

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Three-month Periods Ended
31 March 2014 and 2013
With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, R.O.C.
Telephone: 886-2-2755-1399

Index to consolidated financial statements

	<u>Page</u>
Independent auditors' review report	3
Unaudited consolidated balance sheets as at 31 March 2014, 31 December 2013, 31 March 2013, and 1 January 2013	4-5
Unaudited consolidated statements of comprehensive income for the three-month periods ended 31 March 2014 and 2013	6
Unaudited consolidated statements of changes in equity for the three-month periods ended 31 March 2014 and 2013	7
Unaudited consolidated statements of cash flows for the three-month periods ended 31 March 2014 and 2013	8
Notes to consolidated financial statements	9-227

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

The Board of Directors and Shareholders
Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the “Company”) and its subsidiaries (the “Subsidiaries”) as of 31 March 2014, 31 December 2013, 31 March 2013, and 1 January 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2014 and 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with Statements of Auditing Standards No.36 “Review of Financial statements” of the Republic of China (“R.O.C.”). A review consists principally of inquiries, comparison and analytical procedures. A review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and IAS 34 “Interim Financial Reporting” as recognized by Financial Supervisory Commission.

As described in the notes to consolidated financial statements, the Company and Subsidiaries change the subsequent measurements of investment property from cost model to fair value model since 1 January 2014. Consolidated financial statements for the three-month period ended 31 March 2013 and consolidated balance sheets as of 1 January 2013 and 31 December 2013 has been adjusted for the retrospective application of the accounting principle.

EY
Certified Public Accountants
Taipei, Taiwan, R.O.C.
28 April 2014

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

As at 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013

(Expressed in thousands of dollars)

Assets	Notes	31 March 2014		31 December 2013		31 March 2013		1 January 2013	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6,49,50	\$323,310,752	\$10,617,759	\$282,058,256	\$9,455,523	\$309,253,895	\$10,374,166	\$366,121,804	\$12,603,160
Receivables	4,7,49,50	48,234,795	1,584,066	47,633,306	1,596,825	62,608,585	2,100,254	57,726,314	1,987,137
Financial assets at fair value through profit or loss	4,5,8,15,49,50	82,233,101	2,700,594	73,892,698	2,477,127	66,021,694	2,214,750	72,964,811	2,511,697
Available-for-sale financial assets	4,5,9,15,49	1,269,015,112	41,675,373	1,277,352,123	42,821,057	1,295,943,343	43,473,443	1,227,321,172	42,248,577
Derivative financial assets for hedging	4,5,10,49	375,333	12,326	453,713	15,210	947,259	31,777	1,142,094	39,315
Investments accounted for using the equity method - Net	4,5,11,49	1,926,744	63,276	1,432,832	48,033	951,794	31,929	947,731	32,624
Bond investments for which no active market exists	4,5,12,15,49,50	1,052,692,406	34,571,179	1,023,349,976	34,306,067	871,161,210	29,223,791	816,904,617	28,120,641
Held-to-maturity financial assets	4,5,13,49	6,129,197	201,287	1,619,138	54,279	-	-	-	-
Other financial assets - Net	4,5,14,49	37,400,000	1,228,243	40,900,000	1,371,103	25,900,253	868,844	23,500,010	808,950
Investment property	4,5,16,49,50,55	361,623,781	11,875,986	345,459,505	11,580,942	303,514,424	10,181,631	303,514,424	10,448,001
Investment property under construction	4,5,16,49,50	16,775,221	550,910	15,570,122	521,962	8,711,676	292,240	7,519,477	258,846
Prepayments for buildings and land - Investments	4,5,16,49,50	5,458,759	179,270	5,173,152	173,421	1,587,676	53,260	1,581,767	54,450
Loans	4,17,49,50	644,501,473	21,165,894	635,863,840	21,316,253	547,719,493	18,373,683	518,210,946	17,838,587
Reinsurance assets	4,18,49	540,311	17,744	683,457	22,912	6,837,743	229,378	9,170,196	315,669
Property and equipment	4,19,49,50	27,094,499	889,803	36,669,572	1,229,285	48,324,150	1,621,072	48,356,882	1,664,609
Intangible assets	4,20,49	176,845	5,808	184,090	6,171	246,530	8,270	254,878	8,774
Deferred tax assets	4,5,40,49	11,538,925	378,947	12,221,216	409,696	13,896,261	466,161	16,106,670	554,446
Other assets	21,22,49,50,51	20,981,906	689,061	18,459,723	618,831	16,873,772	566,044	16,739,474	576,230
Separate account product assets	4,42,49	413,942,267	13,594,163	376,252,736	12,613,233	359,375,292	12,055,528	329,557,246	11,344,484
Total assets		\$4,323,951,427	\$142,001,689	\$4,195,229,455	\$140,637,930	\$3,939,875,050	\$132,166,221	\$3,817,640,513	\$131,416,197

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013 were NT\$30.45, NT\$29.83, NT\$29.81 and NT\$29.05 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 Life Insurance Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets - (continued)

As at 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013

(Expressed in thousands of dollars)

Liabilities and equity	Notes	31 March 2014		31 December 2013		31 March 2013		1 January 2013	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	49	\$14,720	\$483	\$-	\$-	\$125,063	\$4,195	\$297,268	\$10,233
Payables	23,49,50	27,078,853	889,289	19,025,676	637,803	42,841,754	1,437,161	38,073,655	1,310,625
Financial liabilities at fair value through profit or loss	4,24,49	9,754,948	320,360	16,148,024	541,335	16,375,898	549,343	2,079,457	71,582
Derivative financial liabilities for hedging	4,25,49	-	-	5,148	173	-	-	-	-
Preferred stock liability	26,49,50	30,000,000	985,222	30,000,000	1,005,699	30,000,000	1,006,374	30,000,000	1,032,702
Insurance liabilities	4,5,27,49	3,447,908,070	113,231,792	3,380,579,907	113,328,190	3,152,043,135	105,737,777	3,082,659,251	106,115,637
Reserve for insurance contracts with feature of financial instruments	4,5,27,49	56,675,317	1,861,258	57,596,449	1,930,823	60,026,735	2,013,644	61,350,872	2,111,906
Foreign exchange volatility reserve	4,5,27,49	11,281,256	370,485	10,482,181	351,397	7,478,930	250,887	4,270,856	147,017
Provisions	4,5,29,49	3,778,428	124,086	3,919,223	131,385	3,856,947	129,384	3,812,483	131,239
Deferred tax liabilities	4,5,40,49,55	20,126,754	660,977	21,281,632	713,431	18,718,608	627,930	20,217,430	695,953
Other liabilities	30,31,49,50	23,398,281	768,417	8,632,437	289,388	11,099,420	372,339	11,525,810	396,758
Separate account product liabilities	4,42,49	413,942,267	13,594,163	376,252,736	12,613,233	359,375,292	12,055,528	329,557,246	11,344,484
Total liabilities		4,043,958,894	132,806,532	3,923,923,413	131,542,857	3,701,941,782	124,184,562	3,583,844,328	123,368,136
Equity attributable to equity holders of the parent									
Capital stock									
Common stock	32	53,065,274	1,742,702	53,065,274	1,778,923	53,065,274	1,780,117	53,065,274	1,826,688
Capital surplus	33	13,038,791	428,203	13,038,791	437,103	13,009,649	436,419	13,009,649	447,836
Retained earnings									
Legal capital reserve	34,55	9,897,228	325,032	9,897,228	331,788	9,241,230	310,004	9,241,230	318,115
Special capital reserve		162,053,059	5,321,940	38,050,593	1,275,581	32,111,919	1,077,220	32,111,919	1,105,401
Unappropriated retained earnings		20,712,084	680,200	121,889,246	4,086,129	105,153,649	3,527,462	100,885,381	3,472,819
Other equity	55	20,471,270	672,291	34,623,655	1,160,699	24,240,185	813,156	24,469,760	842,332
Non-controlling interests	34	754,827	24,789	741,255	24,850	1,111,362	37,281	1,012,972	34,870
Total equity		279,992,533	9,195,157	271,306,042	9,095,073	237,933,268	7,981,659	233,796,185	8,048,061
Total liabilities and equity		\$4,323,951,427	\$142,001,689	\$4,195,229,455	\$140,637,930	\$3,939,875,050	\$132,166,221	\$3,817,640,513	\$131,416,197

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013 were NT\$30.45, NT\$29.83, NT\$29.81 and NT\$29.05 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of comprehensive income
For the three-month periods ended 31 March 2014 and 2013
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	1 January-31 March 2014		1 January-31 March 2013	
		NT\$	US\$	NT\$	US\$
Operating revenue	4,50				
Direct premium income	35	\$94,559,453	\$3,105,401	\$93,500,583	\$3,136,551
Reinsurance premium income	35	55,093	1,809	59,909	2,010
Premium income	35	94,614,546	3,107,210	93,560,492	3,138,561
Deduct: Premiums ceded to reinsurers	35	(3,565,028)	(117,078)	(4,664,502)	(156,475)
Changes in unearned premium reserve	35	319,862	10,504	(2,206,696)	(74,025)
Retained earned premium	35	91,369,380	3,000,636	86,689,294	2,908,061
Reinsurance commission earned		1,675,759	55,033	2,973,002	99,732
Handling fees earned	42	1,073,027	35,239	848,944	28,478
Net investment profits and losses					
Interest income		24,473,016	803,711	23,216,142	778,804
Losses from financial assets and liabilities at fair value through profit or loss		(16,579,109)	(544,470)	(19,957,598)	(669,493)
Realized gains from available-for-sale financial assets		10,456,227	343,390	4,609,459	154,628
Realized gains from bond investments for which no active market exists		2,461,554	80,839	3,198,789	107,306
Share of the gains (losses) of associates and joint ventures accounted for using the equity method		32,579	1,070	(18,477)	(619)
Foreign exchange gains		15,135,993	497,077	24,345,601	816,692
Changes in foreign exchange volatility reserve	27	(799,075)	(26,242)	(3,208,074)	(107,617)
Gains from investment property	55	3,257,532	106,980	1,860,397	62,408
Losses from other investments - Net		(2)	-	-	-
Other operating revenue		174	6	325,360	10,914
Separate account product revenue	4,42	54,945,185	1,804,440	37,908,040	1,271,655
Subtotal		187,502,240	6,157,709	162,790,879	5,460,949
Operating costs	4,50				
Insurance claim payments	36	(56,647,730)	(1,860,352)	(46,155,642)	(1,548,327)
Deduct: Claims recovered from reinsurers	36	1,727,827	56,743	3,007,823	100,900
Retained claim payments	36	(54,919,903)	(1,803,609)	(43,147,819)	(1,447,427)
Changes in insurance liabilities	27	(59,900,688)	(1,967,182)	(63,660,075)	(2,135,528)
Changes in reserve for insurance contracts with feature of financial instruments	27	(31,470)	(1,033)	(301,840)	(10,125)
Brokerage expenses	37	(3,877,689)	(127,346)	(4,321,748)	(144,977)
Commission expenses		(3,844,183)	(126,246)	(4,612,628)	(154,734)
Other operating costs		(1,059,369)	(34,790)	(1,148,457)	(38,526)
Finance costs		51,105	1,678	191,925	6,438
Separate account product expenses	4,42	(54,945,185)	(1,804,440)	(37,908,040)	(1,271,655)
Subtotal		(178,527,382)	(5,862,968)	(154,908,682)	(5,196,534)
Operating expenses	4,37,50				
Business expenses		(1,388,909)	(45,613)	(1,420,549)	(47,653)
Administrative and general expenses	55	(1,994,959)	(65,516)	(1,993,769)	(66,883)
Employee training expenses		(7,061)	(232)	(6,875)	(231)
Subtotal		(3,390,929)	(111,361)	(3,421,193)	(114,767)
Operating income		5,583,929	183,380	4,461,004	149,648
Non-operating income and expenses	4,38,50	565,554	18,573	158,716	5,324
Income from continuing operations before income tax		6,149,483	201,953	4,619,720	154,972
Income tax benefit (expense)	4,5,40,55	407,960	13,398	(282,561)	(9,479)
Net income from continuing operations		6,557,443	215,351	4,337,159	145,493
Net income		6,557,443	215,351	4,337,159	145,493
Other comprehensive income	39				
Exchange differences resulting from translating the financial statements of foreign operations		(8,497)	(279)	129,814	4,355
Unrealized valuation gains from available-for-sale financial assets		762,006	25,025	5,078	170
Effective portion of losses on hedging instruments in cash flow hedges		(74,964)	(2,461)	(199,066)	(6,678)
Gains from revaluation	55	902,335	29,633	-	-
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method		5,921	194	22,540	756
Other comprehensive income, before tax		1,586,801	52,112	(41,634)	(1,397)
Income taxes relating to components of other comprehensive income		542,247	17,808	(158,442)	(5,315)
Other comprehensive income, net of tax		2,129,048	69,920	(200,076)	(6,712)
Total comprehensive income		\$8,686,491	\$285,271	\$4,137,083	\$138,781
Net income attributable to:					
Equity holders of the parent		\$6,549,550	\$215,092	\$4,268,268	\$143,182
Non-controlling interests		\$7,893	\$259	\$68,891	\$2,311
Total comprehensive income attributable to:					
Equity holders of the parent		\$8,672,919	\$284,825	\$4,038,693	\$135,481
Non-controlling interests		\$13,572	\$446	\$98,390	\$3,300
Basic earnings per share (In dollars)	41				
Net income from continuing operations		\$1.23	\$0.04	\$0.80	\$0.03

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NT\$30.45 and NT\$29.81 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of changes in equity
For the three-month periods ended 31 March 2014 and 2013
(Expressed in thousands of dollars)

Equity attributable to equity holders of the parent

Summary	Notes	Retained earnings										Other equity										Total	Non-controlling interests		Total
		Capital stock		Capital surplus		Legal capital reserve		Special capital reserve		Unappropriated retained earnings		Exchange differences resulting from translating the financial statements of foreign operations		Unrealized valuation gains from available-for-sale financial assets		Effective portion of gains on hedging instruments in cash flow hedges		Revaluation surplus		Total					
		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 2013		\$53,065,274	\$1,780,117	\$13,009,649	\$436,419	\$9,241,230	\$310,004	\$32,111,919	\$1,077,220	\$5,302,513	\$177,877	\$(428,258)	\$(14,367)	\$23,938,471	\$803,035	\$959,547	\$32,189	\$-	\$-	\$137,200,345	\$4,602,494	\$1,012,972	\$33,981	\$138,213,317	\$4,636,475
Effects on retrospective application and restatement		-	-	-	-	-	-	-	-	95,582,868	3,206,403	-	-	-	-	-	-	-	-	95,582,868	3,206,403	-	-	95,582,868	3,206,403
Balance on 1 January 2013 (Adjusted)	55	53,065,274	1,780,117	13,009,649	436,419	9,241,230	310,004	32,111,919	1,077,220	100,885,381	3,384,280	(428,258)	(14,367)	23,938,471	803,035	959,547	32,189	-	-	232,783,213	7,808,897	1,012,972	33,981	233,796,185	7,842,878
Net income for the three-month period ended 31 March 2013 (Adjusted)	55	-	-	-	-	-	-	-	-	4,268,268	143,182	-	-	-	-	-	-	-	-	4,268,268	143,182	68,891	2,311	4,337,159	145,493
Other comprehensive income for the three-month period ended 31 March 2013	39	-	-	-	-	-	-	-	-	-	-	116,035	3,893	(180,385)	(6,051)	(165,225)	(5,543)	-	-	(229,575)	(7,701)	29,499	989	(200,076)	(6,712)
Total comprehensive income for the three-month period ended 31 March 2013 (Adjusted)		-	-	-	-	-	-	-	-	4,268,268	143,182	116,035	3,893	(180,385)	(6,051)	(165,225)	(5,543)	-	-	4,038,693	135,481	98,390	3,300	4,137,083	138,781
Balance on 31 March 2013 (Adjusted)	55	\$53,065,274	\$1,780,117	\$13,009,649	\$436,419	\$9,241,230	\$310,004	\$32,111,919	\$1,077,220	\$105,153,649	\$3,527,462	\$(312,223)	\$(10,474)	\$23,758,086	\$796,984	\$794,322	\$26,646	\$-	\$-	\$236,821,906	\$7,944,378	\$1,111,362	\$37,281	\$237,933,268	\$7,981,659
Balance on 1 January 2014 (Adjusted)		\$53,065,274	\$1,742,702	\$13,038,791	\$428,203	\$9,897,228	\$325,032	\$38,050,593	\$1,249,609	\$121,889,246	\$4,002,931	\$(189,809)	\$(6,234)	\$18,165,426	\$596,566	\$372,284	\$12,226	\$16,275,754	\$534,508	\$270,564,787	\$8,885,543	\$741,255	\$24,343	\$271,306,042	\$8,909,886
Special capital reserve recognized in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10302501001	34	-	-	-	-	-	-	124,002,466	4,072,331	(107,726,712)	(3,537,823)	-	-	-	-	-	-	(16,275,754)	(534,508)	-	-	-	-	-	-
Net income for the three-month period ended 31 March 2014		-	-	-	-	-	-	-	-	6,549,550	215,092	-	-	-	-	-	-	-	-	6,549,550	215,092	7,893	259	6,557,443	215,351
Other comprehensive income for the three-month period ended 31 March 2014	39	-	-	-	-	-	-	-	-	-	-	(7,185)	(236)	1,365,165	44,833	(62,220)	(2,043)	827,609	27,179	2,123,369	69,733	5,679	187	2,129,048	69,920
Total comprehensive income for the three-month period ended 31 March 2014		-	-	-	-	-	-	-	-	6,549,550	215,092	(7,185)	(236)	1,365,165	44,833	(62,220)	(2,043)	827,609	27,179	8,672,919	284,825	13,572	446	8,686,491	285,271
Balance on 31 March 2014		\$53,065,274	\$1,742,702	\$13,038,791	\$428,203	\$9,897,228	\$325,032	\$162,053,059	\$5,321,940	\$20,712,084	\$680,200	\$(196,994)	\$(6,470)	\$19,530,591	\$641,399	\$310,064	\$10,183	\$827,609	\$27,179	\$279,237,706	\$9,170,368	\$754,827	\$24,789	\$279,992,533	\$9,195,157

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NTS30.45 and NTS29.81 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of cash flows
For the three-month periods ended 31 March 2014 and 2013
(Expressed in thousands of dollars)

	Notes	1 January-31 March 2014		1 January-31 March 2013	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income, before tax	55	\$6,149,483	\$201,953	\$4,619,720	\$154,972
Adjustments:					
Non-cash revenue and expense items					
Depreciation	37,55	175,298	5,757	250,210	8,394
Amortization	37	12,852	422	17,812	597
(Reversal of) provision for bad debt expenses		(98,197)	(3,225)	239,642	8,039
Net losses from financial assets and liabilities at fair value through profit or loss		16,588,327	544,773	19,974,143	670,048
Net gains from available-for-sale financial assets		(9,845,339)	(323,328)	(4,075,754)	(136,724)
Net gains from bond investments for which no active market exists		(2,461,554)	(80,839)	(3,198,789)	(107,306)
Interest expenses		14,048	461	11,031	370
Interest income		(24,473,016)	(803,711)	(23,216,142)	(778,804)
Dividend income		(620,105)	(20,365)	(483,210)	(16,210)
Changes in insurance liabilities		67,328,163	2,211,106	69,383,884	2,327,537
Changes in reserve for insurance contracts with feature of financial instruments		(921,132)	(30,251)	(1,324,137)	(44,419)
Changes in foreign exchange volatility reserve		799,075	26,242	3,208,074	107,617
Share of the (gains) losses of associates and joint ventures accounted for using the equity method		(32,579)	(1,070)	18,477	620
Losses (gains) on disposal or scrapping of property and equipment		64	2	(6)	-
Losses on disposal of investments accounted for using the equity method		2	-	-	-
Gains on disposal of investment property		(1,259,138)	(41,351)	-	-
Losses on valuation of investment property	55	27,322	897	14,945	502
Subtotal		<u>45,234,091</u>	<u>1,485,520</u>	<u>60,820,180</u>	<u>2,040,261</u>
Changes in operating assets and liabilities					
(Increase) decrease in financial assets at fair value through profit or loss		(533,850)	(17,532)	16,668,208	559,148
Decrease (increase) in derivative financial assets for hedging		3,416	112	(4,231)	(142)
(Increase) decrease in premiums receivable		(9,024)	(296)	8,742	293
Decrease in notes receivable		642,054	21,085	842,290	28,255
Decrease (increase) in other accounts receivable		275,779	9,057	(3,406,794)	(114,283)
(Increase) decrease in prepaid expenses and other prepayments		(25,623)	(841)	68,605	2,301
Decrease (increase) in guarantee deposits paid		719,550	23,631	(285,743)	(9,585)
Decrease in reinsurance assets		143,146	4,701	2,332,453	78,244
Decrease (increase) in other financial assets		3,500,000	114,943	(2,400,243)	(80,518)
Increase in other assets		(3,159,122)	(103,748)	(70,849)	(2,377)
Decrease in financial liabilities at fair value through profit or loss		(30,844,942)	(1,012,970)	(15,249,105)	(511,543)
Decrease in derivative financial liabilities for hedging		(5,148)	(169)	-	-
Decrease in notes payable		(8)	-	(20)	(1)
Increase in life insurance proceeds payable		715	23	86,786	2,911
Increase in other payables		8,016,632	263,272	6,345,329	212,859
Decrease in due to reinsurers and ceding companies		(146,518)	(4,812)	(1,609,755)	(54,000)
Increase in reinsurance proceeds payable		27,416	900	-	-
Increase (decrease) in commissions payable		154,940	5,088	(54,737)	(1,836)
Increase in accounts collected in advance		3,792	125	7,109	238
Increase in guarantee deposits received		383,308	12,588	4,725	158
(Decrease) increase in provisions		(140,227)	(4,605)	9,555	321
Increase in deferred handling fees		2,391	78	555	19
Increase (decrease) in other liabilities		14,376,353	472,130	(438,779)	(14,719)
(Decrease) increase in provision for employee benefits		(568)	(19)	34,910	1,171
Subtotal		<u>(6,615,538)</u>	<u>(217,259)</u>	<u>2,889,011</u>	<u>96,914</u>
Cash generated from operating activities		<u>44,768,036</u>	<u>1,470,214</u>	<u>68,328,911</u>	<u>2,292,147</u>
Interest received		23,732,096	779,379	21,504,855	721,397
Dividends received		620,105	20,365	483,210	16,210
Interest paid		(14,048)	(461)	(11,031)	(370)
Income taxes paid		(318,790)	(10,469)	(330,898)	(11,100)
Net cash provided by operating activities		<u>68,787,399</u>	<u>2,259,028</u>	<u>89,975,047</u>	<u>3,018,284</u>
Cash flows from investing activities					
Acquisition of available-for-sale financial assets		(245,068,202)	(8,048,217)	(288,946,579)	(9,692,941)
Disposal of available-for-sale financial assets		264,012,558	8,670,363	224,405,240	7,527,851
Acquisition of bond investments for which no active market exists		(96,891,152)	(3,181,975)	(185,278,913)	(6,215,327)
Disposal of bond investments for which no active market exists		70,010,276	2,299,188	134,221,108	4,502,553
Acquisition of held-to-maturity financial assets		(4,510,059)	(148,113)	-	-
Acquisition of investments accounted for using the equity method		(495,120)	(16,260)	-	-
Disposal of investments accounted for using the equity method		39,706	1,304	-	-
Acquisition of property and equipment		(73,119)	(2,401)	(125,327)	(4,204)
Disposal of property and equipment		135	4	182	6
Acquisition of intangible assets		(6,233)	(205)	(6,143)	(206)
Increase in loans		(8,512,137)	(279,544)	(29,761,432)	(998,371)
Acquisition of investment property		(7,541,035)	(247,653)	(1,213,053)	(40,693)
Disposal of investment property		1,430,000	46,962	-	-
Net cash used in investing activities		<u>(27,604,382)</u>	<u>(906,547)</u>	<u>(146,704,917)</u>	<u>(4,921,332)</u>
Cash flows from financing activities					
Increase (decrease) in notes and bonds with repurchase agreements		14,720	483	(172,204)	(5,777)
Net cash provided by (used in) financing activities		<u>14,720</u>	<u>483</u>	<u>(172,204)</u>	<u>(5,777)</u>
Effects of exchange rate changes on cash and cash equivalents		54,759	1,798	34,165	1,146
Increase (decrease) in cash and cash equivalents		<u>41,252,496</u>	<u>1,354,762</u>	<u>(56,867,909)</u>	<u>(1,907,679)</u>
Cash and cash equivalents at the beginning of the periods		282,058,256	9,262,997	366,121,804	12,281,845
Cash and cash equivalents at the end of the periods		<u>\$323,310,752</u>	<u>\$10,617,759</u>	<u>\$309,253,895</u>	<u>\$10,374,166</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 31 March 2014 and 2013 were NT\$30.45 and NT\$29.81 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 Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements

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

For the three-month periods ended 31 Marh 2014 and 2013

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 23 October 1962, under the provisions of the Company Act of the Republic of China (“R.O.C.”). The Company mainly engages in the business of life insurance. On 31 December 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holding”) by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C. in order to benefit from synergistic operation and enhance the Company’s competitiveness in the financial market. The Company’s registered office and the main business location is at No. 296, Jen Ai Road, Section 4, Taipei, Republic of China (R.O.C.).

The parent company and ultimate parent company of the Company is Cathay Financial Holding.

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

The consolidated financial statements of the Company and its subsidiaries (“the Company and Subsidiaries”) for the three-month periods ended 31 March 2014 and 2013 were authorized to issue in accordance with resolution of the Company’s board of directors on 28 April 2014.

3. Newly issued or revised standards and interpretations

(1) International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee or Standing Interpretations Committee issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”) and applicable to annual periods beginning on or after 1 January 2015, but not yet adopted by the Company and Subsidiaries at the date of issuance of the Company and Subsidiaries’ financial statements are listed below:

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

The annual improvements to International Financial Reporting Standards (“IFRS”) issued in 2010 made the following amendments to IFRS 1: If a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS in accordance with paragraph 23 of IFRS 1.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Furthermore, the amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. The amendment also expands the scope of ‘deemed cost’ for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These amendments became effective for annual periods beginning on or after 1 January 2011.

IFRS 3 Business Combinations

Under the amendment, IFRS 3 (as revised in 2008) do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Furthermore, the amendment limits the scope of the measurement choices for non-controlling interest. Only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation could be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. Other components of non-controlling interest are measured at their acquisition date fair value. The amendment also requires an entity in a business combination to account for the replacement of the acquiree’s share-based payment transactions (when the acquirer is not obliged to do so) as new share-based payment awards in the post-combination financial statements. Outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions: if vested — they are part of non-controlling interest; if unvested — they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. These amendments became effective for annual periods beginning on or after 1 July 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 became effective for annual periods beginning on or after 1 January 2011.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment became effective for annual periods beginning on or after 1 January 2011.

IAS 34 Interim Financial Reporting

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore the amendment adds disclosure requirements around disclosures of financial instruments and contingent liabilities/assets. The amendment is effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 Customer Loyalty Programmes

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is effective for annual periods beginning on or after 1 January 2011.

B. IFRS 1 *First-time Adoption of International Financial Reporting Standards* — *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

IFRS 1 has been amended to allow first-time adopters to utilize the transitional provisions of IFRS 7 *Financial Instruments: Disclosures*. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS 1 in the first year of application. The amendment is effective for annual periods beginning on or after 1 July 2010.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

C. IFRS 1 First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. The amended standard has these dates coinciding with the date of transition to IFRS. The amendment is effective for annual periods beginning on or after 1 July 2011.

D. IFRS 7 Financial Instruments: Disclosures (Amendment)

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. The amendment is effective for annual periods beginning on or after 1 July 2011.

E. IAS 12 Income Taxes — Deferred Taxes: Recovery of Underlying Assets

The amendment to IAS 12 introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* has been withdrawn. The amendment is effective for annual periods beginning on or after 1 January 2012.

F. IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated. The standard is effective for annual periods beginning on or after 1 January 2013.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

G. IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31. The changes introduced by IFRS 11 primarily relate to increase comparability within IFRS by removing the choice for jointly controlled entities to use proportionate consolidation, so that the structure of the arrangement is no longer the most important factor when determining the classification as a joint operation or a joint venture, which then determines the accounting. The standard is effective for annual periods beginning on or after 1 January 2013.

H. IFRS 12 *Disclosures 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. The standard is effective for annual periods beginning on or after 1 January 2013.

I. 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 standard is effective for annual periods beginning on or after 1 January 2013.

J. IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*

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. The amendment is effective for annual periods beginning on or after 1 July 2012.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

K. IAS 19 *Employee Benefits (Revised)*

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 recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc.. The revised standard is effective for annual periods beginning on or after 1 January 2013.

L. IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*

The IASB has added an exception to the retrospective application of IFRS 9 (or IAS 39) and IAS 20. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. The amendment is effective for annual periods beginning on or after 1 January 2013.

M. IFRS 7 *Financial Instruments: Disclosures — Disclosures — Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement'. The amendment is effective for annual periods beginning on or after 1 January 2013.

N. IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*

The amendment clarifies the meaning of "currently has a legally enforceable right to set-off" in IAS 32. The amendment is effective for annual periods beginning on or after 1 January 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

O. IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset (“stripping activity asset”), only if certain criteria are met. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. The interpretation is effective for annual periods beginning on or after 1 January 2013.

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment clarifies that an entity that has stopped applying IFRS may choose to either: Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period; or Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 1 Presentation of Financial Statements

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet. The amendment is effective for annual periods beginning on or after 1 January 2013.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

IAS 16 Property, Plant and Equipment (Amendment)

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial Instruments: Presentation (Amendment)

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 34 Interim Financial Reporting (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Besides, total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment is effective for annual periods beginning on or after 1 January 2013.

Q. IFRS 10 Consolidated Financial Statements (Amendment)

The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendment is effective for annual periods beginning on or after 1 January 2014.

The abovementioned standards and interpretations are issued by IASB, recognized by FSC and applicable to annual periods beginning on or after 1 January 2015. The Company and Subsidiaries are still determining the potential impact of the standards and interpretations.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

- (2) Standards or Interpretations issued by the IASB but not yet recognized by the FSC are listed below:

A. 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. 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 endorsed 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.

B. IAS 36 *Impairment of Assets* (Amendment)

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. The amendment is effective for annual periods beginning on or after 1 January 2014.

C. 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). The interpretation is effective for annual periods beginning on or after 1 January 2014.

D. IAS 39 *Financial Instruments: Recognition and Measurement* (Amendment)

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

E. 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.

F. 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. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. *Improvements to International Financial Reporting Standards (2010-2012 cycle)*

IFRS 2 *Share-based Payment*

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 *Business Combinations*

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

IFRS 8 Operating Segments

The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

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. The amendment is effective for annual periods beginning on or after 1 July 2014.

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. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 38 Intangible Assets

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

H. 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 3 Business Combinations

This amendment clarifies that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

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*. The amendment is effective for annual periods beginning on or after 1 July 2014.

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 amendment is effective for annual periods beginning on or after 1 July 2014.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

I. IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

The abovementioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Company and Subsidiaries' financial statements, the local effective dates are to be determined by FSC. The Company and Subsidiaries are still determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the three-month periods ended 31 March 2014 and 2013 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and IAS 34 *Interim Financial Reporting* as recognized by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment property 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 Company and Subsidiaries obtain 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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 Company and Subsidiaries lose 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.

