

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**For The Nine-month Periods Ended**  
**30 September 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.

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**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 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, the related consolidated statements of comprehensive income for the three-month and nine-month periods ended 30 September 2014 and 2013, and the related consolidated statements of changes in equity and cash flows for the nine-month periods ended 30 September 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 nine-month period ended 30 September 2013 and consolidated balance sheets as of 1 January 2013 and 31 December 2013 have been adjusted for the retrospective application of the accounting principle.

Ernst & Young  
Certified Public Accountants  
Taipei, Taiwan, R.O.C.  
12 November 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.

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As at 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013

30 September 2014 and 2013 reviewed only, not audited in accordance with the generally accepted auditing standards

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Cash and cash equivalents	4,6,49,50	\$416,780,851	\$282,058,256	\$280,847,168	\$366,121,804
Receivables	4,7,49,50	50,929,746	47,633,306	54,821,197	57,726,314
Financial assets at fair value through profit or loss	4,5,8,15,49,50	61,365,066	73,892,698	73,430,784	72,964,811
Available-for-sale financial assets	4,5,9,15,49	1,219,636,482	1,277,352,123	1,245,381,277	1,227,321,172
Derivative financial assets for hedging	4,5,10,49	146,267	453,713	570,013	1,142,094
Investments accounted for using the equity method - Net	4,5,11,49	3,064,851	1,432,832	1,155,580	947,731
Bond investments for which no active market exists	4,5,12,15,49,50	1,090,792,525	1,023,349,976	961,782,807	816,904,617
Held-to-maturity financial assets	4,5,13,49	21,781,445	1,619,138	-	-
Other financial assets - Net	4,5,14,49	39,200,000	40,900,000	39,409,505	23,500,010
Investment property	4,5,16,49,50,55	400,170,582	345,459,505	310,384,204	303,514,424
Investment property under construction	4,5,16,49,50	17,924,834	15,570,122	13,053,129	7,519,477
Prepayments for buildings and land - Investments	4,5,16,49,50	1,837,342	5,173,152	1,612,861	1,581,767
Loans	4,17,49,50	675,826,813	635,863,840	613,704,387	518,210,946
Reinsurance assets	4,18,49,50	468,458	683,457	4,042,165	9,170,196
Property and equipment	4,19,49,50	26,904,232	36,669,572	48,092,582	48,356,882
Intangible assets	4,20,49	174,211	184,090	239,820	254,878
Deferred tax assets	4,5,40,49	10,789,600	12,221,216	13,435,350	16,106,670
Other assets	21,22,49,50,51	19,316,590	18,459,723	18,131,377	16,739,474
Separate account product assets	4,42,49	442,715,117	376,252,736	367,150,507	329,557,246
Total assets		\$4,499,825,012	\$4,195,229,455	\$4,047,244,713	\$3,817,640,513

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**

**Consolidated balance sheets - (continued)**

**As at 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013**

**30 September 2014 and 2013 reviewed only, not audited in accordance with the generally accepted auditing standards**

**(Expressed in thousands of New Taiwan Dollars)**

Liabilities and equity	Notes	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Short-term debts	49	\$209,198	\$-	\$293,692	\$297,268
Payables	23,49,50	32,472,741	19,025,676	41,157,093	38,073,655
Financial liabilities at fair value through profit or loss	4,5,24,49	16,299,230	16,148,024	8,750,413	2,079,457
Derivative financial liabilities for hedging	4,5,25,49	13,397	5,148	-	-
Preferred stock liability	26,49,50	30,000,000	30,000,000	30,000,000	30,000,000
Insurance liabilities	4,5,27,49	3,578,344,621	3,380,579,907	3,272,418,801	3,082,659,251
Reserve for insurance contracts with feature of financial instruments	4,5,27,49	55,145,882	57,596,449	58,276,729	61,350,872
Foreign exchange volatility reserve	4,5,27,49	13,173,058	10,482,181	8,544,887	4,270,856
Provisions	4,5,29,49	3,762,972	3,919,223	3,931,978	3,812,483
Deferred tax liabilities	4,5,40,49,55	23,504,270	21,281,632	19,359,854	20,217,430
Other liabilities	30,31,49,50	10,291,316	8,632,437	5,841,177	11,525,810
Separate account product liabilities	4,42,49	442,715,117	376,252,736	367,150,507	329,557,246
<b>Total liabilities</b>		<b>4,205,931,802</b>	<b>3,923,923,413</b>	<b>3,815,725,131</b>	<b>3,583,844,328</b>
Equity attributable to equity holders of the parent					
Capital stock					
Common stock	32	53,065,274	53,065,274	53,065,274	53,065,274
Capital surplus	33	13,029,142	13,038,791	13,009,649	13,009,649
Retained earnings	34,55				
Legal capital reserve		13,038,968	9,897,228	9,897,228	9,241,230
Special capital reserve		173,073,853	38,050,593	36,610,748	35,106,484
Unappropriated retained earnings		29,257,611	121,889,246	116,113,893	97,890,816
Other equity	55	10,525,565	34,623,655	1,793,060	24,469,760
Non-controlling interests	34	1,902,797	741,255	1,029,730	1,012,972
<b>Total equity</b>		<b>293,893,210</b>	<b>271,306,042</b>	<b>231,519,582</b>	<b>233,796,185</b>
<b>Total liabilities and equity</b>		<b>\$4,499,825,012</b>	<b>\$4,195,229,455</b>	<b>\$4,047,244,713</b>	<b>\$3,817,640,513</b>

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



**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of comprehensive income**  
**For the nine-month periods ended 30 September 2014 and 2013**  
**Reviewed only, not audited in accordance with the generally accepted auditing standards**  
**(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Item	Notes	1 January-30 September 2014	1 January-30 September 2013
Operating revenue	4,50		
Direct premium income	35	\$336,906,306	\$293,979,072
Reinsurance premium income	35	153,642	153,164
Premium income	35	337,059,948	294,132,236
Deduct: Premiums ceded to reinsurers	35	(9,627,522)	(13,733,659)
Changes in unearned premium reserve	27,35	(367,287)	(5,353,252)
Retained earned premium	35	327,065,139	275,045,325
Reinsurance commission earned		4,720,610	8,733,193
Handling fees earned	42	4,589,231	2,389,978
Net investment profits and losses			
Interest income		73,901,836	69,532,109
Losses from financial assets and liabilities at fair value through profit or loss		(13,460,861)	(20,338,522)
Realized gains from available-for-sale financial assets		35,107,202	25,713,773
Realized gains from bond investments for which no active market exists		5,940,463	9,997,303
Share of the gains (losses) of associates and joint ventures accounted for using the equity method		9,565	(224,099)
Foreign exchange gains		9,416,162	22,006,379
Changes in foreign exchange volatility reserve	27	(2,690,877)	(4,274,031)
Gains from investment property	55	23,546,962	11,980,383
Losses from other investments - Net		(2)	-
Other operating revenue		6,122	1,012,370
Separate account product revenue	4,42	100,213,913	68,699,351
Subtotal		568,365,465	470,273,512
Operating costs	4,50		
Insurance claim payments	36	(211,037,554)	(161,338,549)
Deduct: Claims recovered from reinsures	36	4,691,973	8,826,920
Retained claim payments	36	(206,345,581)	(152,511,629)
Changes in insurance liabilities	27	(191,345,154)	(186,957,534)
Changes in reserve for insurance contracts with feature of financial instruments	27	(243,877)	(270,677)
Brokerage expenses	37	(12,154,034)	(12,212,742)
Commission expenses		(12,194,432)	(12,544,945)
Other operating costs		(3,335,036)	(3,996,759)
Finance costs		(67,250)	384,786
Separate account product expenses	4,42	(100,213,913)	(68,699,351)
Subtotal		(525,899,277)	(436,808,851)
Operating expenses	4,37,50		
Business expenses		(5,199,184)	(5,050,513)
Administrative and general expenses	55	(6,251,635)	(5,923,034)
Employee training expenses		(30,294)	(32,424)
Subtotal		(11,481,113)	(11,005,971)
Operating income		30,985,075	22,458,690
Non-operating income and expenses	4,38,50	1,126,429	844,460
Income from continuing operations before income tax		32,111,504	23,303,150
Income tax expense	4,5,40,55	(2,748,083)	(2,867,704)
Net income from continuing operations		29,363,421	20,435,446
Net income		29,363,421	20,435,446
Other comprehensive income	39		
Exchange differences resulting from translating the financial statements of foreign operations		(370,050)	119,166
Unrealized valuation losses from available-for-sale financial assets		(8,424,425)	(24,990,332)
Effective portion of losses on hedging instruments in cash flow hedges		(315,665)	(584,583)
Gains from revaluation	55	902,335	-
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method		28,530	15,994
Other comprehensive income, before tax		(8,179,275)	(25,439,755)
Income taxes relating to components of other comprehensive income		445,851	2,745,820
Other comprehensive income, net of tax		(7,733,424)	(22,693,935)
Total comprehensive income		\$21,629,997	\$(2,258,489)
Net income attributable to:			
Equity holders of the parent		\$29,257,611	\$20,383,339
Non-controlling interests		\$105,810	\$52,107
Total comprehensive income attributable to:			
Equity holders of the parent		\$21,435,275	\$(2,293,361)
Non-controlling interests		\$194,722	\$34,872
Basic earnings per share (In dollars)	41		
Net income from continuing operations		\$5.51	\$3.84

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

**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of changes in equity**  
**For the nine-month periods ended 30 September 2014 and 2013**  
**Reviewed only, not audited in accordance with the generally accepted auditing standards**  
**(Expressed in thousands of New Taiwan Dollars)**

