit concentration risk analysis

- (a) The amounts of credit risk exposure of Cathay Century and its subsidiaries' financial assets are as follows:

Financial assets	The amount of credit risk exposure - by area					
	2013.12.31 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,415,469	\$10	\$7,946	\$990,830	\$2,771,566	\$8,185,821
Financial assets at fair value through profit or loss	1,172,111	-	-	-	139,914	1,312,025
Available-for-sale financial assets	5,927,566	-	-	25,117	1,282,219	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	-	10,022
Bond investments with no active market exists	850,000	-	321,383	300,039	582,318	2,053,740
Held-to-maturity investments	-	-	-	1,668,787	287,150	1,955,937
Total	\$12,375,168	\$10	\$329,329	\$2,984,773	\$5,063,167	\$20,752,447
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2013.12.31 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$148,021	\$-	\$267	\$33,216	\$92,912	\$274,416
Financial assets at fair value through profit or loss	39,293	-	-	-	4,690	43,983
Available-for-sale financial assets	198,712	-	-	842	42,984	242,538
Derivative financial assets for hedging	336	-	-	-	-	336
Bond investments with no active market exists	28,495	-	10,774	10,058	19,521	68,848
Held-to-maturity investments	-	-	-	55,943	9,626	65,569
Total	\$414,856	\$-	\$11,041	\$100,059	\$169,734	\$695,690
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

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

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Financial assets	The amount of credit risk exposure - by area					
	2012.12.31 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$166,713	\$2	\$511	\$3,792	\$24,137	\$195,155
Financial assets at fair value through profit or loss	13,269	-	-	-	1,784	15,053
Available-for-sale financial assets	167,433	-	-	9,781	112,097	289,311
Derivative financial assets for hedging	590	-	-	-	-	590
Bond investments with no active market exists	30,981	-	-	-	14,570	45,551
Held-to-maturity investments	-	-	-	86,472	-	86,472
Total	\$378,986	\$2	\$511	\$100,045	\$152,588	\$632,132
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

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

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Financial assets	The amount of credit risk exposure - by area					
	2012.1.1 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$196,362	\$0	\$0	\$10,244	\$21,971	\$228,577
Financial assets at fair value through profit or loss	15,030	-	-	-	5,434	20,464
Available-for-sale financial assets	165,172	-	-	831	28,831	194,834
Derivative financial assets for hedging	942	-	-	-	-	942
Bond investments with no active market exists	29,732	-	-	-	9,679	39,411
Held-to-maturity investments	-	-	-	79,574	-	79,574
Total	\$407,238	\$0	\$0	\$90,649	\$65,915	\$563,802
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

c. Credit risk quality analysis

(a) Credit quality classifications of Cathay Century and its subsidiaries's financial assets are as follows:

Financial assets	Credit quality of financial assets				
	2013.12.31 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
Investment level	Non-investment level				
Cash and cash equivalents	\$8,185,821	\$-	\$-	\$-	\$8,185,821
Financial assets at fair value through profit or loss	1,312,025	-	-	-	1,312,025
Available-for-sale financial assets	7,234,902	-	-	-	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	10,022
Bond investments with no active market exists	2,053,740	-	-	-	2,053,740
Held-to-maturity investments	1,955,937	-	-	-	1,955,937
Total	\$20,752,447	\$-	\$-	\$-	\$20,752,447

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Financial assets	Credit quality of financial assets				
	2013.12.31 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$274,416	\$-	\$-	\$-	\$274,416
Financial assets at fair value through profit or loss	43,983	-	-	-	43,983
Available-for-sale financial assets	242,538	-	-	-	242,538
Derivative financial assets for hedging	336	-	-	-	336
Bond investments with no active market exists	68,848	-	-	-	68,848
Held-to-maturity investments	65,570	-	-	-	65,570
Total	\$695,691	\$-	\$-	\$-	\$695,691

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

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Financial assets	Credit quality of financial assets				
	2012.12.31 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,155	\$-	\$-	\$-	\$195,155
Financial assets at fair value through profit or loss	15,053	-	-	-	15,053
Available-for-sale financial assets	289,311	-	-	-	289,311
Derivative financial assets for hedging	590	-	-	-	590
Bond investments with no active market exists	45,551	-	-	-	45,551
Held-to-maturity investments	86,472	-	-	-	86,472
Total	\$632,132	\$-	\$-	\$-	\$632,132

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

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Financial assets	Credit quality of financial assets				
	2012.1.1 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$228,577	\$-	\$-	\$-	\$228,577
Financial assets at fair value through profit or loss	20,464	-	-	-	20,464
Available-for-sale financial assets	194,834	-	-	-	194,834
Derivative financial assets for hedging	942	-	-	-	942
Bond investments with no active market exists	39,412	-	-	-	39,412
Held-to-maturity investments	79,574	-	-	-	79,574
Total	\$563,803	\$-	\$-	\$-	\$563,803

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

(b) Secured loans

Secured loans	2013.12.31 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$124,583	\$-	\$-	\$-	\$127,966	\$252,549	\$1,563	\$250,986
Corporate Finance	60,000	-	-	-	192,596	252,596	81,061	171,535
Total	\$184,583	\$-	\$-	\$-	\$320,562	\$505,145	\$82,624	\$422,521

Secured loans	2013.12.31 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,177	\$-	\$-	\$-	\$4,290	\$8,467	\$53	\$8,414
Corporate Finance	2,011	-	-	-	6,456	8,467	2,717	5,750
Total	\$6,188	\$-	\$-	\$-	\$10,746	\$16,934	\$2,770	\$14,164

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

Secured loans	2012.12.31 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,919	\$-	\$-	\$-	\$4,152	\$9,071	\$56	\$9,015
Corporate Finance	2,066	-	-	-	9,354	11,420	2,463	8,957
Total	\$6,985	\$-	\$-	\$-	\$13,506	\$20,491	\$2,519	\$17,972

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

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

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(C) 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, Cathay Century adopt and implement the internal control regulations and sheets. Cathay Century and Subsidiary establish the information systems to accommodate the aforementioned policies.

(D) Liquidity risk

a. Definition and resource of liquidity risk

Liquidity risk includes capital liquidity and market liquidity risk. Capital liquidity happens when Cathay Century and its subsidiaries can not to raise sufficiently capital on reasonable terms and reasonable cost of capital leading to cash flow gap. Market liquidity risk when happens Cathay Century and its subsidiaries the necessary capital but sell assets at below market price leading Cathay Century taking the risk of loss

b. Liquidity risk management

Cathay Century and its subsidiaries established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, Cathay Century and its subsidiaries carefully manage the market liquidity risk. Moreover, Cathay Century and its subsidiaries have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, Cathay Century and its subsidiaries uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess the company's overall capital supply, demand and changes in cash flow gap.

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In the event of cash flow gap, the will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

- c. The table below summarizes the maturity profile of Cathay Century and its subsidiaries's financial liabilities based on contractual undiscounted payments.

Liabilities	2013.12.31 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,622,538	\$1,363,246	\$1,334,100	\$21,223	\$7,181	\$742	\$-
Financial liabilities at fair value through profit or loss	28,352	28,352	-	28,352	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	2013.12.31 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$87,916	\$45,701	\$44,723	\$712	\$241	\$25	\$-
Financial liabilities at fair value through profit or loss	950	950	-	950	-	-	-
Preferred stock liability	33,523	33,523	-	-	-	-	33,523

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

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

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

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

(E) Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

Cathay Century continues to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

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a. Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level when the market risk factors changes. Cathay Century estimates value at risk on the next day (week or two weeks) with a 99% level of confidence.

Value-at-risk model must reasonably completely and accurately measure the maximum potential risk that can be Cathay Century's risk management model. The use of risk management model must continue to conduct back testing daily to ensure the model can effectively measure financial instrument and what the maximum potential risk of a portfolio is.

b. Stress testing

In addition to the value-at-risk model, Cathay Century periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

Cathay Century conducts stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

(a) Simple Sensitivity

Simple sensitivity mainly evaluate changes in value of portfolio caused by specific risk factor

(b) Scenario Analysis

Scenario Analysis is a measure utilized for the evaluation of the change in value of portfolio under stress events occurred. The measures include :

- Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, and then calculates the amount of loss.

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, Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for Cathay Century to perform risk analysis, risk alert and business management based on the stress test report

2013.12.31		Stress testing			
Risk factors		Variation (+/-)	Changes in profit and loss		
			NT\$	US\$	
Equity price risk (Index)		-10%	\$(248,108)	\$(8,317)	
Interest rate risk (Yield curve)		20bp	(70,268)	(2,356)	
Foreign currency risk (Exchange rate)		USD exchange NTD devalue 1 dollar	(87,102)	(2,920)	
Commodity risk (commodity prices)		-10%	-	-	
2013.12.31		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$9,805	\$329	\$1,389	\$47
	HKD appreciate 1 %	-	-	132	4
	NTD appreciate 1 %	(12,363)	(414)	(1,116)	(37)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,564)	(52)	(136)	(5)
	Yield curve (RMB) flat rises 1bp	(41)	(1)	(82)	(3)
	Yield curve (NTD) flat rises 1bp	(185)	(6)	(1,505)	(50)
Equity securities price sensitivity	Increase 1% in equity price	-	-	24,811	832

2012.12.31		Stress testing		
Risk factors		Variation (+/-)	Changes in profit and loss	
			NT\$	US\$
Equity price risk (Index)		-10%	\$(150,852)	\$(5,193)
Interest rate risk (Yield curve)		20bp	(63,632)	(2,190)
Foreign currency risk (Exchange rate)		USD exchange NTD devalue 1 dollar	(20,245)	(697)
Commodity risk (commodity prices)		-10%	-	-

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2012.12.31		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	JPN appreciate 1 %	\$6	\$-	\$-	\$-
	RMB appreciate 1 %	8	-	598	21
	NTD appreciate 1 %	(2,997)	(103)	(1,989)	(68)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(901)	(31)	(160)	(6)
	Yield curve (RMB) flat rises 1bp	-	-	(99)	(3)
	Yield curve (NTD) flat rises 1bp	(128)	(4)	(1,893)	(65)
Equity securities price sensitivity	Increase 1% in equity price	-	-	15,085	519

D. Cathay Securities and its subsidiaries

(A) Risk management policies

a. Risk management objectives

Adhere to the risk management policies of the parent company, financial holding company, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

b. Risk management policies

Cathay Securities and its subsidiaries use “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

c. Risk management organizational structure

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(a) Board of directors

The Board of Directors has the ultimate responsibilities for risk management. The Board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the Board is required to monitor the implementation of risk management policies is effective.

(b) Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the Board of Directors and the members include General Manager, Auditor General, finance executive, accounting executive, risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the Board.

(c) Risk Management Department

Risk management department is belonging to the Board of Directors. The supervisor and staff of the department are prohibited to hold the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

(d) Business unit

Each business unit participates in the planning of risk management mechanism and executing daily risk management and report to ensure that the

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risk model services division implements is with the same base of the consistency of credibility and is in accordance with the internal control procedures to conform to the regulations and risk management policies.

(e) Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions to improve have been taken in time.

(f) Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

(g) Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

(h) Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

d. Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries include risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

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(a) Market Risk

- Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

- , Controls:

Cathay Securities and its subsidiaries sets up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

(b) Credit Risk

- Definition

Credit risk is the risk that a counterparty will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss.

- , Controls

Cathay Securities and its subsidiaries check and review credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on credit rating model. Investment concentration and risk are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, Fitch).

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(c) Operational Risk

- Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

- , Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss. Besides, Auditing office is established and belong to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

(d) Liquidity Risk

- Definition

Liquidity is defined as the capability of Cathay Securities to acquire the sufficient capital and to support assets growth and payout the liabilities.

- , Controls

Measurement index for liquidity risk is established and Cathay Securities compiles the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment.

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(e) Legal Risk

- Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the its qualification.

- , Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer' opinions.

(f) Capital adequacy management

- Definition

Cathay Securities and its subsidiaries implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

- , Controls

Cathay Securities establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

(g) Reputation risk and strategy risk

- Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation in lost customers or revenues and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fares or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

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, Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

e. Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are implemented the dynamic hedge through investment products to duplicate the same cash flows when derivatives are matured. The hedge for outstanding stock warrants and structured products are used Delta Neutral as a principle. If the prices of those investment positions fluctuate wildly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operating rules from the operators, the business department is required to explain by written and report to the risk management department.

Cathay Securities and its subsidiaries establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the prevention point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. Besides, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provides the exception report. The reason and specific responses are also need to be informed.

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(B) Credit risk analysis

Anticipated credit risks due to conducted financial transactions are included the credit risks from issuers, counterparties, and underlying assets:

- a. Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest.
- b. Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses
- c. Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which face the credit risk include bank accounts, debt securities, the trading from Over-the Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(C) Capital Liquidity Risk Analysis:

a. Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

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As of Dec. 31, 2013

Cash Flows Analysis of Financial Liabilities (NT\$)

Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	
Notes payables	\$4,090,000	\$-	\$-	\$-	\$4,090,000
Financial liabilities at fair value					
through profit or loss -current	1,632,816	-	-	-	1,632,816
Liabilities for bonds with					2,250,000
repurchase agreements	2,250,000	-	-	-	
Deposits for securities borrowed	20,519	41,038	61,557	246,233	369,347
Futures clients' equity	1,790,547	-	-	-	1,790,547
Account payables	3,552,535	-	-	-	3,552,535
Others	-	-	-	14,732	14,732
Total	\$13,336,417	\$41,038	\$61,557	\$260,965	\$13,699,977
% to the total	97.35%	0.30%	0.45%	1.90%	100%

As of Dec. 31, 2013

Cash Flows Analysis of Financial Liabilities (US\$)

Financial Liabilities	Payment Terms				Total
	Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	
Notes payables	\$137,110	\$-	\$-	\$-	\$137,110
Financial liabilities at fair value					
through profit or loss -current	54,737	-	-	-	54,737
Liabilities for bonds with					75,427
repurchase agreements	75,427	-	-	-	
Deposits for securities borrowed	688	1,376	2,064	8,254	12,382
Futures clients' equity	60,025	-	-	-	60,025
Account payables	119,093	-	-	-	119,093
Others	-	-	-	494	494
Total	\$447,080	\$1,376	\$2,064	\$8,748	\$459,268
% to the total	97.35%	0.30%	0.45%	1.90%	100%

Short-term loans, note payables and repurchase bonds are fund procurement instruments and matured within three months.

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As of Dec. 31, 2013					
Cash Flow Gap (NT\$)					
Financial Assets	Received Terms				Total
	Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	
Cash and cash equivalents	\$862,213	\$-	\$-	\$-	\$862,213
Financial assets at fair value through profit or loss -current					
Operations Security	6,345,214	-	-	-	6,345,214
Open-end Funds	91,506	-	-	-	91,506
Call option-futures	-	-	-	11,891	11,891
Futures trading margin	-	-	-	407,066	407,066
Available for sale financial assets	488,382	-	-	222,738	711,120
Other current asstes-time deposit	-	-	-	1,000,000	1,000,000
Client margin accounts	1,790,882	-	-	-	1,790,882
Account Receivables	4,251,971	2,924	4,386	17,544	4,276,825
Securities financing receivables	114,157	228,314	342,471	1,369,892	2,054,834
Others	-	-	-	640,978	640,978
Subtotal	13,944,325	231,238	346,857	3,670,109	18,192,529
Residual cash	\$607,908	\$190,200	\$285,300	\$3,409,144	\$4,492,552

As of Dec. 31, 2013					
Cash Flow Gap (US\$)					
Financial Assets	Received Terms				Total
	Less than 1 month	1 to 3 Months	3 to 6 Months	More than 6 months	
Cash and cash equivalents	\$28,904	\$-	\$-	\$-	\$28,904
Financial assets at fair value through profit or loss -current					
Operations Security	212,713	-	-	-	212,713
Open-end Funds	3,068	-	-	-	3,068
Call option-futures	-	-	-	399	399
Futures trading margin	-	-	-	13,646	13,646
Available for sale financial assets	16,372	-	-	7,467	23,839
Other current asstes-time deposit	-	-	-	33,523	33,523
Client margin accounts	60,036	-	-	-	60,036
ccount Receivables	142,540	98	147	588	143,373
Securities financing receivables	3,827	7,654	11,481	45,923	68,885
Others	-	-	-	21,488	21,488
Subtotal	467,460	7,752	11,628	123,034	609,874
Residual cash	\$20,379	6,376	9,564	114,286	\$150,605

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b. Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity the occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tighten capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

(a) Raising money and balance sheet adjustment are made in accordance with the Group “Crisis Management Principles” and “Regulations of Emergency Management”

(b) Money Raising: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper

(c) Balance sheet adjustment: (i) sales of securities (ii) retrieve short-term capital invested in currency market.

(A) Market risk analysis

Cathay Securities and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing continuously

a. Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

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- (a) Price value of basis point: denoting the change in the value of a position given a basis point change in the yield curve.
- (b) Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.
- (c) Gamma: measuring the dollar amount of change in Delta of a position given 1% price change of a certain underlying asset.
- (d) Vega: denoting the change in the value of a position given 1% price change of a certain underlying asset.

b. Value at Risk

Value at Risk (“VaR”) is the risk of the most probable loss on the portfolio in position arising from the movements in market risk simples by measuring portfolio over a specific time frame and at a certain confidence level. Cathay Securities measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

VaR at one single trading day within 99% confidence level

<u>2013.1.1~2013.12.31</u>	<u>NTD (in thousands)</u>	<u>USD (in thousands)</u>
Period Ended	25,526	856
Average	17,957	602
Lowest	10,555	354
Highest	38,935	1,305

c. Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review report will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

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(a) Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the in-time, significant, and comprehensive impact on financial market from Bankruptcy of Lehman Brothers in 2008 and Great East Japan Earthquake in 2011.