The consolidated entities are listed as follows:

Investors	Investees	Business	Ownership interest			
			2014.3.31	2013.12.31	2013.3.31	2013.1.1
The Company	Symphox Information Co., Ltd. ("Symphox Information") (Note)	Type II telecom service, data processing service, information supply service	49.12	49.12	60.12	60.12
The Company	Cathay Life Insurance Ltd. (China) ("Cathay Life (China)")	Life insurance	50.00	50.00	50.00	50.00
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00	100.00	100.00
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office equipment leasing	100.00	100.00	100.00	100.00

Note: The Company disposed 11% shares of Symphox Information Co., Ltd. during November 2013. Therefore, Symphox Information Co., Ltd. is excluded from the consolidated financial statements since December 2013.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The consolidated financial statements exclude the following:

Investors	Investees	Business	Ownership interest				Notes
			2014.3.31	2013.12.31	2013.3.31	2013.1.1	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class 3 general business insurers and a long-term insurer	100.00	100.00	100.00	100.00	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment research analysis	100.00	100.00	100.00	100.00	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Insurance Company Limited (China)	Properties insurance	50.00	50.00	50.00	50.00	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements.

(4) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the reporting date and the resulting exchange differences are recognized in profit or loss for the period. 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. When a gain or loss on the non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss. When a gain or loss on the non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(5) Translation of financial statements in foreign currency

While preparing the Company and Subsidiaries' consolidated financial statements, 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 following are accounted for as disposals even if an interest in the foreign operation is retained by the Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation or the loss of joint control over a foreign operation.

On the partial disposal of a subsidiary including a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity including a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Cash and cash equivalents

Cash and cash equivalents comprise 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 Company and Subsidiaries classify time deposits as cash equivalents when they have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(7) Financial assets and liabilities

Initial recognition and subsequent measurement

According to IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets are categorized as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “derivative financial assets for hedging”, “held-to-maturity financial assets” and “loans and receivables”. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”.

The Company and Subsidiaries classify 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.

All regular way purchases or sales of financial assets are recorded using trade date accounting.

Subsequent measurement of each category of financial assets and liabilities is listed below:

A. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

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

B. Available-for-sale financial assets

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

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

C. Derivative financial assets and liabilities for hedging

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

D. Held-to-maturity financial assets

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

E. 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:

- a. those that the Company and Subsidiaries intend to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- b. those that the Company and Subsidiaries upon initial recognition designate as available for sale; or
- c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are separately presented on the balance sheet as receivables, bond investments for which no active market exists or loans. 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.

Secured loans shall be measured at amortized cost using the effective interest method; however, they need not be discounted if the effect of discounting is immaterial.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

F. Financial liabilities

Financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging, which are measured at fair value.

Fair value of financial instruments

If there is a quoted price in an active market for a financial instrument, the price is used to measure fair value. If a quoted price is readily available in principal exchange markets, over-the-counter markets, Bloomberg or Reuters and is generally representative of the price in an orderly transaction between market participants, it is utilized as an estimate of the fair value of listed equity securities and debt instruments that have a quoted price in an active market.

Fair value of the other financial instruments is determined using a valuation technique. Such techniques may include reference to the current fair value of another instrument that has substantially the same terms and characteristics, discounted cash flow analysis and pricing models that incorporate information available to market participants on the balance sheet date (such as reference yield published by GreTai Securities Market, commercial paper market interest rates released by Reuters, etc.).

For less complex financial instruments such as interest rate swaps, currency swaps and options, the Company and Subsidiaries apply valuation techniques widely used by market participants. The variables of these valuation techniques include mostly observable market data.

For more complex financial instruments, the Company and Subsidiaries adopt both self-developed and externally-developed pricing models which are consistent with accepted economic methodologies for pricing financial instruments. Such models are used to measure derivatives, equity and debt instruments not quoted in an active market (including embedded derivatives) and other debt instruments not publicly traded. The variables of these pricing models include unobservable inputs and thus the Company and Subsidiaries must make their own assumptions and estimates.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Derecognition of financial assets and liabilities

A. Financial assets

The Company and Subsidiaries derecognize financial assets when the contractual rights to the cash flows from the assets expire or when it transfers substantially all the risks and rewards of ownership of the asset.

Securities lending transactions and repurchase agreements do not result in derecognition because the Company and Subsidiaries have nearly retained all such risks and rewards.

B. Financial liabilities

The Company and Subsidiaries remove all or part of a financial liability when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the liability extinguished and the liability recognized is recognized in profit or loss.

Reclassification of financial assets

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

- A. The Company and Subsidiaries shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. The Company and Subsidiaries shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the Company and Subsidiaries as at fair value through profit or loss.
- C. The Company and Subsidiaries shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

D. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

E. If, during the current financial year or during the two preceding financial years, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

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.

Impairment of financial assets

The Company and Subsidiaries assess 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 when, and only when, 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 asset. The carrying amount of the financial asset impaired, other than receivables and loans impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

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 may include:

A. significant financial difficulty of the issuer or obligor; or

B. a breach of contract, such as a default or delinquency in interest or principal payments; or

C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

D. the disappearance of an active market for that financial asset because of financial difficulties.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company and Subsidiaries first assess 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 Company and Subsidiaries determine 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.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. 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 write-off is later recovered, the recovery is credited to profit or loss.

In addition, in accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- A. 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.
- B. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.
- C. Total unsecured portion of loans overdue and receivable on demand.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The minimum amounts should be recorded within three years starting on January 2014.

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.

Derivative financial instruments and hedge accounting

The Company and Subsidiaries engage in derivative financial instrument transactions, such as currency forward contracts, interest rate swaps, cross currency swaps, options and futures, to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that no longer meets the criteria for hedge accounting are taken directly to profit or loss for the period.

Hedging relationships consist of three types:

A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

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

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

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

A. Fair value hedges

Fair value hedges is a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss. The carrying amount of the hedged item is adjusted and gain or loss attributable to the hedged risk is recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the IAS 21 *The Effects of Changes in Foreign Exchange Rates* (for a non-derivative hedging instrument) is recognized in profit or loss.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Cash flow hedges

Cash flow hedges is a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or with a highly probable forecast transaction and could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.

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

If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the cumulative gain or loss that was previously recognized in equity remains in other comprehensive income until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized in other comprehensive income, while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative gains or losses recognized in other comprehensive income is transferred to profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(8) Investments accounted for using the equity method

Investment in the associate of the Company and Subsidiaries 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 Company and Subsidiaries have 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 Company and Subsidiaries' 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 Company and Subsidiaries have incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and Subsidiaries and the associate are eliminated to the extent of the Company and Subsidiaries' related interest in the associate.

When changes in the net assets of an associate occur and are not those recognized in profit or loss or other comprehensive income and do not affect the Company and Subsidiaries' percentage of ownership interests in the associate, the Company and Subsidiaries recognize such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a pro rata basis.

When an associate issues new stock and the Company and Subsidiaries' interest in the associate is reduced or increased as the Company and Subsidiaries fail to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company and Subsidiaries dispose the associate.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the Company and Subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company and Subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognize the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income as required by IAS 36 *Impairment of Assets*. If using the investment's value in use as the recoverable amount, the Company and Subsidiaries determine the value in use based on the following estimates:

- A. Future cash flows that the Company and Subsidiaries expect to derive from the investment in the associate, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or
- B. present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

Because goodwill included as part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate, the Company and Subsidiaries measure and recognize any retaining 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 retaining investment and proceeds from disposal is recognized in profit or loss.

(9) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item, 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 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 and equipment are required to be replaced in intervals, the Company and Subsidiaries recognize such parts as individual assets separately with specific useful lives and depreciation. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

Buildings and construction	5~70 years
Computer equipment	3~5 years
Communication and transportation equipment	3~5 years
Other equipment	3~15 years
Leasehold improvements	5 years
Leased assets	3 years

An item of property 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 as a change in accounting estimate, if appropriate.

(10) 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 at fair value, and gains or losses are recognized in profit or loss in accordance with the requirements of IAS 40 *Investment Property*, 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*.

Investment properties are derecognized either when 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(11) Leases

The Company and Subsidiaries as a lessee

Finance leases which transfer to the Company and Subsidiaries 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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company and Subsidiaries 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.

The Company and Subsidiaries as a lessor

Leases in which the Company and Subsidiaries do 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.

The depreciation policy for depreciable leased assets is consistent with the Company and Subsidiaries' normal depreciation policy for similar assets, and depreciation is calculated in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(12) 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 any accumulated impairment losses. 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 are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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 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 years).

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(13) Impairment of non-financial assets

The Company and Subsidiaries assess 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 Company and Subsidiaries estimate 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. 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 Company and Subsidiaries estimate 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.

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it first reduces the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and 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.

(14) Guaranteed depository insurance payment

A. The Company

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Cathay life (China)

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

(15) Insurance liabilities, reserve for insurance contracts with feature of financial instruments and foreign exchange volatility reserve

A. The Company

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

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

a. Unearned premium reserve

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

b. Reserve for claims

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon the basis that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based upon the past experiences and expenses occurred and in accordance with the actuarial principles for each injury insurance and health or life insurance with a policy period within 1 year.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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 Article 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the manual published by each authority of insurance products.

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

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

When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities and decrease retained earnings. The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with rules issued by the FSC on 21 March 2014. The results of the measurements indicate that the fair value of the insurance liabilities doesn't exceed book value, therefore insurance liabilities doesn't have to be increased.

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:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(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.

(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 to write down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30 percent of self-retention earned premium within one year, 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

According to the regulations established by the authorities on 30 November 2012, the aforementioned special reserve for revaluation increments of property can be transferred to the reserve for life insurance liabilities—fair value of insurance contract liabilities after strengthening the reserve for life insurance liabilities calculated based on the regulations established by the authorities on 27 November 2012. If there is excess, 80% of it can be recovered in the first year or next five years and reserved to special capital reserve under equity. The amount which can be recovered and reserved to special capital reserve under equity each year, is limited to NT\$10 billion.

e. Premium deficiency reserve

For the contracts over one year of life insurance, health insurance, or annuities contracts commencing on 1 January 2001, the following rules apply: When the gross premium is less than the valuation net premium, a deficiency reserve is required to be set aside with the value of an annuity, the amount of which shall equal the difference between such premiums and the term of which in years shall equal the number of future annual payments due on such insurance at the date of the valuation.

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 apply: If the probable indemnities and expenses are greater than the aggregate of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

The method prescribed by law for computing premium deficiency reserve was amended by the regulator on 28 December 2012.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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 NT\$4,511,406 (US\$152,929) thousands which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 March 2014, the amount set aside was NT\$11,281,256 (US\$370,485) thousands.

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.

B. Cathay life (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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(16) Insurance premium income and expenses

A. The Company

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

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

For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc., is fully recognized on the balance sheet as "separate account product liabilities. In terms of the investment management related deferred acquisition costs such as commissions and incremental costs directly attributable to the issue of new type of contracts, the amount is recognized on the balance sheet as "deferred acquisition costs" and amortized on a straight-line basis over the service period. The amortization is recognized as an expense under "other operating costs."

B. Cathay life (China)

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

(17) Product categories

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

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

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

- A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.
- B. In accordance with the contract, the amount and date of payment for additional payments are at the Company's discretion.
- C. In accordance with the contract, additional payments are handed out based on one of the following matters:
 - a. Special combination of contracts or specific type of contractual performance.
 - b. The Company holds return on investment from a portfolio of specific assets.
 - c. Profit and loss from the Company, funds, or other entities.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(18) Reinsurance

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

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

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

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

(19) Provisions

Provisions are recognized when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, which probably leads to an outflow of resources embodying economic benefits that is required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company and Subsidiaries expect 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 finance cost.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(20) 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 Company and Subsidiaries' consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

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. 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 portion of actuarial gains and losses recognized by the Company and Subsidiaries is the net cumulative actuarial gains and losses that exceed the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of any plan assets, divided by the expected average remaining working lives of the employees participating in the plan. 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.

(21) Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax. Current and deferred tax shall be recognized as income or an expense and included in profit or loss for the period, except for the extent that the tax relating to items recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity.

A. Current income tax

Current income tax is the amount of income taxes payable (receivable) in respect of the taxable profit (tax loss) for the current period and any adjustments recognized in the period for income taxes payable of prior periods.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Current income tax for the current period is 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.

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

B. 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 in the balance sheets.

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

- a. 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;
- b. 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:

- a. 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;
- b. 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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 parent company jointly filed corporation income tax returns and 10% surcharge on undistributed retained earnings since 2002 under the integrated income tax system. If there is any tax effect due to the adoption of the foregoing integrated income tax system, the parent company can proportionately allocate the effects on tax expense (benefit). Such effects on current tax and deferred tax are accounted for as receivables or payables.

(22) Separate account products

The Company sells separate account products, of which the applicant pays the premium according to the agreement amount less the expenses incurred by the insurer. In addition, the investment distribution is approved by the applicant and then transferred to specific accounts as requested by the applicant. In accordance with the relevant regulations, the value of these specific accounts is determined based on their fair value on the applicable date.

In accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, assets and liabilities under the dedicated book, whether arising from an insurance contract or insurance policy with features of financial instruments, are to be accounted for separately as “separate account product assets” and “separate account product liabilities”. To record related revenue and expenditures, this method is consistent with the definition of income and expenses of separate account insurance products in IFRS 4 *Insurance Contracts*, separately recognizing as “separate account product revenue” and “separate account product expenses.”

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(23) Changes in accounting policy

The FSC revised the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises on 10 January 2014, and Article 9, Paragraph 3, subparagraph 13 and Article 32, paragraph 5 of the Regulations were effective as from 1 January 2014. To improve the reliability and relevance of financial reporting, enhance financial disclosure transparency, be in line with the international conventions, and increase net value and risk tolerance, the Company and Subsidiaries volunteered to change the subsequent measurements of investment property from cost model to fair value model since year of 2014. The adjustments resulted in increases of retained earnings by NT\$95,582,868 (US\$3,206,403) thousands as of 1 January 2013 and increases of net income by NT\$12,143,844 (US\$407,375) thousands, other comprehensive income by NT\$16,275,754 (US\$545,983) thousands, and total comprehensive income by NT\$28,419,598 (US\$953,358) thousands for the year 31 December 2013. Please refer to Note 55 (4) for items and amounts of retrospective adjustments.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Company and Subsidiaries' consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenue, 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 Company and Subsidiaries' accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. Categories of financial assets

The management has to use its judgment to categorize financial assets. Different categories apply different measurements, which could have a significant effect on the Company and Subsidiaries' financial position and performance.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Investment property

Certain properties of the Company and Subsidiaries 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 Company and Subsidiaries account for the portions separately as investment property 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 Company and Subsidiaries have entered into commercial property leases on its investment property portfolio. The Company and Subsidiaries have determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and account 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. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Company and Subsidiaries adopt pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including earning value method (such as discounted cash flow model) and market method, etc., and assumptions which are used in applying valuation techniques will have impacts on the fair value of investment property.

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 Company and Subsidiaries are 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.

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. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

E. Insurance contract liabilities (including investment contract liabilities with discretionary participation feature of financial instruments)

The liability for insurance contracts and investment contracts with discretionary participation feature of financial instruments is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, expenses and surrender rates. The Company bases its assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics and own experiences from target markets.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

F. Income taxes

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 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 Company and Subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which they operate. 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 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.

6. Cash and cash equivalents

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Cash on hand and revolving funds	\$196,961	\$6,469	\$184,103	\$6,172
Cash in banks	60,875,252	1,999,187	52,718,933	1,767,312
Time deposits	242,104,874	7,950,899	219,761,847	7,367,142
Cash equivalents	20,133,665	661,204	9,393,373	314,897
Total	<u>\$323,310,752</u>	<u>\$10,617,759</u>	<u>\$282,058,256</u>	<u>\$9,455,523</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Cash on hand and revolving funds	\$221,171	\$7,419	\$202,262	\$6,963
Cash in banks	68,089,665	2,284,122	83,168,415	2,862,940
Time deposits	234,519,923	7,867,156	245,620,182	8,455,083
Cash equivalents	6,423,136	215,469	37,130,945	1,278,174
Total	\$309,253,895	\$10,374,166	\$366,121,804	\$12,603,160

7. Receivables

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Note receivable - Net	\$1,792,360	\$58,862	\$2,434,414	\$81,610
Premium receivable - Net	61,739	2,028	52,715	1,767
Other receivable - Net				
Other receivable	46,387,514	1,523,399	45,175,635	1,514,436
Less: Allowance for bad debts -				
Other receivable	(6,818)	(223)	(29,458)	(988)
Overdue receivable	67,379	2,213	17,440	585
Less: Allowance for bad debts -				
Overdue receivable	(67,379)	(2,213)	(17,440)	(585)
Total	\$48,234,795	\$1,584,066	\$47,633,306	\$1,596,825

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Note receivable - Net	\$2,118,499	\$71,067	\$2,960,789	\$101,920
Premium receivable - Net	67,994	2,281	76,735	2,642
Other receivable - Net				
Other receivable	60,428,370	2,027,117	54,695,919	1,882,820
Less: Allowance for bad debts -				
Other receivable	(6,470)	(217)	(7,129)	(245)
Overdue receivable	14,916	500	27,308	940
Less: Allowance for bad debts -				
Overdue receivable	(14,724)	(494)	(27,308)	(940)
Total	\$62,608,585	\$2,100,254	\$57,726,314	\$1,987,137

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

8. Financial assets at fair value through profit or loss

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$8,245,007	\$270,772	\$11,532,825	\$386,618
Overseas stocks	567,391	18,633	-	-
Beneficiary certificates	50,262,760	1,650,665	41,891,576	1,404,344
Exchange traded funds	-	-	69,571	2,332
Overseas bonds	2,221,712	72,963	165,200	5,538
Corporate bonds	3,520,999	115,632	2,989,701	100,225
Government bonds	1,422,494	46,716	1,433,421	48,053
Derivative financial instruments	3,394,038	111,463	3,375,604	113,161
Structured time deposits	12,598,700	413,750	12,434,800	416,856
Total	<u>\$82,233,101</u>	<u>\$2,700,594</u>	<u>\$73,892,698</u>	<u>\$2,477,127</u>

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$14,411,026	\$483,429	\$10,883,272	\$374,639
Beneficiary certificates	22,974,202	770,688	35,827,323	1,233,298
Exchange traded funds	483,933	16,234	492,845	16,965
Overseas bonds	117,264	3,934	124,249	4,277
Corporate bonds	941,400	31,580	810,122	27,887
Government bonds	1,513,674	50,777	1,525,293	52,506
Derivative financial instruments	2,542,735	85,298	4,967,364	170,994
Structured time deposits	23,037,460	772,810	18,334,343	631,131
Total	<u>\$66,021,694</u>	<u>\$2,214,750</u>	<u>\$72,964,811</u>	<u>\$2,511,697</u>

As of 31 March 2013 and 1 January 2013, Symphox Information Co., Ltd. has pledged NT\$44,150 (US\$1,481) thousands and NT\$45,103 (US\$1,553) thousands, respectively, as collaterals for its e-coupon transaction. Refer to Note 51 (2) disclosure for pledged assets.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

9. Available-for-sale financial assets

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Stocks	\$288,444,638	\$9,472,730	\$281,317,411	\$9,430,688
Overseas stocks	127,294,110	4,180,431	135,670,956	4,548,138
Beneficiary certificates	112,344,462	3,689,473	106,583,918	3,573,045
Collateralized loans obligation and collateralized bonds obligation	4,642,342	152,458	5,272,630	176,756
Exchange traded funds	4,408,348	144,773	9,374,048	314,249
Real estate investment trust	11,221,051	368,508	12,294,991	412,169
Financial debentures	160,366,751	5,266,560	167,630,534	5,619,528
Corporate bonds	57,314,385	1,882,246	57,357,231	1,922,804
Government bonds	205,684,272	6,754,820	219,881,250	7,371,145
Overseas bonds	306,770,669	10,074,570	291,480,395	9,771,384
Subtotal	1,278,491,028	41,986,569	1,286,863,364	43,139,906
Less: Litigation deposits	(47,477)	(1,559)	(37,307)	(1,251)
Less: Securities serving as deposits paid-bonds	(9,428,439)	(309,637)	(9,473,934)	(317,598)
Total	\$1,269,015,112	\$41,675,373	\$1,277,352,123	\$42,821,057

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Stocks	\$224,862,621	\$7,543,194	\$204,284,325	\$7,032,163
Overseas stocks	102,453,910	3,436,897	74,422,673	2,561,882
Beneficiary certificates	125,504,476	4,210,147	85,183,983	2,932,323
Collateralized loans obligation and collateralized bonds obligation	6,440,472	216,051	6,430,972	221,376
Exchange traded funds	7,721,032	259,008	6,761,735	232,762
Real estate investment trust	13,084,011	438,914	11,687,066	402,309
Financial debentures	196,582,444	6,594,513	198,212,492	6,823,149
Corporate bonds	53,452,786	1,793,116	51,709,182	1,780,006
Government bonds	213,030,177	7,146,266	212,364,770	7,310,319
Overseas bonds	362,417,343	12,157,576	385,787,280	13,280,113
Subtotal	1,305,549,272	43,795,682	1,236,844,478	42,576,402
Less: Litigation deposits	(8,425)	(283)	-	-
Less: Securities serving as deposits paid-bonds	(9,597,504)	(321,956)	(9,523,306)	(327,825)
Total	\$1,295,943,343	\$43,473,443	\$1,227,321,172	\$42,248,577

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with stocks and collateralized loans obligation held by the Company and Subsidiaries. As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, the Company and Subsidiaries recognized impairment losses amounting to NT\$1,669,430 (US\$54,825) thousands, NT\$1,669,430 (US\$55,965) thousands, NT\$1,673,957 (US\$56,154) thousands and NT\$1,697,370 (US\$58,429) thousands, respectively.

The available-for-sale financial assets held by the Company and Subsidiaries were not pledged.

10. Derivative financial assets for hedging

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
IRS	\$375,333	\$12,326	\$453,713	\$15,210

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
IRS	\$947,259	\$31,777	\$1,142,094	\$39,315

The derivative financial assets for hedging held by the Company and Subsidiaries were not pledged.

11. Investments accounted for using the equity method

(1) Investments in unconsolidated subsidiaries:

Investee	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$113,229	\$3,719	\$114,759	\$3,847
Cathay Securities Investment Consulting Co., Ltd.	232,670	7,641	207,884	6,969
Total	\$345,899	\$11,360	\$322,643	\$10,816

Investee	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$103,943	\$3,487	\$101,761	\$3,503
Cathay Securities Investment Consulting Co., Ltd.	197,953	6,641	170,659	5,875
Total	\$301,896	\$10,128	\$272,420	\$9,378

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(2) Investments in associates:

Investee	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$288,695	\$9,481	\$280,880	\$9,416
Vista Technology Venture Capital Corp.	4,127	135	4,144	139
Omnitek Venture Capital Corp.	-	-	39,704	1,331
IBT Venture Capital Corp.	21,191	696	29,365	984
Symphox Information Co., Ltd.	413,501	13,580	405,985	13,610
Cathay Insurance Company Limited (China)	853,331	28,024	350,111	11,737
Total	<u>\$1,580,845</u>	<u>\$51,916</u>	<u>\$1,110,189</u>	<u>\$37,217</u>

Investee	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$284,447	\$9,542	\$279,441	\$9,619
Vista Technology Venture Capital Corp.	7,432	249	7,451	256
Omnitek Venture Capital Corp.	36,530	1,225	31,694	1,091
IBT Venture Capital Corp.	58,083	1,949	56,435	1,943
Cathay Insurance Company Limited (China)	263,406	8,836	300,290	10,337
Total	<u>\$649,898</u>	<u>\$21,801</u>	<u>\$675,311</u>	<u>\$23,246</u>

Omnitek Venture Capital Corp. has completed of the liquidation in March 2014, and returned NT\$39,706 (US\$1,304) thousands of investments.

There was no quoted price for above associates.

As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, the carrying amount of investments in associates accounted for using the equity method amounted to NT\$1,580,845 (US\$51,916) thousands, NT\$1,110,189 (US\$37,217) thousands, NT\$649,898 (US\$21,801) thousands and NT\$675,311 (US\$23,246) thousands, respectively. The share of the gains (losses) of associates accounted for using the equity method amounted to NT\$11,443 (US\$376) thousands and NT\$(45,376) (US\$(1,522)) thousands for the three-month periods ended 31 March 2014 and 2013, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to NT\$3,801 (US\$125) thousands and NT\$19,963 (US\$670) thousands for the three-month periods ended 31 March 2014 and 2013, respectively.

No investment in associates was pledged.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Financial information of the associates is summarized below:

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Total assets (100%)	\$6,951,048	\$228,277	\$6,278,284	\$210,469
Total liabilities (100%)	3,220,885	105,776	3,413,367	114,427

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Total assets (100%)	\$3,950,276	\$132,515	\$3,782,690	\$130,213
Total liabilities (100%)	1,686,205	56,565	1,494,250	51,437

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Revenue (100%)	\$1,115,543	\$36,635	\$511,869	\$17,171
Profit (loss) (100%)	7,058	232	(83,205)	(2,791)

Note: The aforementioned information is not presented at the Company and Subsidiaries' percentage of ownership.

(3) Disposal of subsidiary

The Company obtained proceeds of NT\$90,297 (US\$3,027) thousands from disposal of 11% shares of Symphox Information Co., Ltd. during November 2013. The disposal resulted in a decrease of related net carrying amount by NT\$61,155 (US\$2,050) thousands, and the differences between proceeds obtained and net carrying amount was NT\$29,142 (US\$977) thousands, which was recognized under equity. The Company was not involved in Symphox Information Co., Ltd.'s other equity transactions thereafter. Although the proportion of ownership did not change, the Company lost the control but significant influence of Symphox Information Co., Ltd. Therefore, Symphox Information Co., Ltd. is still accounted for using the equity method.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

A. Calculation of profit and loss generated from disposal of subsidiary:

	NT\$	US\$
Fair value of remaining shares	\$404,431	\$13,558
Carrying amount of non-controlling interests	192,718	6,460
	597,149	20,018
Less: carrying amount of net assets of subsidiary	(465,992)	(15,621)
Unrealized valuation gains from available-for-sale financial assets transferred to profit or loss	17	-
Recognized profit	<u>\$131,174</u>	<u>\$4,397</u>

B. Calculation of profit and loss generated from measurement of fair value of remaining shares:

	NT\$	US\$
Fair value of remaining shares	\$404,431	\$13,558
Carrying amount of proportional remaining shares	(273,274)	(9,161)
Profit from remaining shares	<u>\$131,157</u>	<u>\$4,397</u>

12. Bond investments for which no active market exists

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Stocks	\$7,487,287	\$245,888	\$7,531,287	\$252,474
Corporate bonds	13,000,000	426,929	13,000,000	435,803
Financial debentures	15,949,813	523,803	15,550,000	521,287
Overseas bonds	1,011,880,296	33,230,880	979,134,169	32,823,807
Time deposits	4,275,010	140,395	8,034,520	269,344
Beneficial right of real estate	100,000	3,284	100,000	3,352
Total	<u>\$1,052,692,406</u>	<u>\$34,571,179</u>	<u>\$1,023,349,976</u>	<u>\$34,306,067</u>

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Stocks	\$7,531,287	\$252,643	\$7,531,287	\$259,253
Corporate bonds	13,500,000	452,868	13,500,000	464,716
Financial debentures	10,650,000	357,262	8,950,000	308,089
Overseas bonds	831,176,923	27,882,487	768,043,949	26,438,690
Time deposits	8,303,000	278,531	18,879,381	649,893
Total	<u>\$871,161,210</u>	<u>\$29,223,791</u>	<u>\$816,904,617</u>	<u>\$28,120,641</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company and Subsidiaries. As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, the Company and Subsidiaries recognized impairment losses amounting to NT\$396,630 (US\$13,026) thousands, NT\$389,350 (US\$13,052) thousands, NT\$388,375 (US\$13,028) thousands and NT\$378,768 (US\$13,038) thousands, respectively.

The bond investments for which no active market exists held by the Company and Subsidiaries were not pledged.

13. Held-to-maturity financial assets

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$2,197,335	\$72,162	\$-	-
Government bonds	2,158,162	70,876	-	-
Overseas bonds	1,773,700	58,249	1,619,138	54,279
Total	\$6,129,197	\$201,287	\$1,619,138	\$54,279

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$-	\$-	\$-	\$-
Government bonds	-	-	-	-
Overseas bonds	-	-	-	-
Total	\$-	\$-	\$-	\$-

The held-to-maturity financial assets held by the Company and Subsidiaries were not pledged.

14. Other financial assets

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Structured deposits	\$37,400,000	\$1,228,243	\$40,900,000	\$1,371,103

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Structured deposits	\$25,900,000	\$868,836	\$23,500,000	\$808,950
Other	253	8	10	-
Total	\$25,900,253	\$868,844	\$23,500,010	\$808,950

The other financial assets held by the Company and Subsidiaries were not pledged.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

15. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to NT\$16,631,642 (US\$546,195) thousands, NT\$8,874,813 (US\$297,513) thousands, NT\$7,427,909 (US\$249,175) thousands and NT\$7,840,496 (US\$269,897) thousands as of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, respectively. The details of structured notes are listed below:

Item	31 March 2014					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$52,797	\$1,734	\$24,035	\$789	\$76,832	\$2,523
Available-for-sale financial assets	10,220,850	335,660	231,960	7,618	10,452,810	343,278
Bond investments for which no active market exists	6,102,000	200,394	-	-	6,102,000	200,394
Total	\$16,375,647	\$537,788	\$255,995	\$8,407	\$16,631,642	\$546,195

Item	31 December 2013					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$67,936	\$2,277	\$26,629	\$893	\$94,565	\$3,170
Available-for-sale financial assets	8,535,750	286,147	244,498	8,196	8,780,248	294,343
Total	\$8,603,686	\$288,424	\$271,127	\$9,089	\$8,874,813	\$297,513

Item	31 March 2013					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$90,816	\$3,047	\$26,448	\$887	\$117,264	\$3,934
Available-for-sale financial assets	7,020,625	235,512	290,020	9,729	7,310,645	245,241
Total	\$7,111,441	\$238,559	\$316,468	\$10,616	\$7,427,909	\$249,175

Item	1 January 2013					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$96,441	\$3,320	\$27,808	\$957	\$124,249	\$4,277
Available-for-sale financial assets	7,429,680	255,755	286,567	9,865	7,716,247	265,620
Total	\$7,526,121	\$259,075	\$314,375	\$10,822	\$7,840,496	\$269,897

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

16. Investment property, Investment property under construction and Prepayments for buildings and land - Investments

	NT\$				
	Investment property			Investment property under construction	Prepayments for buildings and land - Investments
	Land	Buildings	Total		
1 January 2014	\$277,804,325	\$67,655,180	\$345,459,505	\$15,570,122	\$5,173,152
Additions from acquisitions	-	-	-	909,541	6,311,584
Additions from subsequent expenditure	-	-	-	319,910	-
Transfers from (to) property and equipment	9,495,616	872,024	10,367,640	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	5,731,836	286,182	6,018,018	(24,352)	(5,992,486)
Losses generated from fair value adjustments	-	(27,322)	(27,322)	-	-
Disposals	(170,862)	-	(170,862)	-	-
Exchange differences	-	(23,198)	(23,198)	-	(33,491)
31 March 2014	\$292,860,915	\$68,762,866	\$361,623,781	\$16,775,221	\$5,458,759

	US\$				
	Investment property			Investment property under construction	Prepayments for buildings and land - Investments
	Land	Buildings	Total		
1 January 2014	\$9,123,295	\$2,221,845	\$11,345,140	\$511,334	\$169,890
Additions from acquisitions	-	-	-	29,870	207,277
Additions from subsequent expenditure	-	-	-	10,506	-
Transfers from (to) property and equipment	311,843	28,638	340,481	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	188,237	9,398	197,635	(800)	(196,797)
Losses generated from fair value adjustments	-	(897)	(897)	-	-
Disposals	(5,611)	-	(5,611)	-	-
Exchange differences	-	(762)	(762)	-	(1,100)
31 March 2014	\$9,617,764	\$2,258,222	\$11,875,986	\$550,910	\$179,270

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	NT\$				
	Investment property			Investment property under construction	Prepayments for buildings and land - Investments
	Land	Buildings	Total		
1 January 2013	\$245,913,284	\$57,601,140	\$303,514,424	\$7,519,477	\$1,581,767
Additions from acquisitions	-	-	-	957,675	11,213
Additions from subsequent expenditure	-	-	-	244,165	-
Transfers from (to) investment property under construction and prepayments for buildings and land	5,304	9,641	14,945	(9,641)	(5,304)
Losses generated from fair value adjustments	(5,304)	(9,641)	(14,945)	-	-
31 March 2013	\$245,913,284	\$57,601,140	\$303,514,424	\$8,711,676	\$1,587,676

	US\$				
	Investment property			Investment property under construction	Prepayments for buildings and land - Investments
	Land	Buildings	Total		
1 January 2013	\$8,249,355	\$1,932,276	\$10,181,631	\$252,246	\$53,062
Additions from acquisitions	-	-	-	32,126	376
Additions from subsequent expenditure	-	-	-	8,191	-
Transfers from (to) investment property under construction and prepayments for buildings and land	178	323	501	(323)	(178)
Losses generated from fair value adjustments	(178)	(323)	(501)	-	-
31 March 2013	\$8,249,355	\$1,932,276	\$10,181,631	\$292,240	\$53,260

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
	Rental income from investment property	\$2,020,334	\$66,349	\$1,879,416
Less:				
Direct operating expenses from investment property generating rental income	(58,719)	(1,928)	(46,913)	(1,573)
Direct operating expenses from investment property without generating rental income	(18,643)	(612)	(16,307)	(547)
Total	\$1,942,972	\$63,809	\$1,816,196	\$60,926

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2013 and 31 December 2012. Please refer to original financial report for detail information of the appraisers and agencies.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings and residences are valued using comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in neighboring areas. Hotels, department stores, and marketplaces are valued using income approach mostly because of the stable rental income in the long run. Industrial factory buildings and wholesale stores located in industrial and commercial integrated district are valued using cost approach since land is industrial land and buildings are constructed for specific purposes so that seldom similar transactions can be referred in the market. Vacant land that building permission obtained and under construction are valued using land development analysis of cost approach.