Summary	Notes	Equity attributable to equity holders of the parent										Non-controlling interests	Total
		Retained earnings					Other equity						
		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		
Balance on 1 January 2013		\$53,065,274	\$13,009,649	\$9,241,230	\$32,111,919	\$5,302,513	\$(428,258)	\$23,938,471	\$959,547	\$-	\$137,200,345	\$1,012,972	\$138,213,317
Special capital reserve recognized in accordance with Order No. 10202508140 issued by Insurance Bureau	34	-	-	-	2,994,565	(2,994,565)	-	-	-	-	-	-	-
Effects on retrospective application and restatement		-	-	-	-	95,582,868	-	-	-	-	95,582,868	-	95,582,868
Balance on 1 January 2013 (Adjusted)	55	53,065,274	13,009,649	9,241,230	35,106,484	97,890,816	(428,258)	23,938,471	959,547	-	232,783,213	1,012,972	233,796,185
Appropriation and distribution of earnings for the year 2012	34												
Legal capital reserve		-	-	655,998	-	(655,998)	-	-	-	-	-	-	-
Special capital reserve		-	-	-	1,538,957	(1,538,957)	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits		-	-	-	(34,693)	34,693	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2013 (Adjusted)	55	-	-	-	-	20,383,339	-	-	-	-	20,383,339	52,107	20,435,446
Other comprehensive income for the nine-month period ended 30 September 2013	39	-	-	-	-	-	98,410	(22,289,906)	(485,204)	-	(22,676,700)	(17,235)	(22,693,935)
Total comprehensive income for the nine-month period ended 30 September 2013 (Adjusted)		-	-	-	-	20,383,339	98,410	(22,289,906)	(485,204)	-	(2,293,361)	34,872	(2,258,489)
Changes in non-controlling interests	34	-	-	-	-	-	-	-	-	-	-	(18,114)	(18,114)
Balance on 30 September 2013 (Adjusted)	55	\$53,065,274	\$13,009,649	\$9,897,228	\$36,610,748	\$116,113,893	\$(329,848)	\$1,648,565	\$474,343	\$-	\$230,489,852	\$1,029,730	\$231,519,582
Balance on 1 January 2014 (Adjusted)	55	\$53,065,274	\$13,038,791	\$9,897,228	\$38,050,593	\$121,889,246	\$(189,809)	\$18,165,426	\$372,284	\$16,275,754	\$270,564,787	\$741,255	\$271,306,042
Special capital reserve recognized in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10302501001	34	-	-	-	124,002,466	(107,726,712)	-	-	-	(16,275,754)	-	-	-
Appropriation and distribution of earnings for the year 2013	34												
Legal capital reserve		-	-	3,141,740	-	(3,141,740)	-	-	-	-	-	-	-
Special capital reserve		-	-	-	12,705,121	(12,705,121)	-	-	-	-	-	-	-
Special capital reserve used to cover accumulated deficits		-	-	-	(1,684,327)	1,684,327	-	-	-	-	-	-	-
Changes in other capital surplus													
Changes in amount of associates and joint ventures accounted for using the equity method		-	(9,649)	-	-	-	-	-	-	-	(9,649)	-	(9,649)
Net income for the nine-month period ended 30 September 2014		-	-	-	-	29,257,611	-	-	-	-	29,257,611	105,810	29,363,421
Other comprehensive income for the nine-month period ended 30 September 2014	39	-	-	-	-	-	(391,282)	(7,996,661)	(262,002)	827,609	(7,822,336)	88,912	(7,733,424)
Total comprehensive income for the nine-month period ended 30 September 2014		-	-	-	-	29,257,611	(391,282)	(7,996,661)	(262,002)	827,609	21,435,275	194,722	21,629,997
Changes in non-controlling interests	34	-	-	-	-	-	-	-	-	-	-	966,820	966,820
Balance on 30 September 2014		\$53,065,274	\$13,029,142	\$13,038,968	\$173,073,853	\$29,257,611	\$(581,091)	\$10,168,765	\$110,282	\$827,609	\$291,990,413	\$1,902,797	\$293,893,210

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



**Cathay Life Insurance Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows**  
**For the nine-month periods ended 30 September 2014 and 2013**  
**Reviewed only, not audited in accordance with the generally accepted auditing standards**  
**(Expressed in thousands of New Taiwan Dollars)**

	Notes	1 January-30 September 2014	1 January-30 September 2013
Cash flows from operating activities			
Net income, before tax	55	\$32,111,504	\$23,303,150
Adjustments:			
Non-cash revenue and expense items			
Depreciation	37,55	503,102	749,766
Amortization	37	37,683	49,450
Provision for bad debt expenses		312,784	1,239,676
Net losses from financial assets and liabilities at fair value through profit or loss		13,654,689	20,784,820
Net gains from available-for-sale financial assets		(21,213,890)	(13,622,175)
Net gains from bond investments for which no active market exists		(5,940,463)	(9,997,303)
Interest expenses		44,358	39,436
Interest income		(73,901,836)	(69,532,109)
Dividend income		(14,087,140)	(12,537,896)
Changes in insurance liabilities		197,764,714	189,759,550
Changes in reserve for insurance contracts with feature of financial instruments		(2,450,567)	(3,074,143)
Changes in foreign exchange volatility reserve		2,690,877	4,274,031
Share of the (gains) losses of associates and joint ventures accounted for using the equity method		(9,565)	224,099
(Gains) losses on disposal or scrapping of property and equipment		(32)	1,181
Losses on disposal of investments accounted for using the equity method		2	-
Gains on disposal of investment property		(1,289,705)	-
Gains on valuation of investment property	55	(16,366,648)	(6,755,579)
Subtotal		<u>79,748,363</u>	<u>101,602,804</u>
Changes in operating assets and liabilities			
Decrease in financial assets at fair value through profit or loss		45,804,809	11,750,750
Increase in derivative financial assets for hedging		(8,219)	(12,502)
Decrease (increase) in available-for-sale financial assets		70,505,106	(29,428,262)
Increase in bond investments for which no active market exists		(61,502,087)	(134,880,887)
Increase in held-to-maturity financial assets		(20,162,307)	-
(Increase) decrease in premiums receivable		(10,355)	24,318
Decrease in notes receivable		475,638	770,666
(Increase) decrease in other accounts receivable		(3,355,771)	4,448,799
Decrease in prepaid expenses and other prepayments		27,150	170,668
Increase in guarantee deposits paid		(878,334)	(1,774,498)
Decrease in reinsurance assets		214,999	5,128,031
Decrease (increase) in other financial assets		1,700,000	(15,909,495)
Increase in other assets		(896,656)	(9,673)
Decrease in financial liabilities at fair value through profit or loss		(45,889,687)	(26,108,986)
Increase in derivative financial liabilities for hedging		8,249	-
(Decrease) increase in notes payable		(14)	840
Increase in life insurance proceeds payable		69,679	10,394
Increase in other payables		13,251,917	7,560,938
Decrease in due to reinsurers and ceding companies		(282,869)	(4,161,175)
(Decrease) increase in reinsurance proceeds payable		(8,952)	8,952
Increase (decrease) in commissions payable		372,972	(336,511)
Increase in accounts collected in advance		2,233,930	20,787
Increase in guarantee deposits received		490,274	96,673
(Decrease) increase in provisions		(140,227)	9,555
Decrease in deferred handling fees		(14,218)	(8,883)
Decrease in other liabilities		(1,009,544)	(5,793,210)
(Decrease) increase in provision for employee benefits		(16,024)	109,940
Subtotal		<u>979,459</u>	<u>(188,312,771)</u>
Cash generated from (used in) operating activities		<u>112,839,326</u>	<u>(63,406,817)</u>
Interest received		73,829,074	68,776,809
Dividends received		14,185,866	12,594,426
Interest paid		(46,846)	(39,436)
Income taxes received (paid)		1,052,154	(191,096)
Net cash provided by operating activities		<u>201,859,574</u>	<u>17,733,886</u>
Cash flows from investing activities			
Acquisition of investments accounted for using the equity method		(1,745,120)	(485,551)
Disposal of investments accounted for using the equity method		39,706	-
Disinvestment of investments accounted for using the equity method		2,673	13,067
Acquisition of property and equipment		(207,825)	(364,367)
Disposal of property and equipment		3,884	402
Acquisition of intangible assets		(27,752)	(32,676)
Increase in loans		(40,242,320)	(96,433,526)
Acquisition of investment property		(27,493,476)	(5,678,948)
Disposal of investment property		1,487,000	-
Net cash used in investing activities		<u>(68,183,230)</u>	<u>(102,981,599)</u>
Cash flows from financing activities			
Increase (decrease) in notes and bonds with repurchase agreements		209,198	(3,576)
Cash dividends paid		-	(18,114)
Capital increase by cash		966,820	-
Net cash provided by (used in) financing activities		<u>1,176,018</u>	<u>(21,690)</u>
Effects of exchange rate changes on cash and cash equivalents		<u>(129,767)</u>	<u>(5,233)</u>
Increase (decrease) in cash and cash equivalents		<u>134,722,595</u>	<u>(85,274,636)</u>
Cash and cash equivalents at the beginning of the periods		282,058,256	366,121,804
Cash and cash equivalents at the end of the periods		<u>\$416,780,851</u>	<u>\$280,847,168</u>

**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 consolidated interim financial statements**

**For the nine-month periods ended 30 September 2014 and 2013**

30 September 2014 and 2013 reviewed only, not audited in accordance with the generally accepted auditing standards  
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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 nine-month periods ended 30 September 2014 and 2013 were authorized to issue in accordance with resolution of the Company’s board of directors on 12 November 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.

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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 requires qualitative disclosures in the context of quantitative disclosures to enable users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The amendment became effective for annual periods beginning on or after 1 January 2011.

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*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.

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*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 derecognized in their entirety, but the entity has a continuing involvement in them, or when financial assets are not derecognized 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.

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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 presents 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.

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**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 on the net defined benefit liability (asset). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc.. 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.

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*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.

*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: (1) The difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. (2) 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. (3) The additional comparative period does not need to contain a complete set of financial statements. The opening statement of financial position 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, the related notes are not required to include comparatives as of the date of the opening statement. The amendment is effective for annual periods beginning on or after 1 January 2013.



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*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 issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2015. When the Company and Subsidiaries apply the amendments to IAS 19 *Employee Benefits* in 2015, employee benefits will be recognized based on actuarial calculations in accordance with IAS 19. The Company and Subsidiaries anticipate that as of 1 January 2014, deferred tax assets will be retrospectively restated to decrease by \$484,981 thousands; accrued pension liabilities will be retrospectively restated to decrease by \$2,852,827 thousands; equity will be retrospectively restated to increase by \$2,367,846 thousands. The Company and Subsidiaries are still currently determining the potential impact of the standards and interpretations.

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

A. 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.

B. 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.

C. 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.

D. 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.

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*E. 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 add 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 recognized 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.

*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.

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*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.

F. *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 and 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.

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*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.

**G. IFRS 14 Regulatory Deferral Accounts**

IFRS 14 permits first-time adopters to continue to recognize 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 recognize 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.

**H. IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)**

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

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I. *IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

J. *IFRS 15 “Revenue from Contracts with Customers”*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The Standard is effective for annual periods beginning on or after 1 January 2017.

K. *IAS 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

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*L. IFRS 9“Financial Instruments”*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that ‘own credit risk’ adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018.

*M.IAS 27“Separate Financial Statements” — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

The amendment is effective for annual periods beginning on or after 1 January 2016.

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*N. IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The amendment is effective for annual periods beginning on or after 1 January 2016.

*O. Improvements to International Financial Reporting Standards (2012-2014 cycle)*

*IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”*

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.



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*IFRS 7 “Financial Instruments: Disclosures”*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting*. The amendment is effective for annual periods beginning on or after 1 January 2016.

*IAS 19 “Employee Benefits”*

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

*IAS 34 “Interim Financial Reporting”*

The amendment clarifies what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment 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.

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the nine-month periods ended 30 September 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.

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.

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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			
			2014.9.30	2013.12.31	2013.9.30	2013.1.1
The Company	Symphox Information Co., Ltd. ("Symphox Information") (Note1)	Type II telecom service, data processing service, information supply service	49.12	49.12	60.12	60.12
The Company	Cathay Lujiazui Life Insurance Co., Ltd. ("Cathay Life (China)") (Note2)	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
The Company	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	-	-	-
The Company	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	-	-	-

Note1: 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.

Note2: Cathay Life Insurance Ltd. (China) renamed as Cathay Lujiazui Life Insurance Company Limited with the approval of China Insurance Regulatory Commission on 12 August 2014.