(b) Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drops on the total values of stock market arising from the global system breakdown.

As of Dec. 31, 2013
Table of Stress Test

<u>Risk Simples</u>	<u>Price Risk</u>	<u>Changes(+/-)</u>	<u>Changes in profit and loss (NT\$)</u>	<u>Changes in profit and loss (US\$)</u>
Equity Risk	Stock index	-10%	-64,990	-2,179
Interest Risk	Yield Curve	+100bps	-95,330	-3,196
Exchange Risk	Exchange Rate	+3%	-533	-18
Produce Risk	Price	-10%	0	0

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

	<u>2013.12.31</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$46,017,762	29.9500	\$1,378,231,972
AUD	Note	Note	Note
RMB	38,940,825	4.9436	192,507,862
<u>Non-Monetary Items</u>			
USD	4,346,951	29.9500	130,191,182

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Financial Liabilities

Monetary Items

USD	7,367,326	29.9500	220,651,414
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2012.12.31

<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>
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Financial Assets

Monetary Items

USD	\$45,105,812	29.1360	\$1,314,202,938
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AUD	Note	Note	Note
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RMB	19,422,188	4.6797	90,890,013
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Non-Monetary Items

USD	3,188,552	29.1360	92,901,651
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Financial Liabilities

Monetary Items

USD	6,087,435	29.1360	177,363,506
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2012.1.1

<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NT\$</u>
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Financial Assets

Monetary Items

USD	\$38,440,021	30.2900	\$1,164,348,236
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AUD	1,549,838	30.7519	47,660,463
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RMB	2,765,935	4.7746	13,206,233
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Non-Monetary Items

USD	2,407,923	30.2900	72,935,988
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Financial Liabilities

Monetary Items

USD	5,076,249	30.2900	153,759,582
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Note: On 31 December 2013, 31 December 2012 and 1 January 2012, the amounts did not have significant influence.

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(4) Discretionary account management for Cathay Life

Item	2013.12.31			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$129,828,751	\$4,352,288	\$129,828,751	\$4,352,288
Overseas stocks	55,726,731	1,868,144	55,726,731	1,868,144
Repurchase bonds and notes	2,088,200	70,003	2,088,200	70,003
Cash in banks	22,994,358	770,847	22,994,358	770,847
Beneficiary certificates	18,109,871	607,103	18,109,871	607,103
Futures and options	911,776	30,566	911,776	30,566
Corporate bonds	837,194	28,065	837,194	28,065
Total	<u>\$230,496,881</u>	<u>\$7,727,016</u>	<u>\$230,496,881</u>	<u>\$7,727,016</u>

Item	2012.12.31			
	Carrying amount		Fair value	
	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
Cash in banks	38,106,426	1,311,753	38,106,426	1,311,753
Beneficiary certificates	29,184,078	1,004,616	29,184,078	1,004,616
Futures and options	1,482,600	51,036	1,482,600	51,036
Corporate bonds	690,768	23,779	690,768	23,779
Total	<u>\$204,663,888</u>	<u>\$7,045,229</u>	<u>\$204,663,888</u>	<u>\$7,045,229</u>

Item	2012.1.1			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$90,957,252	\$3,004,865	\$90,957,252	\$3,004,865
Repurchase bonds	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	<u>\$121,139,793</u>	<u>\$4,001,975</u>	<u>\$121,139,793</u>	<u>\$4,001,975</u>

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As of 31 December 2013, Cathay Life entered into discretionary account management contracts in the amounts of NT\$143,000,000 (US\$4,793,832) thousands, US\$1,990,000 thousands, and HK\$2,000,000 (US\$257,948) thousands. As of 31 December 2012, Cathay Life 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 1 January 2012, the amount is NT\$139,500,000 (US\$4,608,523) thousands.

(5) Capital management:

Currently, the Company and its subsidiaries' capital adequacy ratios meet the statutory requirements. Under the pretext that the Company and its subsidiaries meet the statutory capital adequacy requirement, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operation within the Group.

A. Capital adequacy ratio on a consolidated basis:

Capital adequacy ratios

2013.12.31

Item	Ownership interest	Eligible capital		Statutory capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	\$291,814,582	\$9,782,587	\$325,323,533	\$10,905,918
Cathay United Bank	100.00%	151,382,501	5,074,841	89,976,605	3,016,313
Cathay Securities	100.00%	3,396,276	113,854	1,458,123	48,881
Cathay Life	100.00%	237,472,375	7,960,857	189,812,900	6,363,154
Cathay Century	100.00%	6,368,944	213,508	4,078,266	136,717
Cathay Venture	100.00%	2,836,715	95,096	1,421,414	47,650
Cathay Securities Investment Trust	100.00%	2,031,623	68,107	1,193,667	40,016
Less: Item		(321,252,584)	(10,769,446)	(320,858,824)	(10,756,246)
Subtotal		(A) \$374,050,432	\$12,539,404	(B) \$292,405,684	\$9,802,403
Consolidated capital adequacy ratios		(C)=(A)/(B)		127.92%	

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2012.12.31

Item	Ownership interest	Eligible capital		Statutory capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	\$263,872,004	\$9,083,374	\$286,648,936	\$9,867,433
Cathay United Bank	100.00%	124,681,317	4,291,956	80,594,040	2,774,321
Cathay Securities	100.00%	3,312,268	114,019	1,561,653	53,757
Cathay Life	100.00%	191,600,492	6,595,542	163,566,042	5,630,501
Cathay Century	100.00%	5,693,618	195,994	3,621,278	124,657
Cathay Venture	100.00%	2,187,120	75,288	1,093,671	37,648
Cathay Securities Investment Trust	100.00%	2,031,836	69,943	1,157,716	39,853
Less: Item		(288,045,911)	(9,915,522)	(283,085,633)	(9,744,772)
Subtotal		(A) \$305,332,744	\$10,510,594	(B) \$255,157,703	\$8,783,398
Consolidated capital adequacy ratios			(C)=(A)/(B)		119.66%

B. Eligible capital

2013.12.31

Item	(NT\$)	(US\$)
Common Stock	\$119,649,621	\$4,011,050
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	12,000,000	402,279
Capital collected in advance	-	-
Capital surplus	89,063,184	2,985,692
Legal reserve	16,922,773	567,307
Special reserve	7,072,630	237,098
Accumulated profit	28,287,695	948,297
Equity adjustments	20,083,810	673,275
Less: Goodwill	-	-
Less: Deferred assets	(1,265,131)	(42,411)
Less: Treasury stock	-	-
Consolidated eligible capital	\$291,814,582	\$9,782,587

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2012.12.31

Item	(NT\$)	(US\$)
Common Stock	\$108,653,851	\$3,740,236
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	20,000,000	688,468
Capital collected in advance	-	-
Capital surplus	78,596,121	2,705,546
Legal reserve	15,222,599	524,014
Special reserve	333,598	11,484
Accumulated profit	20,031,074	689,538
Equity adjustments	29,175,463	1,004,319
Less: Goodwill	-	-
Less: Deferred assets	(960,830)	(33,075)
Less: Treasury stock	(7,179,872)	(247,156)
Consolidated eligible capital	\$263,872,004	\$9,083,374

(6) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer Note 28 (business with stakeholders) for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through the branches and professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

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C. Cross utilization of information:

In compliance with “Financial Holding Companies Act”, “Personal Data Protection Act”, “Financial Holding Subsidiaries Cross-selling Activities Acts”, “Self-disciplinary Rules Governing the Activities of the FHC” and other related regulations from Financial Supervisory Commission, Executive Yuan, the Company has stipulated “Cathay Financial Holding Subsidiaries Cross-selling Activities Acts” and ”Non-disclosure Confidential Agreement of Cathay Financial Holding Subsidiaries Cross-utilization of Customer’s Personal Data” to cross-utilize customer’s personal data under a safe and secure environment and provide comprehensive and integrated financial service to the customers.

D. Locations and business utilities:

In order to provide more comprehensive financial service and comply with the “Financial Holding Subsidiaries Cross-selling Activities Acts”, the Company has applied and obtained approval from the competent authority. From September 13, 2010, all the business units of Cathay United Bank (165 branches) may engage in cross-selling activities for insurance business and securities business (except for 3 mini-branches). On September 2, 2011, Cathay Life has been approved by the competent authorities to engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (184 locations). In the future, the Company and its subsidiaries will continue to apply for approval to expand its cross-selling businesses.

E. Allocation of revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features.

(8) Material contracts: None.

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(9) Information regarding investment in Mainland China:

- A. On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, 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 thousand to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized the Company to remit US \$59,000 thousand as the registered capital again on 16 May 2008. The total registered capital was US \$107,330 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise legal person on 29 December 2004. Cathay Life's has remitted US\$48,330 thousand to Cathay Life Insurance Ltd. (China) as of 31 December 2009, and injected another US\$29,880 thousand on 29 September 2010. As of 31 December 2013, Cathay Life's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousand.
- B. On 17 October 2007, MOEAIC authorized Cathay Life to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance). On 6 March 2008, MOEAIC authorized Cathay Life to increase the remittance from US\$26,390 thousand to US\$28,960 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise legal person on 26 August 2008. And MOEAIC authorized Cathay Life to remit RMB \$200,000 thousand as the equity capital again on 28 May 2013. As of 31 December 2013, Cathay Life's remittances to this general insurance company totaled approximately US\$44,360 thousand.
- C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit US\$47,000 thousand and US\$80,000 thousand as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise legal person on 15 August 2012. And MOEAIC authorized Cathay Life to remit RMB\$7 (USD\$1.11) billion as the equity Capital on 1 April 2013. As of 31 December 2013, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately US\$126,060 thousand.

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- D. On 31 December 2006, MOEAIC authorized Cathay Century to remit US\$28,960 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of joint venture with Cathay Life.) Cathay Century has received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company. Cathay Century and Cathay Life Insurance subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. And MOEIC authorized Cathay Century to remit RMB\$200,000 thousand as the equity capital on 28 May 2013. As of 31 December 2013, Cathay Century's remittances to this company totaled approximately US\$44,030 thousand.
- E. The Investment Commission, MOEA approved Cathay United Bank to remit to China US\$60,067 thousand, an equivalent of RMB400 million. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was RMB400 million, an equivalent of US\$59,768 thousand. The remaining amount of US\$299 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to the Investment Commission, MOEA in 18 January 2011 and were approved on 24 January 2011. In addition, the Investment Commission, MOEA further approved the Bank to remit US\$95,024 thousand to China, an equivalent of RMB600 million. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was RMB600 million, an equivalent of US\$94,929 thousand. The remaining amount of US\$95 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by the Bank by reporting to the Investment Commission, MOEA on 20 March 2012 and were approved on 26 March 2012.
- F. On 9 January 2012 MOEAIC authorized Cathay Securities Investments Trust to remit RMB\$66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. COBS Cathay Asset Management's capital is RMB\$2 billion, and has acquired a business license of an enterprise legal person on 16 August 2013. As of 31 December 2013, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately RMB\$66,600 thousand.

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41. Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

- A. Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- B. Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.
- C. Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, reinsurance and other insurance.
- D. Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- E. Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

To formulate strategies of the allocation of resources and assessment of performance, the management monitors results of operating segments. The accounting policies are the same as the summary of significant accounting policies in Note 4.

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2013.1.1~2013.12.31(NT\$)

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$22,410,398	\$92,900,232	\$295,871	\$65,208	\$(1,136,697)	\$114,535,012
Net income other than interest	11,728,961	248,999,933	5,863,008	1,264,384	485,984	268,342,270
Total income	34,139,359	341,900,165	6,158,879	1,329,592	(650,713)	382,877,282
Bad debt expenses and Provision for premiums reserve	(541,510)	(931,692)	(14,205)	-	-	(1,487,407)
The net change of insurance liabilities	-	(292,977,648)	(591,929)	-	-	(293,569,577)
Operating expenses	(19,252,617)	(29,448,055)	(3,791,274)	(1,040,206)	(2,317,095)	(55,849,247)
Income (loss) from continuing operations before income taxes	14,345,232	18,542,770	1,761,471	289,386	(2,967,808)	31,971,051
Income taxes (expense) benefit	(2,164,641)	(787,802)	(217,953)	(8,240)	227,696	(2,950,940)
Consolidated net income	12,180,591	17,754,968	1,543,518	281,146	(2,740,112)	29,020,111

2013.1.1~2013.12.31(US\$)

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$751,270	\$3,114,322	\$9,919	\$2,186	\$(38,106)	\$3,839,591
Net income other than interest	393,194	8,347,299	196,548	42,386	16,292	8,995,719
Total income	1,144,464	11,461,621	206,467	44,572	(21,814)	12,835,310
Bad debt expenses and Provision for premiums reserve	(18,153)	(31,234)	(476)	-	-	(49,863)
The net change of insurance liabilities	-	(9,821,577)	(19,844)	-	-	(9,841,421)
Operating expenses	(645,411)	(987,196)	(127,096)	(34,871)	(77,677)	(1,872,251)
Income (loss) from continuing operations before income taxes	480,900	621,614	59,051	9,701	(99,491)	1,071,775
Income taxes (expense) benefit	(72,566)	(26,409)	(7,306)	(276)	7,632	(98,925)
Consolidated net income	408,334	595,205	51,745	9,425	(91,859)	972,850

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2012.1.1~2012.12.31(NT\$)

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$21,821,246	\$91,608,843	\$351,406	\$92,731	\$(1,147,648)	\$112,726,578
Net income other than interest	11,753,452	245,947,473	5,057,389	953,390	663,684	264,375,388
Total income	33,574,698	337,556,316	5,408,795	1,046,121	(483,964)	377,101,966
Bad debt expenses and Provision for premiums reserve	(2,126,095)	(1,047,075)	309	-	-	(3,172,861)
The net change of insurance liabilities	-	(306,073,697)	(369,080)	-	-	(306,442,777)
Operating expenses	(15,884,736)	(30,314,592)	(3,032,965)	(836,637)	(1,702,859)	(51,771,789)
Income (loss) from continuing operations before income taxes	15,563,867	120,952	2,007,059	209,484	(2,186,823)	15,714,539
Income taxes (expense) benefit	(1,714,731)	2,293,591	(196,398)	11,897	63,031	457,390
Consolidated net income	13,849,136	2,414,543	1,810,661	221,381	(2,123,792)	16,171,929

2012.1.1~2012.12.31(US\$)

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$751,162	\$3,153,488	\$12,097	\$3,192	\$(39,506)	\$3,880,433
Net income other than interest	404,594	8,466,350	174,093	32,819	22,846	9,100,702
Total income	1,155,756	11,619,838	186,190	36,011	(16,660)	12,981,135
Bad debt expenses and Provision for premiums reserve	(73,188)	(36,044)	11	-	-	(109,221)
The net change of insurance liabilities	-	(10,536,100)	(12,705)	-	-	(10,548,805)
Operating expenses	(546,807)	(1,043,531)	(104,405)	(28,800)	(58,618)	(1,782,161)
Income (loss) from continuing operations before income taxes	535,761	4,163	69,091	7,211	(75,278)	540,948
Income taxes (expense) benefit	(59,027)	78,953	(6,761)	410	2,170	15,745
Consolidated net income	476,734	83,116	62,330	7,621	(73,108)	556,693

Remarks:

- (1) No sales from a certain external customer reached more than 10% of the gross revenue of the Group.
- (2) The profit or loss from the operating segments is measured by profit and loss before tax without allocating tax expense to the reportable segments, and is regarded as the fundamental of the determination of resources allocation and assessment of performance.

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42. The First-time adoption of International Financial Reporting Standards

Prior to 31 December 2012, the Group compiled the financial statements in conformity of R.O.C GAAP. The consolidated financial statements for the year ended 31 December 2013 are the first financial statements compiled in accordance with International Financial Reporting Standards approved by the Financial Supervisory Commission.

As a result, starting from 1 January 2013, the Group has compiled financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards approved by Financial Supervisory Commission, International Accounting Standards and International Financial Reporting Interpretations Committee, with clarifications stated in the paragraph of accounting policy. The compliance basis of the first financial statements in conformity with International Financial Reporting Standards approved by Financial Supervisory Commission not only adhered to significant accounting policy stated in the explanation of Note 4, but also adhered to IFRS 1 First-time Adoption of International Financial Reporting Standards. The compliance of consolidated balance sheets in accordance with IFRS compiled by the Group started from 1 January 2012, the date of transition.

The exemptions of IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS 1 *First-time Adoption of International Financial Reporting Standards* allowed entities with first-time adoption of IFRS to select several options of exemption provided by the rules of retrospective adoption of International Financial Reporting Standards. The options of exemption are as follows:

- (1) IFRS 3 *Business Combinations* is not applicable to the acquisition of subsidiaries, Associate and Joint Ventures. The selection of such exemption represents that the book value of assets and assumed liabilities recorded in accordance with R.O.C GAAP from acquisition is regarded as deemed cost at the date of business combinations according to IFRS. After the date of business combinations, in subsequent, such cost of assets and liabilities from acquisition should be measured based on the requirements of IFRS. IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires that the recognized amount of goodwill, as of December 31, 2011, generated from business combinations should be presented in the initial balance sheets after the impairment test of goodwill and adjustments of intangible assets. According to IFRS 1 *First-time Adoption of International Financial Reporting Standards* the Group conducted the impairment test of goodwill at the date of transition. The Group did not recognize any impairment loss based on the result of the impairment test of goodwill performed at 1 January 2012.