The inputs used are as follows:

	<u>31 March 2014</u>	<u>31 December 2013</u>	<u>31 March 2013</u>	<u>1 January 2013</u>
Direct capitalization rate (Net)	Mainly 1.5%~4.8%	Mainly 1.5%~4.8%	Mainly 1.5%~4.8%	Mainly 1.5%~4.8%
Discount rate	3.3%~5.0%	3.3%~5.0%	3.2%~5.0%	3.2%~5.0%

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

- (1) The real estate investments are held mainly for lease business.
- (2) All the lease agreements of the Company's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- (3) Rents from real estate investment are received annually, semi-annually, quarterly, monthly or in lump sum.
- (4) As at 31 March 2014, 31 December 2013, 31 March 2013, and 1 January 2013, no investments in real estate were pledged as collateral.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

17. Loans

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Policy loans	\$166,639,025	\$5,472,546	\$170,831,058	\$5,726,820
Automatic premium loans	7,826,823	257,039	7,710,107	258,468
Secured loans	470,035,625	15,436,309	457,322,675	15,330,965
Total	<u>\$644,501,473</u>	<u>\$21,165,894</u>	<u>\$635,863,840</u>	<u>\$21,316,253</u>

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Policy loans	\$172,860,777	\$5,798,751	\$175,903,780	\$6,055,208
Automatic premium loans	7,662,523	257,046	7,714,178	265,548
Secured loans	367,196,193	12,317,886	334,592,988	11,517,831
Total	<u>\$547,719,493</u>	<u>\$18,373,683</u>	<u>\$518,210,946</u>	<u>\$17,838,587</u>

- (1) Policy loans were secured by policies issued by the Company and Subsidiaries.
- (2) Policyholder may state on the application form or issue a written statement prior to end of grace period for premium payment to request the insurer to automatically deduct the premiums due and interest of the premium loan (as well as the principal and interest of the policy loan, if applicable) from the policyholder's policy value reserve after the second installment becomes overdue in order to maintain the insurance policy effective. Policyholder may also inform the insurer in writing to terminate the automatic premium loan option prior to the next due date of premium payment.
- (3) Secured loans

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Secured loans	\$469,927,325	\$15,432,753	\$457,073,632	\$15,322,616
Secured loans - Related parties	3,631,930	119,275	3,620,905	121,385
Less: Allowance for bad debts	(3,594,831)	(118,057)	(3,443,283)	(115,430)
Subtotal	<u>469,964,424</u>	<u>15,433,971</u>	<u>457,251,254</u>	<u>15,328,571</u>
Overdue receivables	189,363	6,219	466,628	15,642
Less: Allowance for bad debts	(118,162)	(3,881)	(395,207)	(13,248)
Subtotal	<u>71,201</u>	<u>2,338</u>	<u>71,421</u>	<u>2,394</u>
Total	<u>\$470,035,625</u>	<u>\$15,436,309</u>	<u>\$457,322,675</u>	<u>\$15,330,965</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Secured loans	\$365,968,310	\$12,276,696	\$333,064,485	\$11,465,215
Secured loans - Related parties	3,658,187	122,717	3,677,241	126,583
Less: Allowance for bad debts	(2,554,979)	(85,709)	(2,289,452)	(78,811)
Subtotal	367,071,518	12,313,704	334,452,274	11,512,987
Overdue receivables	530,194	17,785	558,875	19,238
Less: Allowance for bad debts	(405,519)	(13,603)	(418,161)	(14,394)
Subtotal	124,675	4,182	140,714	4,844
Total	\$367,196,193	\$12,317,886	\$334,592,988	\$11,517,831

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

The Company participated in the NT\$57 billion loan tender of Taiwan Insurance Guaranty Fund and won line of credit NT\$15 billion in 2013. According to regulation from FSC, the loan is essentially authorized by competent authority and booked in secured loan account. Also, the loan was evaluated and charged to allowance, pursuant to Article 5 of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”.

The movements in the provision for impairment of secured loans and overdue receivables are as follows (please refer to Note 46 for credit risk disclosure):

	Individually impaired		Collectively impaired		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
1 January 2014	\$1,518,673	\$49,875	\$2,319,817	\$76,184	\$3,838,490	\$126,059
Charge (reversal) for the current period	(314,390)	(10,325)	73,744	2,422	(240,646)	(7,903)
Write off	(274,798)	(9,024)	(2,247)	(74)	(277,045)	(9,098)
Minimum of statutory reserve	306,430	10,063	85,764	2,817	392,194	12,880
31 March 2014	\$1,235,915	\$40,589	\$2,477,078	\$81,349	\$3,712,993	\$121,938

	Individually impaired		Collectively impaired		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
1 January 2013	\$1,398,295	\$46,907	\$1,309,318	\$43,922	\$2,707,613	\$90,829
Charge (reversal) for the current period	7,395	248	(6,652)	(223)	743	25
Write off	-	-	(14,104)	(473)	(14,104)	(473)
Minimum of statutory reserve	-	-	266,246	8,931	266,246	8,931
31 March 2013	\$1,405,690	\$47,155	\$1,554,808	\$52,157	\$2,960,498	\$99,312

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

18. Reinsurance assets

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$13,489	\$443	\$-	\$-
Due from reinsurers and ceding companies	262,027	8,605	344,600	11,552
Reinsurance reserve assets				
Ceded unearned premium reserve	248,042	8,146	321,982	10,794
Ceded reserve for claims	16,753	550	16,875	566
Subtotal	264,795	8,696	338,857	11,360
Total	\$540,311	\$17,744	\$683,457	\$22,912

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Claims recoverable from reinsurers	\$-	\$-	\$1,014	\$35
Due from reinsurers and ceding companies	10,589	355	3,547	122
Reinsurance reserve assets				
Ceded unearned premium reserve	6,050,790	202,979	8,384,281	288,615
Ceded reserve for claims	776,364	26,044	781,354	26,897
Subtotal	6,827,154	229,023	9,165,635	315,512
Total	\$6,837,743	\$229,378	\$9,170,196	\$315,669

Above reinsurance assets were not impaired.

19. Property and equipment

	NT\$								Total
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	
Cost:									
1 January 2014	\$24,266,695	\$21,594,487	\$2,566,133	\$16,097	\$3,390,310	\$149,039	\$275,652	\$254,369	\$52,512,782
Additions from acquisitions	-	-	28,507	-	29,708	108	-	5	58,328
Additions from subsequent expenditure	-	-	-	-	-	-	-	17,423	17,423
Transfers	(8,354,102)	(1,252,779)	-	-	-	-	-	(19,670)	(9,626,551)
Disposals	-	-	(6,744)	-	(6,815)	-	-	-	(13,559)
Exchange differences	-	(5,673)	(1,320)	(32)	(104)	(1,221)	-	-	(8,350)
31 March 2014	\$15,912,593	\$20,336,035	\$2,586,576	\$16,065	\$3,413,099	\$147,926	\$275,652	\$252,127	\$42,940,073

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	US\$								Total
	Land	Buildings and construction	Computer equipment	Communication and transportation		Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	
				equipment	Other equipment				
Cost:									
1 January 2014	\$796,936	\$709,178	\$84,274	\$529	\$111,340	\$4,894	\$9,053	\$8,354	\$1,724,558
Additions from acquisitions	-	-	936	-	976	4	-	-	1,916
Additions from subsequent expenditure	-	-	-	-	-	-	-	572	572
Transfers	(274,355)	(41,142)	-	-	-	-	-	(646)	(316,143)
Disposals	-	-	(221)	-	(224)	-	-	-	(445)
Exchange differences	-	(186)	(44)	(1)	(4)	(40)	-	-	(275)
31 March 2014	\$522,581	\$667,850	\$84,945	\$528	\$112,088	\$4,858	\$9,053	\$8,280	\$1,410,183

	NT\$								Total
	Land	Buildings and construction	Computer equipment	Communication and transportation		Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	
				equipment	Other equipment				
Cost:									
1 January 2013	\$29,580,787	\$30,759,221	\$2,517,668	\$15,879	\$3,965,944	\$124,080	\$275,652	\$120,676	\$67,359,907
Additions from acquisitions	-	-	6,684	-	73,432	3,084	-	20,158	103,358
Additions from subsequent expenditure	-	-	-	-	2,880	-	-	24,486	27,366
Transfers	-	3,749	-	-	-	-	-	(3,749)	-
Disposals	-	-	(6,141)	-	(4,218)	-	-	-	(10,359)
Exchange differences	-	96,040	8,480	109	379	3,663	-	-	108,671
31 March 2013	\$29,580,787	\$30,859,010	\$2,526,691	\$15,988	\$4,038,417	\$130,827	\$275,652	\$161,571	\$67,588,943

	US\$								Total
	Land	Buildings and construction	Computer equipment	Communication and transportation		Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	
				equipment	Other equipment				
Cost:									
1 January 2013	\$992,311	\$1,031,842	\$84,457	\$533	\$133,041	\$4,162	\$9,247	\$4,048	\$2,259,641
Additions from acquisitions	-	-	224	-	2,463	104	-	676	3,467
Additions from subsequent expenditure	-	-	-	-	96	-	-	822	918
Transfers	-	126	-	-	-	-	-	(126)	-
Disposals	-	-	(206)	-	(141)	-	-	-	(347)
Exchange differences	-	3,222	285	3	13	123	-	-	3,646
31 March 2013	\$992,311	\$1,035,190	\$84,760	\$536	\$135,472	\$4,389	\$9,247	\$5,420	\$2,267,325

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

NT\$

	Land	Buildings and construction	Computer equipment	Communication and transportation		Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
				equipment	Other equipment				
Depreciation and impairment:									
1 January 2014	\$(105,610)	\$(10,233,389)	\$(2,315,718)	\$(11,213)	\$(2,962,060)	\$(117,593)	\$(97,627)	\$-	\$(15,843,210)
Depreciation	-	(114,116)	(20,076)	(236)	(21,271)	(2,371)	(17,228)	-	(175,298)
Transfers	-	160,066	-	-	-	-	-	-	160,066
Disposals	-	-	4,023	-	6,745	-	-	-	10,768
Other	-	-	-	-	-	(39)	-	-	(39)
Exchange differences	-	238	794	29	93	985	-	-	2,139
31 March 2014	\$(105,610)	\$(10,187,201)	\$(2,330,977)	\$(11,420)	\$(2,976,493)	\$(119,018)	\$(114,855)	\$-	\$(15,845,574)

US\$

	Land	Buildings and construction	Computer equipment	Communication and transportation		Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
				equipment	Other equipment				
Depreciation and impairment:									
1 January 2014	\$(3,468)	\$(336,072)	\$(76,050)	\$(368)	\$(97,276)	\$(3,862)	\$(3,206)	\$-	\$(520,302)
Depreciation	-	(3,748)	(659)	(8)	(698)	(78)	(566)	-	(5,757)
Transfers	-	5,257	-	-	-	-	-	-	5,257
Disposals	-	-	132	-	221	-	-	-	353
Other	-	-	-	-	-	(1)	-	-	(1)
Exchange differences	-	8	26	1	3	32	-	-	70
31 March 2014	\$(3,468)	\$(334,555)	\$(76,551)	\$(375)	\$(97,750)	\$(3,909)	\$(3,772)	\$-	\$(520,380)

NT\$

	Land	Buildings and construction	Computer equipment	Communication and transportation		Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
				equipment	Other equipment				
Depreciation and impairment:									
1 January 2013	\$(105,610)	\$(13,109,406)	\$(2,218,630)	\$(9,652)	\$(3,434,077)	\$(96,936)	\$(28,714)	\$-	\$(19,003,025)
Depreciation	-	(173,392)	(22,138)	(449)	(32,321)	(4,682)	(17,228)	-	(250,210)
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	5,914	-	4,029	-	-	-	9,943
Exchange differences	-	(1,021)	(5,297)	(89)	(12,195)	(2,899)	-	-	(21,501)
31 March 2013	\$(105,610)	\$(13,283,819)	\$(2,240,151)	\$(10,190)	\$(3,474,564)	\$(104,517)	\$(45,942)	\$-	\$(19,264,793)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	US\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Depreciation and impairment:									
1 January 2013	\$(3,543)	\$(439,765)	\$(74,426)	\$(324)	\$(115,199)	\$(3,252)	\$(963)	\$-	\$(637,472)
Depreciation	-	(5,817)	(743)	(15)	(1,084)	(157)	(578)	-	(8,394)
Transfers	-	-	-	-	-	-	-	-	-
Disposals	-	-	199	-	135	-	-	-	334
Exchange differences	-	(34)	(178)	(3)	(409)	(97)	-	-	(721)
31 March 2013	\$(3,543)	\$(445,616)	\$(75,148)	\$(342)	\$(116,557)	\$(3,506)	\$(1,541)	\$-	\$(646,253)

	NT\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Net carrying amount as at:									
31 March 2014	\$15,806,983	\$10,148,834	\$255,599	\$4,645	\$436,606	\$28,908	\$160,797	\$252,127	\$27,094,499
31 December 2013	\$24,161,085	\$11,361,098	\$250,415	\$4,884	\$428,250	\$31,446	\$178,025	\$254,369	\$36,669,572
31 March 2013	\$29,475,177	\$17,575,191	\$286,540	\$5,798	\$563,853	\$26,310	\$229,710	\$161,571	\$48,324,150
1 January 2013	\$29,475,177	\$17,649,815	\$299,038	\$6,227	\$531,867	\$27,144	\$246,938	\$120,676	\$48,356,882

	US\$								
	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
Net carrying amount as at:									
31 March 2014	\$519,113	\$333,295	\$8,394	\$153	\$14,338	\$949	\$5,281	\$8,280	\$889,803
31 December 2013	\$809,959	\$380,862	\$8,395	\$164	\$14,356	\$1,054	\$5,968	\$8,527	\$1,229,285
31 March 2013	\$988,768	\$589,574	\$9,612	\$194	\$18,915	\$883	\$7,706	\$5,420	\$1,621,072
1 January 2013	\$1,014,636	\$607,567	\$10,294	\$215	\$18,309	\$934	\$8,500	\$4,154	\$1,664,609

Property and equipment held by the Company and Subsidiaries were not pledged.

Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated over 60 years, 8 years and 15 years, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

20. Intangible assets

Cost:	Computer software	
	NT\$	US\$
1 January 2014	\$1,732,150	\$56,885
Addition - acquired separately	6,233	205
Exchange differences	(877)	(29)
31 March 2014	<u>\$1,737,506</u>	<u>\$57,061</u>

Cost:	Computer software	
	NT\$	US\$
1 January 2013	\$1,716,232	\$57,572
Addition - acquired separately	6,679	224
Exchange differences	6,048	203
31 March 2013	<u>\$1,728,959</u>	<u>\$57,999</u>

Amortization and impairment:	Computer software	
	NT\$	US\$
1 January 2014	\$(1,548,060)	\$(50,839)
Amortization	(12,852)	(422)
Exchange differences	251	8
31 March 2014	<u>\$(1,560,661)</u>	<u>\$(51,253)</u>

Amortization and impairment:	Computer software	
	NT\$	US\$
1 January 2013	\$(1,461,354)	\$(49,022)
Amortization	(17,812)	(598)
Exchange differences	(3,263)	(109)
31 March 2013	<u>\$(1,482,429)</u>	<u>\$(49,729)</u>

Net carrying amount as at:	Computer software	
	NT\$	US\$
31 March 2014	<u>\$176,845</u>	<u>\$5,808</u>
31 December 2013	<u>\$184,090</u>	<u>\$6,171</u>
31 March 2013	<u>\$246,530</u>	<u>\$8,270</u>
1 January 2013	<u>\$254,878</u>	<u>\$8,774</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Amortization expense of intangible assets under the statements of comprehensive income:

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Operating costs	\$-	\$-	\$388	\$13
Operating expenses - business expenses	\$8,407	\$276	\$10,671	\$358
Operating expenses - administrative and general expenses	\$4,445	\$146	\$6,753	\$227

21. Other assets

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Prepayment	\$489,660	\$16,081	\$464,037	\$15,556
Deferred acquisition costs	42,091	1,382	44,005	1,475
Guarantee deposits paid	16,052,364	527,171	16,714,926	560,340
Other assets - other	4,397,791	144,427	1,236,755	41,460
Total	\$20,981,906	\$689,061	\$18,459,723	\$618,831

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Prepayment	\$622,224	\$20,873	\$690,829	\$23,781
Deferred acquisition costs	49,744	1,669	51,659	1,778
Guarantee deposits paid	14,508,174	486,688	14,376,119	494,875
Other assets - other	1,693,630	56,814	1,620,867	55,796
Total	\$16,873,772	\$566,044	\$16,739,474	\$576,230

22. Deferred acquisition costs

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

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$44,005	\$1,445	\$51,659	\$1,733
Amortization	(1,914)	(63)	(1,915)	(64)
Ending balance	\$42,091	\$1,382	\$49,744	\$1,669

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

23. Payables

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Notes payable	\$1,071	\$35	\$1,079	\$36
Life insurance proceeds payable	289,529	9,508	288,814	9,682
Reinsurance proceeds payable	36,367	1,194	8,952	300
Commissions payable	2,071,808	68,040	1,916,868	64,260
Due to reinsurers and ceding companies	501,089	16,456	647,607	21,710
Other payables	24,178,989	794,056	16,162,356	541,815
Total	\$27,078,853	\$889,289	\$19,025,676	\$637,803

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Notes payable	\$1,083	\$37	\$1,104	\$38
Life insurance proceeds payable	330,500	11,087	243,714	8,390
Commissions payable	590,154	19,797	644,891	22,199
Due to reinsurers and ceding companies	6,446,588	216,256	8,056,342	277,327
Other payables	35,473,429	1,189,984	29,127,604	1,002,671
Total	\$42,841,754	\$1,437,161	\$38,073,655	\$1,310,625

24. Financial liabilities at fair value through profit or loss

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Held for trading				
Derivatives that are not designated hedging				
Forward	\$1,664,857	\$54,675	\$4,932,173	\$165,343
CS	8,054,178	264,505	11,166,453	374,336
IRS	35,913	1,180	49,398	1,656
Total	\$9,754,948	\$320,360	\$16,148,024	\$541,335

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Held for trading				
Derivatives that are not designated hedging				
Forward	\$3,247,685	\$108,946	\$726,786	\$25,018
CS	13,036,398	437,317	1,246,005	42,892
IRS	91,815	3,080	106,666	3,672
Total	\$16,375,898	\$549,343	\$2,079,457	\$71,582

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

25. Derivative financial liabilities for hedging

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
IRS	\$-	\$-	\$5,148	\$173

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
IRS	\$-	\$-	\$-	\$-

26. Preferred stock liabilities

- (1) In accordance with the resolution made at the board of directors' meeting held on 6 November 2008, acting on behalf of the shareholders, the Company issued 300,000 thousand shares of Class A preferred stocks at par value of NT\$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 18 November 2008.

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

- A. Issuance period covers from 25 December 2008, the issue date, to 25 December 2015, seven years in total.
- B. Dividend yield is 3.50% per year based on the actual issue price of NT\$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

D. Preferred shareholders are not entitled to require the Company to redeem the shares. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

- (2) In accordance with the resolution made at the board of directors' meeting held on 29 October 2009, acting on behalf of the shareholders, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of NT\$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 14 December 2009.

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

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

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

C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders are not entitled to require the Company to redeem the shares. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

- (3) In accordance with the resolution made at the board of directors' meeting held on 7 October 2011, acting on behalf of the shareholders, the Company issued 125,000 thousand shares of Class C preferred stocks at par value of NT\$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 26 October 2011.

Key terms and conditions of the privately offered Class C preferred stocks are listed as follows:

- A. Issuance period covers from 11 November 2011, the issue date, to 11 November 2018, seven years in total.
- B. Dividend yield is 1.86% per year based on the actual issue price of NT\$40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders are not entitled to require the Company to redeem the shares. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

According to IAS 32 *Financial Instruments: Presentation*, the above mentioned preferred stocks issued shall be reported as "preferred stock liabilities".

27. Insurance contract and reserve for insurance contract with discretionary participation feature of financial instruments

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(1) The Company

A. Reserve for life insurance liabilities

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$2,896,410,747	\$40,635,213	\$2,937,045,960	\$2,826,901,255	\$41,698,426	\$2,868,599,681
Injury insurance	7,921,625	-	7,921,625	7,948,252	-	7,948,252
Health insurance	326,282,811	-	326,282,811	317,225,766	-	317,225,766
Annuity insurance	1,238,298	90,245,436	91,483,734	1,230,168	98,089,349	99,319,517
Investment-linked insurance	1,055,518	-	1,055,518	1,054,750	-	1,054,750
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
Total	\$3,232,972,291	\$130,880,649	\$3,363,852,940	\$3,154,423,483	\$139,787,775	\$3,294,211,258

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$95,120,221	\$1,334,490	\$96,454,711	\$94,767,055	\$1,397,869	\$96,164,924
Injury insurance	260,152	-	260,152	266,452	-	266,452
Health insurance	10,715,363	-	10,715,363	10,634,454	-	10,634,454
Annuity insurance	40,667	2,963,725	3,004,392	41,239	3,288,278	3,329,517
Investment-linked insurance	34,664	-	34,664	35,359	-	35,359
Recover from major incident reserve	2,079	-	2,079	2,122	-	2,122
Total	\$106,173,146	\$4,298,215	\$110,471,361	\$105,746,681	\$4,686,147	\$110,432,828

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$2,606,280,581	\$44,565,261	\$2,650,845,842	\$2,540,691,009	\$44,435,855	\$2,585,126,864
Injury insurance	7,868,779	-	7,868,779	7,888,169	-	7,888,169
Health insurance	278,671,057	-	278,671,057	270,513,728	-	270,513,728
Annuity insurance	1,214,256	120,431,117	121,645,373	1,226,217	124,300,017	125,526,234
Investment-linked insurance	1,085,796	-	1,085,796	1,059,809	-	1,059,809
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
Total	\$2,895,183,761	\$164,996,378	\$3,060,180,139	\$2,821,442,224	\$168,735,872	\$2,990,178,096

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$87,429,741	\$1,494,977	\$88,924,718	\$87,459,243	\$1,529,634	\$88,988,877
Injury insurance	263,964	-	263,964	271,538	-	271,538
Health insurance	9,348,241	-	9,348,241	9,312,004	-	9,312,004
Annuity insurance	40,733	4,039,957	4,080,690	42,211	4,278,830	4,321,041
Investment-linked insurance	36,424	-	36,424	36,482	-	36,482
Recover from major incident reserve	2,123	-	2,123	2,179	-	2,179
Total	\$97,121,226	\$5,534,934	\$102,656,160	\$97,123,657	\$5,808,464	\$102,932,121

Reserve for life insurance liabilities is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$3,154,423,483	\$139,787,775	\$3,294,211,258	\$2,821,442,224	\$168,735,872	\$2,990,178,096
Reserve	99,079,445	1,280,687	100,360,132	97,460,238	1,012,224	98,472,462
Recover	(27,775,024)	(10,551,949)	(38,326,973)	(29,020,517)	(4,974,176)	(33,994,693)
Losses on foreign exchange	7,244,387	364,136	7,608,523	5,301,816	222,458	5,524,274
Ending balance	\$3,232,972,291	\$130,880,649	\$3,363,852,940	\$2,895,183,761	\$164,996,378	\$3,060,180,139

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$103,593,546	\$4,590,732	\$108,184,278	\$94,647,508	\$5,660,378	\$100,307,886
Reserve	3,253,840	42,059	3,295,899	3,269,381	33,956	3,303,337
Recover	(912,151)	(346,534)	(1,258,685)	(973,516)	(166,863)	(1,140,379)
Losses on foreign exchange	237,911	11,958	249,869	177,853	7,463	185,316
Ending balance	\$106,173,146	\$4,298,215	\$110,471,361	\$97,121,226	\$5,534,934	\$102,656,160

B. Unearned premium reserve

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$357,033	\$-	\$357,033	\$354,815	\$-	\$354,815
Individual injury insurance	4,575,684	-	4,575,684	4,679,885	-	4,679,885
Individual health insurance	6,135,982	-	6,135,982	6,454,421	-	6,454,421
Group insurance	776,153	-	776,153	702,318	-	702,318
Investment-linked insurance	109,966	-	109,966	111,466	-	111,466
Total	11,954,818	-	11,954,818	12,302,905	-	12,302,905
Less ceded unearned premium reserve:						
Individual life insurance	97,676	-	97,676	132,337	-	132,337
Individual injury insurance	149,914	-	149,914	150,618	-	150,618
Group insurance	301	-	301	89	-	89
Total	247,891	-	247,891	283,044	-	283,044
Net	\$11,706,927	\$-	\$11,706,927	\$12,019,861	\$-	\$12,019,861

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$11,725	\$-	\$11,725	\$11,895	\$-	\$11,895
Individual injury insurance	150,269	-	150,269	156,885	-	156,885
Individual health insurance	201,510	-	201,510	216,373	-	216,373
Group insurance	25,490	-	25,490	23,544	-	23,544
Investment-linked insurance	3,611	-	3,611	3,737	-	3,737
Total	392,605	-	392,605	412,434	-	412,434
Less ceded unearned premium reserve:						
Individual life insurance	3,208	-	3,208	4,437	-	4,437
Individual injury insurance	4,923	-	4,923	5,049	-	5,049
Group insurance	10	-	10	3	-	3
Total	8,141	-	8,141	9,489	-	9,489
Net	\$384,464	\$-	\$384,464	\$402,945	\$-	\$402,945
	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$296,625	\$-	\$296,625	\$286,321	\$-	\$286,321
Individual injury insurance	4,410,494	-	4,410,494	4,528,407	-	4,528,407
Individual health insurance	5,776,757	-	5,776,757	6,135,137	-	6,135,137
Group insurance	1,130,176	-	1,130,176	780,294	-	780,294
Investment-linked insurance	108,674	-	108,674	118,616	-	118,616
Total	11,722,726	-	11,722,726	11,848,775	-	11,848,775
Less ceded unearned premium reserve:						
Individual life insurance	3,299,982	-	3,299,982	3,686,613	-	3,686,613
Individual injury insurance	2,744,266	-	2,744,266	4,690,419	-	4,690,419
Group insurance	308	-	308	89	-	89
Total	6,044,556	-	6,044,556	8,377,121	-	8,377,121
Net	\$5,678,170	\$-	\$5,678,170	\$3,471,654	\$-	\$3,471,654

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$9,950	\$-	\$9,950	\$9,856	\$-	\$9,856
Individual injury insurance	147,953	-	147,953	155,883	-	155,883
Individual health insurance	193,786	-	193,786	211,192	-	211,192
Group insurance	37,913	-	37,913	26,861	-	26,861
Investment-linked insurance	3,646	-	3,646	4,083	-	4,083
Total	393,248	-	393,248	407,875	-	407,875
Less ceded unearned premium reserve:						
Individual life insurance	110,700	-	110,700	126,906	-	126,906
Individual injury insurance	92,059	-	92,059	161,460	-	161,460
Group insurance	10	-	10	3	-	3
Total	202,769	-	202,769	288,369	-	288,369
Net	\$190,479	\$-	\$190,479	\$119,506	\$-	\$119,506

Unearned premium reserve is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$12,302,905	\$-	\$12,302,905	\$11,848,775	\$-	\$11,848,775
Reserve	11,954,817	-	11,954,817	11,722,726	-	11,722,726
Recover	(12,302,905)	-	(12,302,905)	(11,848,775)	-	(11,848,775)
Losses (gains) on foreign exchange	1	-	1	-	-	-
Ending balance	11,954,818	-	11,954,818	11,722,726	-	11,722,726
Less ceded unearned premium reserve:						
Beginning balance-Net	283,044	-	283,044	8,377,121	-	8,377,121
Increase	212	-	212	219	-	219
Decrease	(35,365)	-	(35,365)	(2,332,784)	-	(2,332,784)
Ending balance-Net	247,891	-	247,891	6,044,556	-	6,044,556
Total	\$11,706,927	\$-	\$11,706,927	\$5,678,170	\$-	\$5,678,170

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$404,036	\$-	\$404,036	\$397,476	\$-	\$397,476
Reserve	392,605	-	392,605	393,248	-	393,248
Recover	(404,036)	-	(404,036)	(397,476)	-	(397,476)
Losses (gains) on foreign exchange	-	-	-	-	-	-
Ending balance	392,605	-	392,605	393,248	-	393,248
Less ceded unearned premium reserve:						
Beginning balance-Net	9,295	-	9,295	281,017	-	281,017
Increase	7	-	7	7	-	7
Decrease	(1,161)	-	(1,161)	(78,255)	-	(78,255)
Ending balance-Net	8,141	-	8,141	202,769	-	202,769
Total	\$384,464	\$-	\$384,464	\$190,479	\$-	\$190,479

C. Reserve for claims

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$122,923	\$797	\$123,720	\$116,070	\$1,091	\$117,161
— Unreported claim	55,653	-	55,653	52,064	-	52,064
Individual injury insurance						
— Reported but not paid claim	116,733	-	116,733	99,655	-	99,655
— Unreported claim	1,171,652	-	1,171,652	1,131,904	-	1,131,904
Individual health insurance						
— Reported but not paid claim	157,344	-	157,344	156,336	-	156,336
— Unreported claim	1,731,987	-	1,731,987	1,657,838	-	1,657,838
Group insurance						
— Reported but not paid claim	15,787	-	15,787	37,286	-	37,286
— Unreported claim	985,265	-	985,265	913,688	-	913,688
Investment-linked insurance						
— Reported but not paid claim	8,880	-	8,880	3,856	-	3,856
Total	\$4,366,224	\$797	\$4,367,021	\$4,168,697	\$1,091	\$4,169,788