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The consolidated financial statements exclude the following:

Investors	Investees	Business	Ownership interest				Notes
			2014.9.30	2013.12.31	2013.9.30	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.

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(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.

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(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.

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- 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.

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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.



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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.

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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.

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- C. The Company and Subsidiaries shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- 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.

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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.

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.

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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.

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.

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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.
- 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.

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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.

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.

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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.

(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.



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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.

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*.

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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.

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.

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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.

(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.

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

(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.

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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).

(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.

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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".

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.

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(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.

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.

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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:

(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 \$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.



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(b) Special capital reserve— Special reserve for fluctuation of risks

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

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used 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.

- (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.

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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 \$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.

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.

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h. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is \$4,511,406 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 30 September 2014, the amount set aside was \$13,173,058 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.

(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.

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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.

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.

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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.

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(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.

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(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.

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

**Notes to consolidated interim financial statements –continued**

**For the nine-month periods ended 30 September 2014 and 2013**

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(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

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:



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- 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.

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.

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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.”

(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 \$95,582,868 thousands as of 1 January 2013 and increases of net income by \$12,143,844 thousands, other comprehensive income by \$16,275,754 thousands, and total comprehensive income by \$28,419,598 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.

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

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(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.

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 accounts for the contracts as operating leases.

(2) Estimates and assumptions

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

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

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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.

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.

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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.

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 counties 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.

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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

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Cash on hand and revolving funds	\$223,116	\$184,103	\$215,357	\$202,262
Cash in banks	106,230,634	52,718,933	55,451,133	83,168,415
Time deposits	270,163,973	219,761,847	214,727,384	245,620,182
Cash equivalents	40,163,128	9,393,373	10,453,294	37,130,945
Total	<u>\$416,780,851</u>	<u>\$282,058,256</u>	<u>\$280,847,168</u>	<u>\$366,121,804</u>

7. Receivables

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Note receivable - Net	\$1,978,776	\$2,434,414	\$2,190,124	\$2,960,789
Premium receivable - Net	63,070	52,715	52,417	76,735
Other receivable - Net				
Other receivable	48,890,825	45,175,635	52,896,967	54,695,919
Less: Allowance for bad debts -				
Other receivable	(2,925)	(29,458)	(318,436)	(7,129)
Overdue receivable	77,409	17,440	15,708	27,308
Less: Allowance for bad debts -				
Overdue receivable	(77,409)	(17,440)	(15,583)	(27,308)
Total	<u>\$50,929,746</u>	<u>\$47,633,306</u>	<u>\$54,821,197</u>	<u>\$57,726,314</u>

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8. Financial assets at fair value through profit or loss

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Listed stocks	\$7,555,233	\$11,532,825	\$13,404,021	\$10,883,272
Overseas stocks	2,644,248	-	-	-
Beneficiary certificates	38,506,042	41,891,576	37,876,745	35,827,323
Exchange traded funds	-	69,571	68,454	492,845
Overseas bonds	3,874,549	165,200	106,439	124,249
Corporate bonds	3,746,133	2,989,701	1,866,807	810,122
Government bonds	-	1,433,421	1,440,882	1,525,293
Derivative financial instruments	2,737,611	3,375,604	6,338,736	4,967,364
Structured time deposits	2,301,250	12,434,800	12,328,700	18,334,343
<b>Total</b>	<b>\$61,365,066</b>	<b>\$73,892,698</b>	<b>\$73,430,784</b>	<b>\$72,964,811</b>

As of 30 September 2013 and 1 January 2013, Symphox Information Co., Ltd. has pledged \$47,345 thousands and \$45,103 thousands, respectively, as collaterals for its e-coupon transaction. Refer to Note 51 (2) disclosure for pledged assets.

9. Available-for-sale financial assets

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Stocks	\$280,362,914	\$281,317,411	\$255,557,078	\$204,284,325
Overseas stocks	139,120,005	135,670,956	116,896,314	74,422,673
Beneficiary certificates	145,978,267	106,583,918	102,596,268	85,183,983
Collateralized loans obligation and collateralized bonds obligation	3,887,588	5,272,630	6,140,504	6,430,972
Exchange traded funds	2,505,371	9,374,048	9,335,865	6,761,735
Real estate investment trust	11,256,170	12,294,991	12,475,151	11,687,066
Financial debentures	123,255,168	167,630,534	188,850,460	198,212,492
Corporate bonds	47,673,803	57,357,231	54,962,526	51,709,182
Government bonds	191,250,218	219,881,250	210,849,008	212,364,770
Overseas bonds	283,053,523	291,480,395	297,229,542	385,787,280
<b>Subtotal</b>	<b>1,228,343,027</b>	<b>1,286,863,364</b>	<b>1,254,892,716</b>	<b>1,236,844,478</b>
Less: Litigation deposits	(44,804)	(37,307)	(27,904)	-
Less: Securities serving as deposits paid-bonds	(8,661,741)	(9,473,934)	(9,483,535)	(9,523,306)
<b>Total</b>	<b>\$1,219,636,482</b>	<b>\$1,277,352,123</b>	<b>\$1,245,381,277</b>	<b>\$1,227,321,172</b>

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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 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the Company and Subsidiaries recognized impairment losses amounting to \$1,669,430 thousands, \$1,669,430 thousands, \$1,673,957 thousands and \$1,697,370 thousands, respectively.

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

10. Derivative financial assets for hedging

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
IRS	\$146,267	\$453,713	\$570,013	\$1,142,094

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	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Cathay Insurance (Bermuda) Co., Ltd.	\$120,470	\$114,759	\$112,283	\$101,761
Cathay Securities Investment Consulting Co., Ltd.	193,026	207,884	186,266	170,659
Total	\$313,496	\$322,643	\$298,549	\$272,420

(2) Investments in associates:

Investee	30 September 2014	31 December 2013	30 September 2013	1 January 2013
WK Technology Fund VI Co., Ltd.	\$281,023	\$280,880	\$263,757	\$279,441
Vista Technology Venture Capital Corp.	-	4,144	4,501	7,451
Omnitek Venture Capital Corp.	-	39,704	39,648	31,694
IBT Venture Capital Corp.	21,045	29,365	47,175	56,435
Da Sheng Venture Inc.	1,244,730	-	-	-
Symphox Information Co., Ltd.	427,141	405,985	-	-
Cathay Insurance Company Limited (China)	777,416	350,111	501,950	300,290
Total	\$2,751,355	\$1,110,189	\$857,031	\$675,311



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Omnitek Venture Capital Corp. has completed of the liquidation in March 2014, and returned \$39,706 thousands of investments. As of 30 April 2014, the stockholders of Vista Technology Venture Capital Corp. approved to dissolve their company on 30 June 2014 at the stockholders' meeting, and have already returned \$2,673 thousands of investments. Before Vista Technology Venture Capital Corp. is dissolved, the remaining balance of \$440 thousands in the investments accounted for using the equity method is transferred to other receivables.

There was no quoted price for above associates.

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the carrying amount of investments in associates accounted for using the equity method amounted to \$2,751,355 thousands, \$1,110,189 thousands, \$857,031 thousands and \$675,311 thousands, respectively. The share of the losses of associates accounted for using the equity method amounted to \$(55,582) thousands and \$(117,976) thousands for the three-month periods ended 30 September 2014 and 2013, respectively. The share of the losses of associates accounted for using the equity method amounted to \$(63,780) thousands and \$(304,936) thousands for the nine-month periods ended 30 September 2014 and 2013, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to \$25,755 thousands and \$8,442 thousands for the three-month periods ended 30 September 2014 and 2013, respectively. The share of the other comprehensive income of associates accounted for using the equity method amounted to \$26,636 thousands and \$14,172 thousands for the nine-month periods ended 30 September 2014 and 2013, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unreviewed amounted to \$1,973,939 thousands and \$355,081 thousands, as at 30 September 2014 and 2013, respectively. The share of the gains of these associates accounted for using the equity method amounted to \$13,923 thousands and \$6,086 thousands for the three-month periods ended 30 September 2014 and 2013, respectively. The share of the gains (losses) of these associates accounted for using the equity method amounted to \$7,881 thousands and \$(14,084) thousands for the nine-month periods ended 30 September 2014 and 2013, respectively.

No investment in associates was pledged.

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Financial information of the associates is summarized below:

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Total assets (100%)	\$11,971,374	\$6,278,284	\$4,981,471	\$3,782,690
Total liabilities (100%)	3,439,248	3,413,367	2,379,725	1,494,250

  

	For the three-month period ended 30 September 2014	For the three-month period ended 30 September 2013	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Revenue (100%)	\$1,159,297	\$553,734	\$3,394,901	\$1,631,248
Loss (100%)	(98,572)	(221,457)	(146,577)	(645,413)

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

(3) Disposal of subsidiary

The Company obtained proceeds of \$90,297 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 \$61,155 thousands, and the differences between proceeds obtained and net carrying amount was \$29,142 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.

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

Fair value of remaining shares	\$404,431
Carrying amount of non-controlling interests	192,718
	<hr/> 597,149
Less: carrying amount of net assets of subsidiary	(465,992)
Unrealized valuation gains from available-for-sale financial assets transferred to profit or loss	17
Recognized profit	<hr/> <hr/> \$131,174

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

Fair value of remaining shares	\$404,431
Carrying amount of proportional remaining shares	(273,274)
Profit from remaining shares	<u>\$131,157</u>

12. Bond investments for which no active market exists

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Stocks	\$7,487,287	\$7,531,287	\$7,531,287	\$7,531,287
Corporate bonds	14,997,107	13,000,000	13,000,000	13,500,000
Financial debentures	30,749,813	15,550,000	11,350,000	8,950,000
Overseas bonds	1,031,929,968	979,134,169	919,802,245	768,043,949
Time deposits	4,042,350	8,034,520	9,999,275	18,879,381
Beneficial right of real estate	200,000	100,000	100,000	-
Collateralized loans obligation and collateralized bonds obligation	1,386,000	-	-	-
Total	<u>\$1,090,792,525</u>	<u>\$1,023,349,976</u>	<u>\$961,782,807</u>	<u>\$816,904,617</u>

A CDO impairment is recognized as objective impairment evidence exists for some overseas bonds held by the Company and Subsidiaries. As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the Company and Subsidiaries recognized impairment losses amounting to \$395,668 thousands, \$389,350 thousands, \$385,710 thousands and \$378,768 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

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Corporate bonds	\$2,696,461	\$-	\$-	\$-
Government bonds	17,918,479	-	-	-
Overseas bonds	1,791,892	1,619,138	-	-
Subtotal	22,406,832	1,619,138	-	-
Less: Securities serving as deposits paid-bonds	(625,387)	-	-	-
Total	<u>\$21,781,445</u>	<u>\$1,619,138</u>	<u>\$-</u>	<u>\$-</u>

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

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14. Other financial assets

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Structured deposits	\$39,200,000	\$40,900,000	\$39,400,000	\$23,500,000
Other	-	-	9,505	10
Total	<u>\$39,200,000</u>	<u>\$40,900,000</u>	<u>\$39,409,505</u>	<u>\$23,500,010</u>