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- (2) The revaluation of lands and buildings under the item of land and buildings based on former GAAP is regarded as deemed cost.
- (3) The fair value of investment properties at the date of transition is regarded as deemed cost.
- (4) According to regulation of IFRIC 1 Decommissioning, Restoration and Similar Liabilities, the specific change of decommissioning, restoration and similar liabilities increased or decreased the associated cost of assets. The depreciable amount of cost of such assets after the adjustments is allocated within the service life. The Group selected to adopt the exemption, therefore the change of such liabilities mentioned in IFRIC 1 before the date of transition is not required to follow the requirements mentioned above.
- (5) The Group recognized total accumulated actuarial profit or loss as retained earnings once at the date of transition.
- (6) The present value of defined benefits obligation, fair value of projected assets and projected profit and loss and adjusted information based on experience defined in IAS 19 Employee Benefits should be disclosed at the amount with deferred determination in each accounting period since the date of transition to IFRS.
- (7) The difference of accumulated translation of foreign operations was not returned to zero at the date of transition to IFRS.

The impact of the transition to IFRS

After the transition to IFRS, the impacts of consolidated balance sheet as of 31 December 2012 and of the consolidated comprehensive income statements for the year ended 31 December 2012 are as follows:

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j Reconciliation of consolidated balance sheet items as of 1 January 2012:

R.O.C GAAP		Impact of transitioning to TIFRS		TIFRS		
	Amount(Note)	Remeasurement	Presentation	Amount		
Items	NT\$	NT\$	NT\$	NT\$	Items	Notes
Cash and cash equivalents	\$726,749,401	\$-	\$(391,886,287)	\$334,863,114	Cash and cash equivalents	N
Due from the Central Bank and call loans to banks	87,406,822	-	12,694,719	100,101,541	Due from the Central Bank and call loans to banks	N
Financial assets at fair value through profit or loss	84,697,424	(14,942)	(421,319)	84,261,163	Financial assets at fair value through profit or loss	B · N
Available-for-sale financial assets –net	1,336,579,892	12,100,569	16,967	1,348,697,428	Available-for-sale financial assets –net	B · N
	-	-	3,425,140	3,425,140	Derivative financial assets for hedging	N
Securities purchased under agreements to resell and bonds investment	11,820,837	-	(202,870)	11,617,967	Securities purchased under agreements to resell	N
Receivables –net	94,518,933	362,936	(1,880,287)	93,001,582	Receivables –net	C(1) · N
	-	-	3,456,783	3,456,783	Current income tax assets	N
Discounts and loans –net	1,493,694,284	-	-	1,493,694,284	Loans –net	
	-	-	14,366,255	14,366,255	Reinsurance assets –net	N
Held-to-maturity financial assets –net	21,955,565	-	-	21,955,565	Held-to-maturity financial assets –net	
Investments accounted for using the equity method –net	1,287,843	-	1,089,549	2,377,392	Investments accounted for using the equity method –net	N
Other financial assets –net	32,586,387	(11,850,466)	1,237,970,342	1,258,706,263	Other financial assets –net	B · N
Investments in debt securities with no active market	528,978,714	-	(528,978,714)	-		N
Insurance commodity assets –separate account	294,051,012	-	(294,051,012)	-		N
Investments properties –net	147,985,159	64,408,543	(44,481,519)	167,912,183	Investments properties –net	D · E · N
Property and equipment –net	38,605,554	8,501,267	44,064,483	91,171,304	Property and equipment –net	D · E · N
Goodwill and intangible assets –net	9,692,897	(355,390)	-	9,337,507	Intangible assets –net	C(3)
	-	(1,977,723)	17,406,070	15,428,347	Deferred tax assets –net	L · N
Other assets –net	95,577,377	(1,466,183)	(69,093,208)	25,017,986	Other assets –net	C(3) · D · H · I · N
Total assets	\$5,006,188,101			\$5,079,391,804	Total assets	

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Due to the Central Bank and call					Due to the Central Bank and call	
loans from banks	\$62,275,073	\$-	\$-	\$62,275,073	loans from banks	
Bankers acceptances and					Bankers acceptances and	
funds borrowed	1,514,500	-	-	1,514,500	funds borrowed	
Financial liabilities at fair value					Financial liabilities at fair value	
through profit or loss	23,136,143	-	-	23,136,143	through profit or loss	
Securities sold under agreements					Securities sold under agreements	
to repurchase	14,686,609	-	-	14,686,609	to repurchase	
Commercial paper payable –net	8,720,000	-	-	8,720,000	Commercial paper payable –net	
Payables	48,074,475	(512,271)	(3,358,007)	44,204,197	Payables	K、N
	-	-	2,041,027	2,041,027	Current income tax liabilities	N
Deposits and remittances	1,414,421,828	-	-	1,414,421,828	Deposits and remittances	
Bonds payables	76,023,825	-	-	76,023,825	Bonds payables	
Provisions	2,822,627,363	54,867,839	2,908,012	2,880,403,214	Provisions	F~J、N
Other financial liabilities –net	10,611,073	-	295,155,370	305,766,443	Other financial liabilities –net	N
	-	13,426,525	606,841	14,033,366	Deferred tax liabilities	L、N
Insurance commodity liabilities –						
separate account	294,051,012	-	(294,051,012)	-		N
Other liabilities	11,549,306	1,105,371	162,607	12,817,284	Other liabilities	K、N
Total liabilities	4,787,691,207			4,860,043,509	Total liabilities	
Shareholders' equity – Parent					Equity attributable to owners of	
Company					parent	
Share capital					Capital stock	
Common stock	103,575,096	-	-	103,575,096	Common stock	N
Capital surplus	78,508,148	-	-	78,508,148	Capital surplus	
Retained earnings					Retained earnings	
Legal reserve	14,105,459	-	-	14,105,459	Legal reserve	
Special reserve	333,598	3,744,467	-	4,078,065	Special reserve	F
Undistributed earnings	15,089,304	(639,447)	-	14,449,857	Undistributed earnings	B~E、G~M
Adjusting items in shareholders'						
equity	-	-	7,760,904	7,760,904	Other equity	
Unrealized revaluation						
increments	1,461	(1,461)	-	-		E
Cumulative translation						
adjustment	(378,126)	-	378,126	-		N
Unrealized gains (losses) from						
financial assets	11,816,355	(3,676,141)	(8,140,214)	-		B、L、N
Treasury shares	(7,179,872)	-	-	(7,179,872)	Treasury stock	

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Net loss not recognized as					I
pension cost	(1,425,167)	1,425,167	-	-	
Total Shareholders' equity –					
Parent Company	214,446,256			215,297,657	
Minority interest	4,050,638			4,050,638	Non-controlling interests
Total shareholders' equity	218,496,894			219,348,295	Total equity
Total liabilities and shareholders'					
equity	\$5,006,188,101			\$5,079,391,804	Total liabilities and equity

	R.O.C GAAP	Impact of transitioning to TIFRS			TIFRS	
	Amount(Note)	Remeasurement	Presentation	Amount		
Items	US\$	US\$	US\$	US\$	Items	Notes
Cash and cash equivalents	\$24,008,900	\$-	\$(12,946,359)	\$11,062,541	Cash and cash equivalents	N
Due from the Central Bank and call loans to banks	2,887,573	-	419,382	3,306,955	Due from the Central Bank and call loans to banks	N
Financial assets at fair value through profit or loss	2,798,065	(494)	(13,918)	2,783,653	Financial assets at fair value through profit or loss	B · N
Available-for-sale financial assets -net	44,155,265	399,755	561	44,555,581	Available-for-sale financial assets -net	B · N
	-	-	113,153	113,153	Derivative financial assets for hedging	N
Securities purchased under agreements to resell and bonds investment	390,513	-	(6,702)	383,811	Securities purchased under agreements to resell	N
Receivables -net	3,122,528	11,990	(62,117)	3,072,401	Receivables -net	C(1) · N
	-	-	114,198	114,198	Current income tax assets	N
Discounts and loans -net	49,345,698	-	-	49,345,698	Loans -net	
	-	-	474,604	474,604	Reinsurance assets -net	N
Held-to-maturity financial assets -net	725,324	-	-	725,324	Held-to-maturity financial assets -net	
Investments accounted for using the equity method -net	42,545	-	35,995	78,540	Investments accounted for using the equity method -net	N
Other financial assets -net	1,076,524	(391,492)	40,897,600	41,582,632	Other financial assets -net	B · N
Investments in debt securities with no active market	17,475,346	-	(17,475,346)	-		N
Insurance commodity assets -separate account	9,714,272	-	(9,714,272)	-		N

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Investments properties -net	4,888,839	2,127,801	(1,469,491)	5,547,149	Investments properties -net	D · E · N
Property and equipment -net	1,275,374	280,848	1,455,714	3,011,936	Property and equipment -net	D · E · N
Goodwill and intangible assets						
-net	320,215	(11,741)	-	308,474	Intangible assets -net	C(3)
	-	(65,336)	575,027	509,691	Deferred tax assets -net	L · N
Other assets -net	<u>3,157,495</u>	<u>(48,437)</u>	<u>(2,282,564)</u>	<u>826,494</u>	Other assets -net	C(3) · D · H · I · N
Total assets	<u>\$165,384,476</u>			<u>\$167,802,835</u>	Total assets	
Due to the Central Bank and call					Due to the Central Bank and call	
loans from banks	\$2,057,320	\$-	\$-	\$2,057,320	loans from banks	
Bankers acceptances and					Bankers acceptances and	
funds borrowed	50,033	-	-	50,033	funds borrowed	
Financial liabilities at fair value					Financial liabilities at fair value	
through profit or loss	764,326	-	-	764,326	through profit or loss	
Securities sold under agreements					Securities sold under	
to repurchase	485,187	-	-	485,187	agreements to repurchase	
Commercial paper payable -net	288,074	-	-	288,074	Commercial paper payable -net	
Payables	1,588,189	(16,923)	(110,936)	1,460,330	Payables	K · N
	-	-	67,427	67,427	Current income tax liabilities	N
Deposits and remittances	46,726,853	-	-	46,726,853	Deposits and remittances	
Bonds payables	2,511,524	-	-	2,511,524	Bonds payables	
Provisions	93,248,343	1,812,614	96,070	95,157,027	Provisions	F-J · N
Other financial liabilities -net	350,547	-	9,750,756	10,101,303	Other financial liabilities -net	N
	-	443,559	20,047	463,606	Deferred tax liabilities	L · N
Insurance commodity liabilities –						
separate account	9,714,272	-	(9,714,272)	-		N
Other liabilities	<u>381,543</u>	<u>36,517</u>	<u>5,372</u>	<u>423,432</u>	Other liabilities	K · N
Total liabilities	<u>158,166,211</u>			<u>160,556,442</u>	Total liabilities	
Shareholders' equity – Parent					Equity attributable to	
Company					owners of parent	
Share capital					Capital stock	
Common stock	3,421,708	-	-	3,421,708	Common stock	N
Capital surplus	2,593,596	-	-	2,593,596	Capital surplus	
Retained earnings					Retained earnings	
Legal reserve	465,988	-	-	465,988	Legal reserve	

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Special reserve	11,021	123,702	-	134,723	Special reserve	F
Undistributed earnings	498,490	(21,124)	-	477,366	Undistributed earnings	B-E · G-M
Adjusting items in shareholders' equity	-	-	256,389	256,389	Other equity	
Unrealized revaluation increments	48	(48)	-	-		E
Cumulative translation adjustment	(12,492)	-	12,492	-		N
Unrealized gains (losses) from financial assets	390,365	(121,445)	(268,920)	-		B · L · N
Treasury shares	(237,194)	-	-	(237,194)	Treasury stock	
Net loss not recognized as pension cost	(47,082)	47,082	-	-		I
Total Shareholders' equity –						
Parent Company	7,084,448			7,112,576		
Minority interest	133,817			133,817	Non-controlling interests	
Total shareholders' equity	7,218,265			7,246,393	Total equity	
Total liabilities and shareholders' equity	\$165,384,476			\$167,802,835	Total liabilities and equity	

Reconciliation of consolidated balance sheet items as of 31 December 2012:

R.O.C GAAP		Impact of transitioning to TIFRS		TIFRS		
Items	Amount(Note) NT\$	Remeasurement NT\$	Presentation NT\$	Amount NT\$	Items	Notes
Cash and cash equivalents	\$702,403,376	\$-	\$(388,739,990)	\$313,663,386	Cash and cash equivalents	N
Due from the Central Bank and call loans to banks	104,175,647	-	4,828,115	109,003,762	Due from the Central Bank and call loans to banks	N
Financial assets at fair value through profit or loss	147,145,050	14,839	(413,217)	146,746,672	Financial assets at fair value through profit or loss	B · N
Available-for-sale financial assets –net	1,284,920,865	17,805,430	16,967	1,302,743,262	Available-for-sale financial assets -net	A · B · N
	-	-	2,362,366	2,362,366	Derivative financial assets for hedging	N
Securities purchased under agreements to resell and bonds investment	18,517,498	-	(2,768,254)	15,749,244	Securities purchased under agreements to resell	N

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Receivables –net	112,532,116	463,986	(3,084,824)	109,911,278	Receivables -net	A、C(1)、H、N
	-	-	3,597,490	3,597,490	Current income tax assets	N
Discounts and loans –net	1,521,712,123	-	-	1,521,712,123	Loans -net	
	-	-	14,641,999	14,641,999	Reinsurance assets -net	N
Held-to-maturity financial assets					Held-to-maturity financial assets	
–net	24,380,985	-	-	24,380,985	–net	
Investments accounted for using					Investments accounted for using	
the equity method –net	1,146,326	-	1,089,548	2,235,874	the equity method -net	N
Other financial assets –net	42,087,293	(15,396,092)	1,578,609,008	1,605,300,209	Other financial assets -net	B、N
Investments in debt securities						
with no active market	813,141,357	-	(813,141,357)	-		N
Insurance commodity assets						
-separate account	329,557,246	-	(329,557,246)	-		N
Investments properties –net	165,699,118	49,319,814	(43,915,014)	171,103,918	Investments properties -net	D、E、N
Property and equipment –net	48,821,416	22,320,783	43,491,860	114,634,059	Property and equipment -net	D、E、N
Goodwill and intangible assets –						
net	9,734,376	(341,369)	-	9,393,007	Intangible assets -net	C(3)
	-	(640,059)	19,686,304	19,046,245	Deferred tax assets -net	L、N
Other assets –net	109,582,019	(535,043)	(84,319,979)	24,726,997	Other assets -net	C(3)、D、I、N
Total assets	<u>\$5,435,556,811</u>			<u>\$5,510,952,876</u>	Total assets	
Due to the Central Bank and call					Due to the Central Bank and call	
loans from banks	\$56,934,246	\$-	\$-	\$56,934,246	loans from banks	
Bankers acceptances and					Bankers acceptances and	
funds borrowed	1,456,800	-	-	1,456,800	funds borrowed	
Financial liabilities at fair value					Financial liabilities at fair value	
through profit or loss	8,718,702	-	367,644	9,086,346	through profit or loss	N
Securities sold under agreements					Securities sold under	
to repurchase	22,046,517	-	-	22,046,517	agreements to repurchase	
Commercial paper payable –net	5,540,000	-	-	5,540,000	Commercial paper payable -net	
Payables	61,147,624	1,088,779	(1,495,477)	60,740,926	Payables	A、C(2)、K、N
	-	-	104	104	Current income tax liabilities	N
Deposits and remittances	1,458,587,976	-	(195,000)	1,458,392,976	Deposits and remittances	N
Bonds payables	89,831,007	-	-	89,831,007	Bonds payables	
Provisions	3,117,676,956	55,218,586	2,792,749	3,175,688,291	Provisions	F–J、N
Other financial liabilities –net	17,426,191	-	330,803,746	348,229,937	Other financial liabilities -net	N
	-	15,932,286	375,596	16,307,882	Deferred tax liabilities	L、N

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Insurance commodity liabilities –							N
separate account	329,557,246	-	(329,557,246)	-			
Other liabilities	<u>17,795,091</u>	1,123,325	(369,735)	<u>18,548,681</u>	Other liabilities		K、N
Total liabilities	<u>5,186,718,356</u>			<u>5,262,803,713</u>	Total liabilities		
Shareholders' equity – Parent					Equity attributable to owners of		
Company					parent		
Share capital					Capital stock		
Common stock	108,653,851	-	-	108,653,851	Common stock		N
Capital surplus	78,596,121	-	(87,973)	78,508,148	Capital surplus		N
Retained earnings					Retained earnings		
Legal reserve	15,222,599	-	-	15,222,599	Legal reserve		
Special reserve	333,598	3,744,467	-	4,078,065	Special reserve		F
Undistributed earnings	20,285,081	(994,241)	-	19,290,840	Undistributed earnings		B-E、G-M
Adjusting items in shareholders'							
equity	-	-	25,823,918	25,823,918	Other equity		
Unrealized revaluation							
increments	1,461	(1,461)	-	-			E
Cumulative translation							
adjustment	(1,082,092)	(6)	1,082,098	-			A、N
Unrealized gains (losses) from							
financial assets	31,349,676	(4,442,431)	(26,907,245)	-			A、B、L、N
Treasury shares	(7,179,872)	-	-	(7,179,872)	Treasury stock		
Net loss not recognized as							
pension cost	<u>(1,093,582)</u>	1,093,582	-	<u>-</u>			I
Total Shareholders' equity –							
Parent Company	245,086,841			244,397,549			
Minority interest	<u>3,751,614</u>			<u>3,751,614</u>	Non-controlling interests		
Total shareholders' equity	<u>248,838,455</u>			<u>248,149,163</u>	Total equity		
Total liabilities and shareholders'							
equity	<u>\$5,435,556,811</u>			<u>\$5,510,952,876</u>	Total liabilities and equity		