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$4,037	\$26	\$4,063	\$3,891	\$37	\$3,928
– Unreported claim	1,828	-	1,828	1,745	-	1,745
Individual injury insurance						
– Reported but not paid claim	3,833	-	3,833	3,341	-	3,341
– Unreported claim	38,478	-	38,478	37,945	-	37,945
Individual health insurance						
– Reported but not paid claim	5,167	-	5,167	5,241	-	5,241
– Unreported claim	56,880	-	56,880	55,576	-	55,576
Group insurance						
– Reported but not paid claim	518	-	518	1,250	-	1,250
– Unreported claim	32,357	-	32,357	30,630	-	30,630
Investment-linked insurance						
– Reported but not paid claim	292	-	292	129	-	129
Total	\$143,390	\$26	\$143,416	\$139,748	\$37	\$139,785

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$136,802	\$4,189	\$140,991	\$105,856	\$797	\$106,653
– Unreported claim	48,537	-	48,537	49,750	-	49,750
Individual injury insurance						
– Reported but not paid claim	184,201	-	184,201	147,062	-	147,062
– Unreported claim	970,526	-	970,526	1,024,487	-	1,024,487
Individual health insurance						
– Reported but not paid claim	156,758	-	156,758	124,100	-	124,100
– Unreported claim	1,578,619	-	1,578,619	1,535,223	-	1,535,223
Group insurance						
– Reported but not paid claim	44,087	-	44,087	36,141	-	36,141
– Unreported claim	1,011,003	-	1,011,003	1,124,644	-	1,124,644
Investment-linked insurance						
– Reported but not paid claim	15,177	-	15,177	4,210	-	4,210
Total	4,145,710	4,189	4,149,899	4,151,473	797	4,152,270
Less ceded reserve for claims:						
Individual injury insurance	775,777	-	775,777	780,831	-	780,831
Net	\$3,369,933	\$4,189	\$3,374,122	\$3,370,642	\$797	\$3,371,439

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$4,589	\$141	\$4,730	\$3,644	\$27	\$3,671
– Unreported claim	1,628	-	1,628	1,713	-	1,713
Individual injury insurance						
– Reported but not paid claim	6,179	-	6,179	5,062	-	5,062
– Unreported claim	32,557	-	32,557	35,266	-	35,266
Individual health insurance						
– Reported but not paid claim	5,259	-	5,259	4,272	-	4,272
– Unreported claim	52,956	-	52,956	52,848	-	52,848
Group insurance						
– Reported but not paid claim	1,479	-	1,479	1,244	-	1,244
– Unreported claim	33,915	-	33,915	38,714	-	38,714
Investment-linked insurance						
– Reported but not paid claim	509	-	509	145	-	145
Total	139,071	141	139,212	142,908	27	142,935
Less ceded reserve for claims:						
Individual injury insurance	26,024	-	26,024	26,879	-	26,879
Net	\$113,047	\$141	\$113,188	\$116,029	\$27	\$116,056

Reserve for claims is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$4,168,697	\$1,091	\$4,169,788	\$4,151,473	\$797	\$4,152,270
Reserve	4,366,220	797	4,367,017	4,145,702	4,189	4,149,891
Recover	(4,168,697)	(1,091)	(4,169,788)	(4,151,473)	(797)	(4,152,270)
Losses on foreign exchange	4	-	4	8	-	8
Ending balance	4,366,224	797	4,367,021	4,145,710	4,189	4,149,899
Less ceded reserve for claims:						
Beginning balance-Net	-	-	-	780,831	-	780,831
Decrease	-	-	-	(5,054)	-	(5,054)
Ending balance-Net	-	-	-	775,777	-	775,777
Total	\$4,366,224	\$797	\$4,367,021	\$3,369,933	\$4,189	\$3,374,122

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial			Financial		
	instruments with discretionary			instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$136,903	\$36	\$136,939	\$139,264	\$27	\$139,291
Reserve	143,390	26	143,416	139,071	141	139,212
Recover	(136,903)	(36)	(136,939)	(139,264)	(27)	(139,291)
Losses on foreign exchange	-	-	-	-	-	-
Ending balance	143,390	26	143,416	139,071	141	139,212
Less ceded reserve for claims:						
Beginning balance-Net	-	-	-	26,194	-	26,194
Decrease	-	-	-	(170)	-	(170)
Ending balance-Net	-	-	-	26,024	-	26,024
Total	\$143,390	\$26	\$143,416	\$113,047	\$141	\$113,188

D. Special reserve

	31 March 2014				31 December 2013			
	NT\$				NT\$			
	Financial				Financial			
	instruments with discretionary				instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Participating policies								
dividends reserve	\$2,205	\$-	\$-	\$2,205	\$1,931	\$-	\$-	\$1,931
Special reserve for revaluation increments of property	-	-	42,926,619	42,926,619	-	-	45,416,619	45,416,619
Total	\$2,205	\$-	\$42,926,619	\$42,928,824	\$1,931	\$-	\$45,416,619	\$45,418,550

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2014				31 December 2013			
	US\$				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	\$73	\$-	\$-	\$73	\$65	\$-	\$-	\$65
Special reserve for revaluation increments of property	-	-	1,409,741	1,409,741	-	-	1,522,515	1,522,515
Total	\$73	\$-	\$1,409,741	\$1,409,814	\$65	\$-	\$1,522,515	\$1,522,580

	31 March 2013				1 January 2013			
	NT\$				NT\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	\$2,328	\$-	\$-	\$2,328	\$1,970	\$-	\$-	\$1,970
Special reserve for revaluation increments of property	-	-	52,926,619	52,926,619	-	-	55,416,619	55,416,619
Total	\$2,328	\$-	\$52,926,619	\$52,928,947	\$1,970	\$-	\$55,416,619	\$55,418,589

	31 March 2013				1 January 2013			
	US\$				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	\$78	\$-	\$-	\$78	\$68	\$-	\$-	\$68
Special reserve for revaluation increments of property	-	-	1,775,465	1,775,465	-	-	1,907,629	1,907,629
Total	\$78	\$-	\$1,775,465	\$1,775,543	\$68	\$-	\$1,907,629	\$1,907,697

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Special reserve is summarized below:

	For the three-month period ended 31 March 2014				For the three-month period ended 31 March 2013			
	NT\$				NT\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$1,931	\$-	\$45,416,619	\$45,418,550	\$1,970	\$-	\$55,416,619	\$55,418,589
Reserve for participating policies dividends reserve	274	-	-	274	358	-	-	358
Recover from special reserve for revaluation increments of property (Note)	-	-	(2,490,000)	(2,490,000)	-	-	(2,490,000)	(2,490,000)
Ending balance	\$2,205	\$-	\$42,926,619	\$42,928,824	\$2,328	\$-	\$52,926,619	\$52,928,947

	For the three-month period ended 31 March 2014				For the three-month period ended 31 March 2013			
	US\$				US\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$64	\$-	\$1,491,514	\$1,491,578	\$66	\$-	\$1,858,994	\$1,859,060
Reserve for participating policies dividends reserve	9	-	-	9	12	-	-	12
Recover from special reserve for revaluation increments of property (Note)	-	-	(81,773)	(81,773)	-	-	(83,529)	(83,529)
Ending balance	\$73	\$-	\$1,409,741	\$1,409,814	\$78	\$-	\$1,775,465	\$1,775,543

Note: According to the regulations authorized by the FSC on 29 January 2014 and 28 January 2013, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2014 and 2013 are both NT\$10 billion.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

	31 March 2014				31 December 2013			
	NT\$				NT\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	\$103,850	\$-	\$-	\$103,850	\$103,850	\$-	\$-	\$103,850
Individual injury insurance	1,938,063	-	-	1,938,063	1,938,063	-	-	1,938,063
Individual health insurance	3,376,834	-	-	3,376,834	3,376,834	-	-	3,376,834
Group insurance	2,614,441	-	-	2,614,441	2,614,441	-	-	2,614,441
Total	\$8,033,188	\$-	\$-	\$8,033,188	\$8,033,188	\$-	\$-	\$8,033,188

	31 March 2014				31 December 2013			
	US\$				US\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	\$3,411	\$-	\$-	\$3,411	\$3,481	\$-	\$-	\$3,481
Individual injury insurance	63,647	-	-	63,647	64,970	-	-	64,970
Individual health insurance	110,898	-	-	110,898	113,203	-	-	113,203
Group insurance	85,860	-	-	85,860	87,645	-	-	87,645
Total	\$263,816	\$-	\$-	\$263,816	\$269,299	\$-	\$-	\$269,299

	31 March 2013				1 January 2013			
	NT\$				NT\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	\$79,172	\$-	\$-	\$79,172	\$79,172	\$-	\$-	\$79,172
Individual injury insurance	1,194,433	-	-	1,194,433	1,194,433	-	-	1,194,433
Individual health insurance	2,361,060	-	-	2,361,060	2,361,060	-	-	2,361,060
Group insurance	1,860,655	-	-	1,860,655	1,860,655	-	-	1,860,655
Total	\$5,495,320	\$-	\$-	\$5,495,320	\$5,495,320	\$-	\$-	\$5,495,320

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013				1 January 2013					
	US\$				US\$					
	Insurance contract	Financial instruments with discretionary participation feature		Other	Total	Insurance contract	Financial instruments with discretionary participation feature		Other	Total
		contract	participation feature					contract		
Individual life insurance	\$2,656	\$-	\$-	\$2,656	\$2,725	\$-	\$-	\$-	\$2,725	
Individual injury insurance	40,068	-	-	40,068	41,117	-	-	-	41,117	
Individual health insurance	79,204	-	-	79,204	81,276	-	-	-	81,276	
Group insurance	62,417	-	-	62,417	64,050	-	-	-	64,050	
Total	\$184,345	\$-	\$-	\$184,345	\$189,168	\$-	\$-	\$-	\$189,168	

F. Premium deficiency reserve

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Insurance contract	Financial instruments with discretionary participation feature		Insurance contract	Financial instruments with discretionary participation feature	
		contract	participation feature		contract	participation feature
Individual life insurance	\$19,308,839	\$-	\$19,308,839	\$19,012,225	\$-	\$19,012,225
Individual health insurance	611,418	-	611,418	615,791	-	615,791
Group insurance	1,068	-	1,068	1,237	-	1,237
Total	\$19,921,325	\$-	\$19,921,325	\$19,629,253	\$-	\$19,629,253

	31 March 2014			31 December 2013		
	US\$			US\$		
	Insurance contract	Financial instruments with discretionary participation feature		Insurance contract	Financial instruments with discretionary participation feature	
		contract	participation feature		contract	participation feature
Individual life insurance	\$634,116	\$-	\$634,116	\$637,353	\$-	\$637,353
Individual health insurance	20,080	-	20,080	20,643	-	20,643
Group insurance	35	-	35	41	-	41
Total	\$654,231	\$-	\$654,231	\$658,037	\$-	\$658,037

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$18,140,988	\$-	\$18,140,988	\$16,389,516	\$-	\$16,389,516
Individual health insurance	689,579	-	689,579	690,546	-	690,546
Group insurance	38,239	-	38,239	41,573	-	41,573
Total	\$18,868,806	\$-	\$18,868,806	\$17,121,635	\$-	\$17,121,635

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$608,554	\$-	\$608,554	\$564,183	\$-	\$564,183
Individual health insurance	23,132	-	23,132	23,771	-	23,771
Group insurance	1,283	-	1,283	1,431	-	1,431
Total	\$632,969	\$-	\$632,969	\$589,385	\$-	\$589,385

Premium deficiency reserve is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$19,629,253	\$-	\$19,629,253	\$17,121,635	\$-	\$17,121,635
Reserve	97,324	-	97,324	1,530,276	-	1,530,276
Recover	(48,099)	-	(48,099)	-	-	-
Losses on foreign exchange	242,847	-	242,847	216,895	-	216,895
Ending balance	\$19,921,325	\$-	\$19,921,325	\$18,868,806	\$-	\$18,868,806

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary		Total	Financial instruments with discretionary		Total
Insurance contract	participation feature	Insurance contract		participation feature		
Beginning balance	\$644,639	\$-	\$644,639	\$574,359	\$-	\$574,359
Reserve	3,196	-	3,196	51,334	-	51,334
Recover	(1,579)	-	(1,579)	-	-	-
Losses on foreign exchange	7,975	-	7,975	7,276	-	7,276
Ending balance	\$654,231	\$-	\$654,231	\$632,969	\$-	\$632,969

G. Liability adequacy reserve

	31 March 2014	31 March 2014
	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	\$3,363,852,940	\$110,471,361
Unearned premium reserve	11,954,818	392,605
Premium deficiency reserve	19,921,325	654,231
Total	\$3,395,729,083	\$111,518,197
Book value of insurance liabilities	\$3,395,729,083	\$111,518,197
Estimated present value of cash flows	\$2,697,586,468	\$88,590,689
Balance of liability adequacy reserve	\$-	\$-
	31 December 2013	31 December 2013
	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	\$3,294,211,258	\$110,432,828
Unearned premium reserve	12,302,905	412,434
Premium deficiency reserve	19,629,253	658,037
Total	\$3,326,143,416	\$111,503,299
Book value of insurance liabilities	\$3,326,143,416	\$111,503,299
Estimated present value of cash flows	\$2,608,650,272	\$87,450,562
Balance of liability adequacy reserve	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013	31 March 2013
	NT\$	US\$
	<u>Insurance contract and financial instruments with discretionary participation feature</u>	<u>Insurance contract and financial instruments with discretionary participation feature</u>
Reserve for life insurance liabilities	\$3,060,180,139	\$102,656,160
Unearned premium reserve	11,722,726	393,248
Premium deficiency reserve	18,868,806	632,969
Total	<u>\$3,090,771,671</u>	<u>\$103,682,377</u>
Book value of insurance liabilities	<u>\$3,090,771,671</u>	<u>\$103,682,377</u>
Estimated present value of cash flows	<u>\$2,464,839,978</u>	<u>\$82,685,004</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>
	1 January 2013	1 January 2013
	NT\$	US\$
	<u>Insurance contract and financial instruments with discretionary participation feature</u>	<u>Insurance contract and financial instruments with discretionary participation feature</u>
Reserve for life insurance liabilities	\$2,990,178,096	\$102,932,121
Unearned premium reserve	11,848,775	407,875
Premium deficiency reserve	17,121,635	589,385
Total	<u>\$3,019,148,506</u>	<u>\$103,929,381</u>
Book value of insurance liabilities	<u>\$3,019,148,506</u>	<u>\$103,929,381</u>
Estimated present value of cash flows	<u>\$2,174,379,434</u>	<u>\$74,849,550</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>

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 Company. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Liability adequacy testing methodology is listed as follows:

	31 March 2014
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 March 2014. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013, with neutral assumption for discount rates after 30 years.

	31 December 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2013. (2) Discount rate: Under assets allocation plan on 30 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.

	31 March 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 March 2013. (2) Discount rate: 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	1 January 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 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 actuary report of 2011, with neutral assumption for discount rates after 30 years.

H. Reserve for insurance contracts with feature of financial instruments

The Company issues financial instruments without discretionary participation feature. As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Life insurance	\$51,986,350	\$1,707,269	\$52,910,750	\$1,773,743
Investment-linked insurance	674	22	459	15
Total	<u>\$51,987,024</u>	<u>\$1,707,291</u>	<u>\$52,911,209</u>	<u>\$1,773,758</u>

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Life insurance	\$55,491,444	\$1,861,504	\$56,461,371	\$1,943,593
Investment-linked insurance	220	8	-	-
Total	<u>\$55,491,664</u>	<u>\$1,861,512</u>	<u>\$56,461,371</u>	<u>\$1,943,593</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014	For the three-month period ended 31 March 2014
	NT\$	US\$
Beginning balance	\$52,911,209	\$1,737,642
Insurance claim payments	(1,096,922)	(36,024)
Net provision of statutory reserve	172,733	5,673
Losses on foreign exchange	4	-
Ending balance	\$51,987,024	\$1,707,291

	For the three-month period ended 31 March 2013	For the three-month period ended 31 March 2013
	NT\$	US\$
Beginning balance	\$56,461,371	\$1,894,041
Premiums returned	(503)	(17)
Insurance claim payments	(1,225,204)	(41,100)
Net provision of statutory reserve	256,000	8,588
Ending balance	\$55,491,664	\$1,861,512

I. Foreign exchange volatility reserve

a. The hedge strategy and risk exposure

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

b. Adjustment in foreign exchange volatility reserve

	For the three-month period ended 31 March 2014	For the three-month period ended 31 March 2014
	NT\$	US\$
Beginning balance	\$10,482,181	\$344,243
Reserve		
Compulsory reserve	674,417	22,148
Extra reserve	2,013,223	66,116
Subtotal	2,687,640	88,264
Recover	(1,888,565)	(62,022)
Ending balance	\$11,281,256	\$370,485

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period	For the three-month period
	ended 31 March 2013	ended 31 March 2013
	NT\$	US\$
Beginning balance	\$4,270,856	\$143,270
Reserve		
Compulsory reserve	561,388	18,832
Extra reserve	2,646,686	88,785
Subtotal	3,208,074	107,617
Ending balance	\$7,478,930	\$250,887

c. Effects due to foreign exchange volatility reserve

Item	For the three-month period ended 31 March 2014					
	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net income attributable to equity holders of the parent	\$7,212,782	\$236,873	\$6,549,550	\$215,092	\$(663,232)	\$(21,781)
Earnings per share	1.35	0.04	1.23	0.04	(0.12)	-
Foreign exchange volatility reserve	-	-	11,281,256	370,485	11,281,256	370,485
Equity attributable to equity holders of the parent	284,856,681	9,354,899	279,237,706	9,170,368	(5,618,975)	(184,531)

Item	For the three-month period ended 31 March 2013					
	Inapplicable amount (1)		Applicable amount (2)		Effects (2) - (1)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Net income attributable to equity holders of the parent	\$6,930,969	\$232,504	\$4,268,268	\$143,182	\$(2,662,701)	\$(89,322)
Earnings per share	1.31	0.04	0.80	0.03	(0.51)	(0.01)
Foreign exchange volatility reserve	-	-	7,478,930	250,887	7,478,930	250,887
Equity attributable to equity holders of the parent	239,284,950	8,027,003	236,821,906	7,944,378	(2,463,044)	(82,625)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(2) Cathay Life (China)

A. Reserve for life insurance liabilities

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,614,266	\$-	\$3,614,266	\$3,539,526	\$-	\$3,539,526
Health insurance	158,786	-	158,786	190,727	-	190,727
Investment-linked insurance	7,561	-	7,561	6,653	-	6,653
Total	\$3,780,613	\$-	\$3,780,613	\$3,736,906	\$-	\$3,736,906

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$118,695	\$-	\$118,695	\$118,656	\$-	\$118,656
Health insurance	5,215	-	5,215	6,394	-	6,394
Investment-linked insurance	248	-	248	223	-	223
Total	\$124,158	\$-	\$124,158	\$125,273	\$-	\$125,273

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,047,170	\$-	\$3,047,170	\$2,875,460	\$-	\$2,875,460
Health insurance	133,712	-	133,712	58,989	-	58,989
Investment-linked insurance	6,643	-	6,643	50,436	-	50,436
Total	\$3,187,525	\$-	\$3,187,525	\$2,984,885	\$-	\$2,984,885

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$102,220	\$-	\$102,220	\$98,983	\$-	\$98,983
Health insurance	4,485	-	4,485	2,031	-	2,031
Investment-linked insurance	223	-	223	1,736	-	1,736
Total	\$106,928	\$-	\$106,928	\$102,750	\$-	\$102,750

Reserve for life insurance liabilities is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$3,736,906	\$-	\$3,736,906	\$2,984,885	\$-	\$2,984,885
Reserve	319,283	-	319,283	195,341	-	195,341
Recover	(244,281)	-	(244,281)	(81,465)	-	(81,465)
(Gains) losses on foreign exchange	(31,295)	-	(31,295)	88,764	-	88,764
Ending balance	\$3,780,613	\$-	\$3,780,613	\$3,187,525	\$-	\$3,187,525

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$122,723	\$-	\$122,723	\$100,130	\$-	\$100,130
Reserve	10,485	-	10,485	6,553	-	6,553
Recover	(8,022)	-	(8,022)	(2,733)	-	(2,733)
(Gains) losses on foreign exchange	(1,028)	-	(1,028)	2,978	-	2,978
Ending balance	\$124,158	\$-	\$124,158	\$106,928	\$-	\$106,928

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Unearned premium reserve

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$8,312	\$-	\$8,312	\$14,429	\$-	\$14,429
Individual health insurance	756	-	756	1,327	-	1,327
Group insurance	242,824	-	242,824	244,579	-	244,579
Total	251,892	-	251,892	260,335	-	260,335
Less ceded unearned premium reserve:						
Individual life insurance	1	-	1	27	-	27
Individual injury insurance	2	-	2	391	-	391
Individual health insurance	60	-	60	6,151	-	6,151
Group insurance	88	-	88	32,369	-	32,369
Total	151	-	151	38,938	-	38,938
Net	\$251,741	\$-	\$251,741	\$221,397	\$-	\$221,397

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$273	\$-	\$273	\$484	\$-	\$484
Individual health insurance	25	-	25	44	-	44
Group insurance	7,974	-	7,974	8,199	-	8,199
Total	8,272	-	8,272	8,727	-	8,727
Less ceded unearned premium reserve:						
Individual life insurance	-	-	-	1	-	1
Individual injury insurance	-	-	-	13	-	13
Individual health insurance	2	-	2	206	-	206
Group insurance	3	-	3	1,085	-	1,085
Total	5	-	5	1,305	-	1,305
Net	\$8,267	\$-	\$8,267	\$7,422	\$-	\$7,422

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$7,015	\$-	\$7,015	\$6,787	\$-	\$6,787
Individual health insurance	645	-	645	624	-	624
Group insurance	250,596	-	250,596	245,310	-	245,310
Total	258,256	-	258,256	252,721	-	252,721
Less ceded unearned premium reserve:						
Individual life insurance	13	-	13	61	-	61
Individual injury insurance	190	-	190	66	-	66
Individual health insurance	2,991	-	2,991	2,862	-	2,862
Group insurance	3,040	-	3,040	4,171	-	4,171
Total	6,234	-	6,234	7,160	-	7,160
Net	\$252,022	\$-	\$252,022	\$245,561	\$-	\$245,561

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$235	\$-	\$235	\$234	\$-	\$234
Individual health insurance	22	-	22	22	-	22
Group insurance	8,406	-	8,406	8,444	-	8,444
Total	8,663	-	8,663	8,700	-	8,700
Less ceded unearned premium reserve:						
Individual life insurance	1	-	1	2	-	2
Individual injury insurance	6	-	6	2	-	2
Individual health insurance	100	-	100	98	-	98
Group insurance	102	-	102	144	-	144
Total	209	-	209	246	-	246
Net	\$8,454	\$-	\$8,454	\$8,454	\$-	\$8,454

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Unearned premium reserve is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$260,335	\$-	\$260,335	\$252,721	\$-	\$252,721
Reserve	69,846	-	69,846	72,246	-	72,246
Recover	(76,218)	-	(76,218)	(74,041)	-	(74,041)
(Gains) losses on foreign exchange	(2,071)	-	(2,071)	7,330	-	7,330
Ending balance	251,892	-	251,892	258,256	-	258,256
Less ceded unearned premium reserve:						
Beginning balance-Net	38,938	-	38,938	7,160	-	7,160
Decrease	(38,833)	-	(38,833)	(1,116)	-	(1,116)
Gains on foreign exchange	46	-	46	190	-	190
Ending balance-Net	151	-	151	6,234	-	6,234
Total	\$251,741	\$-	\$251,741	\$252,022	\$-	\$252,022

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$8,549	\$-	\$8,549	\$8,478	\$-	\$8,478
Reserve	2,294	-	2,294	2,423	-	2,423
Recover	(2,503)	-	(2,503)	(2,484)	-	(2,484)
(Gains) losses on foreign exchange	(68)	-	(68)	246	-	246
Ending balance	8,272	-	8,272	8,663	-	8,663
Less ceded unearned premium reserve:						
Beginning balance-Net	1,279	-	1,279	240	-	240
Decrease	(1,275)	-	(1,275)	(37)	-	(37)
Gains on foreign exchange	1	-	1	6	-	6
Ending balance-Net	5	-	5	209	-	209
Total	\$8,267	\$-	\$8,267	\$8,454	\$-	\$8,454

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

C. Reserve for claims

	31 March 2014			31 December 2013		
	NTS			NTS		
	Financial instruments with discretionary		Total	Financial instruments with discretionary		Total
Insurance contract	participation feature	Insurance contract		participation feature		
Individual life insurance						
– Reported but not paid claim	\$3,212	\$-	\$3,212	\$4,223	\$-	\$4,223
– Unreported claim	2,578	-	2,578	3,435	-	3,435
Individual injury insurance						
– Reported but not paid claim	3,981	-	3,981	5,264	-	5,264
– Unreported claim	3,302	-	3,302	4,400	-	4,400
Individual health insurance						
– Reported but not paid claim	3,619	-	3,619	4,786	-	4,786
– Unreported claim	8,097	-	8,097	10,736	-	10,736
Group insurance						
– Reported but not paid claim	72,828	-	72,828	96,393	-	96,393
– Unreported claim	354,731	-	354,731	341,158	-	341,158
Total	452,348	-	452,348	470,395	-	470,395
Less ceded reserve for claims:						
Individual health insurance	16,753	-	16,753	16,875	-	16,875
Net	\$435,595	\$-	\$435,595	\$453,520	\$-	\$453,520

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary		Total	Financial instruments with discretionary		Total
Insurance contract	participation feature	Insurance contract		participation feature		
Individual life insurance						
– Reported but not paid claim	\$105	\$-	\$105	\$142	\$-	\$142
– Unreported claim	85	-	85	115	-	115
Individual injury insurance						
– Reported but not paid claim	131	-	131	176	-	176
– Unreported claim	108	-	108	148	-	148
Individual health insurance						
– Reported but not paid claim	119	-	119	160	-	160
– Unreported claim	266	-	266	360	-	360
Group insurance						
– Reported but not paid claim	2,392	-	2,392	3,231	-	3,231
– Unreported claim	11,649	-	11,649	11,437	-	11,437
Total	14,855	-	14,855	15,769	-	15,769
Less ceded reserve for claims:						
Individual health insurance	550	-	550	566	-	566
Net	\$14,305	\$-	\$14,305	\$15,203	\$-	\$15,203

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$2,053	\$-	\$2,053	\$2,899	\$-	\$2,899
– Unreported claim	1,670	-	1,670	2,358	-	2,358
Individual injury insurance						
– Reported but not paid claim	2,559	-	2,559	3,613	-	3,613
– Unreported claim	2,139	-	2,139	3,020	-	3,020
Individual health insurance						
– Reported but not paid claim	2,327	-	2,327	3,285	-	3,285
– Unreported claim	5,219	-	5,219	7,369	-	7,369
Group insurance						
– Reported but not paid claim	46,862	-	46,862	66,165	-	66,165
– Unreported claim	367,161	-	367,161	307,740	-	307,740
Total	429,990	-	429,990	396,449	-	396,449
Less ceded reserve for claims:						
Individual health insurance	587	-	587	523	-	523
Net	\$429,403	\$-	\$429,403	\$395,926	\$-	\$395,926

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$69	\$-	\$69	\$100	\$-	\$100
– Unreported claim	56	-	56	81	-	81
Individual injury insurance						
– Reported but not paid claim	86	-	86	124	-	124
– Unreported claim	72	-	72	104	-	104
Individual health insurance						
– Reported but not paid claim	78	-	78	113	-	113
– Unreported claim	175	-	175	254	-	254
Group insurance						
– Reported but not paid claim	1,572	-	1,572	2,278	-	2,278
– Unreported claim	12,316	-	12,316	10,594	-	10,594
Total	14,424	-	14,424	13,648	-	13,648
Less ceded reserve for claims:						
Individual health insurance	20	-	20	18	-	18
Net	\$14,404	\$-	\$14,404	\$13,630	\$-	\$13,630

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Reserve for claims is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$470,395	\$-	\$470,395	\$396,449	\$-	\$396,449
Reserve	102,784	-	102,784	102,974	-	102,974
Recover	(117,114)	-	(117,114)	(81,328)	-	(81,328)
(Gains) losses on foreign exchange	(3,717)	-	(3,717)	11,895	-	11,895
Ending balance	452,348	-	452,348	429,990	-	429,990
Less ceded reserve for claims:						
Beginning balance-Net	16,875	-	16,875	523	-	523
Increase	17	-	17	48	-	48
(Losses) gains on foreign exchange	(139)	-	(139)	16	-	16
Ending balance-Net	16,753	-	16,753	587	-	587
Total	\$435,595	\$-	\$435,595	\$429,403	\$-	\$429,403

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$15,448	\$-	\$15,448	\$13,299	\$-	\$13,299
Reserve	3,375	-	3,375	3,454	-	3,454
Recover	(3,846)	-	(3,846)	(2,728)	-	(2,728)
(Gains) losses on foreign exchange	(122)	-	(122)	399	-	399
Ending balance	14,855	-	14,855	14,424	-	14,424
Less ceded reserve for claims:						
Beginning balance-Net	554	-	554	18	-	18
Increase	1	-	1	2	-	2
(Losses) gains on foreign exchange	(5)	-	(5)	-	-	-
Ending balance-Net	550	-	550	20	-	20
Total	\$14,305	\$-	\$14,305	\$14,404	\$-	\$14,404

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

D. Liability adequacy reserve

	31 March 2014	31 March 2014
	NT\$	US\$
	<hr/>	<hr/>
	Insurance contract and	Insurance contract and
	financial instruments	financial instruments
	with discretionary	with discretionary
	participation feature	participation feature
	<hr/>	<hr/>
Reserve for life insurance liabilities	\$3,780,613	\$124,158
Unearned premium reserve	251,892	8,272
	<hr/>	<hr/>
Total	\$4,032,505	\$132,430
	<hr/>	<hr/>
Book value of insurance liabilities	\$4,032,505	\$132,430
	<hr/>	<hr/>
Estimated present value of cash flows	\$2,822,754	\$92,701
	<hr/>	<hr/>
Balance of liability adequacy reserve	\$-	\$-
	<hr/>	<hr/>
	31 December 2013	31 December 2013
	NT\$	US\$
	<hr/>	<hr/>
	Insurance contract and	Insurance contract and
	financial instruments	financial instruments
	with discretionary	with discretionary
	participation feature	participation feature
	<hr/>	<hr/>
Reserve for life insurance liabilities	\$3,736,906	\$125,273
Unearned premium reserve	260,335	8,727
	<hr/>	<hr/>
Total	\$3,997,241	\$134,000
	<hr/>	<hr/>
Book value of insurance liabilities	\$3,997,241	\$134,000
	<hr/>	<hr/>
Estimated present value of cash flows	\$2,455,099	\$82,303
	<hr/>	<hr/>
Balance of liability adequacy reserve	\$-	\$-
	<hr/>	<hr/>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013	31 March 2013
	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	\$3,187,525	\$106,928
Unearned premium reserve	258,256	8,663
Total	\$3,445,781	\$115,591
Book value of insurance liabilities	\$3,445,781	\$115,591
Estimated present value of cash flows	\$3,132,533	\$105,083
Balance of liability adequacy reserve	\$-	\$-
	1 January 2013	1 January 2013
	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	\$2,984,885	\$102,750
Unearned premium reserve	252,721	8,700
Total	\$3,237,606	\$111,450
Book value of insurance liabilities	\$3,237,606	\$111,450
Estimated present value of cash flows	\$2,319,570	\$79,848
Balance of liability adequacy reserve	\$-	\$-

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

Note 2: Reserve for claims is not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Liability adequacy testing methodology is listed as follows:

	31 March 2014
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 March 2014. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013, with neutral assumption for discount rates after 30 years.
	31 December 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2013. (2) Discount rate: 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.
	31 March 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 March 2013. (2) Discount rate: 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.
	1 January 2013
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2012. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with neutral assumption for discount rates after 30 years.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

E. Reserve for insurance contracts with feature of financial instruments

Cathay Life (China) issues financial instruments without discretionary participation feature. As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Life insurance	\$4,688,293	\$153,967	\$4,685,240	\$157,065