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

15. Structured notes

The financial asset investment portfolio belonging to structured notes amounted to \$19,929,046 thousands, \$8,874,813 thousands, \$7,336,793 thousands and \$7,840,496 thousands as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, respectively. The details of structured notes are listed below:

Item	30 September 2014		
	Cost	Adjustment of valuation	Book value
Financial assets at fair value through profit or loss	\$49,695	\$24,381	\$74,076
Available-for-sale financial assets	7,152,460	193,314	7,345,774
Bond investments for which no active market exists	12,509,196	-	12,509,196
Total	<u>\$19,711,351</u>	<u>\$217,695</u>	<u>\$19,929,046</u>

  

Item	31 December 2013		
	Cost	Adjustment of valuation	Book value
Financial assets at fair value through profit or loss	\$67,936	\$26,629	\$94,565
Available-for-sale financial assets	8,535,750	244,498	8,780,248
Total	<u>\$8,603,686</u>	<u>\$271,127</u>	<u>\$8,874,813</u>

  

Item	30 September 2013		
	Cost	Adjustment of valuation	Book value
Financial assets at fair value through profit or loss	\$80,390	\$26,049	\$106,439
Available-for-sale financial assets	6,972,450	257,904	7,230,354
Total	<u>\$7,052,840</u>	<u>\$283,953</u>	<u>\$7,336,793</u>

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Item	1 January 2013		
	Cost	Adjustment of valuation	Book value
Financial assets at fair value through profit or loss	\$96,441	\$27,808	\$124,249
Available-for-sale financial assets	7,429,680	286,567	7,716,247
Total	\$7,526,121	\$314,375	\$7,840,496

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

	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	-	15,665,223	15,665,223	3,348,494	7,744,573
Additions from subsequent expenditure	-	-	-	735,186	-
Transfers from (to) property and equipment	9,495,616	873,253	10,368,869	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	7,036,238	5,711,537	12,747,775	(1,728,968)	(11,079,221)
Gains (losses) generated from fair value adjustments	20,737,667	(4,371,019)	16,366,648	-	-
Disposals	(197,295)	-	(197,295)	-	-
Exchange differences	-	(240,143)	(240,143)	-	(1,162)
30 September 2014	\$314,876,551	\$85,294,031	\$400,170,582	\$17,924,834	\$1,837,342

	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	-	2,413	2,413	4,739,790	36,399
Additions from subsequent expenditure	-	-	-	900,346	-
Transfers from (to) investment property under construction and prepayments for buildings and land	5,305	106,484	111,789	(106,484)	(5,305)
Gains generated from fair value adjustments	5,135,538	1,620,040	6,755,578	-	-
30 September 2013	\$251,054,127	\$59,330,077	\$310,384,204	\$13,053,129	\$1,612,861

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	For the three-month period ended 30 September 2014	For the three-month period ended 30 September 2013	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Rental income from investment property	\$2,024,966	\$1,718,540	\$5,890,609	\$5,237,042
Less:				
Direct operating expenses from investment property generating rental income	(60,177)	(47,426)	(230,189)	(181,798)
Direct operating expenses from investment property without generating rental income	(13,677)	(16,920)	(62,705)	(65,159)
Total	<u>\$1,951,112</u>	<u>\$1,654,194</u>	<u>\$5,597,715</u>	<u>\$4,990,085</u>

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 30 June 2014, 31 December 2013, 30 June 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 for rental are valued using comparison approach and direct capitalization method, 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 comparison approach and land development analysis of cost approach. Urban renewal land that building permission obtained and under construction are value based on rental long-held buildings, hotels, etc. which is received from urban renewal scheme.

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The inputs used are as follows:

	<u>30 September 2014</u>	<u>31 December 2013</u>	<u>30 September 2013</u>	<u>1 January 2013</u>
Direct capitalization rate (Net)	Mainly 1.5%~4.8%	Mainly 1.5%~4.8%	Mainly 1.5%~4.3%	Mainly 1.5%~4.8%
Discount rate	3.3%~4.2%	3.3%~4.2%	3.3%~4.2%	3.2%~4.2%

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 30 September 2014, 31 December 2013, 30 September 2013, and 1 January 2013, no investments in real estate were pledged as collateral.

#### 17. Loans

	<u>30 September 2014</u>	<u>31 December 2013</u>	<u>30 September 2013</u>	<u>1 January 2013</u>
Policy loans	\$162,089,942	\$170,831,058	\$170,549,778	\$175,903,780
Automatic premium loans	7,913,571	7,710,107	7,781,750	7,714,178
Secured loans	505,823,300	457,322,675	435,372,859	334,592,988
Total	<u>\$675,826,813</u>	<u>\$635,863,840</u>	<u>\$613,704,387</u>	<u>\$518,210,946</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.

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(3) Secured loans

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Secured loans	\$506,299,439	\$457,073,632	\$434,956,922	\$333,064,485
Secured loans - Related parties	3,476,356	3,620,905	3,580,480	3,677,241
Less: Allowance for bad debts	(4,004,758)	(3,443,283)	(3,248,777)	(2,289,452)
Subtotal	505,771,037	457,251,254	435,288,625	334,452,274
Overdue receivables	165,342	466,628	483,156	558,875
Less: Allowance for bad debts	(113,079)	(395,207)	(398,922)	(418,161)
Subtotal	52,263	71,421	84,234	140,714
Total	\$505,823,300	\$457,322,675	\$435,372,859	\$334,592,988

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

The Company participated in the \$57 billion loan tender of Taiwan Insurance Guaranty Fund and won line of credit \$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
1 January 2014	\$1,518,673	\$2,319,817	\$3,838,490
Charge (reversal) for the current period	(324,422)	60,832	(263,590)
Write off	(274,798)	(11,315)	(286,113)
Minimum of statutory reserve	303,943	525,107	829,050
30 September 2014	\$1,223,396	\$2,894,441	\$4,117,837
	Individually impaired	Collectively impaired	Total
1 January 2013	\$1,398,295	\$1,309,318	\$2,707,613
Charge for the current period	162,389	393,591	555,980
Write off	-	(21,570)	(21,570)
Minimum of statutory reserve	(38,305)	443,981	405,676
30 September 2013	\$1,522,379	\$2,125,320	\$3,647,699



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18. Reinsurance assets

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Claims recoverable from reinsurers	\$2,703	\$-	\$34	\$1,014
Due from reinsurers and ceding companies	327,756	344,600	177,019	3,547
Reinsurance reserve assets				
Ceded unearned premium reserve	121,073	321,982	3,169,790	8,384,281
Ceded reserve for claims	16,926	16,875	695,322	781,354
Subtotal	137,999	338,857	3,865,112	9,165,635
Total	\$468,458	\$683,457	\$4,042,165	\$9,170,196

Above reinsurance assets were not impaired.

19. Property and equipment

	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
				equipment	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	-	-	60,000	-	89,279	1,764	-	5,402	156,445	
Additions from subsequent expenditure	-	-	-	-	-	-	-	51,380	51,380	
Transfers	(8,354,102)	(1,187,768)	-	-	-	-	-	(85,909)	(9,627,779)	
Disposals	-	-	(122,806)	-	(21,337)	-	-	-	(144,143)	
Exchange differences	-	1,429	1,070	8	26	323	-	-	2,856	
30 September 2014	\$15,912,593	\$20,408,148	\$2,504,397	\$16,105	\$3,458,278	\$151,126	\$275,652	\$225,242	\$42,951,541	
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	-	21,207	49,012	-	152,679	15,030	-	39,525	277,453	
Additions from subsequent expenditure	-	-	-	-	-	-	-	99,564	99,564	
Transfers	-	11,991	(10,942)	-	2,881	-	-	(11,991)	(8,061)	
Disposals	-	-	(23,872)	-	(32,136)	-	-	-	(56,008)	
Exchange differences	-	121,864	9,717	138	472	4,724	-	-	136,915	
30 September 2013	\$29,580,787	\$30,914,283	\$2,541,583	\$16,017	\$4,089,840	\$143,834	\$275,652	\$247,774	\$67,809,770	

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	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 2014	\$ (105,610)	\$ (10,233,389)	\$ (2,315,718)	\$ (11,213)	\$ (2,962,060)	\$ (117,593)	\$ (97,627)	\$-	\$ (15,843,210)
Depreciation	-	(321,305)	(56,577)	(709)	(64,299)	(8,527)	(51,685)	-	(503,102)
Transfers	-	160,066	-	-	-	-	-	-	160,066
Disposals	-	-	119,376	-	20,954	-	-	-	140,330
Other	-	-	-	-	-	(39)	-	-	(39)
Exchange differences	-	(172)	(834)	(8)	(23)	(317)	-	-	(1,354)
30 September 2014	<u>\$ (105,610)</u>	<u>\$ (10,394,800)</u>	<u>\$ (2,253,753)</u>	<u>\$ (11,930)</u>	<u>\$ (3,005,428)</u>	<u>\$ (126,476)</u>	<u>\$ (149,312)</u>	<u>\$-</u>	<u>\$ (16,047,309)</u>

	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	\$ (105,610)	\$ (13,109,406)	\$ (2,218,630)	\$ (9,652)	\$ (3,434,077)	\$ (96,936)	\$ (28,714)	\$-	\$ (19,003,025)
Depreciation	-	(519,761)	(64,597)	(1,140)	(100,827)	(11,756)	(51,685)	-	(749,766)
Transfers	-	-	7,020	-	(11,859)	-	-	-	(4,839)
Disposals	-	-	20,895	-	31,143	-	-	-	52,038
Exchange differences	-	(1,507)	(5,867)	(113)	(418)	(3,691)	-	-	(11,596)
30 September 2013	<u>\$ (105,610)</u>	<u>\$ (13,630,674)</u>	<u>\$ (2,261,179)</u>	<u>\$ (10,905)</u>	<u>\$ (3,516,038)</u>	<u>\$ (112,383)</u>	<u>\$ (80,399)</u>	<u>\$-</u>	<u>\$ (19,717,188)</u>

	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:									
30 September 2014	<u>\$15,806,983</u>	<u>\$10,013,348</u>	<u>\$250,644</u>	<u>\$4,175</u>	<u>\$452,850</u>	<u>\$24,650</u>	<u>\$126,340</u>	<u>\$225,242</u>	<u>\$26,904,232</u>
31 December 2013	<u>\$24,161,085</u>	<u>\$11,361,098</u>	<u>\$250,415</u>	<u>\$4,884</u>	<u>\$428,250</u>	<u>\$31,446</u>	<u>\$178,025</u>	<u>\$254,369</u>	<u>\$36,669,572</u>
30 September 2013	<u>\$29,475,177</u>	<u>\$17,283,609</u>	<u>\$280,404</u>	<u>\$5,112</u>	<u>\$573,802</u>	<u>\$31,451</u>	<u>\$195,253</u>	<u>\$247,774</u>	<u>\$48,092,582</u>
1 January 2013	<u>\$29,475,177</u>	<u>\$17,649,815</u>	<u>\$299,038</u>	<u>\$6,227</u>	<u>\$531,867</u>	<u>\$27,144</u>	<u>\$246,938</u>	<u>\$120,676</u>	<u>\$48,356,882</u>

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.