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R.O.C GAAP		Impact of transitioning to TIFRS			TIFRS	
Items	Amount(Note) US\$	Remeasurement US\$	Presentation US\$	Amount US\$	Items	Notes
Cash and cash equivalents	\$24,179,118	\$-	\$(13,381,755)	\$10,797,363	Cash and cash equivalents	N
Due from the Central Bank and call loans to banks	3,586,081	-	166,200	3,752,281	Due from the Central Bank and call loans to banks	N
Financial assets at fair value through profit or loss	5,065,234	511	(14,225)	5,051,520	Financial assets at fair value through profit or loss	B、N
Available-for-sale financial assets -net	44,231,355	612,924	584	44,844,863	Available-for-sale financial assets -net	A、B、N
	-	-	81,321	81,321	Derivative financial assets for hedging	N
Securities purchased under agreements to resell and bonds investment	637,435	-	(95,293)	542,142	Securities purchased under agreements to resell	N
Receivables -net	3,873,739	15,972	(106,190)	3,783,521	Receivables -net	A、C(1)、H、N
	-	-	123,838	123,838	Current income tax assets	N
Discounts and loans -net	52,382,517	-	-	52,382,517	Loans -net	N
	-	-	504,028	504,028	Reinsurance assets -net	N
Held-to-maturity financial assets -net	839,277	-	-	839,277	Held-to-maturity financial assets -net	N
Investments accounted for using the equity method -net	39,460	-	37,506	76,966	Investments accounted for using the equity method -net	N
Other financial assets -net	1,448,788	(529,986)	54,341,102	55,259,904	Other financial assets -net	B、N
Investments in debt securities with no active market	27,991,097	-	(27,991,097)	-		N
Insurance commodity assets -separate account	11,344,484	-	(11,344,484)	-		N
Investments properties -net	5,703,928	1,697,756	(1,511,704)	5,889,980	Investments properties -net	D、E、N
Property and equipment -net	1,680,600	768,357	1,497,138	3,946,095	Property and equipment -net	D、E、N
Goodwill and intangible assets -net	335,090	(11,751)	-	323,339	Intangible assets -net	C(3)
	-	(22,033)	677,670	655,637	Deferred tax assets -net	L、N
Other assets -net	3,772,187	(18,418)	(2,902,582)	851,187	Other assets -net	C(3)、D、I、N
Total assets	\$187,110,390			\$189,705,779	Total assets	

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Due to the Central Bank and call					Due to the Central Bank and	
loans from banks	\$1,959,871	\$-	\$-	\$1,959,871	call loans from banks	
Bankers' acceptances and					Bankers' acceptances and	
funds borrowed	50,148	-	-	50,148	funds borrowed	
Financial liabilities at fair value					Financial liabilities at fair value	N
through profit or loss	300,127	-	12,656	312,783	through profit or loss	
Securities sold under agreements					Securities sold under	
to repurchase	758,916	-	-	758,916	agreements to repurchase	
Commercial paper payable -net	190,706	-	-	190,706	Commercial paper payable -net	
Payables	2,104,910	37,479	(51,479)	2,090,910	Payables	A、C(2)、K、N
	-	-	4	4	Current income tax liabilities	N
Deposits and remittances	50,209,569	-	(6,713)	50,202,856	Deposits and remittances	N
Bonds payables	3,092,289	-	-	3,092,289	Bonds payables	
Provisions	107,321,066	1,900,812	96,135	109,318,013	Provisions	F~J、N
Other financial liabilities -net	599,869	-	11,387,392	11,987,261	Other financial liabilities -net	N
	-	548,444	12,929	561,373	Deferred tax liabilities	L、N
Insurance commodity liabilities						N
– separate account	11,344,483	-	(11,344,483)	-		
Other liabilities	612,568	38,669	(12,728)	638,509	Other liabilities	K、N
Total liabilities	<u>178,544,522</u>			<u>181,163,639</u>	Total liabilities	
Shareholders' equity – Parent					Equity attributable to	
Company					owners of parent	
Share capital					Capital stock	
Common stock	3,740,236	-	-	3,740,236	Common stock	N
Capital surplus	2,705,546	-	(3,028)	2,702,518	Capital surplus	N
Retained earnings					Retained earnings	
Legal reserve	524,014	-	-	524,014	Legal reserve	
Special reserve	11,484	128,897	-	140,381	Special reserve	F
Undistributed earnings	698,281	(34,225)	-	664,056	Undistributed earnings	B~E、G~M
Adjusting items in shareholders'						
equity	-	-	888,947	888,947	Other equity	
Unrealized revaluation						E
increments	50	(50)	-	-		
Cumulative translation						A、N
adjustment	(37,249)	-	37,249	-		

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Unrealized gains (losses) from							
financial assets	1,079,163	(152,924)	(926,239)	-			A · B · L · N
Treasury shares	(247,156)	-	-	(247,156)		Treasury stock	
Net loss not recognized as							
pension cost	<u>(37,645)</u>	37,645	-	<u>-</u>			I
Total Shareholders' equity –							
Parent Company	8,436,724			8,412,996			
Minority interest	<u>129,144</u>			<u>129,144</u>		Non-controlling interests	
Total shareholders' equity	<u>8,565,868</u>			<u>8,542,140</u>		Total equity	
Total liabilities and shareholders' equity							
equity	<u>\$187,110,390</u>			<u>\$189,705,779</u>		Total liabilities and equity	

***f* Reconciliation of statement of comprehensive income items for the year ended 31 December 2012:**

Items	R.O.C GAAP	Impact of transitioning to TIFRS		TIFRS		Notes
	Amount(Note) NT\$	Remeasurement NT\$	Presentation NT\$	Amount NT\$	Items	
Interest income	\$126,374,534	\$-	\$(143,479)	\$126,231,055	Interest income	N
Less: Interest expenses	<u>(13,779,256)</u>	274,779	-	<u>(13,504,477)</u>	Less: Interest expenses	J · N
Net interest income	112,595,278			112,726,578	Net interest income	
Net income other than interest					Net income other than interest	
Net commission and handling fee	2,225,172	(17,954)	-	2,207,218	Net commission and handling fee	K · N
Net premiums from insurance business	227,935,841	-	(1,052,256)	226,883,585	Net premiums from insurance business	N
(Losses) gains on financial assets and liabilities at fair value through profit or loss	26,540,425	29,777	412,352	26,982,554	(Losses) gains on financial assets and liabilities at fair value through profit or loss	A · B · N
Gains from investment properties	6,127,915	(88,688)	205,864	6,245,091	Gains from investment properties	C(1) · N
Realized gains on available-for-sale financial assets	27,512,408	9	768,008	28,280,425	Realized gains on available-for-sale financial assets	A · N
Realized gains (losses) on held-to-maturity financial assets	(805)	-	(18,268)	(19,073)	Realized gains (losses) on held-to-maturity financial assets	N
Gains (losses) on foreign exchange	(34,483,637)	-	1	(34,483,636)	Gains (losses) on foreign exchange	N
Impairment losses	(225,360)	-	-	(225,360)	Impairment losses on assets	
					Share of profit of associates and	

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Investment income recognized					joint ventures accounted for using	
under the equity method	(49,589)	-	-	(49,589)	equity method	
Net other non-interest gains	<u>9,944,622</u>	112,842	(1,503,291)	<u>8,554,173</u>	Net other non-interest gains	B · D · N
Total income	<u>378,122,270</u>			<u>377,101,966</u>	Total income	
					Bad debt expenses and provision	
Bad debt expenses	(3,172,002)	-	(859)	(3,172,861)	for premiums reserve	N
					Changes in insurance liabilities	
Provision for premiums reserve	(307,361,510)	(133,523)	1,052,256	(306,442,777)	and provisions	F · N
Operating expenses					Operating expenses	
Employee benefits expenses	(32,904,098)	(158,496)	338,956	(32,723,638)	Employee benefits expenses	I · J · N
Depreciation and amortizations					Depreciation and amortizations	
expenses	(4,044,630)	(402,069)	(1,325)	(4,448,024)	expenses	C(3) · D · E · N
Other general and administration					Other general and administration	
expenses	<u>(14,259,794)</u>	(3,642)	(336,691)	<u>(14,600,127)</u>	expenses	C(2) · C(3) · K · N
Profit before income tax from					Profit before income tax from	
continuing operations	16,380,236			15,714,539	continuing operations	
Income tax (expense) benefits	<u>146,487</u>	310,903	-	<u>457,390</u>	Income tax (expense) benefits	C(1) · D-F · H · I · L
Net income	<u>\$16,526,723</u>	-	(354,794)	<u>\$16,171,929</u>	Net income	
					Other comprehensive income	
					Exchange differences resulting	
					from translating the financial	N
					statements of a foreign operation	
					Unrealized (losses) gains from	
					available-for-sale financial assets	N
					Losses on cash flow hedges	N
					Share of other comprehensive	
					income of associates and joint	
					ventures accounted for using the	N
					equity method	
					Income tax relating to	
					components of other	N
					comprehensive income	
					Other comprehensive income, net	
					of tax	
					<u>17,969,501</u>	
					<u>\$34,141,430</u>	Total comprehensive income

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R.O.C GAAP	Impact of transitioning to TIFRS			TIFRS		Notes
	Amount(Note)	Remeasurement	Presentation	Amount	Items	
Items	US\$	US\$	US\$	US\$		
Interest income	\$4,350,242	\$-	\$(4,939)	\$4,345,303	Interest income	N
Less: Interest expenses	(474,329)	9,459	-	(464,870)	Less: Interest expenses	J · N
Net interest income	3,875,913	-	-	3,880,433	Net interest income	
Net income other than interest	-	-	-		Net income other than interest	
Net commission and handling fee	76,598	(618)	-	75,980	Net commission and handling fee	K · N
Net premiums from insurance business	7,846,328	-	(36,222)	7,810,106	Net premiums from insurance business	N
Gains on financial assets and liabilities at fair value through profit or loss	913,612	1,025	14,194	928,831	(Losses) gains on financial assets and liabilities at fair value through profit or loss	A · B · N
Gains from investment properties	210,944	(3,053)	7,086	214,977	Gains from investment properties	C(1) · N
Realized gains on available-for-sale financial assets	947,071	-	26,438	973,509	Realized gains on available-for-sale financial assets	A · N
Realized gains (losses) on held-to-maturity financial assets	(28)	-	(629)	(657)	Realized gains (losses) on held-to-maturity financial assets	N
Gains (losses) on foreign exchange	(1,187,044)	-	-	(1,187,044)	Gains (losses) on foreign exchange	N
Impairment losses	(7,758)	-	-	(7,758)	Impairment losses on assets	
Investment income recognized under the equity method	(1,707)	-	-	(1,707)	Share of profit of associates and joint ventures accounted for using equity method	
Net other non-interest gains	342,328	3,884	(51,747)	294,465	Net other non-interest gains	B · D · N
Total income	13,016,257			12,981,135	Total income	
Bad debt expenses	(109,191)	-	(30)	(109,221)	Bad debt expenses and provision for premiums reserve	N
Provision for premiums reserve	(10,580,431)	(4,596)	36,222	(10,548,805)	Changes in insurance liabilities and provisions	F · N
Operating expenses					Operating expenses	
Employee benefits expenses	(1,132,671)	(5,456)	11,668	(1,126,459)	Employee benefits expenses	I · J · N
Depreciation and amortizations expenses	(139,230)	(13,841)	(45)	(153,116)	Depreciation and amortizations expenses	C(3) · D · E · N
Other general and administration expenses	(490,871)	(125)	(11,590)	(502,586)	Other general and administration expenses	C(2) · C(3) · K · N
Profit before income tax from continuing operations	563,863			540,948	Profit before income tax from continuing operations	

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Income tax (expense) benefits	5,043	10,702	-	15,745	Income tax (expense) benefits	C(1) · D~F · H · I · L
Net income	<u>\$568,906</u>	-	(12,213)	<u>\$556,693</u>	Net income	
					Other comprehensive income	N
					Exchange differences resulting	
					from translating the financial	N
			\$(33,032)	\$(33,032)	statements of a foreign operation	
					Unrealized (losses) gains from	N
			722,994	722,994	available-for-sale financial assets	
			(29,347)	(29,347)	Losses on cash flow hedges	N
					Share of other comprehensive	
					income of associates and joint	
					ventures accounted for using the	N
			(834)	(834)	equity method	
					Income tax relating to	
					components of other	N
			(41,210)	<u>(41,210)</u>	comprehensive income	
					Other comprehensive income, net	
				<u>618,571</u>	of tax	
				<u>\$1,175,264</u>	Total comprehensive income	

Note: Impact of retroactive application and the number of retrospective adjustments, please refer to O.

The instruction of significant adjustments for the statements of cash flows for the year ended 31 December 2012

The transition from R.O.C GAAP to IFRS has no significant impact on the statements of cash flows. The Group used indirect method to prepare the statement of cash flow under R.O.C GAAP and cash flows from interest received, dividends received and interest paid were classified as cash flows from operating activities and were not disclosed separately. However, in accordance with the requirements under IAS 7 *Statement of Cash Flows*, the interest received and dividends received for the year ended 31 December 2012 are separately disclosed in the statement of cash flow in the amount of NT\$122,551,324 (US\$4,218,634) thousands and NT\$12,918,510 (US\$444,699) thousands, respectively.

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Interest received and dividends received are classified as cash flow from operating activities.

Except for the difference mentioned above and the reclassifications made in accordance with IAS 7 *Statement of Cash Flows*, which reclassified cash and cash equivalents to bond investments with no active market, negotiable certificates of deposit to other financial assets, and made other reclassification in the amount of NT\$379,030,961 (US\$13,047,537) thousands, NT\$9,083,600 (US\$312,688) thousands, and NT\$625,429 (US\$21,529) thousands, respectively, by the nature, there is no significant difference between statements of cash flows under R.O.C GAAP and under IFRS.

A. According to IAS 39, the Group recorded the transaction of bonds at the date of transaction occurred instead of the date of settlement. As of 31 December 2012, available-for-sale financial assets were increased by NT\$1,601,956 (US\$55,145) thousands, receivables were increased by NT\$1,746 (US\$60) thousands, payables were increased by NT\$1,597,896 (US\$55,005) thousands, exchange differences resulting from translating the financial statements of a foreign operation were increased by NT\$6 (US\$0) thousands and unrealized gains from available-for-sale financial assets were increased by NT\$5,806 (US\$200) thousands.

By adjusting gains on financial assets and liabilities at fair value through profit or loss, the consolidated comprehensive income for the year ended 31 December 2012 was decreased by NT\$3 (US\$0) thousands. By adjusting realized gains on available-for-sale financial assets, the consolidated comprehensive income for the year ended 31 December 2012 increased by NT\$9 (US\$0) thousands.

B. According to IAS 39, the Group reclassified financial assets at cost to financial assets at fair value through profit or loss and available-for-sale financial assets and measured at fair value. As of 1 January 2012, financial assets at fair value through profit or loss were decreased by NT\$14,942 (US\$494) thousands, financial assets at fair value through profit or loss were increased by NT\$12,100,569 (US\$399,755) thousands, other financial assets were decreased by NT\$11,850,466 (US\$391,492) thousands, unrealized gains from available-for-sale financial assets were increased by NT\$253,239 (US\$8,366) thousands and retained earnings decreased by NT\$52,901 (US\$1,748).

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As of 31 December 2012, financial assets at fair value through profit or loss were increased by NT\$14,839 (US\$511) thousands, available-for-sale financial assets were increased by NT\$16,203,474 (US\$557,779) thousands, other financial assets were decreased by NT\$15,396,092 (US\$529,986) thousands, unrealized gains on available-for-sale financial assets were increased by NT\$811,712 (US\$27,942) thousands and retained earnings decreased by NT\$52,901 (US\$1,821) thousands.

By adjusting financial assets and liabilities at fair value through profit or loss, the consolidated comprehensive income for the year ended 31 December 2012 was increased by NT\$29,780 (US\$1,025) thousands and gains on disposal of investments was increased by NT\$24 (US\$1) thousands.

C.

- (i) According to IAS 17, the Group recognized rental income by the straight-line method during contract term. As of 1 January 2012, other receivables and retained earnings were increased by NT\$362,936 (US\$11,990) thousands and NT\$301,236 (US\$9,952) thousands, respectively.

As of 31 December 2012, other receivables and retained earnings were increased by NT\$274,247 (US\$9,441) thousands and NT\$301,236 (US\$10,370) thousands, respectively.

For the year ended 31 December 2012, rental income were decreased by NT\$88,688 (US\$3,053) thousands, and income tax benefit were increased by NT\$15,077 (US\$519) thousands.

- (ii) According to IAS 17, the Group recognized rental expense by the straight-line method during contract term. As of 31 December 2012, accrued expenses were increased by NT\$9,377 (US\$322) thousands.