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Life insurance	\$4,535,071	\$152,132	\$4,889,501	\$168,313

	For the three-month	For the three-month
	period ended	period ended
	31 March 2014	31 March 2014
	NT\$	US\$
Beginning balance	\$4,685,240	\$153,867
Premiums received	273,640	8,986
Insurance claim payments	(69,552)	(2,284)
Net recovery of statutory reserve	(162,288)	(5,330)
Gains on foreign exchange	(38,747)	(1,272)
Ending balance	\$4,688,293	\$153,967

	For the three-month	For the three-month
	period ended	period ended
	31 March 2013	31 March 2013
	NT\$	US\$
Beginning balance	\$4,889,501	\$164,022
Premiums received	31,106	1,043
Insurance claim payments	(168,110)	(5,639)
Net recovery of statutory reserve	(351,856)	(11,803)
Losses on foreign exchange	134,430	4,509
Ending balance	\$4,535,071	\$152,132

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$392,951	\$-	\$392,951	\$374,862	\$-	\$374,862
Investment-linked insurance	40	-	40	36	-	36
Total	\$392,991	\$-	\$392,991	\$374,898	\$-	\$374,898

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$12,905	\$-	\$12,905	\$12,567	\$-	\$12,567
Investment-linked insurance	1	-	1	1	-	1
Total	\$12,906	\$-	\$12,906	\$12,568	\$-	\$12,568

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$312,337	\$-	\$312,337	\$299,490	\$-	\$299,490
Investment-linked insurance	11	-	11	9	-	9
Total	\$312,348	\$-	\$312,348	\$299,499	\$-	\$299,499

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$10,478	\$-	\$10,478	\$10,309	\$-	\$10,309
Investment-linked insurance	-	-	-	-	-	-
Total	\$10,478	\$-	\$10,478	\$10,309	\$-	\$10,309

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Reserve for life insurance liabilities is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$374,898	\$-	\$374,898	\$299,499	\$-	\$299,499
Reserve	11,179	-	11,179	6,119	-	6,119
Losses on foreign exchange	6,914	-	6,914	6,730	-	6,730
Ending balance	\$392,991	\$-	\$392,991	\$312,348	\$-	\$312,348

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$12,312	\$-	\$12,312	\$10,047	\$-	\$10,047
Reserve	367	-	367	205	-	205
Losses on foreign exchange	227	-	227	226	-	226
Ending balance	\$12,906	\$-	\$12,906	\$10,478	\$-	\$10,478

B. Unearned premium reserve

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$1,458	\$-	\$1,458	\$1,611	\$-	\$1,611
Individual health insurance	1,199	-	1,199	1,356	-	1,356
Total	\$2,657	\$-	\$2,657	\$2,967	\$-	\$2,967

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$48	\$-	\$48	\$54	\$-	\$54
Individual health insurance	39	-	39	46	-	46
Total	\$87	\$-	\$87	\$100	\$-	\$100

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$1,436	\$-	\$1,436	\$1,666	\$-	\$1,666
Individual health insurance	1,174	-	1,174	1,614	-	1,614
Total	\$2,610	\$-	\$2,610	\$3,280	\$-	\$3,280

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$48	\$-	\$48	\$57	\$-	\$57
Individual health insurance	40	-	40	56	-	56
Total	\$88	\$-	\$88	\$113	\$-	\$113

Unearned premium reserve is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$2,967	\$-	\$2,967	\$3,280	\$-	\$3,280
Recover	(362)	-	(362)	(736)	-	(736)
Losses on foreign exchange	52	-	52	66	-	66
Ending balance	\$2,657	\$-	\$2,657	\$2,610	\$-	\$2,610

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$97	\$-	\$97	\$110	\$-	\$110
Recover	(12)	-	(12)	(24)	-	(24)
Losses on foreign exchange	2	-	2	2	-	2
Ending balance	\$87	\$-	\$87	\$88	\$-	\$88

C. Reserve for claims

	31 March 2014			31 December 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$423	\$-	\$423	\$494	\$-	\$494
Individual injury insurance						
— Reported but not paid claim	3	-	3	3	-	3
— Unreported claim	180	-	180	172	-	172
Individual health insurance						
— Reported but not paid claim	99	-	99	88	-	88
— Unreported claim	153	-	153	144	-	144
Total	\$858	\$-	\$858	\$901	\$-	\$901

	31 March 2014			31 December 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$14	\$-	\$14	\$16	\$-	\$16
Individual injury insurance						
— Reported but not paid claim	-	-	-	-	-	-
— Unreported claim	6	-	6	6	-	6
Individual health insurance						
— Reported but not paid claim	3	-	3	3	-	3
— Unreported claim	5	-	5	5	-	5
Total	\$28	\$-	\$28	\$30	\$-	\$30

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013			1 January 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$695	\$-	\$695	\$1,251	\$-	\$1,251
Individual injury insurance						
– Reported but not paid claim	138	-	138	231	-	231
– Unreported claim	167	-	167	163	-	163
Individual health insurance						
– Reported but not paid claim	207	-	207	206	-	206
– Unreported claim	155	-	155	294	-	294
Investment-linked insurance						
– Reported but not paid claim	-	-	-	390	-	390
Total	\$1,362	\$-	\$1,362	\$2,535	\$-	\$2,535

	31 March 2013			1 January 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$23	\$-	\$23	\$43	\$-	\$43
Individual injury insurance						
– Reported but not paid claim	5	-	5	8	-	8
– Unreported claim	6	-	6	6	-	6
Individual health insurance						
– Reported but not paid claim	7	-	7	7	-	7
– Unreported claim	5	-	5	10	-	10
Investment-linked insurance						
– Reported but not paid claim	-	-	-	13	-	13
Total	\$46	\$-	\$46	\$87	\$-	\$87

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Reserve for claims is summarized below:

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$901	\$-	\$901	\$2,535	\$-	\$2,535
Recover	(59)	-	(59)	(1,220)	-	(1,220)
Losses on foreign exchange	16	-	16	47	-	47
Ending balance	\$858	\$-	\$858	\$1,362	\$-	\$1,362

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$30	\$-	\$30	\$85	\$-	\$85
Recover	(2)	-	(2)	(41)	-	(41)
Losses on foreign exchange	-	-	-	2	-	2
Ending balance	\$28	\$-	\$28	\$46	\$-	\$46

D. Special reserve

	31 March 2014				31 December 2013			
	NT\$				NT\$			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Others	\$1,783	\$-	\$-	\$1,783	\$1,751	\$-	\$-	\$1,751

	31 March 2014				31 December 2013			
	US\$				US\$			
	Financial instruments with discretionary				Financial instruments with discretionary			
	Insurance contract	participation feature	Other	Total	Insurance contract	participation feature	Other	Total
Others	\$59	\$-	\$-	\$59	\$59	\$-	\$-	\$59

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013				1 January 2013			
	NT\$				NT\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	\$527	\$-	\$-	\$527	\$517	\$-	\$-	\$517

	31 March 2013				1 January 2013			
	US\$				US\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Others	\$18	\$-	\$-	\$18	\$17	\$-	\$-	\$17

Special reserve is summarized below:

	For the three-month period ended 31 March 2014				For the three-month period ended 31 March 2013			
	NT\$				NT\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$1,751	\$-	\$-	\$1,751	\$517	\$-	\$-	\$517
Losses on foreign exchange	32	-	-	32	10	-	-	10
Ending balance	\$1,783	\$-	\$-	\$1,783	\$527	\$-	\$-	\$527

	For the three-month period ended 31 March 2014				For the three-month period ended 31 March 2013			
	US\$				US\$			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	\$58	\$-	\$-	\$58	\$18	\$-	\$-	\$18
Losses on foreign exchange	1	-	-	1	-	-	-	-
Ending balance	\$59	\$-	\$-	\$59	\$18	\$-	\$-	\$18

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

E. Liability adequacy reserve

	31 March 2014	31 March 2014
	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	\$392,991	\$12,906
Unearned premium reserve	2,657	87
Total	\$395,648	\$12,993
Book value of insurance liabilities	\$395,648	\$12,993
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-
	31 December 2013	31 December 2013
	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	\$374,898	\$12,568
Unearned premium reserve	2,967	100
Total	\$377,865	\$12,668
Book value of insurance liabilities	\$377,865	\$12,668
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	31 March 2013 NT\$	31 March 2013 US\$
	<u>Insurance contract and financial instruments with discretionary participation feature</u>	<u>Insurance contract and financial instruments with discretionary participation feature</u>
Reserve for life insurance liabilities	\$312,348	\$10,478
Unearned premium reserve	2,610	88
Total	<u>\$314,958</u>	<u>\$10,566</u>
Book value of insurance liabilities	<u>\$314,958</u>	<u>\$10,566</u>
Estimated present value of cash flows	<u>Negative amount</u>	<u>Negative amount</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>
	1 January 2013 NT\$	1 January 2013 US\$
	<u>Insurance contract and financial instruments with discretionary participation feature</u>	<u>Insurance contract and financial instruments with discretionary participation feature</u>
Reserve for life insurance liabilities	\$299,499	\$10,309
Unearned premium reserve	3,280	113
Total	<u>\$302,779</u>	<u>\$10,422</u>
Book value of insurance liabilities	<u>\$302,779</u>	<u>\$10,422</u>
Estimated present value of cash flows	<u>Negative amount</u>	<u>Negative amount</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>

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

Note 2: Outstanding 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 Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

28. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended 31 March 2014 and 2013 were NT\$226,031 (US\$7,423) thousands and NT\$252,031 (US\$8,455) thousands, respectively.

Defined benefits plan

The benefit expense under the defined benefits plan recognized in the statement of comprehensive income:

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Operating costs	\$36,132	\$1,187	\$73,160	\$2,454
Operating expenses	7,326	240	13,805	463
Total	\$43,458	\$1,427	\$86,965	\$2,917

29. Provisions

	NT\$		
	Litigation liability	Employee benefit liability	Total
1 January 2014	\$285,672	\$3,633,551	\$3,919,223
Reversal	(140,227)	(568)	(140,795)
31 March 2014	\$145,445	\$3,632,983	\$3,778,428

	US\$		
	Litigation liability	Employee benefit liability	Total
1 January 2014	\$9,381	\$119,329	\$128,710
Reversal	(4,605)	(19)	(4,624)
31 March 2014	\$4,776	\$119,310	\$124,086

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

30. Other liabilities

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Accounts collected in advance	\$118,970	\$3,907	\$115,178	\$3,861
Deferred handling fees	90,128	2,960	87,737	2,941
Guarantee deposits received	2,594,547	85,207	2,211,239	74,128
Other liabilities - other	20,594,636	676,343	6,218,283	208,458
Total	<u>\$23,398,281</u>	<u>\$768,417</u>	<u>\$8,632,437</u>	<u>\$289,388</u>

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Accounts collected in advance	\$307,927	\$10,330	\$300,819	\$10,355
Deferred handling fees	100,757	3,380	100,202	3,449
Guarantee deposits received	2,082,477	69,858	2,077,752	71,524
Other liabilities - other	8,608,259	288,771	9,047,037	311,430
Total	<u>\$11,099,420</u>	<u>\$372,339</u>	<u>\$11,525,810</u>	<u>\$396,758</u>

31. Deferred handling fees

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

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$87,737	\$2,882	\$100,202	\$3,361
Amortization	(3,971)	(130)	(3,838)	(129)
Losses on foreign exchange	6,362	208	4,393	148
Ending balance	<u>\$90,128</u>	<u>\$2,960</u>	<u>\$100,757</u>	<u>\$3,380</u>

32. Common stock

As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, the total authorized thousand shares were all 5,306,527 at par value of NT\$10.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

33. Capital surplus

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital	\$13,000,000	\$426,929	\$13,000,000	\$435,803
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	957	29,142	977
Other	9,649	317	9,649	323
Total	\$13,038,791	\$428,203	\$13,038,791	\$437,103

	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital	\$13,000,000	\$436,095	\$13,000,000	\$447,504
Other	9,649	324	9,649	332
Total	\$13,009,649	\$436,419	\$13,009,649	\$447,836

According to the Company Act, the capital surplus shall not be used except for covering the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

34. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Prior to 2007, this legal capital reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act. When the Company incurs no loss, it may distribute the portion of its legal capital reserve which exceeds 25% of the issued share capital by issuing new shares or by cash to its original shareholders in proportion to the number of shares being held by each of them.

On 21 April 2014, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of NT\$3,141,740 (US\$105,321) thousands. On 30 April 2013, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of NT\$655,998 (US\$22,582) thousands.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(2) Special capital reserve

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

Special reserve for major incidents and for fluctuation of risks in accordance with Section 18 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” is placed in the special capital reserve under retained earnings.

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

On 21 April 2014, the Company’s board of directors, acting on behalf of the shareholders, resolved to use the special capital reserves to offset the cumulative deficits amounting to NT\$1,684,327 (US\$56,464) thousands after recognizing special capital reserves of NT\$14,144,966 (US\$474,186) thousands, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of NT\$1,439,845 (US\$48,268) thousands had been recognized at the end of 2013 in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises.” The resolution was authorized by Financial Supervisory Commission on 22 April 2014.

When distributing distributable earnings for the year 2012, the Company has to set aside special capital 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.

The Company has elected to use the fair value of certain investment properties on the 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 reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount NT\$2,994,565 (US\$100,388) thousands shall be set aside under special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102508861.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. In order to ensure the soundness and stability of the financial structure, the FSC as of 12 February 2014 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. The amount set aside by the Company is NT\$124,002,466 (US\$4,072,331) thousands.

(3) Undistributed retained earnings

- A. According to the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 2% of the aforementioned amount shall be distributed as the employee bonus.
- B. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- C. The employee bonus and remuneration of directors for the three-month periods ended 31 March 2014 and 2013, amounting to NT\$0 (US\$0) thousands and NT\$0 (US\$0) thousands, respectively, were accrued based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.
- D. The Company's distribution of 2013 retained earnings has been approved by the board of directors on behalf of the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.
- E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 31 March 2014, the reserves amounted to NT\$305,226 (US\$10,024) thousands.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(4) Non-controlling interests

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$741,255	\$24,343	\$1,012,972	\$33,981
Net income attributable to non-controlling interests	7,893	259	68,891	2,311
Other comprehensive income attributable to non-controlling interests				
Exchange differences resulting from translating the financial statements of foreign operations	(6,667)	(219)	24,426	819
Unrealized valuation gains from available-for-sale financial assets	12,346	406	5,073	170
Ending balance	\$754,827	\$24,789	\$1,111,362	\$37,281

35. Retained earned premium

(1) The Company

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$93,237,888	\$671,158	\$93,909,046	\$90,552,000	\$2,335,262	\$92,887,262
Reinsurance premium income	55,093	-	55,093	59,909	-	59,909
Premium income	93,292,981	671,158	93,964,139	90,611,909	2,335,262	92,947,171
Less:						
Premiums ceded to reinsurers	(3,556,621)	-	(3,556,621)	(4,659,606)	-	(4,659,606)
Changes in unearned premium reserve	312,936	-	312,936	(2,206,516)	-	(2,206,516)
Subtotal	(3,243,685)	-	(3,243,685)	(6,866,122)	-	(6,866,122)
Retained earned premium	\$90,049,296	\$671,158	\$90,720,454	\$83,745,787	\$2,335,262	\$86,081,049

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$3,062,000	\$22,041	\$3,084,041	\$3,037,638	\$78,338	\$3,115,976
Reinsurance premium income	1,809	-	1,809	2,010	-	2,010
Premium income	3,063,809	22,041	3,085,850	3,039,648	78,338	3,117,986
Less:						
Premiums ceded to reinsurers	(116,802)	-	(116,802)	(156,310)	-	(156,310)
Changes in unearned premium reserve	10,277	-	10,277	(74,019)	-	(74,019)
Subtotal	(106,525)	-	(106,525)	(230,329)	-	(230,329)
Retained earned premium	\$2,957,284	\$22,041	\$2,979,325	\$2,809,319	\$78,338	\$2,887,657

(2) Cathay life (China)

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$618,034	\$-	\$618,034	\$596,335	\$-	\$596,335
Reinsurance premium income	-	-	-	-	-	-
Premium income	618,034	-	618,034	596,335	-	596,335
Less:						
Premiums ceded to reinsurers	(8,407)	-	(8,407)	(4,896)	-	(4,896)
Changes in unearned premium reserve	6,564	-	6,564	556	-	556
Subtotal	(1,843)	-	(1,843)	(4,340)	-	(4,340)
Retained earned premium	\$616,191	\$-	\$616,191	\$591,995	\$-	\$591,995

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$20,297	\$-	\$20,297	\$20,005	\$-	\$20,005
Reinsurance premium income	-	-	-	-	-	-
Premium income	20,297	-	20,297	20,005	-	20,005
Less:						
Premiums ceded to reinsurers	(276)	-	(276)	(165)	-	(165)
Changes in unearned premium reserve	215	-	215	19	-	19
Subtotal	(61)	-	(61)	(146)	-	(146)
Retained earned premium	\$20,236	\$-	\$20,236	\$19,859	\$-	\$19,859

(3) Cathay life (Vietnam)

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$32,373	\$-	\$32,373	\$16,986	\$-	\$16,986
Reinsurance premium income	-	-	-	-	-	-
Premium income	32,373	-	32,373	16,986	-	16,986
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium reserve	362	-	362	(736)	-	(736)
Subtotal	362	-	362	(736)	-	(736)
Retained earned premium	\$32,735	\$-	\$32,735	\$16,250	\$-	\$16,250

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$1,063	\$-	\$1,063	\$570	\$-	\$570
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,063	-	1,063	570	-	570
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium reserve	12	-	12	(25)	-	(25)
Subtotal	12	-	12	(25)	-	(25)
Retained earned premium	\$1,075	\$-	\$1,075	\$545	\$-	\$545

36. Retained claim payments

(1) The Company

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$45,587,198	\$10,606,256	\$56,193,454	\$38,752,002	\$7,118,791	\$45,870,793
Reinsurance claim payments	56,201	-	56,201	38,805	-	38,805
Insurance claim payments	45,643,399	10,606,256	56,249,655	38,790,807	7,118,791	45,909,598
Less:						
Claims recovered from reinsures	(1,716,435)	-	(1,716,435)	(2,998,555)	-	(2,998,555)
Retained claim payments	\$43,926,964	\$10,606,256	\$54,533,220	\$35,792,252	\$7,118,791	\$42,911,043

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$1,497,116	\$348,317	\$1,845,433	\$1,299,966	\$238,805	\$1,538,771
Reinsurance claim payments	1,846	-	1,846	1,302	-	1,302
Insurance claim payments	1,498,962	348,317	1,847,279	1,301,268	238,805	1,540,073
Less:						
Claims recovered from reinsures	(56,369)	-	(56,369)	(100,589)	-	(100,589)
Retained claim payments	\$1,442,593	\$348,317	\$1,790,910	\$1,200,679	\$238,805	\$1,439,484

(2) Cathay life (China)

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$389,151	\$-	\$389,151	\$242,158	\$-	\$242,158
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	389,151	-	389,151	242,158	-	242,158
Less:						
Claims recovered from reinsures	(11,392)	-	(11,392)	(9,268)	-	(9,268)
Retained claim payments	\$377,759	\$-	\$377,759	\$232,890	\$-	\$232,890

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$12,780	\$-	\$12,780	\$8,123	\$-	\$8,123
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	12,780	-	12,780	8,123	-	8,123
Less:						
Claims recovered from reinsures	(374)	-	(374)	(311)	-	(311)
Retained claim payments	\$12,406	\$-	\$12,406	\$7,812	\$-	\$7,812

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(3) Cathay life (Vietnam)

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	NT\$			NT\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$8,924	\$-	\$8,924	\$3,886	\$-	\$3,886
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	8,924	-	8,924	3,886	-	3,886
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$8,924	\$-	\$8,924	\$3,886	\$-	\$3,886

	For the three-month period ended 31 March 2014			For the three-month period ended 31 March 2013		
	US\$			US\$		
	Financial instruments with discretionary participation feature			Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$293	\$-	\$293	\$131	\$-	\$131
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	293	-	293	131	-	131
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$293	\$-	\$293	\$131	\$-	\$131

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

37. Personnel expenses, depreciation and amortization – The Company and Subsidiaries

Item	For the three-month period ended 31 March 2014 NT\$			For the three-month period ended 31 March 2014 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel expenses					
Salary and wages	\$2,948,129	\$760,601	\$3,708,730	\$96,818	\$24,979	\$121,797
Labor and health insurance expenses	467,667	102,597	570,264	15,359	3,369	18,728
Pension expenses	224,057	45,432	269,489	7,358	1,492	8,850
Other expenses	299,990	74,329	374,319	9,852	2,441	12,293
Depreciation	1,141	174,157	175,298	38	5,719	5,757
Amortization	-	12,852	12,852	-	422	422

Item	For the three-month period ended 31 March 2013 NT\$			For the three-month period ended 31 March 2013 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel expenses					
Salary and wages	\$3,292,900	\$797,841	\$4,090,741	\$110,463	\$26,764	\$137,227
Labor and health insurance expenses	523,454	106,281	629,735	17,560	3,565	21,125
Pension expenses	284,672	54,324	338,996	9,550	1,822	11,372
Other expenses	308,490	80,050	388,540	10,349	2,685	13,034
Depreciation	10,666	239,544	250,210	358	8,036	8,394
Amortization	388	17,424	17,812	13	584	597

38. Non-operating income and expenses

	For the three-month period ended 31 March 2014		For the three-month period ended 31 March 2013	
	NT\$	US\$	NT\$	US\$
Losses on disposal of property and equipment	\$(64)	\$(2)	\$(97)	\$(3)
Dividend on preferred stock liabilities	(223,890)	(7,353)	(223,890)	(7,511)
Other	789,508	25,928	382,703	12,838
Total	\$565,554	\$18,573	\$158,716	\$5,324

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

39. Components of other comprehensive income

	For the three-month period ended 31 March 2014				
	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$ (8,497)	\$ -	\$ (8,497)	\$ -	\$ (8,497)
Unrealized valuation gains from available-for-sale financial assets	10,589,770	(9,827,764)	762,006	604,229	1,366,235
Effective portion of losses on hedging instruments in cash flow hedges	62,969	(137,933)	(74,964)	12,744	(62,220)
Gains from revaluation	902,335	-	902,335	(74,726)	827,609
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	5,921	-	5,921	-	5,921
Total	\$11,552,498	\$(9,965,697)	\$1,586,801	\$542,247	\$2,129,048

	For the three-month period ended 31 March 2014				
	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$(279)	\$ -	\$(279)	\$ -	\$(279)
Unrealized valuation gains from available-for-sale financial assets	347,776	(322,751)	25,025	19,843	44,868
Effective portion of losses on hedging instruments in cash flow hedges	2,068	(4,529)	(2,461)	419	(2,042)
Gains from revaluation	29,633	-	29,633	(2,454)	27,179
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	194	-	194	-	194
Total	\$379,392	\$(327,280)	\$52,112	\$17,808	\$69,920

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2013				
	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$129,814	\$-	\$129,814	\$-	\$129,814
Unrealized valuation losses from available-for-sale financial assets	4,080,832	(4,075,754)	5,078	(192,283)	(187,205)
Effective portion of losses on hedging instruments in cash flow hedges	(7,914)	(191,152)	(199,066)	33,841	(165,225)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	22,540	-	22,540	-	22,540
Total	\$4,225,272	\$(4,266,906)	\$(41,634)	\$(158,442)	\$(200,076)

	For the three-month period ended 31 March 2013				
	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$4,355	\$-	\$4,355	\$-	\$4,355
Unrealized valuation losses from available-for-sale financial assets	136,895	(136,725)	170	(6,450)	(6,280)
Effective portion of losses on hedging instruments in cash flow hedges	(266)	(6,412)	(6,678)	1,135	(5,543)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	756	-	756	-	756
Total	\$141,740	\$(143,137)	\$(1,397)	\$(5,315)	\$(6,712)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

40. Income taxes

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

Income tax expense (benefit) recognized in profit or loss

	For the three-month period ended 31 March 2014 NT\$	For the three-month period ended 31 March 2014 US\$
Current income tax expense (benefit)		
Current income tax charge	\$102,504	\$3,366
Adjustments in respect of current income tax of prior periods	(52,819)	(1,735)
Deferred tax expense (benefit)		
Deferred tax expense relating to origination and reversal of temporary differences	3,650,109	119,872
Deferred tax benefit relating to origination and reversal of tax loss and tax credit	(4,107,923)	(134,907)
Other		
Tax effect under consolidated income tax systems	169	6
Total income tax (benefit) expense	<u>\$ (407,960)</u>	<u>\$ (13,398)</u>
	For the three-month period ended 31 March 2013 NT\$	For the three-month period ended 31 March 2013 US\$
Current income tax expense (benefit)		
Current income tax charge	\$3,641	\$122
Adjustments in respect of current income tax of prior periods	226	8
Deferred tax expense (benefit)		
Deferred tax expense relating to origination and reversal of temporary differences	552,878	18,547
Other		
Tax effect under consolidated income tax systems	(274,184)	(9,198)
Total income tax (benefit) expense	<u>\$282,561</u>	<u>\$9,479</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Income taxes relating to components of other comprehensive income

	For the three-month period ended 31 March 2014 NT\$	For the three-month period ended 31 March 2014 US\$
Deferred tax expense (benefit)		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(604,229)	\$(19,843)
Effective portion of losses on hedging instruments in cash flow hedges	(12,744)	(419)
Gains from revaluation	74,726	2,454
Income taxes relating to components of other comprehensive income	<u>\$ (542,247)</u>	<u>\$ (17,808)</u>
	For the three-month period ended 31 March 2013 NT\$	For the three-month period ended 31 March 2013 US\$
Deferred tax expense (benefit)		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$192,283	\$6,450
Effective portion of losses on hedging instruments in cash flow hedges	(33,841)	(1,135)
Income taxes relating to components of other comprehensive income	<u>\$158,442</u>	<u>\$5,315</u>

Imputation credit information

	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Balances of imputation credit amounts	\$6,308,701	\$207,182	\$6,295,838	\$211,057
	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Balances of imputation credit amounts	\$5,585,851	\$187,382	\$5,584,641	\$192,242

The expected creditable ratio for 2013 and the actual creditable ratio for 2012 were 20.48% and 20.48%, respectively.

The Company's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The assessment of income tax returns

As of 31 March 2014, the assessment of the income tax returns of the Company is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2008

Due to disagreements on premiums on bonds investment amortized to interest revenue, the Company has filed appeals for fiscal year of 2006 and 2007. The appeals have no material impact on the Company as the amounts in dispute did not exceed tax losses reported for the years.

41. Earnings per share

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

The Company and Subsidiaries did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted.

	For the three-month period ended 31 March 2014 NT\$	For the three-month period ended 31 March 2014 US\$
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	\$6,549,550	\$215,092
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (in dollars)	\$1.23	\$0.04
	For the three-month period ended 31 March 2013 (Adjusted) NT\$	For the three-month period ended 31 March 2013 (Adjusted) US\$
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	\$4,268,268	\$143,182
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (in dollars)	\$0.80	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

If foreign exchange volatility reserve was not applied, basic earnings per share would be NT\$1.35 (US\$0.04) and NT\$1.31 (US\$0.04) for the three-month periods ended 31 March 2014 and 2013, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be NT\$0.77 (US\$0.03) and NT\$0.34 (US\$0.01) for the three-month periods ended 31 March 2014 and 2013, respectively.

42. Separate account insurance products

(1) The Company

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	31 March 2014		Item	31 March 2014	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$704,828	\$23,147	Other payables	\$2,795,619	\$91,810
Financial assets at fair value through profit or loss	390,663,899	12,829,685	Reserve for separate account-Insurance contracts	361,813,537	11,882,218
Other receivables	22,234,737	730,205	Reserve for separate account-Investment contracts	48,994,308	1,609,009
Total	\$413,603,464	\$13,583,037	Total	\$413,603,464	\$13,583,037

Assets			Liabilities		
Item	31 December 2013		Item	31 December 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$1,116,968	\$37,444	Other payables	\$1,553,917	\$52,093
Financial assets at fair value through profit or loss	368,564,306	12,355,492	Reserve for separate account-Insurance contracts	330,034,752	11,063,853
Other receivables	6,208,781	208,139	Reserve for separate account-Investment contracts	44,301,386	1,485,129
Total	\$375,890,055	\$12,601,075	Total	\$375,890,055	\$12,601,075

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Assets			Liabilities		
Item	31 March 2013		Item	31 March 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$579,332	\$19,434	Other payables	\$1,507,736	\$50,578
Financial assets at fair value through profit or loss	349,241,727	11,715,589	Reserve for separate account-Insurance contracts	320,908,022	10,765,113
Other receivables	9,169,009	307,582	Reserve for separate account-Investment contracts	36,574,310	1,226,914
Total	\$358,990,068	\$12,042,605	Total	\$358,990,068	\$12,042,605

Assets			Liabilities		
Item	1 January 2013		Item	1 January 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$1,269,067	\$43,686	Other payables	\$1,439,828	\$49,564
Financial assets at fair value through profit or loss	319,027,929	10,982,028	Reserve for separate account-Insurance contracts	299,194,942	10,299,309
Other receivables	8,903,802	306,499	Reserve for separate account-Investment contracts	28,566,028	983,340
Total	\$329,200,798	\$11,332,213	Total	\$329,200,798	\$11,332,213

B. Separate account insurance products - revenue and expenses

Expenses			Revenue		
Item	1 January - 31 March 2014		Item	1 January - 31 March 2014	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$4,269,307	\$140,207	Premium income	\$39,506,405	\$1,297,419
Cash surrender value	17,859,410	586,516	Interest income	2,469	81
Dividends	274	9	Gains from financial assets and liabilities at fair value through profit or loss	6,023,099	197,803
Provision for separate account reserve	31,778,784	1,043,638	Foreign exchange gains	9,412,179	309,103
Administrative expenses	1,061,043	34,846			
Non-operating income and expenses	(24,666)	(810)			
Total	\$54,944,152	\$1,804,406	Total	\$54,944,152	\$1,804,406

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Expenses			Revenue		
Item	1 January - 31 March 2013		Item	1 January - 31 March 2013	
	NT\$	US\$		NT\$	US\$
Insurance claim payments	\$2,431,819	\$81,577	Premium income	\$25,290,631	\$848,394
Cash surrender value	12,855,598	431,251	Interest income	2,876	96
Dividends	82	3	Gains from financial		
Provision for separate			assets and liabilities		
account reserve	21,713,080	728,382	at fair value through		
Administrative expenses	900,824	30,219	profit or loss	4,682,046	157,063
Non-operating income and			Foreign exchange gains	7,906,408	265,227
expenses	(19,442)	(652)			
Total	\$37,881,961	\$1,270,780	Total	\$37,881,961	\$1,270,780

C. The commission earned for the sales of separate account insurance products from counterparties for the three-month periods ended 31 March 2014 and 2013 were NT\$665,200 (US\$21,846) thousands and NT\$305,110 (US\$10,235) thousands, respectively.