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20. Intangible assets

	<u>Computer software</u>
Cost:	
1 January 2014	\$1,732,150
Addition - acquired separately	27,752
Exchange differences	780
30 September 2014	<u><u>\$1,760,682</u></u>

	<u>Computer software</u>
Cost:	
1 January 2013	\$1,716,232
Addition - acquired separately	32,676
Transfers	(4,265)
Exchange differences	6,745
30 September 2013	<u><u>\$1,751,388</u></u>

	<u>Computer software</u>
Amortization and impairment:	
1 January 2014	\$(1,548,060)
Amortization	(37,683)
Exchange differences	(728)
30 September 2014	<u><u>\$(1,586,471)</u></u>

	<u>Computer software</u>
Amortization and impairment:	
1 January 2013	\$(1,461,354)
Amortization	(49,450)
Transfers	2,535
Exchange differences	(3,299)
30 September 2013	<u><u>\$(1,511,568)</u></u>

	<u>Computer software</u>
Net carrying amount as at:	
30 September 2014	<u><u>\$174,211</u></u>
31 December 2013	<u><u>\$184,090</u></u>
30 September 2013	<u><u>\$239,820</u></u>
1 January 2013	<u><u>\$254,878</u></u>

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

	For the three-month period ended 30 September 2014	For the three-month period ended 30 September 2013	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Operating costs	\$-	\$441	\$-	\$1,244
Operating expenses - business expenses	\$7,983	\$9,750	\$24,164	\$30,382
Operating expenses - administrative and general expenses	\$4,691	\$4,889	\$13,519	\$17,824

21. Other assets

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Prepayment	\$436,887	\$464,037	\$520,161	\$690,829
Deferred acquisition costs	38,265	44,005	45,918	51,659
Guarantee deposits paid	16,702,288	16,714,926	15,929,017	14,376,119
Other assets - other	2,139,150	1,236,755	1,636,281	1,620,867
Total	\$19,316,590	\$18,459,723	\$18,131,377	\$16,739,474

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 nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Beginning balance	\$44,005	\$51,659
Amortization	(5,740)	(5,741)
Ending balance	\$38,265	\$45,918

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23. Payables

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Notes payable	\$1,064	\$1,079	\$1,944	\$1,104
Life insurance proceeds payable	358,494	288,814	254,108	243,714
Reinsurance proceeds payable	-	8,952	8,952	-
Commissions payable	2,289,839	1,916,868	308,379	644,891
Due to reinsurers and ceding companies	364,738	647,607	3,895,167	8,056,342
Other payables	29,458,606	16,162,356	36,688,543	29,127,604
Total	<u>\$32,472,741</u>	<u>\$19,025,676</u>	<u>\$41,157,093</u>	<u>\$38,073,655</u>

24. Financial liabilities at fair value through profit or loss

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Held for trading				
Derivatives that are not designated				
hedging				
Forward	\$3,505,256	\$4,932,173	\$2,903,236	\$726,786
CS	12,780,781	11,166,453	5,766,275	1,246,005
IRS	13,193	49,398	80,902	106,666
Total	<u>\$16,299,230</u>	<u>\$16,148,024</u>	<u>\$8,750,413</u>	<u>\$2,079,457</u>

25. Derivative financial liabilities for hedging

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
IRS	<u>\$13,397</u>	<u>\$5,148</u>	<u>\$-</u>	<u>\$-</u>

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 \$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.

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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 \$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.
  - 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 \$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 \$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A in the year with earnings.

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- 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.
- (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 \$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 \$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".

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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:

(1) The Company

A. Reserve for life insurance liabilities

	30 September 2014			31 December 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,051,547,062	\$13,008,484	\$3,064,555,546	\$2,826,901,255	\$41,698,426	\$2,868,599,681
Injury insurance	7,932,066	-	7,932,066	7,948,252	-	7,948,252
Health insurance	354,091,609	-	354,091,609	317,225,766	-	317,225,766
Annuity insurance	1,264,505	70,937,363	72,201,868	1,230,168	98,089,349	99,319,517
Investment-linked insurance	1,063,000	-	1,063,000	1,054,750	-	1,054,750
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
<b>Total</b>	<b>\$3,415,961,534</b>	<b>\$83,945,847</b>	<b>\$3,499,907,381</b>	<b>\$3,154,423,483</b>	<b>\$139,787,775</b>	<b>\$3,294,211,258</b>

  

	30 September 2013			1 January 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$2,720,191,764	\$42,693,646	\$2,762,885,410	\$2,540,691,009	\$44,435,855	\$2,585,126,864
Injury insurance	7,902,089	-	7,902,089	7,888,169	-	7,888,169
Health insurance	304,012,874	-	304,012,874	270,513,728	-	270,513,728
Annuity insurance	1,233,184	107,190,683	108,423,867	1,226,217	124,300,017	125,526,234
Investment-linked insurance	1,084,585	-	1,084,585	1,059,809	-	1,059,809
Recover from major incident reserve	63,292	-	63,292	63,292	-	63,292
<b>Total</b>	<b>\$3,034,487,788</b>	<b>\$149,884,329</b>	<b>\$3,184,372,117</b>	<b>\$2,821,442,224</b>	<b>\$168,735,872</b>	<b>\$2,990,178,096</b>



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Reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			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	348,739,957	2,060,001	350,799,958	294,039,548	8,835,260	302,874,808
Recover	(93,302,730)	(57,881,950)	(151,184,680)	(84,159,837)	(27,003,557)	(111,163,394)
Losses (gains) on foreign exchange	6,100,824	(19,979)	6,080,845	3,165,853	(683,246)	2,482,607
Ending balance	\$3,415,961,534	\$83,945,847	\$3,499,907,381	\$3,034,487,788	\$149,884,329	\$3,184,372,117

**B. Unearned premium reserve**

	30 September 2014			31 December 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$401,931	\$-	\$401,931	\$354,815	\$-	\$354,815
Individual injury insurance	4,735,204	-	4,735,204	4,679,885	-	4,679,885
Individual health insurance	6,393,657	-	6,393,657	6,454,421	-	6,454,421
Group insurance	791,335	-	791,335	702,318	-	702,318
Investment-linked insurance	110,924	-	110,924	111,466	-	111,466
Total	12,433,051	-	12,433,051	12,302,905	-	12,302,905
Less ceded unearned premium reserve:						
Individual life insurance	114,382	-	114,382	132,337	-	132,337
Individual injury insurance	6,076	-	6,076	150,618	-	150,618
Group insurance	463	-	463	89	-	89
Total	120,921	-	120,921	283,044	-	283,044
Net	\$12,312,130	\$-	\$12,312,130	\$12,019,861	\$-	\$12,019,861

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	30 September 2013			1 January 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$332,622	\$-	\$332,622	\$286,321	\$-	\$286,321
Individual injury insurance	4,570,534	-	4,570,534	4,528,407	-	4,528,407
Individual health insurance	6,077,191	-	6,077,191	6,135,137	-	6,135,137
Group insurance	816,036	-	816,036	780,294	-	780,294
Investment-linked insurance	111,070	-	111,070	118,616	-	118,616
<b>Total</b>	<b>11,907,453</b>	<b>-</b>	<b>11,907,453</b>	<b>11,848,775</b>	<b>-</b>	<b>11,848,775</b>
Less ceded unearned premium reserve:						
Individual life insurance	2,666,995	-	2,666,995	3,686,613	-	3,686,613
Individual injury insurance	474,167	-	474,167	4,690,419	-	4,690,419
Group insurance	558	-	558	89	-	89
<b>Total</b>	<b>3,141,720</b>	<b>-</b>	<b>3,141,720</b>	<b>8,377,121</b>	<b>-</b>	<b>8,377,121</b>
<b>Net</b>	<b>\$8,765,733</b>	<b>\$-</b>	<b>\$8,765,733</b>	<b>\$3,471,654</b>	<b>\$-</b>	<b>\$3,471,654</b>

Unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	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	12,433,051	-	12,433,051	11,907,454	-	11,907,454
Recover	(12,302,905)	-	(12,302,905)	(11,848,775)	-	(11,848,775)
Losses (gains) on foreign exchange	-	-	-	(1)	-	(1)
<b>Ending balance</b>	<b>12,433,051</b>	<b>-</b>	<b>12,433,051</b>	<b>11,907,453</b>	<b>-</b>	<b>11,907,453</b>
Less ceded unearned premium reserve:						
Beginning balance-Net	283,044	-	283,044	8,377,121	-	8,377,121
Increase	463	-	463	153,150	-	153,150
Decrease	(162,586)	-	(162,586)	(5,388,551)	-	(5,388,551)
<b>Ending balance-Net</b>	<b>120,921</b>	<b>-</b>	<b>120,921</b>	<b>3,141,720</b>	<b>-</b>	<b>3,141,720</b>
<b>Total</b>	<b>\$12,312,130</b>	<b>\$-</b>	<b>\$12,312,130</b>	<b>\$8,765,733</b>	<b>\$-</b>	<b>\$8,765,733</b>

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C. Reserve for claims

	30 September 2014			31 December 2013		
	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	\$173,173	\$797	\$173,970	\$116,070	\$1,091	\$117,161
– Unreported claim	60,100	-	60,100	52,064	-	52,064
Individual injury insurance						
– Reported but not paid claim	108,939	-	108,939	99,655	-	99,655
– Unreported claim	1,213,283	-	1,213,283	1,131,904	-	1,131,904
Individual health insurance						
– Reported but not paid claim	168,571	-	168,571	156,336	-	156,336
– Unreported claim	1,846,664	-	1,846,664	1,657,838	-	1,657,838
Group insurance						
– Reported but not paid claim	14,558	-	14,558	37,286	-	37,286
– Unreported claim	901,308	-	901,308	913,688	-	913,688
Investment-linked insurance						
– Reported but not paid claim	7,238	-	7,238	3,856	-	3,856
<b>Total</b>	<b>\$4,493,834</b>	<b>\$797</b>	<b>\$4,494,631</b>	<b>\$4,168,697</b>	<b>\$1,091</b>	<b>\$4,169,788</b>
	30 September 2013			1 January 2013		
	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	\$144,252	\$797	\$145,049	\$105,856	\$797	\$106,653
– Unreported claim	50,314	-	50,314	49,750	-	49,750
Individual injury insurance						
– Reported but not paid claim	123,140	-	123,140	147,062	-	147,062
– Unreported claim	1,073,809	-	1,073,809	1,024,487	-	1,024,487
Individual health insurance						
– Reported but not paid claim	143,528	-	143,528	124,100	-	124,100
– Unreported claim	1,690,386	-	1,690,386	1,535,223	-	1,535,223
Group insurance						
– Reported but not paid claim	24,279	-	24,279	36,141	-	36,141
– Unreported claim	948,204	-	948,204	1,124,644	-	1,124,644
Investment-linked insurance						
– Reported but not paid claim	10,901	-	10,901	4,210	-	4,210
<b>Total</b>	<b>4,208,813</b>	<b>797</b>	<b>4,209,610</b>	<b>4,151,473</b>	<b>797</b>	<b>4,152,270</b>
Less ceded reserve for claims:						
Individual injury insurance	689,157	-	689,157	780,831	-	780,831
<b>Net</b>	<b>\$3,519,656</b>	<b>\$797</b>	<b>\$3,520,453</b>	<b>\$3,370,642</b>	<b>\$797</b>	<b>\$3,371,439</b>