For the year ended 31 December 2012, other general and administration expenses were increased by NT\$9,377 (US\$322) thousands.

- (iii) Land use rights were classified as intangible assets under R.O.C. GAAP. Upon transitioning to TIFRS, in accordance with the requirements of IAS 17 *Leases*, land use rights were reclassified to long-term prepaid rent. As of 1 January 2012 and 31 December 2012, land use rights reclassified to prepaid rent were NT\$355,390 (US\$11,741) thousands and NT\$341,369 (US\$11,751) thousands, respectively.

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For the year ended 31 December 2012, amortization expense reclassified to rental expense was NT\$488 (US\$17) thousands ◦

D. The Group selected to recognize cost exemptions for some of the real estate that conformed to the definition of investment properties stated in IFRS 1 *First-time Adoption of International Financial Reporting Standards* and adopted IAS 40 retrospectively for the others. As of 1 January 2012, the revaluation of investment properties resulted in an increment of fair value amounted to NT\$75,820,050 (US\$2,504,792) thousands, accumulated depreciation of significant components amounted to NT\$2,058,259 (US\$67,997) thousands and retained earnings amounted to NT\$66,157,740 (US\$2,185,588) thousands. In addition, the Group reclassified investment properties amounted to NT\$12,422,760 (US\$410,399) thousands to property and equipment.

As of 31 December 2012, the revaluation of investment properties resulted in an increment of fair value amounted to NT\$75,820,050 (US\$2,609,985) thousands, accumulated depreciation of significant components amounted to NT\$177,139 (US\$6,098) thousands and retained earnings amounted to NT\$66,157,740 (US\$2,277,375) thousands. In addition, the Group reclassified investment properties amounted to NT\$28,659,221 (US\$986,548) thousands into property and equipment. Surface Rights which in prepaid rent amounted to NT\$389,722 (US\$13,416) thousands reclassified to other assets ◦

For the year ended 31 December 2012, depreciation expenses were decreased by NT\$1,881,120 (US\$64,754) thousands, and income tax benefits were decreased by NT\$319,790 (US\$11,009) thousands.

Due to lack of clear definition in R.O.C GAAP, the Group's real estate holding for rental or investment purposes was recognized under property and equipment and other assets in other assets previously. After adopting IFRS, according to IAS 40 *Investment Property*, the real estate meeting the definition should be recorded as investment property. As of 1 January 2012, property and equipment amounted to NT\$1,466,556 (US\$48,449) thousands were reclassified to investment properties, and NT\$1,712,151 (US\$56,563) thousands were reclassified from other assets to investment properties.

As of 31 December 2012, property and equipment amounted to NT\$1,633,822 (US\$56,242) thousands were reclassified to investment properties, and NT\$1,235,218 (US\$42,520) thousands were reclassified from other assets to investment properties.

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For the year ended 31 December 2012, land value increment tax from disposal of investment properties land value increment tax, it was recognized as a reduction of disposal of profit reclassified to income tax expense, and increase income tax expense and net income other than interest amount to NT\$112,818 (US\$3,883) thousands.

E. The Group selected to use current value as cost for some real estate and also adopted IAS 16 retrospectively. After revaluating significant components of real estate and equipment as of 1 January 2012, the Group retrospectively recognized property and equipment accumulated depreciation by NT\$2,454,937 (US\$81,102) thousands, retrospectively recognized investment properties accumulated depreciation by NT\$109,195 (US\$3,607) thousands, decreased retained earnings by NT\$2,200,361 (US\$72,691), and decreased increment of unrealized gains from revaluation of lands amounted by NT\$1,461 (US\$48) thousands.

As of 31 December 2012, the Group retrospectively recognized property and equipment accumulated depreciation by NT\$4,704,616 (US\$161,949) thousands, retrospectively recognized investment properties accumulated depreciation by NT\$143,194 (US\$4,929) thousands, decreased retained earnings by NT\$2,200,361 (US\$75,744), and decreased increment of unrealized gains from revaluation of lands amounted by NT\$1,461 (US\$50) thousands.

For the year ended 31 December 2012, depreciation expenses were increased by NT\$2,283,677 (US\$78,612) thousands, and income tax benefits were increased by NT\$380,161 (US\$13,086) thousands.

F. According to IFRS 4, the probable future settlements of claims stemmed from insurance contracts which do not exist at the balance sheet date shall not be recognized as liabilities. The special reserves made in conformity with the Regulations Governing the Preparation of Covered Reserve by Insurance Enterprises as liabilities prior to 31 December 2012 should be reclassified to special reserves under retained earnings by the after-tax amounts on 1 January 2013 after adopting IFRS 12. To maintain the consistency and continuity of comparative financial statements, the Group should make retrospective adjustments back to 1 January 2012. As of 1 January 2012, the Group classified as special reserves for catastrophic events and potential hazards recorded as insurance liabilities by NT\$9,022,812 (US\$298,078) thousands, in addition to remain it one-half and reclassify to foreign exchange volatility reserve on 1 March 2012, or reserve net of tax needs to be recorded in special capital reserve NT\$4,511,405 (US\$149,039) thousands under retained earnings amount to NT\$3,744,467 (US\$123,702) thousands.

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As of 31 December 2012, the Group decreased special reserves for catastrophic events and potential hazards recorded as insurance liabilities by NT\$4,377,884 (US\$150,702) thousands, reclassified to special reserves under retained earnings NT\$3,744,467 (US\$128,897) thousands.

For the year ended 31 December 2012, special reserves were increased by NT\$133,523 (US\$4,596) thousands, and income tax benefits were increased by NT\$22,699 (US\$781) thousands.

G. As of 1 January 2012, according to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, in addition to compensating the negative effects from other accounting items due to IFRS first-time adoption, the increment of real estate fair value revaluation should be fully reclassified to special reserves under insurance liabilities at the date of transition. As a result, special reserves were appropriated by NT\$55,416,619 (US\$1,830,744) thousands and retained earnings were decreased by NT\$55,416,619 (US\$1,830,744) thousands.

H. According to IAS 37, the Group assessed the liabilities provisions resulting from administrative remedy. As of 1 January 2012, liabilities provisions were increased by NT\$1,171,399 (US\$38,698) thousands, other assets were decreased by NT\$60,482 (US\$1,998) thousands, and retained earnings were decreased by NT\$1,231,881 (US\$40,696) thousands.

As of 31 December 2012, liabilities provisions were increased by NT\$1,158,683 (US\$39,886) thousands, retained earnings were decreased by NT\$1,231,881 (US\$42,406) thousands, and tax receivables were increased by NT\$187,993 (US\$6,471) thousands.

For the year ended 31 December 2012, income tax benefits were increased by NT\$261,192 (US\$8,991) thousands.

I. According to requirements of previous GAAP, the Group conducted actuarial valuation on defined benefit obligation and recognized pension cost and accrued pension liabilities. After adopting IFRS, the actuarial valuation was performed in accordance with IAS 19 *Employee Benefits*. The Group re-performed actuarial valuation on defined benefit obligation zeroed accumulated actuarial profit or loss at the date of transition

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according to the adoption of exemptions stated in IFRS 1 *First-time Adoption of International Financial Reporting Standards* and recognized unrecognized transitional net benefit obligation at one time.

As of 1 January 2012, liabilities provisions were increased by NT\$2,176,111 (US\$71,890) thousands, deferred pension costs were decreased by NT\$51,483 (US\$1,701) thousands, prepaid pension were increased by NT\$2,543 (US\$84) thousands, net losses not yet recognized as net pension cost were increased by NT\$1,425,167 (US\$47,082) thousands and beginning retained earnings were decreased by NT\$3,272,923 (US\$108,124) thousands.

As of 31 December 2012, liabilities provisions were increased by NT\$2,390,876 (US\$82,302) thousands, deferred pension costs were decreased by NT\$33,342 (US\$1,148) thousands, prepaid pension were increased by NT\$2,426 (US\$83) thousands, net losses not yet recognized as net pension cost were increased by NT\$1,093,582 (US\$37,645) thousands and beginning retained earnings were decreased by NT\$3,272,923 (US\$112,665) thousands.

For the year ended 31 December 2012, employee benefits expenses were decreased by NT\$131,460 (US\$4,525) thousands, and income tax benefits were decreased by NT\$7,706 (US\$265) thousands.

J. The Group recognized preferential interest retirement deposit according to IAS19. As of 1 January 2012, liabilities provisions were increased by NT\$615,115 (US\$20,321) thousands and beginning retained earnings were decreased by NT\$615,115 (US\$20,321) thousands.

As of 31 December 2012, liabilities provisions were increased by NT\$630,292 (US\$21,697) thousands and beginning retained earnings were decreased by NT\$615,115 (US\$21,174) thousands.

For the year ended 31 December 2012, interest expenses were decreased by NT\$88,329 (US\$3,041) thousands, and employee benefits expenses were increased by NT\$103,506 (US\$3,563) thousands. As for the preferential deposits for current employees, the interest expenses were reclassified to employee benefits expenses by NT\$186,450 (US\$6,418) thousands.

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K. The Group adopted IFRIC 13 *Customer Loyalty Programs* retrospectively and adjusted the revenue recognition method of credit card reward points of credit cards. As of 1 January 2012, payables were decreased by NT\$512,271 (US\$16,923) thousands, other liabilities were increased by NT\$1,105,371 (US\$36,517) thousands, and retained earnings were decreased by NT\$593,100 (US\$19,594) thousands.

As of 31 December 2012, payables were decreased by NT\$518,494 (US\$17,848) thousands, other liabilities were increased by NT\$1,123,325 (US\$38,669) thousands, and retained earnings were decreased by NT\$593,100 (US\$20,417) thousands.

For the year ended 31 December 2012, commission and handling fees income were decreased by NT\$17,954 (US\$618) thousands, and other general and administrative expenses were decreased by NT\$6,223 (US\$214) thousands.

L. According to IFRS 12, the Group identified income tax effects resulted from the aforementioned adjustments. As of 1 January 2012, deferred tax assets were increased by NT\$1,706,557 (US\$56,378) thousands, deferred tax liabilities were increased by NT\$8,904,842 (US\$294,181) thousands, beginning retained earnings were increased by NT\$523,074 (US\$17,280) thousands, and reserve for land value increment tax under other liabilities were reclassified to deferred tax liabilities by NT\$37,986 (US\$1,255) thousands. In addition, by assessing the income tax effects of the items recognized directly to other comprehensive income or to equity, deferred tax liabilities were increased by NT\$3,929,380 (US\$129,811) thousands and unrealized gains on available-for-sale financial assets were decreased by NT\$3,929,380 (US\$129,811) thousands. As the unused tax losses might not be realized, retained earnings were decreased by NT\$4,238,597 (US\$140,026) thousands and deferred tax assets were decreased by NT\$4,238,597 (US\$140,026) thousands. Furthermore, deferred tax assets and deferred tax liabilities were presented in gross amount and both increased by NT\$554,317 (US\$18,312) thousands.

As of 31 December 2012, deferred tax assets were increased by NT\$2,079,196 (US\$71,573) thousands, deferred tax liabilities were increased by NT\$9,194,234 (US\$316,497) thousands, unrealized gains on available-for-sale financial assets were decreased by NT\$5,430 (US\$187) thousands, beginning retained earnings were increased by NT\$523,074 (US\$18,006) thousands, and reserve for land value increment tax under other liabilities were reclassified to deferred tax liabilities by NT\$37,163 (US\$1,279) thousands. In addition, by assessing the income tax effects of the items

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recognized directly to other comprehensive income or to equity, deferred tax assets were decreased by NT\$5,254,519 (US\$180,879) thousands and unrealized gains on available-for-sale financial assets were decreased by NT\$5,254,519 (US\$180,879) thousands. As the unused tax losses might not be realized, retained earnings were decreased by NT\$4,238,597 (US\$145,907) thousands and deferred tax assets were decreased by NT\$4,165,625 (US\$143,395) thousands. Furthermore, deferred tax assets and deferred tax liabilities were presented in gross amount and both increased by NT\$6,700,889 (US\$230,668) thousands.

Moreover, According to IFRS 12, the Group identified income tax effects resulted from aforementioned adjustments. For the year ended 31 December 2012, income tax benefits were increased by NT\$238,815 (US\$8,221) thousands. In addition, as the unused tax losses might not be realized, income tax benefits were increased by NT\$72,972 (US\$2,512) thousands. Others were decreased by NT\$884 (US\$30) thousands. As a result, income tax benefits were totally increased by NT\$310,903 (US\$10,702) thousands.

M. The following adjustments and description already included related income tax effect. As of 1 January 2012, the Group's retained earnings were decreased due to aforementioned adjustments by NT\$639,447 (US\$21,125) thousands.

As of 31 December 2012, the Group's retained earnings were decreased due to aforementioned adjustments by NT\$715,509 (US\$24,630) thousands, others were increased by NT\$278,732 (US\$9,595) thousands. As a result, income tax benefits were totally increased by NT\$994,241 (US\$34,225) thousands.

N. The instruction related to the presentation differences of consolidated balance sheets and consolidated statements of comprehensive income

The Group compiled consolidated balance sheets as of 31 December 2012, and consolidated statements of comprehensive income for the year ended 31 December 2012 according to Regulations Governing the Preparation of Financial Reports by Financial Holding Companies before amendments. After transition to IFRS, certain accounts had been reclassified properly in order to meet the presentation of IFRS and amended Regulations Governing the Preparation of Financial Reports by Financial Holding Company. The other adjustments related to the transition to IFRS are mentioned above.

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O. According to the Full Scope Examination issued by Financial Supervisory Commission for the year ended December 2012, As of 31 December 2012, the Group's retained earnings were increased due to aforementioned adjustments by NT\$785,321 (US\$25,944) thousands, net income were increased by NT\$531,314 (US\$18,290) thousands, and retained earnings were increased by NT\$254,007 (US\$8,744) thousands :

	2012.1.1	
	NT\$	US\$
Effects on balance sheet:		
Decrease in receivables	\$(2,645,238)	\$(87,388)
Increase in investment properties	1,811,677	59,851
Increase in loans	1,618,882	53,481
Increase in retained earnings	785,321	25,944

	2012	
	NT\$	US\$
Effects on statements of comprehensive income:		
Decrease in interest income	\$(220,963)	\$(7,606)
Increase in net premiums from insurance business	(419,175)	(14,430)
Increase in income tax benefit	108,824	3,746
Decrease in net income	(531,314)	(18,290)
Decrease in earnings per share	\$(0.1)	\$-

	2012.12.31	
	NT\$	US\$
Effects on balance sheet:		
Decrease in receivables	\$(3,264,740)	\$(112,383)
Increase in investment properties	1,811,677	62,364
Increase in loans	1,707,070	58,763
Increase in retained earnings	254,007	8,744

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P. The explanation related to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

According to the letter No.1010012865 issued by Financial Supervisory Committee on 6 April 2012, as first-time adoption of international financial reporting standards, entities should appropriate certain amount of special reserve in the same amount as the gains on unrealized revaluation increments and accumulated translation adjustments recorded under the items of shareholders' equity and reclassified into retained earnings when adopting optional exemptions stated in IFRS 1 "*First-time Adoption of International Financial Reporting Standards*". To comply with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and as the Group did not elect to recognize accumulated translation adjustments as zero at the date of transition to IFRS, the Group was not required to appropriate special reserve for unrealized revaluation increments.