(2) Cathay life (China)

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	31 March 2014		Item	31 March 2014	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$16,185	\$531	Other payables	\$14,050	\$461
Financial assets at fair			Reserve for separate		
value through profit or loss	322,592	10,594	account	310,890	10,210
Interest receivable	26	1	Other	13,863	455
Total	\$338,803	\$11,126	Total	\$338,803	\$11,126

Assets			Liabilities		
Item	31 December 2013		Item	31 December 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$7,990	\$268	Other payables	\$674	\$22
Financial assets at fair			Reserve for separate		
value through profit or loss	354,666	11,889	account	339,250	11,373
Interest receivable	25	1	Other	22,757	763
Total	\$362,681	\$12,158	Total	\$362,681	\$12,158

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Assets			Liabilities		
Item	31 March 2013		Item	31 March 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$8,853	\$297	Tax Payable	\$1,722	\$58
Financial assets at fair value through profit or loss	371,858	12,475	Reserve for separate account	366,297	12,288
Interest receivable	6	-	Other	17,205	577
Other	4,507	151			
Total	\$385,224	\$12,923	Total	\$385,224	\$12,923

Assets			Liabilities		
Item	1 January 2013		Item	1 January 2013	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$18,089	\$623	Other payables	\$414	\$15
Financial assets at fair value through profit or loss	338,194	11,642	Reserve for separate account	344,846	11,871
Interest receivable	165	6	Other	11,188	385
Total	\$356,448	\$12,271	Total	\$356,448	\$12,271

B. Separate account insurance products - revenue and expenses

Expenses			Revenue		
Item	1 January - 31 March 2014		Item	1 January - 31 March 2014	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$12,415	\$408	Premium income	\$512	\$17
Administrative expenses	1,193	39	Interest income	33	1
Interest expenses	3	-	Tax expenses	281	9
Recovery of separate account reserve	(12,578)	(413)	Gains from financial assets and liabilities at fair value through profit or loss	207	7
Total	\$1,033	\$34	Total	\$1,033	\$34

Expenses			Revenue		
Item	1 January - 31 March 2013		Item	1 January - 31 March 2013	
	NT\$	US\$		NT\$	US\$
Cash surrender value	\$16,059	\$539	Premium income	\$16,519	\$554
Losses on disposal of investment	9,157	307	Interest income	29	1
Administrative expenses	863	29	Tax expenses	63	2
			Gains from financial assets and liabilities at fair value through profit or loss	9,468	318
Total	\$26,079	\$875	Total	\$26,079	\$875

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

43. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

(1) Objectives of risk management

The Company's risk management policy aims to promote operational efficiency, to ensure assets safety, to increase shareholder value, and to comply with any and all applicable regulations for the purpose of steady growth and sustainable management.

(2) Framework of risk management, organization structure and responsibilities

A. Board of directors

- a. The board of directors should establish appropriate risk management framework 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 keep the policies and standards in line with the Company's operational objective and strategy.
- c. The board of directors should acknowledge the risk arising from daily 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 limits by other departments.

B. Risk management committee

- a. The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.
- b. The committee should execute the risk management decisions set by the board of directors and evaluate the results of developing and executing risk management mechanisms.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

- c. The committee should assist and monitor the risk management activities.
- d. The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.
- e. The committee should enhance cross-department interaction and communication.

C. Chief Risk Officer

- a. The Chief Risk Officer should maintain independence and can't concurrently hold a post in business, financial, or other profit generating units.
- b. The Chief Risk Officer has the right to obtain all business information that may have an impact on the company's risk framework.
- c. The Chief Risk Officer should take the responsibility for integral risk management of the company.
- d. The Chief Risk Officer should participate in the company's important decisions and express opinions on risk management.

D. Risk management department

- a. The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.
- b. The department should perform the following functions with regard to different business activities:
 - (A) Propose and execute the risk management policies set by the board of directors.
 - (B) Suggest the risk limits based on risk appetite.
 - (C) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with departments respectively.
 - (D) Regularly generate risk management related reports.
 - (E) Regularly review all department's risk limits and cope with the violation of such limits.
 - (F) Execute stress testing.
 - (G) Execute back testing if necessary.
 - (H) Manage other risk management issues.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

E. Operating departments

a. Managers of the operating departments shall:

- (A) be responsible for such department's daily risk management reporting and report issues if necessary; and
- (B) urge the disclosure of risk management information regularly to the risk management department.

b. Operating departments shall:

- (A) identify and measure risks and report risk exposure and potential influence against the Company on time;
- (B) regularly review the risk limits. Any excess of such limits should be reported along with any actions taken against such excess;
- (C) assist with developing the risk model and to ensure that the risk measurement, the model application and the assumptions behind the model are reasonable and consistent;
- (D) ensure that internal control operates effectively to comply with relevant regulations and the Company's risk management policies; and
- (E) assist in risk management data collection.

F. Audit department

The department is required to audit all departments and to figure out the status of risk management policies execution pursuant to the relevant regulations and the Company's risk management policies.

(3) The scope and types of risk assessment and reporting

The Company's procedures for risk management include risk identification, risk measurement, risk control process and risk management reporting. The Company sets its risk management standards for a broad variety of risks as specified below, i.e. market risk, credit risk, sovereign risk, liquidity risk, operation risk, insurance risk, and assets/liability matching risk as well as for the capital adequacy. The Company also monitors the Company's risks and regularly provides the risk management reports.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

A. Market risk

This risk can be defined as the risk of losses in value of the Company's financial assets arising from adverse movements in market prices of financial instruments. The Company applies one-week 95% and 99% value-at-risk (VaR) to measuring market risk. The Company also uses back testing regularly to ensure the accuracy of the market risk model. Furthermore, the Company applies scenario analysis and stress testing to evaluating the changes in the value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, the Company determines the ceiling of foreign exchange risk, implements early warning system and also monitors the foreign exchange risk regularly.

B. Credit risk

This risk refers to the Company's losses due to the default of debtors or counterparties. The measurements that the Company uses include credit rating, concentration analysis and value-at-risk (VaR) under 95% confidence level. Furthermore, the Company applies scenario analysis and stress testing to evaluate the changes in the value of the asset groups due to significant domestic and/or international events.

C. Sovereign risk

It means that the Company suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. The Company measures the sovereign risk and sets the investment ceiling for specific countries. The Company reviews and adjusts the ceiling on a regular basis.

D. Liquidity risk

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

E. Operating risk

This risk occurs when there are errors caused by internal processes, employees, system breakdowns or external issues such as the legislative risk; however, the strategic risk and the reputation risk are excluded. The Company had set the standard operating procedures based on all characteristics of operations and established losses reporting system as well to manage operating risk losses information.

F. Insurance risk

The Company assumes that certain risks transfer from policy holders to the Company after collecting premiums from policy holders and, as a result, the Company may bear a loss for paying a claim due to unexpected changes. This risk generally happens because of the policy design, pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

G. Asset and liability matching risk

It happens when the changes in the value of assets and liabilities are not equal. The Company measures the risk with capital costs, duration, cash flow management and scenario analysis.

H. Risk-based capital (RBC) ratio

The RBC ratio regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies is the total capital of the Company divided by the Company's risk-based capital. The Company regards such ratio as an indicator for capital adequacy.

- (4) The process of assuming, measuring, monitoring and controlling risks and the way to determine a proper risk classification, a premium level and underwriting policies

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

- a. Promulgate the Company's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

- b. Establish methods to evaluate insurance risks.
 - c. Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.
 - d. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in the Company and that in the Cathay Financial Holdings.
- B. The way to determine a proper risk classification, a premium level and underwriting policies:
- a. Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.
 - b. The Company has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.
 - c. The Company has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.
- (5) The scope of insurance risk assessment and management from a company-wise perspective
- A. Insurance risk assessment covers the following topics:
- a. Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.
 - b. Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
 - c. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

- d. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company's credit rating and solvency.
 - e. Claim risk: This risk arises from mishandling claims.
 - f. Risk of insufficient reserve: It happens when the Company does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.
- B. The scope of management of insurance risk
- a. Build up a top-down framework of the Company's insurance risk management and empower relevant parties to execute risk management.
 - b. Establish the Company's insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.
 - c. Develop action plans in consideration of the Company's growth strategy and the global financial environment.
 - d. Determine methods to measure insurance risks.
 - e. Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
 - f. Manage other risk management issues.
- (6) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

The method that the Company mainly uses to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk is the reinsurance management plan which is made considering the Company's risk profiling and risk taking ability, legal issues and technical factors. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, the Company has established reinsurer selection standards.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(7) Asset/liability management

- A. The Company has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.
- B. Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of the Company. Furthermore, the annual report should be delivered to the risk management committee of the Cathay Financial Holdings.
- C. When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in the Company and that in the Cathay Financial Holdings.

(8) The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

Pursuant to the applicable laws and regulations, the Company is required to maintain a certain Risk-based capital (RBC) ratio. In order to enhance the Company's capital management and to comply with such RBC ratio, the Company has established a set of capital adequacy management standards as follows:

A. Capital adequacy management

- a. Regularly provide capital adequacy management reports and analysis to the finance department of the Cathay Financial Holdings.
- b. Regularly provide the risk management committee the capital adequacy management analysis report.
- c. Conduct scenario analysis to figure out how the use of funding, the changes of the financial environment or the amendments of applicable laws and regulations can affect RBC ratio.
- d. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Exception management process

When RBC ratio exceeds the standard given or other exceptions occur, the Company is required to notify the risk management department and finance department of the Cathay Financial Holdings together with the capital adequacy analysis report and possible solution(s).

(9) Risk mitigation and avoidance policies and risk monitoring procedures

A. The Company also enters into derivative transactions such as stock index options, index futures, interest rate future, interest rate swaps, currency forwards, cross currency swap and credit default swaps to hedge risks arising from investments, such as equity risk, interest rate risk, foreign exchange risk and credit risk. To clarify, the Company does not enter into derivative transactions for the purpose of increasing investment income; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

B. Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. The Company executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

C. The Company assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

(10) The policies and procedures against the concentration of credit and investment risks

Credit and investment limits to a group of companies are set by the Company. When such limits have been reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loan or make investment to such group in general. However, if there is any individual reason to require the Company to undertake it, the expected investment or loan needs to be reviewed by the loan review or investment decision committee and approved by the risk management department of the Cathay Financial Holdings.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

44. Information of insurance risk

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

A. The Company

For the three-month period ended 31 March 2014

NT\$

	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	491,712	408,121
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	585,120	485,650
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	100,313	83,259
Rate of return	+0.1%	Increase 927,242	Increase 769,611
Rate of return	-0.1%	Decrease 927,473	Decrease 769,803

For the three-month period ended 31 March 2014

US\$

	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	16,148	13,403
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	19,216	15,949
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	3,294	2,734
Rate of return	+0.1%	Increase 30,451	Increase 25,275
Rate of return	-0.1%	Decrease 30,459	Decrease 25,281

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

For the three-month period ended 31 March 2013

NT\$

Scenarios	Change in income	
	before tax	Change in equity
	Decrease (increase)	Decrease (increase)
Mortality/Morbidity	472,878	392,489
	Decrease (increase)	Decrease (increase)
Expense	670,355	556,394
	Increase (decrease)	Increase (decrease)
Surrender rates	70,477	58,496
Rate of return	Increase 813,264	Increase 675,009
Rate of return	Decrease 813,466	Decrease 675,177

For the three-month period ended 31 March 2013

US\$

Scenarios	Change in income	
	before tax	Change in equity
	Decrease (increase)	Decrease (increase)
Mortality/Morbidity	15,863	13,166
	Decrease (increase)	Decrease (increase)
Expense	22,488	18,665
	Increase (decrease)	Increase (decrease)
Surrender rates	2,364	1,962
Rate of return	Increase 27,282	Increase 22,644
Rate of return	Decrease 27,288	Decrease 22,649

B. Cathay life (China)

For the three-month period ended 31 March 2014

NT\$

Scenarios	Change in income	
	before tax	Change in equity
	Decrease (increase)	Decrease (increase)
Mortality/Morbidity	24,498	18,374
	Decrease (increase)	Decrease (increase)
Expense	19,538	14,654
	Increase (decrease)	Increase (decrease)
Surrender rates	7,795	5,846
Rate of return	Increase 78,791	Increase 59,093
Rate of return	Decrease 89,489	Decrease 67,117

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

For the three-month period ended 31 March 2014

US\$

Scenarios	Change in income	
	before tax	Change in equity
	Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90) 805	603
	Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95) 642	481
	Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90) 256	192
Rate of return	+0.25% Increase 2,588	Increase 1,941
Rate of return	-0.25% Decrease 2,939	Decrease 2,204

For the three-month period ended 31 March 2013

NT\$

Scenarios	Change in income	
	before tax	Change in equity
	Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90) 20,154	15,116
	Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95) 18,143	13,607
	Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90) 6,404	4,803
Rate of return	+0.25% Increase 77,528	Increase 58,146
Rate of return	-0.25% Decrease 70,167	Decrease 52,626

For the three-month period ended 31 March 2013

US\$

Scenarios	Change in income	
	before tax	Change in equity
	Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90) 676	507
	Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95) 609	456
	Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90) 215	161
Rate of return	+0.25% Increase 2,601	Increase 1,951
Rate of return	-0.25% Decrease 2,354	Decrease 1,765

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

C. Cathay Life (Vietnam)

For the three-month period ended 31 March 2014

NT\$

	Scenarios	Change in income	Change in equity
		before tax	
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	41	32
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,227	1,737
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	176	137
Rate of return	+0.1%	Increase 860	Increase 671
Rate of return	-0.1%	Decrease 861	Decrease 671

For the three-month period ended 31 March 2014

US\$

	Scenarios	Change in income	Change in equity
		before tax	
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	1	1
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	73	57
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	6	4
Rate of return	+0.1%	Increase 28	Increase 22
Rate of return	-0.1%	Decrease 28	Decrease 22

For the three-month period ended 31 March 2013

NT\$

	Scenarios	Change in income	Change in equity
		before tax	
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	97	73
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,344	1,758
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	232	174
Rate of return	+0.1%	Increase 428	Increase 321
Rate of return	-0.1%	Decrease 428	Decrease 321

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

		For the three-month period ended 31 March 2013	
		US\$	
		Change in income	
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	3	2
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	79	59
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	8	6
Rate of return	+0.1%	Increase 14	Increase 11
Rate of return	-0.1%	Decrease 14	Decrease 11

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the three-month periods ended 31 March 2014 and 2013. The influence on equities of the Company, 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 22% (25% for the three-month period ended 31 March 2013) 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 the Company'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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(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.

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.

(2) Interpretation of concentration of insurance risks

The Company'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 unexpected 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). The Company reduces the risk of exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

The Company reviews the profits and losses on compensation and the capability of assuming risk as a whole periodically. The Company will also evaluate the retention amount according to the risk features and approve by competent authority. For the excess of retention amount, the Company cedes this portion of amounts to reinsurers. At the same time, the Company takes the possibility of unexpected human and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. The Company 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 unexpected 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(3) Claim development trend

A. The Company

a. Direct business development trend

Accident year	Development year							Expected future payment	
	NT\$								
	1	2	3	4	5	6	7		
2007Q2~2008Q1	12,487,783	14,726,326	14,896,224	14,956,935	15,042,774	15,061,744	15,075,385	-	
2008Q2~2009Q1	13,384,763	15,820,692	16,011,049	16,085,163	16,136,693	16,166,732	16,181,471	14,739	
2009Q2~2010Q1	14,445,550	17,287,961	17,551,424	17,635,968	17,710,596	17,738,482	17,754,483	43,887	
2010Q2~2011Q1	14,307,274	17,419,064	17,706,462	17,820,861	17,899,363	17,927,514	17,943,168	122,307	
2011Q2~2012Q1	14,912,513	18,349,974	18,679,807	18,772,368	18,851,613	18,880,757	18,897,120	217,313	
2012Q2~2013Q1	14,027,513	17,185,135	17,424,578	17,501,844	17,565,971	17,589,706	17,604,509	419,374	
2013Q2~2014Q1	13,953,009	16,758,823	16,991,401	17,066,509	17,128,391	17,149,700	17,163,821	3,210,812	
								Expected future payment	\$4,028,432
								Less: Expected reported but not paid claim	132,308
								Add: Assumed reserve for incurred but not reported claim	48,433
								Reserve for unreported claim	3,944,557
								Add: Reported but not paid claim	422,464
								Claims reserve balance	<u>\$4,367,021</u>

Accident year	Development year							Expected future payment	
	US\$								
	1	2	3	4	5	6	7		
2007Q2~2008Q1	410,108	483,623	489,203	491,197	494,016	494,639	495,087	-	
2008Q2~2009Q1	439,565	519,563	525,814	528,248	529,941	530,927	531,411	484	
2009Q2~2010Q1	474,402	567,749	576,401	579,178	581,629	582,545	583,070	1,441	
2010Q2~2011Q1	469,861	572,055	581,493	585,250	587,828	588,753	589,267	4,017	
2011Q2~2012Q1	489,738	602,626	613,458	616,498	619,101	620,058	620,595	7,137	
2012Q2~2013Q1	460,674	564,372	572,236	574,773	576,879	577,659	578,145	13,773	
2013Q2~2014Q1	458,227	550,372	558,010	560,476	562,509	563,209	563,672	105,445	
								Expected future payment	\$132,297
								Less: Expected reported but not paid claim	4,345
								Add: Assumed reserve for incurred but not reported claim	1,591
								Reserve for unreported claim	129,543
								Add: Reported but not paid claim	13,873
								Claims reserve balance	<u>\$143,416</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

b. Retained business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q2~2008Q1	12,565,071	14,847,475	15,032,428	15,095,226	15,182,539	15,211,643	15,231,063	-
2008Q2~2009Q1	13,456,213	15,865,117	16,055,532	16,127,273	16,187,539	16,222,311	16,237,329	15,018
2009Q2~2010Q1	13,115,598	15,412,134	15,601,597	15,677,422	15,743,821	15,772,105	15,788,401	44,580
2010Q2~2011Q1	12,498,335	14,957,871	15,170,234	15,271,054	15,350,598	15,379,102	15,395,018	123,964
2011Q2~2012Q1	13,030,367	15,813,683	16,072,502	16,166,101	16,246,460	16,275,981	16,292,622	220,120
2012Q2~2013Q1	12,343,112	14,962,708	15,205,892	15,284,167	15,349,378	15,373,479	15,388,553	425,845
2013Q2~2014Q1	13,476,265	16,312,795	16,549,101	16,625,215	16,688,176	16,709,850	16,723,603	3,247,338

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

Expected future payment	\$4,076,865
Less: Expected reported but not paid claim	132,308
Add: Reported but not paid claim	422,464
Retained claims reserve balance	<u>\$4,367,021</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q2~2008Q1	412,646	487,602	493,676	495,738	498,606	499,561	500,199	-
2008Q2~2009Q1	441,912	521,022	527,275	529,631	531,610	532,752	533,246	494
2009Q2~2010Q1	430,726	506,146	512,368	514,858	517,038	517,967	518,502	1,464
2010Q2~2011Q1	410,454	491,227	498,201	501,512	504,125	505,061	505,583	4,071
2011Q2~2012Q1	427,927	519,333	527,833	530,906	533,545	534,515	535,062	7,229
2012Q2~2013Q1	405,357	491,386	499,372	501,943	504,085	504,876	505,371	13,985
2013Q2~2014Q1	442,570	535,724	543,484	545,984	548,052	548,764	549,215	106,645

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

Expected future payment	\$133,888
Less: Expected reported but not paid claim	4,345
Add: Reported but not paid claim	13,873
Retained claims reserve balance	<u>\$143,416</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Cathay life (China)

a. Direct business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q2~2008Q1	28	54	55	55	55	55	55	-
2008Q2~2009Q1	822	3,305	3,317	3,317	3,317	3,317	3,317	-
2009Q2~2010Q1	9,441	18,183	18,988	18,988	18,988	18,988	18,988	-
2010Q2~2011Q1	52,051	117,617	123,790	123,790	123,790	123,790	123,790	-
2011Q2~2012Q1	97,846	195,818	208,352	208,352	208,352	208,352	208,352	-
2012Q2~2013Q1	131,701	362,519	381,752	381,752	381,752	381,752	381,752	19,233
2013Q2~2014Q1	149,718	528,718	531,682	531,682	531,682	531,682	531,682	381,964

Expected future payment	\$401,197
Less: Expected reported but not paid claim	32,489
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	368,708
Add: Reported but not paid claim	83,640
Claims reserve balance	<u>\$452,348</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q2~2008Q1	1	2	2	2	2	2	2	-
2008Q2~2009Q1	27	109	109	109	109	109	109	-
2009Q2~2010Q1	310	597	624	624	624	624	624	-
2010Q2~2011Q1	1,709	3,863	4,065	4,065	4,065	4,065	4,065	-
2011Q2~2012Q1	3,213	6,431	6,842	6,842	6,842	6,842	6,842	-
2012Q2~2013Q1	4,325	11,906	12,537	12,537	12,537	12,537	12,537	631
2013Q2~2014Q1	4,917	17,363	17,461	17,461	17,461	17,461	17,461	12,544

Expected future payment	\$13,175
Less: Expected reported but not paid claim	1,067
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	12,108
Add: Reported but not paid claim	2,747
Claims reserve balance	<u>\$14,855</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

b. Retained business development trend

Accident year	Development year							Expected future payment
	NT\$							
	1	2	3	4	5	6	7	
2007Q2~2008Q1	28	54	55	55	55	55	55	-
2008Q2~2009Q1	822	3,305	3,317	3,317	3,317	3,317	3,317	-
2009Q2~2010Q1	9,441	18,183	18,988	18,988	18,988	18,988	18,988	-
2010Q2~2011Q1	52,051	117,617	123,790	123,790	123,790	123,790	123,790	-
2011Q2~2012Q1	97,846	195,681	208,212	208,212	208,212	208,212	208,212	-
2012Q2~2013Q1	121,480	368,488	379,780	379,780	379,780	379,780	379,780	11,292
2013Q2~2014Q1	140,348	501,240	513,500	513,500	513,500	513,500	513,500	373,152

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

Expected future payment	\$384,444
Less: Expected reported but not paid claim	32,489
Add: Reported but not paid claim	83,640
Retained claims reserve balance	<u>\$435,595</u>

Accident year	Development year							Expected future payment
	US\$							
	1	2	3	4	5	6	7	
2007Q2~2008Q1	1	2	2	2	2	2	2	-
2008Q2~2009Q1	27	109	109	109	109	109	109	-
2009Q2~2010Q1	310	597	624	624	624	624	624	-
2010Q2~2011Q1	1,709	3,863	4,065	4,065	4,065	4,065	4,065	-
2011Q2~2012Q1	3,213	6,426	6,838	6,838	6,838	6,838	6,838	-
2012Q2~2013Q1	3,989	12,101	12,472	12,472	12,472	12,472	12,472	371
2013Q2~2014Q1	4,609	16,461	16,863	16,863	16,863	16,863	16,863	12,254

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

Expected future payment	\$12,625
Less: Expected reported but not paid claim	1,067
Add: Reported but not paid claim	2,747
Retained claims reserve balance	<u>\$14,305</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The Company 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 the Company 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
2009Q2~2010Q1	152	159	159	159	159
2010Q2~2011Q1	158	179	179	179	179
2011Q2~2012Q1	656	875	875	875	875
2012Q2~2013Q1	1,144	1,249	1,249	1,249	1,249
2013Q2~2014Q1	564	658	658	658	658

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Accident year	Development year US \$				
	1	2	3	4	5
2009Q2~2010Q1	5	5	5	5	5
2010Q2~2011Q1	5	6	6	6	6
2011Q2~2012Q1	22	29	29	29	29
2012Q2~2013Q1	38	41	41	41	41
2013Q2~2014Q1	19	22	22	22	22

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.

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

(1) Credit risk

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

Due to the 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, the Company chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with the Company's "Reinsurance Risk Management Plan" and "Evaluation Standards for Reinsurers."

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

(2) 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 will not be the same as expected due to the difference between the actual and expected experiences.

31 March 2014 NT\$	Within 1 year	1 to 5 years	Unit: Billion Over 5 years
Insurance contracts and financial instruments with discretionary participation features	(71.4)	149.9	11,056.5

31 March 2014 US\$	Within 1 year	1 to 5 years	Unit: Billion Over 5 years
Insurance contracts and financial instruments with discretionary participation features	(2.34)	4.92	363.10

Note: Separate account products are not included.

(3) Market risk

When the Company 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 the Company'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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

46. Credit risk, liquidity risk and market risk of financial instrument

(1) Credit risk analysis

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 Company 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 the Company 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 the Company is exposed to the risk of financial losses.
- c. Underlying asset credit risk represents the risk that the Company 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 the Company:

31 March 2014

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$120,626,770	\$1,037,340	\$1,221,810	\$54,215,042	\$144,796,152	\$321,897,114
Financial assets at fair value through profit or loss	17,669,508	1,525,657	1,522,868	1,639,295	456,308	22,813,636
Available-for-sale financial assets	418,531,834	22,323,661	87,233,630	162,750,503	29,059,389	719,899,017
Derivative financial assets for hedging	124,079	-	177,335	73,919	-	375,333
Bond investments for which no active market exists	39,340,100	72,002,161	249,849,970	417,077,901	271,454,537	1,049,724,669
Held-to-maturity financial assets	4,355,496	-	-	-	-	4,355,496
Other financial assets	33,900,000	-	3,500,000	-	-	37,400,000
Total	\$634,547,787	\$96,888,819	\$343,505,613	\$635,756,660	\$445,766,386	\$2,156,465,265
Proportion	29.4%	4.5%	15.9%	29.5%	20.7%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2014

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$3,961,471	\$34,067	\$40,125	\$1,780,461	\$4,755,210	\$10,571,334
Financial assets at fair value through profit or loss	580,279	50,104	50,012	53,836	14,985	749,216
Available-for-sale financial assets	13,744,888	733,125	2,864,815	5,344,844	954,332	23,642,004
Derivative financial assets for hedging	4,075	-	5,824	2,427	-	12,326
Bond investments for which no active market exists	1,291,957	2,364,603	8,205,253	13,697,140	8,914,763	34,473,716
Held-to-maturity financial assets	143,038	-	-	-	-	143,038
Other financial assets	1,113,300	-	114,943	-	-	1,228,243
Total	\$20,839,008	\$3,181,899	\$11,280,972	\$20,878,708	\$14,639,290	\$70,819,877
Proportion	29.4%	4.5%	15.9%	29.5%	20.7%	100.0%

31 December 2013

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 December 2013

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%

31 March 2013

NT\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$187,991,468	\$600,044	\$-	\$59,357,559	\$54,899,181	\$302,848,252
Financial assets at fair value through profit or loss	25,512,283	154,698	1,903,699	581,853	-	28,152,533
Available-for-sale financial assets	459,899,951	17,971,067	89,366,280	217,614,973	32,610,500	817,462,771
Derivative financial assets for hedging	246,639	28,543	545,250	126,827	-	947,259
Bond investments for which no active market exists	39,984,287	48,200,893	208,956,655	312,868,426	260,451,706	870,461,967
Other financial assets	22,400,000	-	3,500,000	-	-	25,900,000
Total	\$736,034,628	\$66,955,245	\$304,271,884	\$590,549,638	\$347,961,387	\$2,045,772,782
Proportion	36.0%	3.3%	14.9%	28.8%	17.0%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2013

US\$

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$6,306,322	\$20,129	\$-	\$1,991,196	\$1,841,637	\$10,159,284
Financial assets at fair value through profit or loss	855,830	5,189	63,861	19,519	-	944,399
Available-for-sale financial assets	15,427,707	602,854	2,997,862	7,300,066	1,093,945	27,422,434
Derivative financial assets for hedging	8,274	957	18,291	4,255	-	31,777
Bond investments for which no active market exists	1,341,304	1,616,937	7,009,616	10,495,419	8,737,058	29,200,334
Other financial assets	751,426	-	117,410	-	-	868,836
Total	\$24,690,863	\$2,246,066	\$10,207,040	\$19,810,455	\$11,672,640	\$68,627,064
Proportion	36.0%	3.3%	14.9%	28.8%	17.0%	100.0%

1 January 2013

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%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

1 January 2013

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%

C. Credit Quality

Classification of credit quality for financial assets of the Company:

31 March 2014

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	\$321,897,114	\$-	\$-	\$-	\$-	\$321,897,114
Financial assets at fair value through profit or loss	20,969,042	1,844,594	-	-	-	22,813,636
Available-for-sale financial assets	713,996,222	5,871,737	-	766,058	(735,000)	719,899,017
Derivative financial assets for hedging	375,333	-	-	-	-	375,333
Bond investments for which no active market exists	1,046,357,946	3,366,723	-	396,630	(396,630)	1,049,724,669
Held-to-maturity financial assets	4,355,496	-	-	-	-	4,355,496
Other financial assets	37,400,000	-	-	-	-	37,400,000
Total	\$2,145,351,153	\$11,083,054	\$-	\$1,162,688	\$(1,131,630)	\$2,156,465,265
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2014

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	\$10,571,334	\$-	\$-	\$-	\$-	\$10,571,334
Financial assets at fair value through profit or loss	688,638	60,578	-	-	-	749,216
Available-for-sale financial assets	23,448,152	192,832	-	25,158	(24,138)	23,642,004
Derivative financial assets for hedging	12,326	-	-	-	-	12,326
Bond investments for which no active market exists	34,363,151	110,565	-	13,026	(13,026)	34,473,716
Held-to-maturity financial assets	143,038	-	-	-	-	143,038
Other financial assets	1,228,243	-	-	-	-	1,228,243
Total	\$70,454,882	\$363,975	\$-	\$38,184	\$(37,164)	\$70,819,877
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

31 December 2013

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%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 December 2013

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%

31 March 2013

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	\$302,846,183	\$2,069	\$-	\$-	\$-	\$302,848,252
Financial assets at fair value through profit or loss	27,643,443	509,090	-	-	-	28,152,533
Available-for-sale financial assets	806,941,001	10,415,211	-	841,559	(735,000)	817,462,771
Derivative financial assets for hedging	947,259	-	-	-	-	947,259
Bond investments for which no active market exists	863,701,741	6,760,226	-	388,375	(388,375)	870,461,967
Other financial assets	25,900,000	-	-	-	-	25,900,000
Total	\$2,027,979,627	\$17,686,596	\$-	\$1,229,934	\$(1,123,375)	\$2,045,772,782
Proportion	99.1%	0.9%	-	0.1%	(0.1)%	100.0%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2013

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	\$10,159,214	\$70	\$-	\$-	\$-	\$10,159,284
Financial assets at fair value through profit or loss	927,321	17,078	-	-	-	944,399
Available-for-sale financial assets	27,069,473	349,386	-	28,231	(24,656)	27,422,434
Derivative financial assets for hedging	31,777	-	-	-	-	31,777
Bond investments for which no active market exists	28,973,557	226,777	-	13,028	(13,028)	29,200,334
Other financial assets	868,836	-	-	-	-	868,836
Total	\$68,030,178	\$593,311	\$-	\$41,259	\$(37,684)	\$68,627,064
Proportion	99.1%	0.9%	-	0.1%	(0.1)%	100.0%

1 January 2013

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%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

1 January 2013

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%

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:

31 March 2014				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$328,853,341	\$55,088,917	\$89,616,997	\$473,559,255
Overdue receivables	34,908	121,678	32,777	189,363
Total	\$328,888,249	\$55,210,595	\$89,649,774	\$473,748,618
Proportion	69%	12%	19%	100%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2014				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$10,799,781	\$1,809,160	\$2,943,087	\$15,552,028
Overdue receivables	1,147	3,996	1,076	6,219
Total	\$10,800,928	\$1,813,156	\$2,944,163	\$15,558,247
Proportion	69%	12%	19%	100%

31 December 2013				
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%

31 December 2013				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$10,690,121	\$1,780,216	\$2,973,664	\$15,444,001
Overdue receivables	1,187	13,498	957	15,642
Total	\$10,691,308	\$1,793,714	\$2,974,621	\$15,459,643
Proportion	69%	12%	19%	100%

31 March 2013				
NT\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$244,551,001	\$43,908,642	\$81,166,854	\$369,626,497
Overdue receivables	48,164	417,661	64,369	530,194
Total	\$244,599,165	\$44,326,303	\$81,231,233	\$370,156,691
Proportion	66%	12%	22%	100%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2013				
US\$				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$8,203,657	\$1,472,950	\$2,722,806	\$12,399,413
Overdue receivables	1,616	14,011	2,159	17,786
Total	\$8,205,273	\$1,486,961	\$2,724,965	\$12,417,199
Proportion	66%	12%	22%	100%

1 January 2013				
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%

1 January 2013				
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%

E. Secured loans and overdue receivables

31 March 2014

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	\$219,973,282	\$153,024,892	\$42,830,337	\$94,710	\$4,496,107	\$420,419,328	\$2,236,257	\$418,183,071
Corporate finance	42,659,492	4,128,070	1,376,576	-	5,165,152	53,329,290	1,476,736	51,852,554
Total	\$262,632,774	\$157,152,962	\$44,206,913	\$94,710	\$9,661,259	\$473,748,618	\$3,712,993	\$470,035,625

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 March 2014

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	\$7,224,081	\$5,025,448	\$1,406,579	\$3,110	\$147,656	\$13,806,874	\$73,440	\$13,733,434
Corporate finance	1,400,969	135,569	45,208	-	169,627	1,751,373	48,498	1,702,875
Total	\$8,625,050	\$5,161,017	\$1,451,787	\$3,110	\$317,283	\$15,558,247	\$121,938	\$15,436,309

31 December 2013

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

31 December 2013

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

31 March 2013

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	\$167,769,287	\$116,709,069	\$32,665,854	\$145,047	\$4,457,735	\$321,746,992	\$1,405,439	\$320,341,553
Corporate finance	32,337,152	7,055,528	2,009,216	-	7,007,803	48,409,699	1,555,059	46,854,640
Total	\$200,106,439	\$123,764,597	\$34,675,070	\$145,047	\$11,465,538	\$370,156,691	\$2,960,498	\$367,196,193

31 March 2013

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	\$5,627,953	\$3,915,098	\$1,095,802	\$4,865	\$149,538	\$10,793,256	\$47,146	\$10,746,110
Corporate finance	1,084,775	236,683	67,401	-	235,083	1,623,942	52,166	1,571,776
Total	\$6,712,728	\$4,151,781	\$1,163,203	\$4,865	\$384,621	\$12,417,198	\$99,312	\$12,317,886

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

1 January 2013

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

1 January 2013

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

F. Ageing analysis of past due but not impaired secured loans and overdue receivables:

Based on the historical default rate, the Company 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
31 March 2014	\$86,057	\$8,653	\$94,710
31 December 2013	109,251	14,217	123,468
31 March 2013	138,446	6,601	145,047
1 January 2013	157,700	26,242	183,942

Past due but not impaired

US\$

	Due in 1~2 months	Due in 2~3 months	Total
31 March 2014	\$2,826	\$284	\$3,110
31 December 2013	3,662	477	4,139
31 March 2013	4,644	221	4,865
1 January 2013	5,429	903	6,332

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(2) 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 the Company 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 the Company sells at loss to meet the demand for cash.