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Reserve for claims is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			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	4,493,843	797	4,494,640	4,208,831	797	4,209,628
Recover	(4,168,697)	(1,091)	(4,169,788)	(4,151,473)	(797)	(4,152,270)
Losses (gains) on foreign exchange	(9)	-	(9)	(18)	-	(18)
Ending balance	4,493,834	797	4,494,631	4,208,813	797	4,209,610
Less ceded reserve for claims:						
Beginning balance-Net	-	-	-	780,831	-	780,831
Decrease	-	-	-	(91,674)	-	(91,674)
Ending balance-Net	-	-	-	689,157	-	689,157
Total	\$4,493,834	\$797	\$4,494,631	\$3,519,656	\$797	\$3,520,453

**D. Special reserve**

	30 September 2014				31 December 2013			
	Financial instruments				Financial instruments			
	Insurance	with discretionary			Insurance	with discretionary		
	contract	participation feature	Other	Total	contract	participation feature	Other	Total
Participating policies								
dividends reserve	\$1,492	\$-	\$-	\$1,492	\$1,931	\$-	\$-	\$1,931
Special reserve for								
revaluation								
increments of								
property	-	-	37,946,619	37,946,619	-	-	45,416,619	45,416,619
Total	\$1,492	\$-	\$37,946,619	\$37,948,111	\$1,931	\$-	\$45,416,619	\$45,418,550

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	30 September 2013				1 January 2013			
	Financial instruments				Financial instruments			
	Insurance contract	with discretionary participation feature	Other	Total	Insurance contract	with discretionary participation feature	Other	Total
Participating policies dividends reserve	\$1,683	\$-	\$-	\$1,683	\$1,970	\$-	\$-	\$1,970
Special reserve for revaluation increments of property	-	-	47,946,619	47,946,619	-	-	55,416,619	55,416,619
<b>Total</b>	<b>\$1,683</b>	<b>\$-</b>	<b>\$47,946,619</b>	<b>\$47,948,302</b>	<b>\$1,970</b>	<b>\$-</b>	<b>\$55,416,619</b>	<b>\$55,418,589</b>

Special reserve is summarized below:

	For the nine-month period ended 30 September 2014				For the nine-month period ended 30 September 2013			
	Financial instruments				Financial instruments			
	Insurance contract	with discretionary participation feature	Other	Total	Insurance contract	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	878	-	-	878	908	-	-	908
Recover from participating policies dividends reserve	(1,317)	-	-	(1,317)	(1,195)	-	-	(1,195)
Recover from special reserve for revaluation increments of property (Note)	-	-	(7,470,000)	(7,470,000)	-	-	(7,470,000)	(7,470,000)
<b>Ending balance</b>	<b>\$1,492</b>	<b>\$-</b>	<b>\$37,946,619</b>	<b>\$37,948,111</b>	<b>\$1,683</b>	<b>\$-</b>	<b>\$47,946,619</b>	<b>\$47,948,302</b>

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 \$10 billion.

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

	30 September 2014				31 December 2013			
	Financial instruments			Total	Financial instruments			Total
	Insurance contract	with discretionary participation feature	Other		Insurance contract	with discretionary participation feature	Other	
Individual life insurance	\$114,720	\$-	\$-	\$114,720	\$103,850	\$-	\$-	\$103,850
Individual injury insurance	2,140,681	-	-	2,140,681	1,938,063	-	-	1,938,063
Individual health insurance	3,978,139	-	-	3,978,139	3,376,834	-	-	3,376,834
Group insurance	2,959,300	-	-	2,959,300	2,614,441	-	-	2,614,441
<b>Total</b>	<b>\$9,192,840</b>	<b>\$-</b>	<b>\$-</b>	<b>\$9,192,840</b>	<b>\$8,033,188</b>	<b>\$-</b>	<b>\$-</b>	<b>\$8,033,188</b>

  

	30 September 2013				1 January 2013			
	Financial instruments			Total	Financial instruments			Total
	Insurance contract	with discretionary participation feature	Other		Insurance contract	with discretionary participation feature	Other	
Individual life insurance	\$90,043	\$-	\$-	\$90,043	\$79,172	\$-	\$-	\$79,172
Individual injury insurance	1,409,952	-	-	1,409,952	1,194,433	-	-	1,194,433
Individual health insurance	2,943,915	-	-	2,943,915	2,361,060	-	-	2,361,060
Group insurance	2,211,063	-	-	2,211,063	1,860,655	-	-	1,860,655
<b>Total</b>	<b>\$6,654,973</b>	<b>\$-</b>	<b>\$-</b>	<b>\$6,654,973</b>	<b>\$5,495,320</b>	<b>\$-</b>	<b>\$-</b>	<b>\$5,495,320</b>

**F. Premium deficiency reserve**

	30 September 2014			31 December 2013		
	Financial instruments		Total	Financial instruments		Total
	Insurance contract	with discretionary participation feature		Insurance contract	with discretionary participation feature	
Individual life insurance	\$17,658,322	\$-	\$17,658,322	\$19,012,225	\$-	\$19,012,225
Individual health insurance	624,383	-	624,383	615,791	-	615,791
Group insurance	938	-	938	1,237	-	1,237
<b>Total</b>	<b>\$18,283,643</b>	<b>\$-</b>	<b>\$18,283,643</b>	<b>\$19,629,253</b>	<b>\$-</b>	<b>\$19,629,253</b>

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	30 September 2013			1 January 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$18,667,313	\$-	\$18,667,313	\$16,389,516	\$-	\$16,389,516
Individual health insurance	614,810	-	614,810	690,546	-	690,546
Group insurance	1,461	-	1,461	41,573	-	41,573
Total	\$19,283,584	\$-	\$19,283,584	\$17,121,635	\$-	\$17,121,635

Premium deficiency reserve is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	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	303,195	-	303,195	2,382,523	-	2,382,523
Recover	(1,804,034)	-	(1,804,034)	(347,578)	-	(347,578)
Losses (gains) on foreign exchange	155,229	-	155,229	127,004	-	127,004
Ending balance	\$18,283,643	\$-	\$18,283,643	\$19,283,584	\$-	\$19,283,584

G. Liability adequacy reserve

	30 September 2014	31 December 2013
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,499,907,381	\$3,294,211,258
Unearned premium reserve	12,433,051	12,302,905
Premium deficiency reserve	18,283,643	19,629,253
Total	\$3,530,624,075	\$3,326,143,416
Book value of insurance liabilities	\$3,530,624,075	\$3,326,143,416
Estimated present value of cash flows	\$2,869,576,147	\$2,608,650,272
Balance of liability adequacy reserve	\$-	\$-

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	<u>30 September 2013</u>	<u>1 January 2013</u>
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,184,372,117	\$2,990,178,096
Unearned premium reserve	11,907,453	11,848,775
Premium deficiency reserve	19,283,584	17,121,635
Total	<u>\$3,215,563,154</u>	<u>\$3,019,148,506</u>
Book value of insurance liabilities	<u>\$3,215,563,154</u>	<u>\$3,019,148,506</u>
Estimated present value of cash flows	<u>\$2,765,190,669</u>	<u>\$2,174,379,434</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.

Liability adequacy testing methodology is listed as follows:

	<u>30 September 2014</u>
Test method	<u>Gross premium valuation method (GPV)</u>
Groups	<u>Integrated testing</u>
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 September 2014.
	(2) Discount rate: Under assets allocation plan on 30 June 2014, 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.



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	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.
	30 September 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 30 September 2013.  (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 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: 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.

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H. Reserve for insurance contracts with feature of financial instruments

The Company issues financial instruments without discretionary participation feature. As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, reserve for insurance contracts with feature of financial instruments is summarized below:

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Life insurance	\$50,448,785	\$52,910,750	\$53,779,822	\$56,461,371
Investment-linked insurance	1,295	459	161	-
Total	<u>\$50,450,080</u>	<u>\$52,911,209</u>	<u>\$53,779,983</u>	<u>\$56,461,371</u>

	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Beginning balance	\$52,911,209	\$56,461,371
Premiums received	-	231
Insurance claim payments	(3,082,109)	(3,370,718)
Net provision of statutory reserve	620,969	689,099
Losses (gains) on foreign exchange	11	-
Ending balance	<u>\$50,450,080</u>	<u>\$53,779,983</u>

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.

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b. Adjustment in foreign exchange volatility reserve

	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Beginning balance	\$10,482,181	\$4,270,856
Reserve		
Compulsory reserve	2,176,201	1,658,930
Extra reserve	3,892,579	3,558,051
Subtotal	6,068,780	5,216,981
Recover	(3,377,903)	(942,950)
Ending balance	\$13,173,058	\$8,544,887

c. Effects due to foreign exchange volatility reserve

Item	For the nine-month period ended 30 September 2014		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	\$31,491,038	\$29,257,611	\$(2,233,427)
Earnings per share	5.93	5.51	(0.42)
Foreign exchange volatility reserve	-	13,173,058	13,173,058
Equity attributable to equity holders of the parent	299,179,584	291,990,413	(7,189,171)

  

Item	For the nine-month period ended 30 September 2013		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	\$23,930,785	\$20,383,339	\$(3,547,446)
Earnings per share	4.50	3.84	(0.66)
Foreign exchange volatility reserve	-	8,544,887	8,544,887
Equity attributable to equity holders of the parent	233,837,641	230,489,852	(3,347,789)

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(2) Cathay Life (China)

A. Reserve for life insurance liabilities

	30 September 2014			31 December 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,914,447	\$-	\$3,914,447	\$3,539,526	\$-	\$3,539,526
Health insurance	206,821	-	206,821	190,727	-	190,727
Investment-linked insurance	6,665	-	6,665	6,653	-	6,653
<b>Total</b>	<b>\$4,127,933</b>	<b>\$-</b>	<b>\$4,127,933</b>	<b>\$3,736,906</b>	<b>\$-</b>	<b>\$3,736,906</b>

  

	30 September 2013			1 January 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,383,115	\$-	\$3,383,115	\$2,875,460	\$-	\$2,875,460
Health insurance	197,647	-	197,647	58,989	-	58,989
Investment-linked insurance	6,758	-	6,758	50,436	-	50,436
<b>Total</b>	<b>\$3,587,520</b>	<b>\$-</b>	<b>\$3,587,520</b>	<b>\$2,984,885</b>	<b>\$-</b>	<b>\$2,984,885</b>

Reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			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	810,397	-	810,397	1,492,799	-	1,492,799
Recover	(430,368)	-	(430,368)	(1,005,056)	-	(1,005,056)
Losses (gains) on foreign exchange	10,998	-	10,998	114,892	-	114,892
<b>Ending balance</b>	<b>\$4,127,933</b>	<b>\$-</b>	<b>\$4,127,933</b>	<b>\$3,587,520</b>	<b>\$-</b>	<b>\$3,587,520</b>