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Balance Sheets

As of 31 December 2013 and 2012 and as of 1 January 2012

(Expressed in thousands of dollars)

	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$3,464,767	\$116,151	\$6,482,973	\$223,166	\$2,924,780	\$96,623
Available-for-sale financial assets -net	556,865	18,668	529,796	18,237	539,279	17,816
Securities purchased under agreements to resell	465,060	15,590	658,625	22,672	1,196,746	39,536
Receivables -net	3,731,473	125,091	2,858,180	98,388	1,750,250	57,821
Current income tax assets	5,584,675	187,217	3,596,184	123,793	3,456,783	114,198
Held-to-maturity financial assets -net	31,000,000	1,039,222	31,000,000	1,067,126	31,000,000	1,024,116
Investments accounted for using the equity method -net	289,858,824	9,717,024	252,843,493	8,703,735	225,713,099	7,456,660
Property and equipment -net	6,245	209	4,739	163	3,645	120
Intangible assets -net	-	-	-	-	62	2
Deferred tax assets -net	1,265,131	42,412	967,668	33,310	1,947,099	64,325
Other assets -net	170,126	5,703	161,978	5,576	163,329	5,396
Total assets	\$336,103,166	\$11,267,287	\$299,103,636	\$10,296,166	\$268,695,072	\$8,876,613
Liabilities & equity						
Liabilities						
Financial liabilities at fair value through profit or loss	\$-	\$-	\$549,745	\$18,924	\$-	\$-
Commercial paper payable -net	5,960,000	199,799	-	-	6,430,000	212,422
Payables	8,340,650	279,606	5,940,873	204,505	4,074,477	134,605
Current income tax liabilities	37,003	1,241	-	-	2,029,249	67,038
Bonds payable	40,000,000	1,340,932	47,312,376	1,628,653	40,000,000	1,321,440
Provisions	671,562	22,513	864,469	29,758	860,555	28,429
Deferred tax liabilities	1	-	35,202	1,212	460	15
Other liabilities	14,237	477	3,422	118	2,674	88
Total liabilities	55,023,453	1,844,568	54,706,087	1,883,170	53,397,415	1,764,037
Equity						
Capital stock						
Common stock	119,649,621	4,011,050	108,653,851	3,740,236	103,575,096	3,421,708
Capital surplus	89,063,184	2,985,692	78,508,148	2,702,518	78,508,148	2,593,596
Retained earnings						
Legal reserve	16,922,773	567,307	15,222,599	524,014	14,105,459	465,988
Special reserve	7,072,630	237,098	4,078,065	140,381	4,078,065	134,723
Undistributed earnings	28,287,695	948,297	19,290,840	664,056	14,449,857	477,366
Other equity	20,083,810	673,275	25,823,918	888,947	7,760,904	256,389
Treasury stock	-	-	(7,179,872)	(247,156)	(7,179,872)	(237,194)
Total equity	281,079,713	9,422,719	244,397,549	8,412,996	215,297,657	7,112,576
Total liabilities and equity	\$336,103,166	\$11,267,287	\$299,103,636	\$10,296,166	\$268,695,072	\$8,876,613

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Statements of Comprehensive Income

For the years ended 31 December 2013 and 2012

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

	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT \$	US \$	NT \$	US \$
Income				
Gains on investment-equity method	\$31,272,817	\$1,048,368	\$16,979,092	\$584,478
Other operating income	1,081,922	36,270	1,195,048	41,138
	<u>32,354,739</u>	<u>1,084,638</u>	<u>18,174,140</u>	<u>625,616</u>
Expenses and loss				
Operating expenses	(777,226)	(26,055)	(466,002)	(16,041)
Other expenses and losses	(3,064,775)	(102,742)	(1,721,670)	(59,266)
	<u>(3,842,001)</u>	<u>(128,797)</u>	<u>(2,187,672)</u>	<u>(75,307)</u>
Profit before income tax from continuing operations	<u>28,512,738</u>	<u>955,841</u>	<u>15,986,468</u>	<u>550,309</u>
Income tax benefit	<u>303,037</u>	<u>10,159</u>	<u>129,165</u>	<u>4,446</u>
Net Income	<u>\$28,815,775</u>	<u>\$966,000</u>	<u>\$16,115,633</u>	<u>\$554,755</u>
Other comprehensive income				
Unrealized gains from available-for-sale financial assets	\$48,505	\$1,626	\$(9,483)	\$(326)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(5,779,447)	(193,746)	18,065,510	621,876
Income tax relating to the components of other comprehensive income	(9,166)	(308)	6,987	241
Other comprehensive income, net of tax	<u>(5,740,108)</u>	<u>(192,428)</u>	<u>18,063,014</u>	<u>621,791</u>
Total comprehensive income	<u>\$23,075,667</u>	<u>\$773,572</u>	<u>\$34,178,647</u>	<u>\$1,176,546</u>
Earnings per share (expressed in dollars)				
Basic earnings per share:				
Net income	<u>\$2.50</u>	<u>\$0.08</u>	<u>\$1.41</u>	<u>\$0.05</u>
Diluted earnings per share:				
Net income	<u>\$2.50</u>	<u>\$0.08</u>	<u>\$1.41</u>	<u>\$0.05</u>

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Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity

For the years ended 31 December 2013 and 2012

(Expressed in thousands of dollars)

Items	Equity attributable to owners of parent																							
	Capital stock				Retained earnings						Other equity												Total equity	
	Common stock		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Exchange differences resulting from translating the financial statements of a foreign operation		Unrealized gains from available-for-sale financial assets		Gains on cash flow hedges		Others		Treasury stock					
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on 1 January 2012	\$103,575,096	\$3,565,408	\$78,508,148	\$2,702,518	\$14,105,459	\$485,558	\$4,078,065	\$140,381	\$14,449,857	\$497,413	\$(378,126)	\$(13,016)	\$6,454,007	\$222,169	\$1,686,208	\$58,045	\$(1,185)	\$(41)	\$(7,179,872)	\$(247,156)	\$215,297,657	\$7,411,279		
Appropriations and distribution for 2011																								
Legal reserve					1,117,140	38,456			(1,117,140)	(38,456)														
Cash dividends									(5,078,755)	(174,828)											(5,078,755)	(174,828)		
Stock dividend	5,078,755	174,828							(5,078,755)	(174,828)														
Net income for the year ended 31 December 2012									16,115,633	554,755											16,115,633	554,755		
Other comprehensive income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	-	-	(703,971)	(24,233)	19,476,556	670,449	(709,526)	(24,424)	(45)	(2)	-	-	18,063,014	621,790		
Comprehensive income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	16,115,633	554,755	(703,971)	(24,233)	19,476,556	670,449	(709,526)	(24,424)	(45)	(2)	-	-	34,178,647	1,176,545		
Balance on 31 December 2012	\$108,653,851	\$3,740,236	\$78,508,148	\$2,702,518	\$15,222,599	\$524,014	\$4,078,065	\$140,381	\$19,290,840	\$664,056	\$(1,082,097)	\$(37,249)	\$25,930,563	\$892,618	\$976,682	\$33,621	\$(1,230)	\$(43)	\$(7,179,872)	\$(247,156)	\$244,397,549	\$8,412,996		
Balance on 1 January 2013	\$108,653,851	\$3,642,436	\$78,508,148	\$2,631,852	\$15,222,599	\$510,312	\$4,078,065	\$136,710	\$19,290,840	\$646,692	\$(1,082,097)	\$(36,276)	\$25,930,563	\$869,278	\$976,682	\$32,742	\$(1,230)	\$(41)	\$(7,179,872)	\$(240,693)	\$244,397,549	\$8,193,012		
Special reserve provision in accordance with ruling no. 10202508140 issued by the Financial Supervisory Commission, ROC							2,994,565	100,388	(2,994,565)	(100,388)														
Appropriations and distribution for 2012																								
Legal reserve					1,700,174	56,995			(1,700,174)	(56,995)														
Cash dividends									(7,465,770)	(250,277)											(7,465,770)	(250,277)		
Stock dividend	7,465,770	250,277							(7,465,770)	(250,277)														
Net income for the year ended 31 December 2013									28,815,775	966,000											28,815,775	966,000		
Other comprehensive income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	-	-	554,063	18,574	(5,700,072)	(191,085)	(594,376)	(19,926)	277	9	-	-	(5,740,108)	(192,428)		
Comprehensive income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	28,815,775	966,000	554,063	18,574	(5,700,072)	(191,085)	(594,376)	(19,926)	277	9	-	-	23,075,667	773,572		
Increase in cash capital	3,530,000	118,337	9,178,000	307,677																	12,708,000	426,014		
Value difference between price of subsidiary stock paid and book value			29,142	977					(192,641)	(6,458)											(163,499)	(5,481)		
Share-based payment transaction			203,408	6,819																	203,408	6,819		
Other			1,144,486	38,367															7,179,872	240,693	8,324,358	279,060		
Balance on 31 December 2013	\$119,649,621	\$4,011,050	\$89,063,184	\$2,985,692	\$16,922,773	\$567,307	\$7,072,630	\$237,098	\$28,287,695	\$948,297	\$(528,034)	\$(17,702)	\$20,230,491	\$678,193	\$382,306	\$12,816	\$(953)	\$(32)	\$-	\$-	\$281,079,713	\$9,422,719		

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the years ended 31 December 2013 and 2012

(Expressed in thousands of dollars)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Profit before income tax from continuing operations	\$28,512,738	\$955,841	\$15,986,468	\$550,309
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	1,322	44	1,136	39
Amortizations	-	-	62	2
Net losses on financial assets and liabilities at fair value through profit or loss	1,685,578	56,506	-	-
Interest expense	1,226,551	41,118	1,216,799	41,886
Interest income	(1,001,814)	(33,584)	(979,295)	(33,711)
Unrealized foreign exchange loss on bonds payable	-	-	(207,604)	(7,147)
Share of loss of associates and joint ventures accounted for using the equity method	(31,272,817)	(1,048,368)	(16,979,092)	(584,478)
Loss on disposal of property and equipment	133	4	17	-
Effects of exchange rate changes	36,003	1,207	31,928	1,099
Losses on redeeming corporate bonds payable	203,372	6,818	-	-
Changes in operating assets and liabilities				
Decrease in available-for-sale financial assets	21,436	719	-	-
Decrease (increase) in accounts receivable	31,854	1,068	(181,032)	(6,232)
(Increase) Decrease in other assets	(6,247)	(209)	2,140	74
(Decrease) Increase in financial liabilities at fair value through profit or loss	(182,100)	(6,105)	461,772	15,896
Increase in payables	2,398,255	80,397	1,866,943	64,266
(Decrease) increase in provision	(192,907)	(6,467)	3,914	135
Increase in other liabilities	11,963	401	576	20
Cash generated from operations				
Interest received	96,667	3,241	52,397	1,804
Interest paid	(1,171,061)	(39,258)	(1,193,821)	(41,095)
Income taxes received	(1,990,282)	(66,721)	(1,018,325)	(35,054)
Net cash used in operating activities	(1,591,356)	(53,348)	(935,017)	(32,187)
Cash flows from investing activities				
Acquisition of investments accounted for using the equity method	(89,010)	(2,984)	(59,120)	(2,035)
Acquisition of property and equipment	(2,960)	(99)	(2,247)	(77)
Increase in other assets	(1,901)	(64)	(789)	(27)
Dividends received	405,535	13,595	8,173,321	281,353
Net cash used in investing activities	311,664	10,448	8,111,165	279,214
Cash flows from financing activities				
Increase in commercial paper payable	25,560,000	856,855	-	-
Decrease in commercial paper payable	(19,600,000)	(657,057)	(6,430,000)	(221,343)
Issuance of corporate bonds	-	-	7,584,599	261,088
Redemption of corporate bonds	(1,299,728)	(43,571)	-	-
Payment of cash dividends	(7,465,770)	(250,277)	(5,078,755)	(174,828)
Increase in cash capital	12,708,000	426,014	-	-
Exercise of employee stock options	203,408	6,819	-	-
Acquisition of subsidiary	(12,001,986)	(402,346)	(199,992)	(6,884)
Net cash flows from financing activities	(1,896,076)	(63,563)	(4,124,148)	(141,967)
Effects of exchange rate changes on cash and cash equivalents	(36,003)	(1,207)	(31,928)	(1,099)
(Decrease) Increase in cash and cash equivalents	(3,211,771)	(107,670)	3,020,072	103,961
Cash and cash equivalents at the beginning of periods	7,141,598	239,411	4,121,526	141,877
Cash and cash equivalents at the end of periods	\$3,929,827	\$131,741	\$7,141,598	\$245,838
The components of cash and cas equivalents				
Cash and cash equivalents presented in balance sheet	\$3,464,767	\$116,151	\$6,482,973	\$223,166
Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	465,060	15,590	658,625	22,672
Cash and cash equivalents at the end of periods	\$3,929,827	\$131,741	\$7,141,598	\$245,838

44. The major subsidiaries' condensed balance sheets and statements of income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)**

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$280,220,355	\$9,393,911	\$362,775,487	\$12,487,969	\$372,053,961	\$12,291,178
Receivables	47,362,820	1,587,758	57,308,138	1,972,741	43,396,730	1,433,655
Financial asset at fair value through profit or loss	73,022,597	2,447,958	72,429,213	2,493,260	59,720,607	1,972,931
Available-for-sale financial assets	1,272,046,334	42,643,189	1,221,734,264	42,056,257	1,285,475,290	42,466,974
Derivative financial assets for hedging	453,713	15,210	1,142,094	39,315	1,957,846	64,679
Investments accounted for using the equity method	8,957,717	300,292	7,144,025	245,922	4,016,883	132,702
Investment in debt securities with no active market	1,020,141,716	34,198,516	814,453,830	28,036,276	511,804,264	16,907,970
Other financial assets	40,900,000	1,371,103	23,500,000	808,950	13,300,000	439,379
Investment property	230,203,549	7,717,182	212,205,973	7,304,853	209,236,539	6,912,340
Loans	635,816,106	21,314,653	518,169,293	17,837,153	491,396,629	16,233,784
Reinsurance contract assets	327,397	10,975	9,162,513	315,405	9,165,603	302,795
Property and equipment	35,862,947	1,202,244	44,800,678	1,542,192	23,321,301	770,443
Intangible assets	102,258	3,428	147,816	5,088	267,387	8,833
Deferred tax assets	12,221,216	409,696	16,106,670	554,447	11,989,836	396,096
Other assets	17,185,550	576,116	15,417,746	530,731	16,816,920	555,564
Separate account product assets	375,890,055	12,601,075	329,200,798	11,332,213	293,555,522	9,697,903
Total assets	\$4,050,714,330	\$135,793,306	\$3,705,698,538	\$127,562,772	\$3,347,475,318	\$110,587,226
Liabilities						
Payables	\$18,300,775	\$613,502	\$37,262,033	\$1,282,686	\$22,003,803	\$726,918
Financial liability at fair value through profit or loss	16,148,024	541,335	2,079,457	71,582	17,468,901	577,103
Derivative financial liabilities for hedging	5,148	173	-	-	-	-
Preferred stock liability	30,000,000	1,005,699	30,000,000	1,032,702	30,000,000	991,080
Insurance liability	3,375,731,754	113,165,664	3,078,719,365	105,980,013	2,784,180,591	91,978,216
Reserve for insurance contract						
with feature of financial instruments	52,911,209	1,773,758	56,461,371	1,943,593	60,624,750	2,002,800
Foreign exchange volatility reserve	10,482,181	351,397	4,270,856	147,017	-	-
Liability reserve	3,919,223	131,385	3,812,483	131,239	3,645,727	120,440
Deferred tax liability	12,186,951	408,547	15,390,603	529,797	12,913,791	426,620
Other liability	8,576,689	287,519	11,301,227	389,027	6,127,871	202,440
Separate account product liabilities	375,890,055	12,601,075	329,200,798	11,332,213	293,555,522	9,697,903
Total liabilities	3,904,152,009	130,880,054	3,568,498,193	122,839,869	3,230,520,956	106,723,520
Stockholders' equity						
Capital stock	53,065,274	1,778,923	53,065,274	1,826,688	53,065,274	1,753,065
Capital surplus	13,038,791	437,103	13,009,649	447,836	13,009,649	429,787
Retained earnings	62,110,355	2,082,144	46,655,662	1,606,046	44,013,308	1,454,024
Others	18,347,901	615,082	24,469,760	842,333	6,866,131	226,830
Total stockholders' equity	146,562,321	4,913,252	137,200,345	4,722,903	116,954,362	3,863,706
Total liabilities and stockholders' equity	\$4,050,714,330	\$135,793,306	\$3,705,698,538	\$127,562,772	\$3,347,475,318	\$110,587,226

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)**

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$661,567,708	\$22,177,932	\$682,581,303	\$23,496,775
Operating costs	(629,986,028)	(21,119,210)	(666,794,574)	(22,953,342)
Operating expenses	(16,491,935)	(552,864)	(16,442,717)	(566,014)
Operating profit (loss)	15,089,745	505,858	(655,988)	(22,581)
Non-operating income and expenses	1,152,106	38,622	966,815	33,281
Profit from continuing operations before income tax	16,241,851	544,480	310,827	10,700
Income tax (expense) benefit	(787,158)	(26,388)	2,331,527	80,259
Net income	15,454,693	518,092	2,642,354	90,959
Other comprehensive (loss) income	(6,121,859)	(205,225)	17,603,629	605,977
Total comprehensive income	\$9,332,834	\$312,867	\$20,245,983	\$696,936
Primary earnings per share	\$2.91	\$0.10	\$0.50	\$0.02

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NTS	US\$	NTS	US\$	NTS	US\$
Assets						
Cash and cash equivalents	\$6,998,187	\$234,602	\$5,025,506	\$172,995	\$6,159,377	\$203,481
Receivables	3,540,497	118,689	3,160,638	108,800	2,794,727	92,327
Financial asset at fair value through profit or loss	1,172,111	39,293	385,460	13,269	454,960	15,030
Available-for-sale financial assets	6,391,927	214,279	7,750,552	266,800	5,281,500	174,480
Derivative financial assets for hedging	10,022	336	17,134	590	28,521	942
Investments accounted for using the equity method	825,721	27,681	679,562	23,393	1,055,058	34,855
Investment in debt securities with no active market	1,897,332	63,605	1,172,459	40,360	1,120,809	37,027
Held-to-maturity financial assets	1,668,787	55,943	2,512,011	86,472	2,408,714	79,574
Loans	422,521	14,164	522,080	17,972	551,965	18,235
Reinsurance contract assets	4,388,987	147,133	5,118,300	176,189	4,926,962	162,767
Property and equipment	202,393	6,785	101,738	3,502	136,795	4,519
Intangible assets	10,110	339	21,323	734	25,292	835
Deferred tax assets	77,223	2,589	80,750	2,780	105,494	3,485
Other assets	655,369	21,970	780,458	26,866	574,030	18,964
Total assets	\$28,261,187	\$947,408	\$27,327,971	\$940,722	\$25,624,204	\$846,521
Liabilities						
Payables	\$2,333,838	\$78,238	\$2,098,220	\$72,228	\$1,946,257	\$64,297
Financial liability at fair value through profit or loss	28,352	950	-	-	45,000	1,487
Preferred stock liability	1,000,000	33,523	1,000,000	34,423	1,000,000	33,036
Insurance liability	19,159,600	642,293	19,080,300	656,809	18,445,490	609,365
Liability reserve	236,272	7,921	247,950	8,535	259,488	8,572
Deferred tax liability	24,404	818	17,949	618	20,118	665
Other liability	317,734	10,652	366,509	12,617	198,453	6,556
Total liabilities	23,100,200	774,395	22,810,928	785,230	21,914,806	723,978
Stockholders' equity						
Capital stock	2,721,879	91,246	2,522,950	86,849	2,317,006	76,545
Capital surplus	1,929	65	1,929	66	1,929	64
Retained earnings	2,532,547	84,899	1,956,035	67,333	1,466,759	48,456
Others	(95,368)	(3,197)	36,129	1,244	(76,296)	(2,522)
Total stockholders' equity	5,160,987	173,013	4,517,043	155,492	3,709,398	122,543
Total liabilities and stockholders' equity	\$28,261,187	\$947,408	\$27,327,971	\$940,722	\$25,624,204	\$846,521

Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NTS	US\$	NTS	US\$
Operating income	\$13,043,250	\$437,253	\$11,538,906	\$397,209
Operating costs	(7,786,817)	(261,040)	(6,871,426)	(236,538)
Operating expenses	(4,249,666)	(142,463)	(3,772,923)	(129,877)
Operating profit	1,006,767	33,750	894,557	30,794
Non-operating income and expenses	(13,013)	(436)	(1,141)	(39)
Profit from continuing operations before income tax	993,754	33,314	893,416	30,755
Income tax expense	(218,313)	(7,319)	(198,196)	(6,823)
Net income	775,441	25,995	695,220	23,932
Other comprehensive income	(131,497)	(4,408)	112,425	3,870
Total comprehensive income	\$643,944	\$21,587	\$807,645	\$27,802
Primary earnings per share	\$2.85	\$0.10	\$2.55	\$0.09

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Company (China)
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$1,352,570	\$45,343	\$1,792,193	\$61,693	\$947,369	\$31,297
Receivables	264,320	8,861	399,447	13,750	404,156	13,352
Financial asset at fair value through profit or loss	870,101	29,169	370,475	12,753	272,778	9,011
Available-for-sale financial assets	2,442,558	81,883	4,652,993	160,172	5,606,267	185,209
Investment in debt securities with no active market	3,208,260	107,551	2,450,786	84,364	3,224,375	106,520
Held-to-maturity financial assets	1,619,138	54,279	-	-	-	-
Loans	36,277	1,216	32,347	1,114	19,403	641
Reinsurance contract assets	356,060	11,936	7,683	265	8,525	282
Property and equipment	131,182	4,398	128,242	4,415	154,889	5,117
Intangible assets	81,713	2,739	94,237	3,244	113,833	3,761
Other assets	1,226,970	41,132	1,195,782	41,163	1,223,657	40,425
Separate account product assets	362,681	12,158	356,448	12,270	495,490	16,369
Total assets	\$11,951,830	\$400,665	\$11,480,633	\$395,203	\$12,470,742	\$411,984
Liabilities						
Short-term debt	\$-	\$-	\$297,268	\$10,233	\$201,158	\$6,645
Payables	916,486	30,723	714,954	24,611	491,420	16,235
Reserve for insurance contract						
with feature of financial instruments	4,685,239	157,065	4,889,501	168,314	6,259,961	206,804
Insurance liability	4,467,636	149,770	3,634,056	125,097	3,140,782	103,759
Other liability	37,277	1,250	19,354	666	79,143	2,615
Separate account product liabilities	362,681	12,158	356,448	12,270	495,490	16,369
Total liabilities	10,469,319	350,966	9,911,581	341,191	10,667,954	352,427
Stockholders' equity						
Capital stock	5,134,155	172,114	5,134,155	176,735	5,134,155	169,612
Retained earnings	(3,999,590)	(134,079)	(3,916,879)	(134,832)	(3,629,795)	(119,914)
Others	347,946	11,664	351,776	12,109	298,428	9,859
Total stockholders' equity	1,482,511	49,699	1,569,052	54,012	1,802,788	59,557
Total liabilities and stockholders' equity	\$11,951,830	\$400,665	\$11,480,633	\$395,203	\$12,470,742	\$411,984

Cathay Life Insurance Company (China)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$2,617,974	\$87,763	\$2,740,637	\$94,342
Operating costs	(1,773,299)	(59,447)	(1,773,656)	(61,055)
Operating expenses	(929,400)	(31,156)	(1,214,138)	(41,795)
Operating profit	(84,725)	(2,840)	(247,157)	(8,508)
Non-operating income and expenses	2,013	67	231	8
Profit from continuing operations before income tax	(82,712)	(2,773)	(246,926)	(8,500)
Income tax expenses	-	-	(40,158)	(1,382)
Net income	(82,712)	(2,773)	(287,084)	(9,882)
Other comprehensive income	(3,830)	(128)	53,348	1,836
Total comprehensive income	\$(86,542)	\$(2,901)	\$(233,736)	\$(8,046)
Primary earnings per share	Note	Note	Note	Note

Note: Cathay Life Insurance Company (China) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)**

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$289,253	\$9,697	\$615,771	\$21,197	\$467,388	\$15,441
Receivables	202,001	6,772	79,948	2,752	76,916	2,541
Available-for-sale financial assets	2,863,231	95,985	932,943	32,115	947,621	31,305
Loans	11,456	384	9,305	320	4,590	152
Property and equipment	6,096	204	18,322	631	32,810	1,084
Intangible assets	119	4	5,742	198	13,413	443
Other assets	47,203	1,582	43,714	1,505	65,103	2,151
Total assets	\$3,419,359	\$114,628	\$1,705,745	\$58,718	\$1,607,841	\$53,117
Liabilities						
Payables	\$11,837	\$397	\$14,581	\$502	\$27,601	\$912
Insurance liability	380,516	12,756	305,830	10,528	238,075	7,865
Total liabilities	392,353	13,153	320,411	11,030	265,676	8,777
Stockholders' equity						
Capital stock	3,424,930	114,815	1,940,080	66,784	1,940,080	64,093
Retained earnings	38,869	1,303	(81,404)	(2,802)	(75,371)	(2,490)
Others	(436,793)	(14,643)	(473,342)	(16,294)	(522,544)	(17,263)
Total stockholders' equity	3,027,006	101,475	1,385,334	47,688	1,342,165	44,340
Total liabilities and stockholders' equity	\$3,419,359	\$114,628	\$1,705,745	\$58,718	\$1,607,841	\$53,117

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)**

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$399,065	\$13,378	\$340,863	\$11,734
Operating costs	(107,412)	(3,601)	(126,534)	(4,356)
Operating expenses	(170,744)	(5,724)	(220,672)	(7,596)
Operating profit (loss)	120,909	4,053	(6,343)	(218)
Non-operating income and expenses	8	-	(1,911)	(66)
Profit (loss) from continuing operations before income tax	120,917	4,053	(8,254)	(284)
Income tax (expense) benefit	(644)	(21)	2,221	76
Net income (loss)	120,273	4,032	(6,033)	(208)
Other comprehensive income	36,549	1,225	49,202	1,694
Total comprehensive income	\$156,822	\$5,257	\$43,169	\$1,486
Primary earnings per share	Note	Note	Note	Note

Note: Cathay Life Insurance Company (Vietnam) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)**

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Current assets	\$196,079	\$6,573	\$410,172	\$14,120	\$3,773,774	\$124,670
Receivables	8,261	277	-	-	-	-
Investment property-net	2,902,082	97,287	-	-	-	-
Property and equipment	669,349	22,439	3,276,008	112,771	-	-
Other assets	-	-	1,246	43	-	-
Total assets	\$3,775,771	\$126,576	\$3,687,426	\$126,934	\$3,773,774	\$124,670
Liabilities						
Current liability	\$675	\$23	\$5,377	\$185	\$-	\$-
Other liability	18,472	618	-	-	-	-
Total liabilities	19,147	641	5,377	185	-	-
Stockholders' equity						
Capital stock	3,773,774	126,509	3,773,774	129,906	3,773,774	124,670
Retained earnings	(194,090)	(6,506)	(57,489)	(1,979)	-	-
Others	176,940	5,932	(34,236)	(1,178)	-	-
Total stockholders' equity	3,756,624	125,935	3,682,049	126,749	3,773,774	124,670
Total liabilities and stockholders' equity	\$3,775,771	\$126,576	\$3,687,426	\$126,934	\$3,773,774	\$124,670

**Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)**

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$17,141	\$575	\$128	\$4
Operating costs	-	-	-	-
Operating expenses	(155,861)	(5,225)	(57,605)	(1,983)
Operating loss	(138,720)	(4,650)	(57,477)	(1,979)
Non-operating income and expenses	2,120	71	(13)	-
Profit (loss) from continuing operations before income tax	(136,600)	(4,579)	(57,490)	(1,979)
Income tax expense	-	-	-	-
Net loss	(136,600)	(4,579)	(57,490)	(1,979)
Other comprehensive income	211,176	7,079	(34,236)	(1,179)
Total comprehensive income	\$74,576	\$2,500	\$(91,726)	\$(3,158)
Primary earnings per share	<u>Note 1</u>	<u>Note 1</u>	<u>Note 1</u>	<u>Note 1</u>

Note 1 : Lin Yuan (Shanghai) Real Estate Co., Ltd. is a limited company, there is no information about earnings per share.

Note 2 : Lin Yuan (Shanghai) Real Estate Co., Ltd. was incorporated on 15 August 2012 and there was no operating activities during the period of 15 August 2012 through 30 September 2012, thus there was no operating information.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Insurance Co., Ltd (China)
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$1,101,188	\$36,916	\$405,943	\$13,974	\$430,906	\$14,236
Receivables	141,935	4,758	141,039	4,855	122,736	4,055
Financial asset at fair value through profit or loss	139,915	4,691	51,813	1,784	164,496	5,434
Available-for-sale financial assets	842,974	28,259	653,940	22,511	616,117	20,354
Investment in debt securities with no active market	74,208	2,488	70,112	2,413	72,187	2,385
Reinsurance contract assets	493,754	16,552	308,462	10,618	223,672	7,389
Property and equipment	74,974	2,513	44,380	1,528	38,511	1,272
Intangible assets	18,176	609	6,998	241	393	13
Other assets	661,007	22,159	403,365	13,885	415,795	13,736
Total assets	\$3,548,131	\$118,945	\$2,086,052	\$71,809	\$2,084,813	\$68,874
Liabilities						
Payables	\$268,756	\$9,010	\$119,446	\$4,112	\$153,395	\$5,068
Insurance liability	2,465,042	82,636	1,292,161	44,480	611,915	20,215
Other liability	114,110	3,825	73,865	2,543	61,363	2,027
Total liabilities	2,847,908	95,471	1,485,472	51,135	826,673	27,310
Stockholders' equity						
Capital stock	2,717,129	91,087	1,745,942	60,101	1,745,942	57,679
Retained earnings	(2,158,102)	(72,347)	(1,265,328)	(43,557)	(616,335)	(20,361)
Others	141,196	4,734	119,966	4,130	128,533	4,246
Total stockholders' equity	700,223	23,474	600,580	20,674	1,258,140	41,564
Total liabilities and stockholders' equity	\$3,548,131	\$118,945	\$2,086,052	\$71,809	\$2,084,813	\$68,874

Cathay Insurance Co., Ltd (China)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$1,752,590	\$58,753	\$855,733	\$29,457
Operating costs	(1,679,403)	(56,299)	(920,189)	(31,676)
Operating expenses	(987,746)	(33,113)	(576,451)	(19,843)
Operating loss	(914,559)	(30,659)	(640,907)	(22,062)
Non-operating income and loss	21,785	730	(8,085)	(278)
Loss from continuing operations before income tax	(892,774)	(29,929)	(648,992)	(22,340)
Income tax (expenses) benefit	-	-	-	-
Net loss	(892,774)	(29,929)	(648,992)	(22,340)
Other comprehensive income	21,230	712	(8,567)	(295)
Total comprehensive income	\$(871,544)	\$(29,217)	\$(657,559)	\$(22,635)
Primary earnings per share	Note	Note	Note	Note

Note : Cathay Century (China) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$95,397	\$3,198	\$245,601	\$8,454	\$335,784	\$11,093
Receivables	43,082	1,444	34,975	1,204	33,426	1,104
Investment in debt securities with no active market	82,200	2,756	80,700	2,778	-	-
Held-to-maturity financial assets -net	287,150	9,626	-	-	-	-
Reinsurance contract assets	174,485	5,849	42,774	1,473	10,276	340
Property and equipment	25,998	872	38,271	1,317	50,495	1,668
Intangible assets	745	25	7,434	256	11,638	384
Other assets	24,860	833	16,766	577	15,733	520
Total assets	\$733,917	\$24,603	\$466,521	\$16,059	\$457,352	\$15,109
Liabilities						
Payables	\$28,970	\$971	\$19,796	\$681	\$16,068	\$531
Liability reserve	228,948	7,675	68,138	2,346	18,568	614
Deferred tax liability	1	-	356	12	2,193	72
Other liability	1,218	41	449	16	-	-
Total liabilities	259,137	8,687	88,739	3,055	36,829	1,217
Stockholders' equity						
Capital stock	645,585	21,642	517,502	17,814	517,502	17,096
Retained earnings	(67,778)	(2,272)	(34,576)	(1,190)	(4,907)	(162)
Others	(103,027)	(3,454)	(105,144)	(3,620)	(92,072)	(3,042)
Total stockholders' equity	474,780	15,916	377,782	13,004	420,523	13,892
Total liabilities and stockholders' equity	\$733,917	\$24,603	\$466,521	\$16,059	\$457,352	\$15,109

Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$100,845	\$3,381	\$67,586	\$2,327
Operating costs	(43,557)	(1,460)	(21,077)	(726)
Operating expenses	(90,645)	(3,039)	(77,983)	(2,684)
Operating loss	(33,357)	(1,118)	(31,474)	(1,083)
Non-operating income and expenses	(205)	(7)	7	-
Loss from continuing operations before income tax	(33,562)	(1,125)	(31,467)	(1,083)
Income tax benefit	360	12	1,798	62
Net loss	(33,202)	(1,113)	(29,669)	(1,021)
Other comprehensive income	2,117	71	(13,072)	(450)
Total comprehensive income	\$(31,085)	\$(1,042)	\$(42,741)	\$(1,471)
Primary earnings per share	Note	Note	Note	Note

Note : Cathay Century (Vietnam) is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheet**

**As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)**

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Cash and cash equivalents	\$66,775,540	\$2,238,536	\$33,496,114	\$1,153,050	\$29,191,573	\$964,373
Due from the Central Bank and call loans to banks	140,479,847	4,709,348	98,844,688	3,402,571	88,690,435	2,929,978
Financial assets at fair value through profit or loss	162,997,211	5,464,204	67,796,967	2,333,803	21,799,721	720,176
Derivative financial assets for hedging	837,179	28,065	1,203,138	41,416	1,438,773	47,531
Securities purchased under agreements to resell	7,645,763	256,311	-	-	2,308,788	76,273
Receivables-net	120,044,971	4,024,303	50,728,353	1,746,243	45,578,346	1,505,727
Assets held for sale -net	68,479	2,296	-	-	-	-
Discounts and loans-net	1,013,723,116	33,983,343	986,516,412	33,959,257	984,101,470	32,510,785
Available-for-sale financial assets	67,046,565	2,247,622	63,186,407	2,175,091	47,322,633	1,563,351
Held-to-maturity financial assets	50,711,678	1,700,023	20,542,870	707,156	18,176,146	600,467
Investments accounted for using the equity method	5,836,126	195,646	5,038,973	173,459	4,696,999	155,170
Other financial assets-net	22,154	743	13,619	469	3,402,027	112,389
Investment in debt securities with no active market	280,272,013	9,395,642	424,043,663	14,597,028	425,140,266	14,044,938
Property and equipment-net	21,993,135	737,282	21,896,653	753,757	22,908,689	756,812
Investment property-net	2,716,584	91,069	2,725,846	93,833	3,069,511	101,404
Intangible assets-net	7,045,413	236,186	7,164,320	246,620	7,277,073	240,406
Deferred tax assets	1,446,243	48,483	1,533,293	52,781	976,257	32,252
Other assets-net	7,143,444	239,472	4,542,369	156,364	2,759,593	91,166
Total assets	\$1,956,805,461	\$65,598,574	\$1,789,273,685	\$61,592,898	\$1,708,838,300	\$56,453,198
Liabilities						
Due to the Central Bank and call loans from banks	\$50,630,112	\$1,697,288	\$51,891,103	\$1,786,269	\$53,815,904	\$1,777,863
Funds borrowed from the Central Bank and other banks	1,497,500	50,201	1,456,800	50,148	1,514,500	50,033
Financial liabilities at fair value through profit or loss	11,271,187	377,847	4,967,738	171,006	4,835,152	159,734
Securities sold under agreements to repurchase	58,681,600	1,967,201	20,369,249	701,179	13,546,462	447,521
Payables	14,795,810	496,004	21,225,349	730,649	19,794,819	653,942
Deposits and remittances	1,596,302,557	53,513,328	1,520,735,366	52,348,894	1,469,487,309	48,545,996
Financial debentures payable	52,417,213	1,757,198	42,518,631	1,463,636	33,115,240	1,093,995
Other financial liabilities	36,145,158	1,211,705	17,426,191	599,869	10,611,073	350,548
Liability reserve	2,035,564	68,239	2,009,384	69,170	2,075,802	68,576
Deferred tax liability	495,694	16,617	522,282	17,979	513,965	16,979
Other liability	4,719,433	158,211	4,114,007	141,618	3,102,657	102,500
Total liabilities	1,828,991,828	61,313,839	1,687,236,100	58,080,417	1,612,412,883	53,267,687
Stockholders' equity						
Capital stock	64,668,494	2,167,901	52,277,026	1,799,553	52,277,026	1,727,024
Capital surplus	23,971,498	803,604	15,213,292	523,693	15,213,292	502,587
Retained earnings	38,191,471	1,280,304	33,143,894	1,140,926	27,898,221	921,646
Others	982,170	32,926	1,403,373	48,309	1,036,878	34,254
Total stockholders' equity	127,813,633	4,284,735	102,037,585	3,512,481	96,425,417	3,185,511
Total liabilities and stockholders' equity	\$1,956,805,461	\$65,598,574	\$1,789,273,685	\$61,592,898	\$1,708,838,300	\$56,453,198

Cathay United Bank Co., Ltd.