B. Liquidity risk management

The Company assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, the Company manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

The Company 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, the Company 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 the Company 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.

31 March 2014	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$14,720	\$483	\$-	\$-	\$-	\$-
Payables	23,395,831	768,336	-	-	3,683,022	120,953
Preferred stock liability	-	-	-	-	684,110	22,467

31 March 2014	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$14,720	\$483
Payables	-	-	-	-	27,078,853	889,289
Preferred stock liability	31,441,259	1,032,553	-	-	32,125,369	1,055,020

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

31 December 2013	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

31 December 2013	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

31 March 2013	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$125,063	\$4,195	\$-	\$-	\$-	\$-
Payables	40,066,869	1,344,075	-	-	2,774,885	93,086
Preferred stock liability	-	-	-	-	684,110	22,949

31 March 2013	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Short-term debts	\$-	\$-	\$-	\$-	\$125,063	\$4,195
Payables	-	-	-	-	42,841,754	1,437,161
Preferred stock liability	27,176,254	911,649	5,173,005	173,532	33,033,369	1,108,130

1 January 2013	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

1 January 2013	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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

D. Maturity analysis of derivative financial liability:

31 March 2014	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$23,656	\$777	\$7,322	\$241	\$4,520	\$148
Forward	1,792,788	58,876	-	-	-	-
CS	6,193,943	203,414	2,901,131	95,275	-	-
31 March 2014	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$189	\$6	\$-	\$-	\$35,687	\$1,172
Forward	-	-	-	-	1,792,788	58,876
CS	-	-	-	-	9,095,074	298,689
31 December 2013	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
31 December 2013	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
31 March 2013	Less than six months		Due in 6~12 months		Due in 1~2 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$27,140	\$910	\$27,530	\$924	\$31,290	\$1,050
Forward	802,250	26,912	4,138,625	138,833	-	-
CS	6,944,518	232,959	5,846,888	196,138	2,184,671	73,287
31 March 2013	Due in 2~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
IRS	\$5,310	\$178	\$-	\$-	\$91,270	\$3,062
Forward	-	-	-	-	4,940,875	165,745
CS	-	-	-	-	14,976,077	502,384

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

1 January 2013	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

1 January 2013	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

(3) 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. The Company 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. The Company uses one-week 95% and 99% VaR to measure market risk.

b. Stress testing

The Company measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The Company performs position stress testing regularly by using “Simple Sensitivity” 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:

(A) Simple Sensitivity

Simple Sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

(B) 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:

(a) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, the Company simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(b) Hypothetical scenario

The Company 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. The Company’s risk analysis, early warning, and business management are in accordance with the stress testing report.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Table of Stress Testing

For the three-month period ended 31 March 2014

Risk Factors	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(44,961,996)	\$(1,476,584)
Interest rate risk (Yield curve)	+20bps	(9,124,586)	(299,658)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(17,556,534)	(576,569)
Commodity risk (Price)	-10%	-	-

Table of Stress Testing

For the three-month period ended 31 March 2014

Risk Factors	Changes (+/-)	Gain(loss) NT\$	Gain(loss) US\$
Equity risk (Stock index)	-10%	\$(37,193,763)	\$(1,247,694)
Interest rate risk (Yield curve)	+20bps	(9,569,779)	(321,026)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(12,672,590)	(425,112)
Commodity risk (Price)	-10%	-	-

Note: Impacts of credit charges are not included.

c. Sensitivity Analysis

Summarization of Sensitivity Analysis

For the three-month period ended 31 March 2014

NT\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$2,992,556	\$2,363,943
	CNY appreciates 1%	2,167,093	138,631
	HKD appreciates 1%	14,044	425,414
	EUR appreciates 1%	401,590	150,131
	GBP appreciates 1%	214,100	38,158
Interest rate risk	Yield curve (USD) shifts up 1 bp	(466)	(150,422)
	Yield curve (AUD) shifts up 1 bp	(482)	(4,821)
	Yield curve (EUR) shifts up 1 bp	-	(14,746)
	Yield curve (NTD) shifts up 1 bp	(219)	(277,937)
Equity price risk	Equity price increases 1%	154,986	4,341,213

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Summarization of Sensitivity Analysis

For the three-month period ended 31 March 2014

US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$98,278	\$77,634
	CNY appreciates 1%	71,169	4,553
	HKD appreciates 1%	461	13,971
	EUR appreciates 1%	13,189	4,930
	GBP appreciates 1%	7,031	1,253
Interest rate risk	Yield curve (USD) shifts up 1 bp	(15)	(4,940)
	Yield curve (AUD) shifts up 1 bp	(16)	(158)
	Yield curve (EUR) shifts up 1 bp	-	(484)
	Yield curve (NTD) shifts up 1 bp	(7)	(9,128)
Equity price risk	Equity price increases 1%	5,090	142,569

Summarization of Sensitivity Analysis

For the three-month period ended 31 March 2014

NT\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$1,542,106	\$2,243,830
	CNY appreciates 1%	1,109,091	68,919
	HKD appreciates 1%	(1,277)	446,085
	EUR appreciates 1%	291,660	24,612
	GBP appreciates 1%	267,274	44,312
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(192,735)
	Yield curve (AUD) shifts up 1 bp	-	(1,257)
	Yield curve (EUR) shifts up 1 bp	-	(1,900)
	Yield curve (NTD) shifts up 1 bp	(360)	(281,016)
Equity price risk	Equity price increases 1%	145,694	3,573,682

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Summarization of Sensitivity Analysis
For the three-month period ended 31 March 2014
US\$

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$51,731	\$75,271
	CNY appreciates 1%	37,205	2,312
	HKD appreciates 1%	(43)	14,964
	EUR appreciates 1%	9,784	826
	GBP appreciates 1%	8,966	1,486
Interest rate risk	Yield curve (USD) shifts up 1 bp	-	(6,465)
	Yield curve (AUD) shifts up 1 bp	-	(42)
	Yield curve (EUR) shifts up 1 bp	-	(64)
	Yield curve (NTD) shifts up 1 bp	(12)	(9,427)
Equity price risk	Equity price increases 1%	4,887	119,882

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.

47. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Item (NT\$)	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial assets at fair value through profit or loss				
Held for trading	\$82,233,101	\$73,892,698	\$66,021,694	\$72,964,811
Available-for-sale financial assets	1,269,015,112	1,277,352,123	1,295,943,343	1,227,321,172
Derivative financial assets for hedging	375,333	453,713	947,259	1,142,094
Held-to-maturity financial assets	6,129,197	1,619,138	-	-
Loans and receivables				
Cash and cash equivalents (Note)	323,113,791	281,874,153	309,032,724	365,919,542
Receivables	48,234,795	47,633,306	62,608,585	57,726,314
Bond investments for which no active market exists	1,052,692,406	1,023,349,976	871,161,210	816,904,617
Other financial assets	37,400,000	40,900,000	25,900,253	23,500,010
Loans	644,501,473	635,863,840	547,719,493	518,210,946
Guarantee deposits paid	16,052,364	16,714,926	14,508,174	14,376,119
Subtotal	2,121,994,829	2,046,336,201	1,830,930,439	1,796,637,548
Total	\$3,479,747,572	\$3,399,653,873	\$3,193,842,735	\$3,098,065,625

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item (US\$)	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial assets at fair value through profit or loss				
Held for trading	\$2,700,594	\$2,477,127	\$2,214,750	\$2,511,697
Available-for-sale financial assets	41,675,373	42,821,057	43,473,443	42,248,577
Derivative financial assets for hedging	12,326	15,210	31,777	39,315
Held-to-maturity financial assets	201,287	54,279	-	-
Loans and receivables				
Cash and cash equivalents (Note)	10,611,290	9,449,351	10,366,747	12,596,197
Receivables	1,584,066	1,596,825	2,100,254	1,987,137
Bond investments for which no active market exists	34,571,179	34,306,067	29,223,791	28,120,641
Other financial assets	1,228,243	1,371,103	868,844	808,950
Loans	21,165,894	21,316,253	18,373,683	17,838,587
Guarantee deposits paid	527,171	560,340	486,688	494,875
Subtotal	69,687,843	68,599,939	61,420,007	61,846,387
Total	<u>\$114,277,423</u>	<u>\$113,967,612</u>	<u>\$107,139,977</u>	<u>\$106,645,976</u>

Note: Exclude cash on hand and revolving funds.

Financial liabilities

Item (NT\$)	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial liabilities at fair value through profit or loss				
Held for trading	\$9,754,948	\$16,148,024	\$16,375,898	\$2,079,457
Derivative financial liabilities for hedging	-	5,148	-	-
Financial liabilities at amortized cost				
Short-term debts	14,720	-	125,063	297,268
Payables	27,078,853	19,025,676	42,841,754	38,073,655
Preferred stock liability	30,000,000	30,000,000	30,000,000	30,000,000
Guarantee deposits received	2,594,547	2,211,239	2,082,477	2,077,752
Subtotal	59,688,120	51,236,915	75,049,294	70,448,675
Total	<u>\$69,443,068</u>	<u>\$67,390,087</u>	<u>\$91,425,192</u>	<u>\$72,528,132</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item (US\$)	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial liabilities at fair value through profit or loss				
Held for trading	\$320,360	\$541,335	\$549,343	\$71,582
Derivative financial liabilities for hedging	-	173	-	-
Financial liabilities at amortized cost				
Short-term debts	483	-	4,195	10,233
Payables	889,289	637,803	1,437,161	1,310,625
Preferred stock liability	985,222	1,005,699	1,006,374	1,032,702
Guarantee deposits received	85,207	74,128	69,858	71,524
Subtotal	1,960,201	1,717,630	2,517,588	2,425,084
Total	<u>\$2,280,561</u>	<u>\$2,259,138</u>	<u>\$3,066,931</u>	<u>\$2,496,666</u>

(2) Fair value of financial instruments

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

- a. The fair value of the Company and Subsidiaries' short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. Short-term financial instruments include cash, cash equivalents, resale bonds and notes, receivables, short-term debts and payables.
- b. The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount as the Company and Subsidiaries predict the future cash inflow or outflow will be of similar amount to the carrying value.
- c. Quoted market price, if available, is utilized as estimates of the fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets, bond investments for which no active market exists, held-to-maturity financial assets and derivative financial instruments for hedging. If no quoted market prices exist for the Company and Subsidiaries' financial assets, the fair value of those assets is derived based on pricing models. A pricing model incorporates all information that is available to market participants, such as yield curves, exchange rates, etc., and takes into account characteristics of financial instruments, including credit ratings, residual periods of debt securities, currencies and fair value of similar instruments. The Company and Subsidiaries thus adopt the methods and assumptions that market participants would use in setting prices.
- d. Loans are interest-bearing financial assets. The fair value of loans is their carrying amount after deducting the allowance for bad debts.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Fair value of financial instruments measured at amortized cost

Other than those listed in the table below, the carrying amount of the Company and Subsidiaries' financial instruments measured at amortized cost approximates their fair value:

	Carrying amount (NT\$)			
	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial assets				
Bond investment for which no active market exists	\$1,052,692,406	\$1,023,349,976	\$871,161,210	\$816,904,617
Held-to-maturity financial assets	6,129,197	1,619,138	-	-
	Carrying amount (US\$)			
	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial assets				
Bond investment for which no active market exists	\$34,571,179	\$34,306,067	\$29,223,791	\$28,120,641
Held-to-maturity financial assets	201,287	54,279	-	-
	Fair value (NT\$)			
	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial assets				
Bond investment for which no active market exists	\$1,049,088,323	\$994,573,305	\$904,329,137	\$867,272,570
Held-to-maturity financial assets	6,100,543	1,534,584	-	-
	Fair value (US\$)			
	2014.3.31	2013.12.31	2013.3.31	2013.1.1
Financial assets				
Bond investment for which no active market exists	\$34,452,818	\$33,341,378	\$30,336,435	\$29,854,477
Held-to-maturity financial assets	200,346	51,444	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

C. The three levels of fair value hierarchy

To provide disclosure of information, the Company and Subsidiaries use the three levels of fair value hierarchy to reflect the significance of fair value inputs during measurement. The three levels of fair value hierarchy is shown below:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use unobservable inputs or inputs which have a significant effect on the recorded fair value that are not based on observable market data.

a. Fair value hierarchy

Item	31 March 2014			
	NT\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$8,812,398	\$8,812,398	\$-	\$-
Bonds	7,165,205	3,922,878	3,242,327	-
Other	62,861,460	50,262,760	12,598,700	-
Available-for-sale financial assets				
Stocks	415,738,748	406,898,648	8,840,100	-
Bonds	720,660,161	17,719,188	702,940,973	-
Other	132,616,203	95,774,090	21,720,573	15,121,540
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	3,394,038	-	3,394,038	-
Derivative financial assets for hedging	375,333	-	375,333	-
Liabilities				
Financial liabilities at fair value through profit or loss	9,754,948	-	9,754,948	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 March 2014			
	US\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$289,405	\$289,405	\$-	\$-
Bonds	235,311	128,830	106,481	-
Other	2,064,415	1,650,665	413,750	-
Available-for-sale financial assets				
Stocks	13,653,161	13,362,846	290,315	-
Bonds	23,667,000	581,911	23,085,089	-
Other	4,355,212	3,145,291	713,319	496,602
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
	111,463	-	111,463	-
Derivative financial assets for hedging				
	12,326	-	12,326	-
Liabilities				
Financial liabilities at fair value through profit or loss				
	320,360	-	320,360	-
31 December 2013				
NT\$				
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$11,532,825	\$11,532,825	\$-	\$-
Bonds	4,588,322	3,060,336	1,527,986	-
Other	54,395,947	41,961,147	12,434,800	-
Available-for-sale financial assets				
Stocks	416,988,367	409,771,081	7,217,286	-
Bonds	726,838,169	6,430,109	720,408,060	-
Other	133,525,587	97,303,043	23,119,841	13,102,703
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
	3,375,604	-	3,375,604	-
Derivative financial assets for hedging				
	453,713	-	453,713	-
Liabilities				
Financial liabilities at fair value through profit or loss				
	16,148,024	-	16,148,024	-
Derivative financial liabilities for hedging				
	5,148	-	5,148	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 December 2013			
	US\$			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$386,618	\$386,618	\$-	\$-
Bonds	153,816	102,593	51,223	-
Other	1,823,532	1,406,676	416,856	-
Available-for-sale financial assets				
Stocks	13,978,826	13,736,879	241,947	-
Bonds	24,366,013	215,558	24,150,455	-
Other	4,476,218	3,261,919	775,053	439,246
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Derivative financial assets for hedging	113,161	-	113,161	-
Derivative financial assets for hedging	15,210	-	15,210	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities for hedging	541,335	-	541,335	-
Derivative financial liabilities for hedging	173	-	173	-
31 March 2013				
NT\$				
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$14,411,026	\$14,411,026	\$-	\$-
Bonds	2,572,338	941,400	1,630,938	-
Other	46,495,595	23,453,294	23,042,301	-
Available-for-sale financial assets				
Stocks	327,316,531	322,082,217	5,234,314	-
Bonds	815,876,821	39,325,661	776,551,160	-
Other	152,749,991	121,772,118	22,826,415	8,151,458
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Derivative financial assets for hedging	2,542,735	279	2,542,456	-
Derivative financial assets for hedging	947,259	-	947,259	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities for hedging	16,375,898	-	16,375,898	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 March 2013			
	Total	Level 1	Level 2	Level 3
US\$				
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$483,429	\$483,429	\$-	\$-
Bonds	86,291	31,580	54,711	-
Other	1,559,732	786,760	772,972	-
Available-for-sale financial assets				
Stocks	10,980,091	10,804,502	175,589	-
Bonds	27,369,232	1,319,210	26,050,022	-
Other	5,124,120	4,084,942	765,731	273,447
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	85,298	9	85,289	-
Derivative financial assets for hedging	31,777	-	31,777	-
Liabilities				
Financial liabilities at fair value through profit or loss	549,343	-	549,343	-
1 January 2013				
NT\$				
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$10,883,272	\$10,883,272	\$-	\$-
Bonds	2,459,664	810,122	1,649,542	-
Other	54,654,511	36,311,221	18,343,290	-
Available-for-sale financial assets				
Stocks	278,706,999	273,346,288	5,360,711	-
Bonds	838,550,417	39,891,903	798,658,514	-
Other	110,063,756	82,471,511	19,951,630	7,640,615
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4,967,364	-	4,967,364	-
Derivative financial assets for hedging	1,142,094	-	1,142,094	-
Liabilities				
Financial liabilities at fair value through profit or loss	2,079,457	-	2,079,457	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	1 January 2013			
	Total	Level 1	Level 2	Level 3
US\$				
Non-derivative financial instruments				
Assets				
Financial assets at fair value				
through profit or loss				
Stocks	\$374,639	\$374,639	\$-	\$-
Bonds	84,670	27,887	56,783	-
Other	1,881,394	1,249,956	631,438	-
Available-for-sale financial assets				
Stocks	9,594,045	9,409,511	184,534	-
Bonds	28,865,762	1,373,215	27,492,547	-
Other	3,788,770	2,838,950	686,804	263,016
Derivative financial instruments				
Assets				
Financial assets at fair value				
through profit or loss				
	170,994	-	170,994	-
Derivative financial assets for				
hedging				
	39,315	-	39,315	-
Liabilities				
Financial liabilities at fair value				
through profit or loss				
	71,582	-	71,582	-

b. Reconciliation for fair value measurements in Level 3 of the fair value hierarchy

(A) Financial assets

For the three-month period ended 31 March 2014								
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 Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$13,102,703	\$120,158	\$250,218	\$6,156,635	\$-	\$(4,508,174)	\$-	\$15,121,540

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

For the three-month period ended 31 March 2014								
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 Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$430,302	\$3,946	\$8,217	\$202,189	\$-	\$(148,052)	\$-	\$496,602

For the three-month period ended 31 March 2013								
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 Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$7,640,615	\$38,782	\$39,974	\$1,069,041	\$-	\$(636,954)	\$-	\$8,151,458

For the three-month period ended 31 March 2013								
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 Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	\$256,310	\$1,301	\$1,341	\$35,862	\$-	\$(21,367)	\$-	\$273,447

(B) Transfers between Level 1 and Level 2

During the three-month periods ended 31 March 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(3) Hedged accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company's interest rate swaps for bonds used as hedging instruments as of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013:

31 March 2014					
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	\$375,333	\$12,326	23 April 2014 ~ 25 December 2023	23 April 2014 ~ 25 December 2023
31 December 2013					
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
31 March 2013					
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	\$947,259	\$31,777	23 April 2013 ~ 23 September 2020	23 April 2013 ~ 23 September 2020
31 January 2013					
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

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The Company'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:

	For the three-month period ended 31 March 2014 NT\$	For the three-month period ended 31 March 2014 US\$
Amount recognized in other comprehensive income	\$(74,964)	\$(2,462)
Amount reclassified from equity to profit or loss	1,607	53

	For the three-month period ended 31 March 2013 NT\$	For the three-month period ended 31 March 2013 US\$
Amount recognized in other comprehensive income	\$(199,066)	\$(6,678)
Amount reclassified from equity to profit or loss	3,769	126

Fair value hedges

The following table summarizes the terms of the Company's futures for bonds used as hedging instruments as of 31 March 2014 and 31 December 2013:

31 March 2014		
Par value (USD)	Hedged item	Maturity date
\$885,650	Bond investments for which no active market exists	14 February 2034 ~ 11 September 2042

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

The Company's futures agreements are considered to be highly effective fair value hedges. For the three-month period ended 31 March 2014, the loss of hedging instrument is NT\$1,578,389 (US\$51,835) thousands, and unrealized profit attributed to hedging bonds is NT\$1,499,442 (US\$49,243) thousands. Both of them are recognized as financial costs in the statement of comprehensive income.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

	31 March 2014			31 December 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	39,397,735	30.510000	1,202,024,902	38,590,232	29.950000	1,155,777,439
AUD	1,290,351	28.169883	36,349,036	1,035,163	26.710908	27,650,131
EUR	1,011,404	41.978709	42,457,414	728,989	41.287573	30,098,202
GBP	424,339	50.750334	21,535,333	466,217	49.502858	23,079,082
CNH	42,958,782	4.906131	210,761,397	38,940,825	4.943631	192,509,070
<u>Non-Monetary Items</u>						
USD	4,436,348	30.510000	135,352,987	4,346,951	29.950000	130,191,169
HKD	10,924,608	3.932943	42,965,859	10,913,660	3.862647	42,155,618
<u>Investments accounted for using the equity method</u>						
CNY	173,911	4.906700	853,331	70,770	4.947200	350,111
USD	3,711	30.510000	113,229	3,832	29.950000	114,759
	31 March 2013			1 January 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	37,401,286	29.875000	1,117,363,425	36,845,654	29.136000	1,073,534,986
AUD	(Note)	(Note)	(Note)	(Note)	(Note)	(Note)
EUR	765,054	38.277344	29,305,339	717,803	38.609570	27,714,068
GBP	592,841	45.380125	26,903,192	526,696	46.975973	24,742,075
CNH	22,183,611	4.815131	106,816,999	19,422,188	4.679730	90,890,601
<u>Non-Monetary Items</u>						
USD	4,702,475	29.875000	140,486,434	3,188,552	29.136000	93,069,180
HKD	11,590,679	3.848656	44,608,536	7,588,075	3.758611	28,520,621
<u>Investments accounted for using the equity method</u>						
CNY	54,760	4.810200	263,405	64,246	4.674100	300,290
USD	3,479	29.875000	103,943	3,493	29.136000	101,761

Note: The amount did not have significant influence.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

Item	31 March 2014 NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$323,310,752	\$-	\$323,310,752
Receivables	48,177,956	56,839	48,234,795
Financial assets at fair value through profit or loss	563,702	81,669,399	82,233,101
Available-for-sale financial assets	118,107,166	1,150,907,946	1,269,015,112
Derivative financial assets for hedging	197,974	177,359	375,333
Investments accounted for using the equity method - Net	-	1,926,744	1,926,744
Bond investments for which no active market exists	33,137,480	1,019,554,926	1,052,692,406
Held-to-maturity financial assets	-	6,129,197	6,192,406
Other financial assets - Net	-	37,400,000	37,400,000
Investment property	-	361,623,781	361,623,781
Investment property under construction	-	16,775,221	16,775,221
Prepayments for buildings and land - Investments	-	5,458,759	5,458,759
Loans	29,115	644,472,358	644,501,473
Reinsurance assets	-	540,311	540,311
Property and equipment	-	27,094,499	27,094,499
Intangible assets	-	176,845	176,845
Deferred tax assets	-	11,538,925	11,538,925
Other assets	562,855	20,419,051	20,981,906
Separate account product assets	22,955,776	390,986,491	413,942,267
Total assets			<u>\$4,323,951,427</u>

Item	31 March 2014 NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$14,720	\$-	\$14,720
Payables	23,395,831	3,683,022	27,078,853
Financial liabilities at fair value through profit or loss	15,732	9,739,216	9,754,948
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,447,908,070	3,447,908,070
Reserve for insurance contracts with feature of financial instruments	-	56,675,317	56,675,317
Foreign exchange volatility reserve	-	11,281,256	11,281,256
Provisions	-	3,778,428	3,778,428
Deferred tax liabilities	-	20,126,754	20,126,754
Other liabilities	2,514	23,395,767	23,398,281
Separate account product liabilities	2,809,669	411,132,598	413,942,267
Total liabilities			<u>\$4,043,958,894</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 March 2014		
	US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$10,617,759	\$-	\$10,617,759
Receivables	1,582,199	1,867	1,584,066
Financial assets at fair value through profit or loss	18,512	2,682,082	2,700,594
Available-for-sale financial assets	3,878,725	37,796,648	41,675,373
Derivative financial assets for hedging	6,502	5,824	12,326
Investments accounted for using the equity method - Net	-	63,276	63,276
Bond investments for which no active market exists	1,088,259	33,482,920	34,571,179
Held-to-maturity financial assets	-	201,287	201,287
Other financial assets - Net	-	1,228,243	1,228,243
Investment property	-	11,875,986	11,875,986
Investment property under construction	-	550,910	550,910
Prepayments for buildings and land - Investments	-	179,270	179,270
Loans	956	21,164,938	21,165,894
Reinsurance assets	-	17,744	17,744
Property and equipment	-	889,803	889,803
Intangible assets	-	5,808	5,808
Deferred tax assets	-	378,947	378,947
Other assets	18,485	670,576	689,061
Separate account product assets	753,884	12,840,279	13,594,163
Total assets			\$142,001,689

Item	31 March 2014		
	US\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$483	\$-	\$483
Payables	768,336	120,953	889,289
Financial liabilities at fair value through profit or loss	517	319,843	320,360
Preferred stock liability	-	985,222	985,222
Insurance liabilities	-	113,231,792	113,231,792
Reserve for insurance contracts with feature of financial instruments	-	1,861,258	1,861,258
Foreign exchange volatility reserve	-	370,485	370,485
Provisions	-	124,086	124,086
Deferred tax liabilities	-	660,977	660,977
Other liabilities	83	768,334	768,417
Separate account product liabilities	92,272	13,501,891	13,594,163
Total liabilities			\$132,806,532

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 December 2013		
	NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$282,058,256	\$-	\$282,058,256
Receivables	47,537,953	95,353	47,633,306
Financial assets at fair value through profit or loss	491,344	73,401,354	73,892,698
Available-for-sale financial assets	133,152,547	1,144,199,576	1,277,352,123
Derivative financial assets for hedging	290,340	163,373	453,713
Investments accounted for using the equity method - Net	-	1,432,832	1,432,832
Bond investments for which no active market exists	30,157,574	993,192,402	1,023,349,976
Held-to-maturity financial assets	-	1,619,138	1,619,138
Other financial assets - Net	-	40,900,000	40,900,010
Investment property	-	345,459,505	345,459,505
Investment property under construction	-	15,570,122	15,570,122
Prepayments for buildings and land - Investments	-	5,173,152	5,173,152
Loans	36,278	635,827,562	635,863,840
Reinsurance assets	-	683,457	683,457
Property and equipment	-	36,669,572	36,669,572
Intangible assets	-	184,090	184,090
Deferred tax assets	-	12,221,216	12,221,216
Other assets	479,858	17,979,865	18,459,723
Separate account product assets	7,333,764	368,918,972	376,252,736
Total assets			<u>\$4,195,229,455</u>

Item	31 December 2013		
	NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Payables	\$19,025,478	\$198	\$19,025,676
Financial liabilities at fair value through profit or loss	25,366	16,122,658	16,148,024
Derivative financial liabilities for hedging	-	5,148	5,148
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,380,579,907	3,380,579,907
Reserve for insurance contracts with feature of financial instruments	-	57,596,449	57,596,449
Foreign exchange volatility reserve	-	10,482,181	10,482,181
Provisions	-	3,919,223	3,919,223
Deferred tax liabilities	-	21,281,632	21,281,632
Other liabilities	4,884	8,627,553	8,632,437
Separate account product liabilities	1,554,591	374,698,145	376,252,736
Total liabilities			<u>\$3,923,923,413</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 December 2013		
	US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$9,455,523	\$-	\$9,455,523
Receivables	1,593,629	3,196	1,596,825
Financial assets at fair value through profit or loss	16,471	2,460,656	2,477,127
Available-for-sale financial assets	4,463,713	38,357,344	42,821,057
Derivative financial assets for hedging	9,733	5,477	15,210
Investments accounted for using the equity method - Net	-	48,033	48,033
Bond investments for which no active market exists	1,010,981	33,295,086	34,306,067
Held-to-maturity financial assets	-	54,279	54,279
Other financial assets - Net	-	1,371,103	1,371,103
Investment property	-	11,580,942	11,580,942
Investment property under construction	-	521,962	521,962
Prepayments for buildings and land - Investments	-	173,421	173,421
Loans	1,216	21,315,037	21,316,253
Reinsurance assets	-	22,912	22,912
Property and equipment	-	1,229,285	1,229,285
Intangible assets	-	6,171	6,171
Deferred tax assets	-	409,696	409,696
Other assets	16,087	602,744	618,831
Separate account product assets	245,852	12,367,381	12,613,233
Total assets			<u>\$140,637,930</u>

Item	31 December 2013		
	US\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Payables	\$637,797	\$6	\$637,803
Financial liabilities at fair value through profit or loss	850	540,485	541,335
Derivative financial liabilities for hedging	-	173	173
Preferred stock liability	-	1,005,699	1,005,699
Insurance liabilities	-	113,328,190	113,328,190
Reserve for insurance contracts with feature of financial instruments	-	1,930,823	1,930,823
Foreign exchange volatility reserve	-	351,397	351,397
Provisions	-	131,385	131,385
Deferred tax liabilities	-	713,431	713,431
Other liabilities	164	289,224	289,388
Separate account product liabilities	52,115	12,561,118	12,613,233
Total liabilities			<u>\$131,542,857</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 March 2013		
	NT\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$309,253,895	\$-	\$309,253,895
Receivables	62,573,119	35,466	62,608,585
Financial assets at fair value through profit or loss	303,593	65,718,101	66,021,694
Available-for-sale financial assets	151,751,557	1,144,191,786	1,295,943,343
Derivative financial assets for hedging	134,255	813,004	947,259
Investments accounted for using the equity method - Net	-	951,794	951,794
Bond investments for which no active market exists	9,721,456	861,439,754	871,161,210
Other financial assets - Net	253	25,900,000	25,900,253
Investment property	-	303,514,424	303,514,424
Investment property under construction	-	8,711,676	8,711,676
Prepayments for buildings and land - Investments	-	1,587,676	1,587,676
Loans	25,108	547,694,385	547,719,493
Reinsurance assets	-	6,837,743	6,837,743
Property and equipment	-	48,324,150	48,324,150
Intangible assets	-	246,530	246,530
Deferred tax assets	-	13,896,261	13,896,261
Other assets	668,928	16,204,844	16,873,772
Separate account product assets	9,757,200	349,618,092	359,375,292
Total assets			\$3,939,875,050