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B. Unearned premium reserve

	30 September 2014			31 December 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$11,106	\$-	\$11,106	\$14,429	\$-	\$14,429
Individual health insurance	1,010	-	1,010	1,327	-	1,327
Group insurance	324,427	-	324,427	244,579	-	244,579
<b>Total</b>	<b>336,543</b>	<b>-</b>	<b>336,543</b>	<b>260,335</b>	<b>-</b>	<b>260,335</b>
Less ceded unearned premium reserve:						
Individual life insurance	1	-	1	27	-	27
Individual injury insurance	1	-	1	391	-	391
Individual health insurance	61	-	61	6,151	-	6,151
Group insurance	89	-	89	32,369	-	32,369
<b>Total</b>	<b>152</b>	<b>-</b>	<b>152</b>	<b>38,938</b>	<b>-</b>	<b>38,938</b>
<b>Net</b>	<b>\$336,391</b>	<b>\$-</b>	<b>\$336,391</b>	<b>\$221,397</b>	<b>\$-</b>	<b>\$221,397</b>
	30 September 2013			1 January 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$10,602	\$-	\$10,602	\$6,787	\$-	\$6,787
Individual health insurance	975	-	975	624	-	624
Group insurance	309,531	-	309,531	245,310	-	245,310
<b>Total</b>	<b>321,108</b>	<b>-</b>	<b>321,108</b>	<b>252,721</b>	<b>-</b>	<b>252,721</b>
Less ceded unearned premium reserve:						
Individual life insurance	20	-	20	61	-	61
Individual injury insurance	288	-	288	66	-	66
Individual health insurance	4,519	-	4,519	2,862	-	2,862
Group insurance	23,243	-	23,243	4,171	-	4,171
<b>Total</b>	<b>28,070</b>	<b>-</b>	<b>28,070</b>	<b>7,160</b>	<b>-</b>	<b>7,160</b>
<b>Net</b>	<b>\$293,038</b>	<b>\$-</b>	<b>\$293,038</b>	<b>\$245,561</b>	<b>\$-</b>	<b>\$245,561</b>

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Unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	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	288,353	-	288,353	270,984	-	270,984
Recover	(213,332)	-	(213,332)	(212,494)	-	(212,494)
Losses (gains) on foreign exchange	1,187	-	1,187	9,897	-	9,897
Ending balance	336,543	-	336,543	321,108	-	321,108
Less ceded unearned premium reserve:						
Beginning balance-Net	38,938	-	38,938	7,160	-	7,160
Increase	-	-	-	20,445	-	20,445
Decrease	(38,533)	-	(38,533)	-	-	-
(Losses) gains on foreign exchange	(253)	-	(253)	465	-	465
Ending balance-Net	152	-	152	28,070	-	28,070
Total	\$336,391	\$-	\$336,391	\$293,038	\$-	\$293,038

**C. Reserve for claims**

	30 September 2014			31 December 2013		
	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	\$2,774	\$-	\$2,774	\$4,223	\$-	\$4,223
– Unreported claim	2,227	-	2,227	3,435	-	3,435
Individual injury insurance						
– Reported but not paid claim	3,438	-	3,438	5,264	-	5,264
– Unreported claim	2,852	-	2,852	4,400	-	4,400
Individual health insurance						
– Reported but not paid claim	3,126	-	3,126	4,786	-	4,786
– Unreported claim	6,993	-	6,993	10,736	-	10,736
Group insurance						
– Reported but not paid claim	62,901	-	62,901	96,393	-	96,393
– Unreported claim	306,381	-	306,381	341,158	-	341,158
Total	390,692	-	390,692	470,395	-	470,395
Less ceded reserve for claims:						
Individual health insurance	16,926	-	16,926	16,875	-	16,875
Net	\$373,766	\$-	\$373,766	\$453,520	\$-	\$453,520

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	30 September 2013			1 January 2013		
	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	\$3,103	\$-	\$3,103	\$2,899	\$-	\$2,899
– Unreported claim	2,524	-	2,524	2,358	-	2,358
Individual injury insurance						
– Reported but not paid claim	3,868	-	3,868	3,613	-	3,613
– Unreported claim	3,233	-	3,233	3,020	-	3,020
Individual health insurance						
– Reported but not paid claim	3,516	-	3,516	3,285	-	3,285
– Unreported claim	7,888	-	7,888	7,369	-	7,369
Group insurance						
– Reported but not paid claim	70,823	-	70,823	66,165	-	66,165
– Unreported claim	344,971	-	344,971	307,740	-	307,740
Total	439,926	-	439,926	396,449	-	396,449
Less ceded reserve for claims:						
Individual health insurance	6,165	-	6,165	523	-	523
Net	\$433,761	\$-	\$433,761	\$395,926	\$-	\$395,926

Reserve for claims is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	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	253,629	-	253,629	391,773	-	391,773
Recover	(333,609)	-	(333,609)	(363,199)	-	(363,199)
Losses (gains) on foreign exchange	277	-	277	14,903	-	14,903
Ending balance	390,692	-	390,692	439,926	-	439,926
Less ceded reserve for claims:						
Beginning balance-Net	16,875	-	16,875	523	-	523
Increase	16	-	16	5,568	-	5,568
(Losses) gains on foreign exchange	35	-	35	74	-	74
Ending balance-Net	16,926	-	16,926	6,165	-	6,165
Total	\$373,766	\$-	\$373,766	\$433,761	\$-	\$433,761

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D. Liability adequacy reserve

	<u>30 September 2014</u>	<u>31 December 2013</u>
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$4,127,933	\$3,736,906
Unearned premium reserve	336,543	260,335
Total	<u>\$4,464,476</u>	<u>\$3,997,241</u>
Book value of insurance liabilities	<u>\$4,464,476</u>	<u>\$3,997,241</u>
Estimated present value of cash flows	<u>\$3,571,581</u>	<u>\$2,455,099</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>
	<u>30 September 2013</u>	<u>1 January 2013</u>
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$3,587,520	\$2,984,885
Unearned premium reserve	321,108	252,721
Total	<u>\$3,908,628</u>	<u>\$3,237,606</u>
Book value of insurance liabilities	<u>\$3,908,628</u>	<u>\$3,237,606</u>
Estimated present value of cash flows	<u>\$3,126,903</u>	<u>\$2,319,570</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 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.



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Liability adequacy testing methodology is listed as follows:

	30 September 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 30 September 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.
	30 September 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 30 September 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.

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	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.

E. Reserve for insurance contracts with feature of financial instruments

Cathay Life (China) issues financial instruments without discretionary participation feature. As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, reserve for insurance contracts with feature of financial instruments is summarized below:

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Life insurance	\$4,695,802	\$4,685,240	\$4,496,746	\$4,889,501

  

	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Beginning balance	\$4,685,240	\$4,889,501
Premiums received	707,763	1,084,051
Insurance claim payments	(212,060)	(495,471)
Net recovery of statutory reserve	(494,808)	(1,156,099)
Losses (gains) on foreign exchange	9,667	174,764
Ending balance	\$4,695,802	\$4,496,746

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(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities

	30 September 2014			31 December 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$416,821	\$-	\$416,821	\$374,862	\$-	\$374,862
Investment-linked insurance	197	-	197	36	-	36
<b>Total</b>	<b>\$417,018</b>	<b>\$-</b>	<b>\$417,018</b>	<b>\$374,898</b>	<b>\$-</b>	<b>\$374,898</b>

	30 September 2013			1 January 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$345,277	\$-	\$345,277	\$299,490	\$-	\$299,490
Investment-linked insurance	35	-	35	9	-	9
<b>Total</b>	<b>\$345,312</b>	<b>\$-</b>	<b>\$345,312</b>	<b>\$299,499</b>	<b>\$-</b>	<b>\$299,499</b>

Reserve for life insurance liabilities is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$374,898	\$-	\$374,898	\$299,499	\$-	\$299,499
Reserve	37,795	-	37,795	45,328	-	45,328
Losses (gains) on foreign exchange	4,325	-	4,325	485	-	485
<b>Ending balance</b>	<b>\$417,018</b>	<b>\$-</b>	<b>\$417,018</b>	<b>\$345,312</b>	<b>\$-</b>	<b>\$345,312</b>

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B. Unearned premium reserve

	30 September 2014			31 December 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$1,718	\$-	\$1,718	\$1,611	\$-	\$1,611
Individual health insurance	1,470	-	1,470	1,356	-	1,356
<b>Total</b>	<b>\$3,188</b>	<b>\$-</b>	<b>\$3,188</b>	<b>\$2,967</b>	<b>\$-</b>	<b>\$2,967</b>

	30 September 2013			1 January 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual injury insurance	\$1,484	\$-	\$1,484	\$1,666	\$-	\$1,666
Individual health insurance	1,241	-	1,241	1,614	-	1,614
<b>Total</b>	<b>\$2,725</b>	<b>\$-</b>	<b>\$2,725</b>	<b>\$3,280</b>	<b>\$-</b>	<b>\$3,280</b>

Unearned premium reserve is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$2,967	\$-	\$2,967	\$3,280	\$-	\$3,280
Reserve	188	-	188	-	-	-
Recover	-	-	-	(575)	-	(575)
Losses (gains) on foreign exchange	33	-	33	20	-	20
<b>Ending balance</b>	<b>\$3,188</b>	<b>\$-</b>	<b>\$3,188</b>	<b>\$2,725</b>	<b>\$-</b>	<b>\$2,725</b>

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C. Reserve for claims

	30 September 2014			31 December 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$246	\$-	\$246	\$494	\$-	\$494
Individual injury insurance						
– Reported but not paid claim	-	-	-	3	-	3
– Unreported claim	195	-	195	172	-	172
Individual health insurance						
– Reported but not paid claim	45	-	45	88	-	88
– Unreported claim	174	-	174	144	-	144
<b>Total</b>	<b>\$660</b>	<b>\$-</b>	<b>\$660</b>	<b>\$901</b>	<b>\$-</b>	<b>\$901</b>
	30 September 2013			1 January 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$250	\$-	\$250	\$1,251	\$-	\$1,251
Individual injury insurance						
– Reported but not paid claim	3	-	3	231	-	231
– Unreported claim	167	-	167	163	-	163
Individual health insurance						
– Reported but not paid claim	65	-	65	206	-	206
– Unreported claim	142	-	142	294	-	294
Investment-linked insurance						
– Reported but not paid claim	-	-	-	390	-	390
<b>Total</b>	<b>\$627</b>	<b>\$-</b>	<b>\$627</b>	<b>\$2,535</b>	<b>\$-</b>	<b>\$2,535</b>

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Reserve for claims is summarized below:

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Beginning balance	\$901	\$-	\$901	\$2,535	\$-	\$2,535
Recover	(249)	-	(249)	(1,945)	-	(1,945)
Losses (gains) on foreign exchange	8	-	8	37	-	37
Ending balance	\$660	\$-	\$660	\$627	\$-	\$627