Condensed Statement of Comprehensive Income

For the years ended 31 December 2013 and 2012

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

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Interest income	\$32,973,623	\$1,105,385	\$31,623,239	\$1,088,580
Interest expenses	(12,051,044)	(403,991)	(11,211,121)	(385,925)
Net interest income	20,922,579	701,394	20,412,118	702,655
Non-interest income	15,691,348	526,026	13,704,691	471,762
Net income	36,613,927	1,227,420	34,116,809	1,174,417
Bad debt expense and reserve for loss on guarantees	(577,765)	(19,369)	(2,050,285)	(70,578)
Operating expenses	(19,681,255)	(659,781)	(17,418,700)	(599,611)
Profit from continuing operations before income tax	16,354,907	548,270	14,647,824	504,228
Income tax expenses	(1,967,000)	(65,940)	(1,581,754)	(54,449)
Net income	14,387,907	482,330	13,066,070	449,779
Other comprehensive income	(421,203)	(14,120)	366,495	12,616
Total comprehensive income	\$13,966,704	\$468,210	\$13,432,565	\$462,395
Primary earnings per share	\$2.31	\$0.08	\$2.13	\$0.07

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NTS	US\$	NTS	US\$	NTS	US\$
Assets						
Cash and cash equivalents	\$571,307	\$19,152	\$816,727	\$28,114	\$960,865	\$31,743
Due from the Central Bank and call loans to banks	12,450,373	417,378	12,698,859	437,138	13,531,406	447,024
Financial assets at fair value through profit or loss	62,346	2,090	140,920	4,851	114,388	3,779
Available-for-sale financial assets	861,559	28,882	768,190	26,444	516,801	17,073
Receivables-net	793,781	26,610	369,539	12,721	332,407	10,981
Discounts and loans-net	16,301,693	546,486	15,808,657	544,188	17,824,324	588,844
Held-to-maturity financial assets	683,400	22,910	1,126,103	38,764	1,170,705	38,675
Property and equipment-net	403,407	13,524	281,343	9,685	226,957	7,498
Intangible assets-net	5,216	175	10,001	344	15,576	516
Deferred tax assets-net	171	6	15,769	543	12,048	398
Other assets-net	416,020	13,946	353,101	12,155	376,835	12,449
Total assets	\$32,549,273	\$1,091,159	\$32,389,209	\$1,114,947	\$35,082,312	\$1,158,980
Liabilities						
Due to the Central Bank and call loans from banks	\$7,570,029	\$253,772	\$8,116,896	\$279,411	\$10,606,785	\$350,406
Payables	427,360	14,326	1,295,180	44,584	580,070	19,163
Current income tax liabilities	43,062	1,444	26,548	914	46,384	1,532
Deposits and remittances	17,453,353	585,094	17,219,063	592,739	14,541,878	480,406
Financial debentures payable	-	-	-	-	2,908,585	96,088
Deferred tax liability	58,961	1,977	19,949	687	-	-
Other liability	118,528	3,973	75,672	2,605	100,268	3,313
Total liabilities	25,671,293	860,586	26,753,308	920,940	28,783,970	950,908
Stockholders' equity						
Capital stock	6,094,911	204,322	5,269,493	181,394	5,269,493	174,083
Retained earnings	1,141,007	38,250	932,848	32,112	1,354,678	44,753
Others	(357,938)	(11,999)	(566,440)	(19,499)	(325,829)	(10,764)
Total stockholders' equity	6,877,980	230,573	5,635,901	194,007	6,298,342	208,072
Total liabilities and stockholders' equity	\$32,549,273	\$1,091,159	\$32,389,209	\$1,114,947	\$35,082,312	\$1,158,980

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NTS	US\$	NTS	US\$
Interest income	\$2,073,619	\$69,515	\$2,403,026	\$82,720
Interest expenses	(1,147,918)	(38,482)	(1,534,973)	(52,839)
Net interest income	925,701	31,033	868,053	29,881
Non-interest income	156,005	5,230	155,085	5,339
Net income	1,081,706	36,263	1,023,138	35,220
Bad debt expense and reserve for loss on guarantees	54,701	1,834	(75,353)	(2,594)
Operating expenses	(432,374)	(14,495)	(415,428)	(14,300)
Profit from continuing operations before income tax	704,033	23,602	532,357	18,326
Income tax expenses	(201,104)	(6,742)	(132,892)	(4,575)
Net income	502,929	16,860	399,465	13,751
Other comprehensive income	208,502	6,990	(240,611)	(8,283)
Total comprehensive income	\$711,431	\$23,850	\$158,854	\$5,468
Primary earnings per share	Note	Note	Note	Note

Note : Indovina Bank is a limited company, there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$909,957	\$30,505	\$678,535	\$23,357
Due from the Central Bank and call loans to banks	392,546	13,159	519,496	17,883
Available-for-sale financial assets	766	26	-	-
Receivables-net	59,212	1,985	52,289	1,800
Discounts and loans-net	1,080,512	36,222	858,125	29,540
Other financial assets-net	-	-	728	25
Property and equipment-net	136,791	4,586	136,718	4,706
Intangible assets-net	7,647	256	5,971	206
Other assets-net	121,802	4,083	27,248	938
Total assets	\$2,709,233	\$90,822	\$2,279,110	\$78,455
Liabilities				
Due to the Central Bank and call loans from banks	\$179,847	\$6,029	\$143	\$5
Payables	52,664	1,765	38,488	1,325
Current income tax liabilities	1,175	39	-	-
Deposits and remittances	2,104,552	70,552	1,819,637	62,638
Other liability	607	20	5,183	178
Total liabilities	2,338,845	78,405	1,863,451	64,146
Stockholders' equity				
Capital stock	494,836	16,589	495,312	17,050
Retained earnings	(133,869)	(4,488)	(79,552)	(2,738)
Others	9,421	316	(101)	(3)
Total stockholders' equity	370,388	12,417	415,659	14,309
Total liabilities and stockholders' equity	\$2,709,233	\$90,822	\$2,279,110	\$78,455

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Interest income	\$99,314	\$3,329	\$101,009	\$3,477
Interest expenses	(32,142)	(1,077)	(20,574)	(708)
Net interest income	67,172	2,252	80,435	2,769
Non-interest income	58,109	1,948	55,507	1,911
Net income	125,281	4,200	135,942	4,680
Bad debt expense and reserve for loss on guarantees	(18,446)	(618)	(8,782)	(302)
Operating expenses	(166,962)	(5,597)	(118,952)	(4,095)
(Loss) profit from continuing operations before income tax	(60,127)	(2,015)	8,208	283
Income tax benefit (expenses)	3,463	116	(1,642)	(57)
Net (loss) income	(56,664)	(1,899)	6,566	226
Other comprehensive income	9,522	319	(101)	(3)
Total comprehensive income	\$(47,142)	\$(1,580)	\$6,465	\$223
Primary earnings per share	\$(2.11)	\$(0.07)	\$0.36	\$0.01

Note : CUBC Bank was incorporated into the consolidated financial statement of a subsidiary on 13 December 2012.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Current assets	\$15,409,801	\$516,587	\$14,366,771	\$494,553	\$11,054,330	\$365,191
Available-for-sale financial assets	18	1	18	1	18	1
Investments accounted for using the equity method	988,147	33,126	783,254	26,962	775,924	25,633
Property and equipment	163,055	5,466	113,495	3,907	43,984	1,453
Intangible assets	27,861	934	12,128	418	8,477	280
Deferred tax assets	5,774	194	313,808	10,802	372,615	12,310
Other non-current assets	473,524	15,874	445,340	15,330	340,751	11,257
Total assets	\$17,068,180	\$572,182	\$16,034,814	\$551,973	\$12,596,099	\$416,125
Liabilities						
Current liability	\$12,000,481	\$402,296	\$11,061,728	\$380,782	\$7,824,487	\$258,490
Deferred tax liability	253	8	317,912	10,944	519,047	17,147
Other non-current liability	8,353	280	7,823	269	8,650	286
Total liabilities	12,009,087	402,584	11,387,463	391,995	8,352,184	275,923
Stockholders' equity						
Capital stock	3,982,027	133,491	3,866,660	133,104	3,700,000	122,233
Capital surplus	291,766	9,781	291,766	10,044	258,434	8,538
Retained earnings	587,576	19,698	479,456	16,504	286,788	9,474
Others	197,724	6,628	9,469	326	(1,307)	(43)
Total stockholders' equity	5,059,093	169,598	4,647,351	159,978	4,243,915	140,202
Total liabilities and stockholders' equity	\$17,068,180	\$572,182	\$16,034,814	\$551,973	\$12,596,099	\$416,125

Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Revenues	\$1,435,627	\$48,127	\$1,112,281	\$38,289
Service fee expenses	(48,073)	(1,611)	(35,428)	(1,220)
Employee benefit expenses	(573,592)	(19,229)	(470,940)	(16,211)
Share of the profit of associates and joint ventures accounted for using the equity method	36,139	1,211	30,532	1,051
Operating expenses	(639,849)	(21,450)	(477,504)	(16,437)
Non-operating income and expenses	21,475	720	21,831	750
Profit from continuing operations before income tax	231,727	7,768	180,772	6,222
Income tax (expenses) benefit	(8,240)	(276)	11,896	410
Net income	223,487	7,492	192,668	6,632
Other comprehensive income	188,255	6,311	10,776	371
Total comprehensive income	\$411,742	\$13,803	\$203,444	\$7,003
Primary earnings per share	\$0.56	\$0.02	\$0.50	\$0.02

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Inc.
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)**

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Current assets	\$398,984	\$13,375	\$663,149	\$22,828	\$474,206	\$15,666
Available-for-sale financial assets	2,370,304	79,461	1,207,167	41,555	1,270,761	41,981
Investment in debt securities with no active market	-	-	-	-	34,000	1,123
Investments accounted for using the equity method	64,028	2,146	228,616	7,870	232,645	7,686
Property and equipment	479	16	306	10	513	17
Deferred tax assets	13,325	447	18,881	650	15,396	509
Other non-current assets	837	28	680	23	680	22
Total assets	\$2,847,957	\$95,473	\$2,118,799	\$72,936	\$2,028,201	\$67,004
Liabilities						
Current liability	\$5,331	\$179	\$4,874	\$168	\$4,508	\$149
Deferred tax liability	4,704	158	3,216	111	-	-
Other non-current liability	1,207	40	478	16	4,381	145
Total liabilities	11,242	377	8,568	295	8,889	294
Stockholders' equity						
Capital stock	2,000,000	67,047	2,000,000	68,847	1,895,224	62,611
Retained earnings	242,128	8,117	205,204	7,064	181,768	6,005
Others	594,587	19,932	(94,973)	(3,270)	(57,680)	(1,906)
Total stockholders' equity	2,836,715	95,096	2,110,231	72,641	2,019,312	66,710
Total liabilities and stockholders' equity	\$2,847,957	\$95,473	\$2,118,799	\$72,936	\$2,028,201	\$67,004

**Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)**

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$295,911	\$9,920	\$230,796	\$7,945
Operating cost	(86,944)	(2,915)	(49,777)	(1,714)
Operating expenses	(10,135)	(340)	(6,986)	(241)
Non-operating income and expenses	319	11	400	14
Profit from continuing operations before income tax	199,151	6,676	174,433	6,004
Income tax (expenses) benefit	(5,556)	(186)	4,027	139
Net income	193,595	6,490	178,460	6,143
Other comprehensive income	689,560	23,116	(37,293)	(1,284)
Total comprehensive income	\$883,155	\$29,606	\$141,167	\$4,859
Primary earnings per share	\$0.97	\$0.03	\$0.89	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Condensed Balance Sheet

As of 31 December 2013 and 2012 and as of 1 January 2012

(Expressed in thousands of dollars)

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Current assets	\$1,681,323	\$56,363	\$1,677,761	\$57,754	\$1,664,561	\$54,991
Available-for-sale financial assets	143,232	4,802	128,032	4,407	118,147	3,903
Held-to-maturity financial assets	-	-	200,000	6,885	200,000	6,607
Investment in debt securities with no active market	2,500	84	11,250	387	8,750	289
Investments accounted for using the equity method	298,036	9,991	-	-	-	-
Property and equipment	18,466	619	19,952	687	24,048	794
Intangible assets	15,191	509	10,475	361	10,376	343
Deferred tax assets	9,614	322	9,406	324	9,278	307
Other non-current assets	277,676	9,309	244,064	8,401	187,672	6,200
Total assets	\$2,446,038	\$81,999	\$2,300,940	\$79,206	\$2,222,832	\$73,434
Liabilities						
Current liability	\$261,437	\$8,764	\$183,517	\$6,317	\$155,243	\$5,129
Other non-current liability	152,978	5,128	121,447	4,181	54,575	1,803
Total liabilities	414,415	13,892	304,964	10,498	209,818	6,932
Stockholders' equity						
Capital stock	1,500,000	50,285	1,500,000	51,635	1,500,000	49,554
Capital surplus	13,908	466	13,908	479	13,908	459
Retained earnings	500,730	16,786	480,079	16,526	506,653	16,738
Others	16,985	570	1,989	68	(7,547)	(249)
Total stockholders' equity	2,031,623	68,107	1,995,976	68,708	2,013,014	66,502
Total liabilities and stockholders' equity	\$2,446,038	\$81,999	\$2,300,940	\$79,206	\$2,222,832	\$73,434

Cathay Securities Investment Trust Co., Ltd.

Condensed Statement of Comprehensive Income

For the years ended 31 December 2013 and 2012

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

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Operating income	\$1,248,468	\$41,853	\$1,111,684	\$38,268
Operating expenses	(907,030)	(30,407)	(802,173)	(27,613)
Operating gross profit	341,438	11,446	309,511	10,655
Non-operating income and expenses	(12,060)	(404)	22,833	786
Profit from continuing operations before income tax	329,378	11,042	332,344	11,441
Income tax expenses	(59,862)	(2,007)	(56,242)	(1,936)
Net income	269,516	9,035	276,102	9,505
Other comprehensive income	14,996	503	9,536	328
Total comprehensive income	\$284,512	\$9,538	\$285,638	\$9,833
Primary earnings per share	\$1.80	\$0.06	\$1.84	\$0.06

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Co., Ltd.
Condensed Balance Sheet
As of 31 December 2013 and 2012 and as of 1 January 2012
(Expressed in thousands of dollars)**

Items	2013.12.31		2012.12.31		2012.1.1	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Assets						
Current assets	\$2,876,356	\$96,425	\$2,516,674	\$86,632	\$2,460,133	\$81,273
Available-for-sale financial asseets	222,738	7,467	30,500	1,050	30,500	1,008
Property and equipment	59,267	1,987	59,026	2,032	53,485	1,767
Investment property	255,826	8,576	256,364	8,825	256,902	8,487
Intangible assets	2,212	74	1,311	45	1,602	53
Other non-current assets	169,110	5,669	151,316	5,209	139,096	4,595
Total assets	\$3,585,509	\$120,198	\$3,015,191	\$103,793	\$2,941,718	\$97,183
Liabilities						
Current liability	\$2,595,410	\$87,007	\$2,230,013	\$76,765	\$2,163,850	\$71,485
Deferred tax liability	412	14	412	14	432	14
Other non-current liability	1,447	48	1,439	49	1,439	48
Total liabilities	2,597,269	87,069	2,231,864	76,828	2,165,721	71,547
Stockholders' equity						
Capital stock	650,000	21,790	650,000	22,375	650,000	21,473
Retained earnings	148,028	4,962	133,327	4,590	125,997	4,163
Others	190,212	6,377	-	-	-	-
Total stockholders' equity	988,240	33,129	783,327	26,965	775,997	25,636
Total liabilities and stockholders' equity	\$3,585,509	\$120,198	\$3,015,191	\$103,793	\$2,941,718	\$97,183

**Cathay Futures Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earnings per share)**

Items	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
	NT\$	US\$	NT\$	US\$
Income	\$122,151	\$4,095	\$103,185	\$3,552
Expenses	(134,691)	(4,515)	(111,458)	(3,837)
Operating loss	(12,540)	(420)	(8,273)	(285)
Non-operating income and expenses	53,126	1,781	43,078	1,483
Profit from continuing operations before income tax	40,586	1,361	34,805	1,198
Income tax expenses	(4,443)	(149)	(4,271)	(147)
Net income	36,143	1,212	30,534	1,051
Other comprehensive income	190,212	6,376	-	-
Total comprehensive income	\$226,355	\$7,588	\$30,534	\$1,051
Primary earnings per share	\$0.56	\$0.02	\$0.47	\$0.02