Item	31 March 2013		
	NT\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$125,063	\$-	\$125,063
Payables	40,066,662	2,775,092	42,841,754
Financial liabilities at fair value through profit or loss	-	16,375,898	16,375,898
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,152,043,135	3,152,043,135
Reserve for insurance contracts with feature of financial instruments	-	60,026,735	60,026,735
Foreign exchange volatility reserve	-	7,478,930	7,478,930
Provisions	-	3,856,947	3,856,947
Deferred tax liabilities	-	18,718,608	18,718,608
Other liabilities	205,452	10,893,968	11,099,420
Separate account product liabilities	1,509,458	357,865,834	359,375,292
Total liabilities			\$3,701,941,782

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	31 March 2013		
	US\$		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$10,374,166	\$-	\$10,374,166
Receivables	2,099,065	1,189	2,100,254
Financial assets at fair value through profit or loss	10,184	2,204,566	2,214,750
Available-for-sale financial assets	5,090,626	38,382,817	43,473,443
Derivative financial assets for hedging	4,504	27,273	31,777
Investments accounted for using the equity method - Net	-	31,929	31,929
Bond investments for which no active market exists	326,114	28,897,677	29,223,791
Other financial assets - Net	8	868,836	868,844
Investment property	-	10,181,631	10,181,631
Investment property under construction	-	292,240	292,240
Prepayments for buildings and land - Investments	-	53,260	53,260
Loans	842	18,372,841	18,373,683
Reinsurance assets	-	229,378	229,378
Property and equipment	-	1,621,072	1,621,072
Intangible assets	-	8,270	8,270
Deferred tax assets	-	466,161	466,161
Other assets	22,440	543,604	566,044
Separate account product assets	327,313	11,728,215	12,055,528
Total assets			\$132,166,221

Item	31 March 2013		
	US\$		
	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	\$4,195	\$-	\$4,195
Payables	1,344,068	93,093	1,437,161
Financial liabilities at fair value through profit or loss	-	549,343	549,343
Preferred stock liability	-	1,006,374	1,006,374
Insurance liabilities	-	105,737,777	105,737,777
Reserve for insurance contracts with feature of financial instruments	-	2,013,644	2,013,644
Foreign exchange volatility reserve	-	250,887	250,887
Provisions	-	129,384	129,384
Deferred tax liabilities	-	627,930	627,930
Other liabilities	6,892	365,447	372,339
Separate account product liabilities	50,636	12,004,892	12,055,528
Total liabilities			\$124,184,562

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	1 January 2013		Total
	Recovery within 12 months	Recovery more than 12 months	
Cash and cash equivalents	\$366,121,804	\$-	\$366,121,804
Receivables	57,715,827	10,487	57,726,314
Financial assets at fair value through profit or loss	241,912	72,722,899	72,964,811
Available-for-sale financial assets	153,831,479	1,073,489,693	1,227,321,172
Derivative financial assets for hedging	185,211	956,883	1,142,094
Investments accounted for using the equity method - Net	-	947,731	947,731
Bond investments for which no active market exists	6,968,205	809,936,412	816,904,617
Other financial assets - Net	10	23,500,000	23,500,010
Investment property	-	303,514,424	303,514,424
Investment property under construction	-	7,519,477	7,519,477
Prepayments for buildings and land - Investments	-	1,581,767	1,581,767
Loans	32,348	518,178,598	518,210,946
Reinsurance assets	-	9,170,196	9,170,196
Property and equipment	-	48,356,882	48,356,882
Intangible assets	-	254,878	254,878
Deferred tax assets	-	16,106,670	16,106,670
Other assets	589,418	16,150,056	16,739,474
Separate account product assets	1,287,322	328,269,924	329,557,246
Total assets			\$3,817,640,513

Item	1 January 2013		Total
	Settlement within 12 months	Settlement more than 12 months	
Short-term debts	\$297,268	\$-	\$297,268
Payables	35,522,453	2,551,202	38,073,655
Financial liabilities at fair value through profit or loss	-	2,079,457	2,079,457
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,082,659,251	3,082,659,251
Reserve for insurance contracts with feature of financial instruments	-	61,350,872	61,350,872
Foreign exchange volatility reserve	-	4,270,856	4,270,856
Provisions	-	3,812,483	3,812,483
Deferred tax liabilities	-	20,217,430	20,217,430
Other liabilities	209,870	11,315,940	11,525,810
Separate account product liabilities	1,440,241	328,117,005	329,557,246
Total liabilities			\$3,583,844,328

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	1 January 2013		Total
	Recovery within 12 months	Recovery more than 12 months	
Cash and cash equivalents	\$12,603,160	\$-	\$12,603,160
Receivables	1,986,776	361	1,987,137
Financial assets at fair value through profit or loss	8,327	2,503,370	2,511,697
Available-for-sale financial assets	5,295,404	36,953,173	42,248,577
Derivative financial assets for hedging	6,376	32,939	39,315
Investments accounted for using the equity method - Net	-	32,624	32,624
Bond investments for which no active market exists	239,870	27,880,771	28,120,641
Other financial assets - Net	-	808,950	808,950
Investment property	-	10,448,001	10,448,001
Investment property under construction	-	258,846	258,846
Prepayments for buildings and land - Investments	-	54,450	54,450
Loans	1,114	17,837,473	17,838,587
Reinsurance assets	-	315,669	315,669
Property and equipment	-	1,664,609	1,664,609
Intangible assets	-	8,774	8,774
Deferred tax assets	-	554,446	554,446
Other assets	20,290	555,940	576,230
Separate account product assets	44,314	11,300,170	11,344,484
Total assets			\$131,416,197

Item	1 January 2013		Total
	Settlement within 12 months	Settlement more than 12 months	
Short-term debts	\$10,233	\$-	\$10,233
Payables	1,222,804	87,821	1,310,625
Financial liabilities at fair value through profit or loss	-	71,582	71,582
Preferred stock liability	-	1,032,702	1,032,702
Insurance liabilities	-	106,115,637	106,115,637
Reserve for insurance contracts with feature of financial instruments	-	2,111,906	2,111,906
Foreign exchange volatility reserve	-	147,017	147,017
Provisions	-	131,239	131,239
Deferred tax liabilities	-	695,953	695,953
Other liabilities	7,225	389,533	396,758
Separate account product liabilities	49,578	11,294,906	11,344,484
Total liabilities			\$123,368,136

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

50. Related party transactions

Significant transactions with related parties

(1) Property transactions

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

A. Significant transactions of undertaking contracted projects with related parties are listed below:

Name	Item	For the three-month period ended 31 March 2014	
		NT\$	US\$
Other related party			
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$21,940	\$720
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	224,848	7,384
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	7,848	258
Total		<u>\$254,636</u>	<u>\$8,362</u>

Name	Item	For the three-month period ended 31 March 2013	
		NT\$	US\$
Other related party			
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$4,033	\$135
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	286,811	9,622
Total		<u>\$290,844</u>	<u>\$9,757</u>

The total amounts of contracted projects for real estate as of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, between the Company and Lin Yuan Property Management Co., Ltd. were NT\$51,285 (US\$1,684) thousands, NT\$95,481 (US\$3,201) thousands, NT\$6,095 (US\$204) thousands and NT\$3,408 (US\$117) thousands, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

The total amounts of contracted projects for real estate as of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, between the Company and San Ching Engineering Co., Ltd. were NT\$5,531,912 (US\$181,672) thousands, NT\$5,535,807 (US\$185,579) thousands, NT\$5,474,727 (US\$183,654) thousands and NT\$5,483,615 (US\$188,765) thousands, respectively.

The total amounts of contracted projects for real estate of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, between the Company and Cathay Real Estate Development Co., Ltd. were NT\$49,306 (US\$1,619) thousands, NT\$49,306 (US\$1,653) thousands, NT\$49,306 (US\$1,654) thousands and NT\$49,306 (US\$1,697) thousands, respectively.

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

Name	Rental income			
	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$8,929	\$293	\$7,696	\$258
Associate				
Symphox Information Co., Ltd.	6,068	199	(Note)	(Note)
Cathay Insurance Company Limited (China)	4,959	163	-	-
Subtotal	11,027	362	-	-
Other related party				
Cathay United Bank	99,163	3,257	99,684	3,344
Cathay Century Insurance Co., Ltd.	25,672	843	25,894	869
Cathay Securities Investment Trust Co., Ltd.	10,159	334	9,923	333
Cathay Securities Co., Ltd.	6,143	202	6,288	211
Cathay General Hospital	10,789	354	43,552	1,461
Cathay Real Estate Development Co., Ltd.	4,343	143	4,343	146
Cathay Healthcare Inc.	11,416	375	8,603	288
Cathay Hospitality Management Co., Ltd.	3,454	113	869	29
Subtotal	171,139	5,621	199,156	6,681
Total	\$191,095	\$6,276	\$206,852	\$6,939

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Name	Guarantee deposits received			
	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$8,046	\$264	\$8,505	\$285
Associate				
Symphox Information Co., Ltd.	5,922	195	5,922	199
Cathay Insurance Company Limited (China)	5,219	171	5,262	176
Subtotal	11,141	366	11,184	375
Other related party				
Cathay United Bank	93,526	3,072	95,045	3,186
Cathay Century Insurance Co., Ltd.	24,407	802	24,464	820
Cathay Securities Investment Trust Co., Ltd.	9,270	304	9,270	311
Cathay Securities Co., Ltd.	5,655	186	5,655	190
Cathay General Hospital	10,166	334	10,166	341
Cathay Real Estate Development Co., Ltd.	4,028	132	4,028	135
Cathay Healthcare Inc.	8,012	263	8,012	269
Subtotal	155,064	5,093	156,640	5,252
Total	\$174,251	\$5,723	\$176,329	\$5,912

Name	Guarantee deposits received			
	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	\$7,115	\$239	\$6,604	\$227
Associate				
Symphox Information Co., Ltd.	(Note)	(Note)	(Note)	(Note)
Cathay Insurance Company Limited (China)	-	-	-	-
Subtotal	-	-	-	-
Other related party				
Cathay United Bank	85,466	2,867	85,466	2,942
Cathay Century Insurance Co., Ltd.	23,725	796	22,678	781
Cathay Securities Investment Trust Co., Ltd.	8,903	298	8,903	306
Cathay Securities Co., Ltd.	6,708	225	5,853	201
Cathay General Hospital	10,166	341	10,166	350
Cathay Real Estate Development Co., Ltd.	4,028	135	4,028	139
Cathay Healthcare Inc.	8,012	269	8,012	276
Subtotal	147,008	4,931	145,106	4,995
Total	\$154,123	\$5,170	\$151,710	\$5,222

Note: As a subsidiary during the period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

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

C. Real-estate rental expenses (to related parties):

Name	Rental expense			
	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	\$14,784	\$486	\$12,118	\$407

Name	Guarantee deposits paid			
	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	\$15,172	\$498	\$15,172	\$509

Name	Guarantee deposits paid			
	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	\$14,790	\$496	\$14,790	\$509

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

(2) Cash in banks

Name	Item	31 March 2014		31 December 2013	
		NT\$	US\$	NT\$	US\$
Other related party					
Cathay United Bank	Time deposit	\$7,482	\$246	\$7,482	\$251
	Cash in bank	15,728,848	516,547	25,549,308	856,497
Indovina Bank Limited	Time deposit	-	-	-	-
	Cash in bank	3,534	116	5,226	175
Total		\$15,739,864	\$516,909	\$25,562,016	\$856,923

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Name	Item	31 March 2013		1 January 2013	
		NT\$	US\$	NT\$	US\$
Other related party					
Cathay United Bank	Time deposit	\$57,069,545	\$1,914,442	\$57,338,698	\$1,973,794
	Cash in bank	14,982,020	502,584	16,746,027	576,455
Indovina Bank Limited	Time deposit	409,819	13,748	471	16
	Cash in bank	6,734	226	2,737	94
Total		<u>\$72,468,118</u>	<u>\$2,431,000</u>	<u>\$74,087,933</u>	<u>\$2,550,359</u>

Interest income from Cathay United Bank for the three-month periods ended 31 March 2014 and 2013 were NT\$4,611 (US\$151) thousands and NT\$128,420 (US\$4,308) thousands, respectively.

Interest income from Indovina Bank Limited for the three-month periods ended 31 March 2014 and 2013 were NT\$60 (US\$2) thousands and NT\$1,437 (US\$48) thousands, respectively.

As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, time deposit pledged were NT\$7,482 (US\$246) thousands, NT\$7,482 (US\$251) thousands, NT\$8,382 (US\$281) thousands and NT\$8,698 (US\$299) thousands, respectively.

(3) Bond investments for which no active market exists

Name	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	<u>\$3,000</u>	<u>\$99</u>	<u>\$3,000</u>	<u>\$101</u>

Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	<u>\$3,000</u>	<u>\$101</u>	<u>\$3,000</u>	<u>\$103</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(4) Secured loans

Name	For the three-month period ended 31 March 2014			
	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Other related party				
Cathay General Hospital	\$2,926,691	\$15,988	2.01%~2.55%	\$2,854,248
Other	794,456	3,295	1.34%~3.78%	777,682
Total		<u>\$19,283</u>		<u>\$3,631,930</u>

Name	For the three-month period ended 31 March 2014			
	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Other related party				
Cathay General Hospital	\$96,115	\$525	2.01%~2.55%	\$93,735
Other	26,091	108	1.34%~3.78%	25,540
Total		<u>\$633</u>		<u>\$119,275</u>

Name	For the three-month period ended 31 March 2013			
	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Other related party				
Cathay General Hospital	\$3,210,519	\$19,742	2.43%~2.55%	\$3,140,680
Other	528,879	804	1.34%~3.88%	517,507
Total		<u>\$20,546</u>		<u>\$3,658,187</u>

Name	For the three-month period ended 31 March 2013			
	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Other related party				
Cathay General Hospital	\$107,699	\$662	2.43%~2.55%	\$105,357
Other	17,742	27	1.34%~3.88%	17,360
Total		<u>\$689</u>		<u>\$122,717</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(5) Financial assets at fair value through profit or loss (beneficiary certificates)

Name		31 March 2014		31 December 2013	
		NT\$	US\$	NT\$	US\$
Other related party					
Cathay Securities Investment	Market value	\$3,487,875	\$114,544	\$2,008,405	\$67,328
Trust Co., Ltd. managed funds	Cost	\$3,257,565	\$106,981	\$1,807,565	\$60,596

Name		31 March 2013		1 January 2013	
		NT\$	US\$	NT\$	US\$
Other related party					
Cathay Securities Investment	Market value	\$2,324,561	\$77,979	\$2,319,889	\$79,858
Trust Co., Ltd. managed funds	Cost	\$2,133,838	\$71,581	\$2,152,997	\$74,113

(6) Discretionary account management balance

Name		31 March 2014		31 December 2013	
		NT\$	US\$	NT\$	US\$
Other related party					
Cathay Securities Investment Trust					
Co., Ltd.		\$225,692,713	\$7,411,912	\$227,376,831	\$7,622,421

Name		31 March 2013		1 January 2013	
		NT\$	US\$	NT\$	US\$
Other related party					
Cathay Securities Investment Trust					
Co., Ltd.		\$212,277,615	\$7,121,020	\$204,663,888	\$7,045,229

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(7) Other receivables

Name	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$8,346,959	\$274,120	\$7,550,281	\$253,110
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	13,218	434	43,145	1,446
Other related party				
Cathay United Bank	-	-	-	-
Cathay Century Insurance Co., Ltd.	184,748	6,067	164,984	5,531
Cathay Securities Investment Trust Co., Ltd.	24,653	810	24,192	811
Cathay General Hospital	-	-	-	-
Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$5,996,798	\$201,167	\$5,235,287	\$180,216
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	8,162	274	-	-
Other related party				
Cathay United Bank	16,382	550	12,396	427
Cathay Century Insurance Co., Ltd.	178,929	6,002	141,412	4,868
Cathay Securities Investment Trust Co., Ltd.	24,716	829	22,594	778
Cathay General Hospital	33,730	1,131	1,093	38

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(8) Guarantee deposits paid

Name	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Futures Co., Ltd.	<u>\$743,846</u>	<u>\$24,428</u>	<u>\$711,826</u>	<u>\$23,863</u>

Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Futures Co., Ltd.	<u>\$936,007</u>	<u>\$31,399</u>	<u>\$364,739</u>	<u>\$12,556</u>

For the three-month periods ended 31 March 2014 and 2013, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were NT\$303 (US\$10) thousands and NT\$156 (US\$5) thousands, respectively.

(9) Guarantee deposits received

Name	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Healthcare Inc.	\$3,599	\$118	\$2,446	\$82
Lin Yuan Property Management Co., Ltd.	<u>5,000</u>	<u>164</u>	<u>5,000</u>	<u>168</u>
Total	<u>\$8,599</u>	<u>\$282</u>	<u>\$7,446</u>	<u>\$250</u>

Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Healthcare Inc.	\$3,534	\$118	\$-	\$-
Lin Yuan Property Management Co., Ltd.	<u>5,000</u>	<u>168</u>	<u>5,000</u>	<u>172</u>
Total	<u>\$8,534</u>	<u>\$286</u>	<u>\$5,000</u>	<u>\$172</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(10) Other payables

Name	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note 1)	\$3,682,885	\$120,949	\$3,458,995	\$115,957
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	-	-	14,109	473
Associate				
Symphox Information Co., Ltd.	21,699	713	5,904	198
Other related party				
Cathay Century Insurance Co., Ltd.	6,514	214	2,390	80
Cathay Securities Investment Trust Co., Ltd.	13,757	452	12,754	428
Lin Yuan Property Management Co., Ltd.	41,425	1,360	1,383	46
San Ching Engineering Co., Ltd.	-	-	-	-
Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd. (Note 1)	\$2,774,885	\$93,086	\$2,550,995	\$87,814
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	1,835	62	-	-
Associate				
Symphox Information Co., Ltd.	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Other related party				
Cathay Century Insurance Co., Ltd.	4,332	145	5,732	197
Cathay Securities Investment Trust Co., Ltd.	10,694	359	10,586	364
Lin Yuan Property Management Co., Ltd.	42,591	1,429	3,580	123
San Ching Engineering Co., Ltd.	326	11	326	11

Note 1: The payables consist of interest expenses accrued from preferred stocks.

Note 2: As a subsidiary during the period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(11) Preferred stock liability

Name	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$30,000,000</u>	<u>\$985,222</u>	<u>\$30,000,000</u>	<u>\$1,005,699</u>

Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$30,000,000</u>	<u>\$1,006,374</u>	<u>\$30,000,000</u>	<u>\$1,032,702</u>

(12) Accounts collected in advance (Note)

Name	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Century Insurance Co., Ltd.	\$10,973	\$368	\$10,859	\$374
Cathay United Bank	25,180	845	26,517	913
Cathay Securities Co., Ltd.	4,130	139	3,993	137

Note: As of 31 March 2014 and 31 December 2013, Symphox Information Co., Ltd. is not a subsidiary.

(13) Premium income

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	\$11,876	\$390	\$170,640	\$5,724
Cathay General Hospital	7,376	242	9,972	335
Other	<u>36,140</u>	<u>1,187</u>	<u>34,424</u>	<u>1,155</u>
Total	<u>\$55,392</u>	<u>\$1,819</u>	<u>\$215,036</u>	<u>\$7,214</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(14) Handling fees earned

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Securities Investment Trust Co., Ltd.	\$24,653	\$810	\$23,418	\$786

(15) Insurance expenses

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Century Insurance Co., Ltd.	\$5,929	\$195	\$75,594	\$2,536

The insurance expenses were related to insurance for property and equipment, cash, public accident, etc. Amounts of NT\$750 (US\$25) thousands and NT\$2,550 (US\$86) thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in the above insurance expenses for the three-month periods ended 31 March 2014 and 2013, respectively.

(16) Reinsurance income

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$39,821	\$1,308	\$40,166	\$1,347

On 1 April 2000, Cathay Insurance (Bermuda) Co., Ltd. engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the three-month periods ended 31 March 2014 and 2013, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(17) Reinsurance service expenses

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$2,578	\$85	\$4,038	\$135

(18) Reinsurance claim payments

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$51,681	\$1,697	\$30,021	\$1,007

(19) Other operating income (Note)

Name	For the three-month period ended 31 March 2013	
	NT\$	US\$
Other related party		
Cathay Century Insurance Co., Ltd.	\$7,263	\$244
Cathay United Bank	106,807	3,583
Cathay General Hospital	46	1
Total	\$114,116	\$3,828

Note: Symphox Information Co., Ltd. is not a subsidiary for the three-month period ended 31 March 2014.

(20) Other operating costs

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay United Bank	\$111,336	\$3,657	\$107,629	\$3,611
Cathay Securities Investment Trust Co., Ltd.	38,773	1,273	31,726	1,064
Total	\$150,109	\$4,930	\$139,355	\$4,675

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(21) Non-operating income

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Other related party				
Cathay Century Insurance Co., Ltd.	\$339,072	\$11,136	\$321,171	\$10,774
Cathay United Bank	50,100	1,645	21,964	737
Cathay Securities Investment Trust Co., Ltd.	4,176	137	4,315	144
Total	<u>\$393,348</u>	<u>\$12,918</u>	<u>\$347,450</u>	<u>\$11,655</u>

Non-operating income is mainly generated from the Company's integrated marketing activities.

(22) Operating expenses

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	\$356	\$11	\$3,294	\$111
Associate				
Symphox Information Co., Ltd.	61,234	2,011	(Note)	(Note)
Other related party				
Seaward Card Co., Ltd.	20,184	663	29,330	984
Cathay United Bank	761,311	25,002	436,068	14,628
Cathay Venture Inc.	7,557	248	6,021	202
Lin Yuan Property Management Co., Ltd.	184,158	6,048	168,198	5,642
Cathay Real Estate Development Co., Ltd.	4,686	154	4,027	135
Subtotal	<u>977,896</u>	<u>32,115</u>	<u>643,644</u>	<u>21,591</u>
Total	<u>\$1,039,486</u>	<u>\$34,137</u>	<u>\$646,938</u>	<u>\$21,702</u>

Note: As a subsidiary during the period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

(23) Non-operating expenses

Name	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$223,890</u>	<u>\$7,353</u>	<u>\$223,890</u>	<u>\$7,511</u>

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

(24) Other

A. As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

Item	31 March 2014	31 December 2013	31 March 2013	1 January 2013
CS contracts	USD 1,085,000	USD 1,045,000	USD 1,235,000	USD 985,000

B. The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of NT\$307,050 (US\$10,084) thousands during the three-month period ended 31 March 2014.

(25) Key management personnel compensation

	For the three-month periods ended 31 March			
	2014		2013	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$34,264	\$1,125	\$32,140	\$1,079
Post-employment benefits	519	17	519	17
Total	<u>\$34,783</u>	<u>\$1,142</u>	<u>\$32,659</u>	<u>\$1,096</u>

The management of the Company includes directors, vice general managers and the above.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

51. Pledged assets

(1) The Company

As of 31 March 2014, 31 December 2013, 31 March 2013 and 1 January 2013, the Company provided cash, time deposits and government bonds to its lessees as guarantees for the guarantee deposits received and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the “Guaranteed Depository Insurance”. Details are as follows:

Item	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid - Government bonds	\$9,475,916	\$311,196	\$9,511,241	\$318,848
Guarantee deposits paid - Time deposits	519,782	17,070	519,782	17,425
Guarantee deposits paid - Others	4,175	137	3,459	116
Total	<u>\$9,999,873</u>	<u>\$328,403</u>	<u>\$10,034,482</u>	<u>\$336,389</u>

Item	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid - Government bonds	\$9,605,929	\$322,239	\$9,523,306	\$327,825
Guarantee deposits paid - Time deposits	627,782	21,059	118,698	4,086
Guarantee deposits paid - Others	9,364	314	8,807	303
Total	<u>\$10,243,075</u>	<u>\$343,612</u>	<u>\$9,650,811</u>	<u>\$332,214</u>

Pledged assets are summarized based on the net carrying amounts.

(2) Symphox Information

As of 31 March 2013 and 1 January 2013, the pledged property details are as follows:

Item	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Cash in bank (recognized as other financial assets)	\$253	\$8	\$10	\$-
Financial assets at fair value through profit and loss	44,150	1,481	45,103	1,553
Total	<u>\$44,403</u>	<u>\$1,489</u>	<u>\$45,113</u>	<u>\$1,553</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Symphox Information maintains a trust account at Cathay United Bank for its electronic gift certificates. As of 31 March 2013 and 1 January 2013, the account balance was NT\$253 (US\$8) thousands and NT\$10 (US\$0) thousands, respectively.

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

(3) Cathay life (China)

Item	31 March 2014		31 December 2013	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$1,177,608	\$38,673	\$1,187,328	\$39,803

Item	31 March 2013		1 January 2013	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$1,335,376	\$44,796	\$1,157,835	\$39,857

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

52. Commitment and Contingencies

Legal claim contingency

The Company has its own response policies to legal claims. Once the losses can be reasonable estimated based on professional advices, the Company will recognize the losses and adjust negative impacts on financial affairs resulting from the claims.

53. Significant disaster damages

None.

54. Significant subsequent events

None.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

55. Others matters

(1) Discretionary account management

Item	31 March 2014			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$131,839,323	\$4,329,699	\$131,839,323	\$4,329,699
Overseas stocks	54,333,883	1,784,364	54,333,883	1,784,364
Repurchase bonds	4,193,000	137,701	4,193,000	137,701
Cash in banks	28,342,180	930,778	28,342,180	930,778
Beneficiary certificates	8,540,074	280,462	8,540,074	280,462
Futures and options	907,578	29,805	907,578	29,805
Corporate bonds	690,175	22,666	690,175	22,666
Total	<u>\$228,846,213</u>	<u>\$7,515,475</u>	<u>\$228,846,213</u>	<u>\$7,515,475</u>

Item	31 December 2013			
	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	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	31 March 2013			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$112,766,260	\$3,782,833	\$112,766,260	\$3,782,833
Overseas stocks	32,438,001	1,088,158	32,438,001	1,088,158
Repurchase bonds	2,400,000	80,510	2,400,000	80,510
Cash in banks	27,900,641	935,949	27,900,641	935,949
Beneficiary certificates	35,077,916	1,176,717	35,077,916	1,176,717
Futures and options	967,185	32,445	967,185	32,445
Corporate bonds	727,612	24,408	727,612	24,408
Total	<u>\$212,277,615</u>	<u>\$7,121,020</u>	<u>\$212,277,615</u>	<u>\$7,121,020</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Item	1 January 2013			
	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	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	\$204,663,888	\$7,045,229	\$204,663,888	\$7,045,229

As of 31 March 2014, the Company entered into discretionary account management contracts in the amounts of NT\$140,000,000 (US\$4,597,701) thousands, US\$1,850,000 thousands, and HK\$2,000,000 (US\$257,842) thousands. As of 31 December 2013, the Company 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\$257,935) thousands. As of 31 March 2013, the Company entered into discretionary account management contracts in the amounts of NT\$140,000,000 (US\$4,696,411) thousands, US\$2,090,000 thousands, and HK\$2,000,000 (US\$257,636) thousands. As of 1 January 2013, the Company entered into discretionary account management contracts in the amounts of NT\$140,000,000 (US\$4,819,277) thousands, US\$2,090,000 thousands and HK\$2,000,000 (US\$258,041) thousands.

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

(3) Capital management

A. Objectives

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

B. Policies

In order to assume all types of risks, the Company applies capital adequacy ratio as the indicator for capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically to monitor the status of capital adequacy in the short and mid-term. The Company sets business objectives and plans asset allocation based on the ratio.

C. Procedures

a. Periodically

The Company regularly reviews the capital adequacy ratio. The Company uses assets and liabilities model based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario to estimate the capital adequacy ratio in the future year and analyzes solvency. If the expected ratio deviates from related control standards, the Company decreases the risk exposures or increases capital.

b. Aperiodically

The Company conducts scenario analysis for capital adequacy ratio focusing on the Company's use of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

(4) Changes in accounting policy

To improve the reliability and relevance of financial reporting, enhance financial disclosure transparency, be in line with the international conventions, and increase net value and risk tolerance, the Company and Subsidiaries volunteered to change the subsequent measurements of investment property from cost model to fair value model since year of 2014. Items and amounts of retrospective adjustments are summarized below:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

Effects on the balance sheet items

	31 December 2013	31 March 2013	1 January 2013
	NT\$	NT\$	NT\$
Increase in investment property	\$133,097,147	\$100,904,393	\$100,409,695
Increase in deferred tax liabilities	9,094,681	4,911,827	4,826,827
Increase in retained earnings	107,726,712	95,992,566	95,582,868
Increase in other equity	16,275,754	-	-

	31 December 2013	31 March 2013	1 January 2013
	US\$	US\$	US\$
Increase in investment property	\$4,461,855	\$3,384,917	\$3,456,444
Increase in deferred tax liabilities	304,884	164,771	166,156
Increase in retained earnings	3,611,354	3,220,146	3,290,288
Increase in other equity	545,617	-	-

Effects on the statements of comprehensive income items

	For the three-month period ended 31 March 2014	For the year ended 31 December 2013	For the three-month period ended 31 March 2013
	NT\$	NT\$	NT\$
(Decrease) increase in operating revenue	\$(27,322)	\$13,044,742	\$(14,945)
Decrease in operating expenses	-	1,962,340	509,644
Increase (decrease) in income tax benefit	4,645	(2,863,238)	(85,001)
(Decrease) increase in net income	(22,677)	12,143,844	409,698
Increase in other comprehensive income	827,609	16,275,754	-
(Decrease) increase in earnings per share	(0.01)	2.29	0.08

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

	For the three-month period ended 31 March 2014	For the year ended 31 December 2013	For the three-month period ended 31 March 2013
	US\$	US\$	US\$
(Decrease) increase in operating revenue	\$(897)	\$437,303	\$(502)
Decrease in operating expenses	-	65,784	17,096
Increase (decrease) in income tax benefit	152	(95,985)	(2,851)
(Decrease) increase in net income	(745)	407,102	13,743
Increase in other comprehensive income	27,179	545,617	-
(Decrease) increase in earnings per share	-	0.08	-

56. Information regarding investment in Mainland China

On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 thousands and US\$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousands approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized the Company to remit US\$59,000 thousands as the registered capital again on 16 May 2008. MOEAIC authorized the Company to remit US\$3,400 thousands as the registered capital again on 14 September 2013 and revised the amount of US\$32,520 thousands of unexecuted project to CNY\$200,000 thousands to avoid currency risk. The total registered capital was US\$110,730 thousands. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004. The Company has remitted US\$48,330 thousands to Cathay Life Insurance Ltd. (China) as of 31 December 2009, and injected another US\$29,880 thousands on 29 September 2010. As of 31 March 2014, the Company's remittances to Cathay Life Insurance Ltd. (China) totaled approximately US\$78,210 thousands.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to unaudited consolidated financial statements-continued

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

For the three-month periods ended 31 March 2014 and 2013

On 17 October 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance). On 6 March 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized the Company to remit CNY\$200,000 thousands to increase the share capital. As of 31 March 2014, the Company's remittances to this general insurance company totaled approximately US\$60,910 thousands.

On 1 November 2011 and 11 April 2012, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$47,000 thousands and US\$80,000 thousands, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized the Company to remit CNY\$700,000 (US\$111,000) thousands to increase the share capital. As of 31 March 2014, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately US\$240,810 thousands.

57. Segment information

The Company and Subsidiaries abides by the provisions of insurance law for insurance business operations. In accordance with IFRS 8, the Company and Subsidiaries provides insurance policy products and the overall business decision-makers make decisions based on resource allocation of the Company as a whole, making the entire company one functioning entity.