**D. Special reserve**

	30 September 2014				31 December 2013			
	Financial instruments				Financial instruments			
	Insurance contract	with discretionary participation feature	Other	Total	Insurance contract	with discretionary participation feature	Other	Total
Others	\$1,770	\$-	\$-	\$1,770	\$1,751	\$-	\$-	\$1,751

  

	30 September 2013				1 January 2013			
	Financial instruments				Financial instruments			
	Insurance contract	with discretionary participation feature	Other	Total	Insurance contract	with discretionary participation feature	Other	Total
Others	\$517	\$-	\$-	\$517	\$517	\$-	\$-	\$517

Special reserve is summarized below:

	For the nine-month period ended 30 September 2014				For the nine-month period ended 30 September 2013			
	Financial instruments				Financial instruments			
	Insurance contract	with discretionary participation feature	Other	Total	Insurance contract	with discretionary participation feature	Other	Total
Beginning balance	\$1,751	\$-	\$-	\$1,751	\$517	\$-	\$-	\$517
Losses (gains) on foreign exchange	19	-	-	19	-	-	-	-
Ending balance	\$1,770	\$-	\$-	\$1,770	\$517	\$-	\$-	\$517

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E. Liability adequacy reserve

	<u>30 September 2014</u>	<u>31 December 2013</u>
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$417,018	\$374,898
Unearned premium reserve	3,188	2,967
Total	<u>\$420,206</u>	<u>\$377,865</u>
Book value of insurance liabilities	<u>\$420,206</u>	<u>\$377,865</u>
Estimated present value of cash flows	Negative amount	Negative amount
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>
	<u>30 September 2013</u>	<u>1 January 2013</u>
	Insurance contract and financial instruments with discretionary participation feature	Insurance contract and financial instruments with discretionary participation feature
Reserve for life insurance liabilities	\$345,312	\$299,499
Unearned premium reserve	2,725	3,280
Total	<u>\$348,037</u>	<u>\$302,779</u>
Book value of insurance liabilities	<u>\$348,037</u>	<u>\$302,779</u>
Estimated present value of cash flows	Negative amount	Negative amount
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.

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28. Post-employment benefits

Defined contribution plans

Expenses under the defined contribution plans for the three-month periods ended 30 September 2014 and 2013 were \$269,528 thousands and \$232,466 thousands, respectively. Expenses under the defined contribution plans for the nine-month periods ended 30 September 2014 and 2013 were \$719,555 thousands and \$732,651 thousands, respectively.

Defined benefit plans

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

	For the three-month period ended 30 September 2014	For the three-month period ended 30 September 2013	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Operating costs	\$35,725	\$71,865	\$107,942	\$218,087
Operating expenses	7,734	15,091	22,433	42,795
Total	<u>\$43,459</u>	<u>\$86,956</u>	<u>\$130,375</u>	<u>\$260,882</u>

29. Provisions

	Litigation liability	Employee benefit liability	Total
1 January 2014	\$285,672	\$3,633,551	\$3,919,223
Reversal	(140,227)	(16,024)	(156,251)
30 September 2014	<u>\$145,445</u>	<u>\$3,617,527</u>	<u>\$3,762,972</u>

30. Other liabilities

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Accounts collected in advance	\$2,349,108	\$115,178	\$321,605	\$300,819
Deferred handling fees	73,519	87,737	91,319	100,202
Guarantee deposits received	2,701,513	2,211,239	2,174,426	2,077,752
Other liabilities - Other	5,167,176	6,218,283	3,253,827	9,047,037
Total	<u>\$10,291,316</u>	<u>\$8,632,437</u>	<u>\$5,841,177</u>	<u>\$11,525,810</u>



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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 nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Beginning balance	\$87,737	\$100,202
Amortization	(11,825)	(11,330)
(Gains) losses on foreign exchange	(2,393)	2,447
Ending balance	<u>\$73,519</u>	<u>\$91,319</u>

32. Common stock

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the total authorized thousand shares were all 5,306,527 at par value of \$10.

33. Capital surplus

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Additional paid-in capital	\$13,000,000	\$13,000,000	\$13,000,000	\$13,000,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142	-	-
Changes in amount of associates and joint ventures accounted for using the equity method	-	9,649	9,649	9,649
Total	<u>\$13,029,142</u>	<u>\$13,038,791</u>	<u>\$13,009,649</u>	<u>\$13,009,649</u>

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.

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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 \$3,141,740 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 \$655,998 thousands.

(2) Special capital reserve

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

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.

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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 \$1,684,327 thousands after recognizing special capital reserves of \$14,144,966 thousands, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$1,439,845 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 years 2013 and 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 \$2,994,565 thousands shall be set aside under special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102508861.

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 \$124,002,466 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.

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- B. If there is any surplus earnings of the then current year not distributed by a profit-seeking enterprise, an additional profit-seeking income tax shall be levied at the rate of ten percent on such undistributed surplus earnings. Before the year 2004, the term "undistributed surplus earnings" as referred to in the preceding paragraph means the approved income. Beginning from the year 2005, the term shall denote the amount of income after tax as calculated by a profit-seeking enterprise in accordance with the Commercial Accounting Act. The income tax will only be levied on the undistributed surplus earnings once.
- C. The employee bonus and remuneration of directors for the nine-month periods ended 30 September 2014 and 2013, amounting to \$0 thousands and \$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 30 September 2014, the reserves amounted to \$1,125,941 thousands.

(4) Non-controlling interests

	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Beginning balance	\$741,255	\$1,012,972
Net income attributable to non-controlling interests	105,810	52,107
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of foreign operations	27,238	30,002
Unrealized valuation gains from available-for-sale financial assets	61,674	(47,237)
Capital increase by cash from non-controlling interests	966,820	-
Other	-	(18,114)
Ending balance	<u>\$1,902,797</u>	<u>\$1,029,730</u>

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35. Retained earned premium

(1) The Company

	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$138,461,422	\$111,883	\$138,573,305	\$97,288,649	\$2,633,347	\$99,921,996
Reinsurance premium income	75,692	-	75,692	46,470	-	46,470
Premium income	138,537,114	111,883	138,648,997	97,335,119	2,633,347	99,968,466
Less:						
Premiums ceded to reinsurers	(2,493,699)	-	(2,493,699)	(4,871,549)	-	(4,871,549)
Changes in unearned premium						
reserve	(172,095)	-	(172,095)	(390,688)	-	(390,688)
Subtotal	(2,665,794)	-	(2,665,794)	(5,262,237)	-	(5,262,237)
Retained earned premium	\$135,871,320	\$111,883	\$135,983,203	\$92,072,882	\$2,633,347	\$94,706,229

  

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$334,117,104	\$856,385	\$334,973,489	\$285,110,439	\$6,977,321	\$292,087,760
Reinsurance premium income	153,642	-	153,642	153,164	-	153,164
Premium income	334,270,746	856,385	335,127,131	285,263,603	6,977,321	292,240,924
Less:						
Premiums ceded to reinsurers	(9,614,926)	-	(9,614,926)	(13,643,663)	-	(13,643,663)
Changes in unearned premium						
reserve	(292,269)	-	(292,269)	(5,294,080)	-	(5,294,080)
Subtotal	(9,907,195)	-	(9,907,195)	(18,937,743)	-	(18,937,743)
Retained earned premium	\$324,363,551	\$856,385	\$325,219,936	\$266,325,860	\$6,977,321	\$273,303,181

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(2) Cathay life (China)

	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$692,917	\$-	\$692,917	\$685,495	\$-	\$685,495
Reinsurance premium income	-	-	-	-	-	-
Premium income	692,917	-	692,917	685,495	-	685,495
Less:						
Premiums ceded to reinsurers	348	-	348	(80,210)	-	(80,210)
Changes in unearned premium						
reserve	(93,955)	-	(93,955)	(85,876)	-	(85,876)
Subtotal	(93,607)	-	(93,607)	(166,086)	-	(166,086)
Retained earned premium	\$599,310	\$-	\$599,310	\$519,409	\$-	\$519,409
	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$1,805,510	\$-	\$1,805,510	\$1,807,152	\$-	\$1,807,152
Reinsurance premium income	-	-	-	-	-	-
Premium income	1,805,510	-	1,805,510	1,807,152	-	1,807,152
Less:						
Premiums ceded to reinsurers	(12,596)	-	(12,596)	(89,996)	-	(89,996)
Changes in unearned premium						
reserve	(74,830)	-	(74,830)	(59,747)	-	(59,747)
Subtotal	(87,426)	-	(87,426)	(149,743)	-	(149,743)
Retained earned premium	\$1,718,084	\$-	\$1,718,084	\$1,657,409	\$-	\$1,657,409

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(3) Cathay life (Vietnam)

	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$50,330	\$-	\$50,330	\$35,946	\$-	\$35,946
Reinsurance premium income	-	-	-	-	-	-
Premium income	50,330	-	50,330	35,946	-	35,946
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium						
reserve	(314)	-	(314)	(95)	-	(95)
Subtotal	(314)	-	(314)	(95)	-	(95)
Retained earned premium	\$50,016	\$-	\$50,016	\$35,851	\$-	\$35,851

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments			Financial instruments		
	with discretionary			with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct premium income	\$127,307	\$-	\$127,307	\$84,160	\$-	\$84,160
Reinsurance premium income	-	-	-	-	-	-
Premium income	127,307	-	127,307	84,160	-	84,160
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium						
reserve	(188)	-	(188)	575	-	575
Subtotal	(188)	-	(188)	575	-	575
Retained earned premium	\$127,119	\$-	\$127,119	\$84,735	\$-	\$84,735

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36. Retained claim payments

(1) The Company

	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$51,840,846	\$23,563,266	\$75,404,112	\$47,736,328	\$11,051,442	\$58,787,770
Reinsurance claim payments	34,952	-	34,952	22,353	-	22,353
Insurance claim payments	51,875,798	23,563,266	75,439,064	47,758,681	11,051,442	58,810,123
Less:						
Claims recovered from reinsures	(1,239,507)	-	(1,239,507)	(2,644,765)	-	(2,644,765)
Retained claim payments	\$50,636,291	\$23,563,266	\$74,199,557	\$45,113,916	\$11,051,442	\$56,165,358

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$151,927,292	\$58,131,030	\$210,058,322	\$133,119,063	\$27,276,431	\$160,395,494
Reinsurance claim payments	96,392	-	96,392	138,077	-	138,077
Insurance claim payments	152,023,684	58,131,030	210,154,714	133,257,140	27,276,431	160,533,571
Less:						
Claims recovered from reinsures	(4,672,860)	-	(4,672,860)	(8,704,492)	-	(8,704,492)
Retained claim payments	\$147,350,824	\$58,131,030	\$205,481,854	\$124,552,648	\$27,276,431	\$151,829,079

(2) Cathay life (China)

	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$259,811	\$-	\$259,811	\$256,051	\$-	\$256,051
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	259,811	-	259,811	256,051	-	256,051
Less:						
Claims recovered from reinsures	(7,787)	-	(7,787)	(111,456)	-	(111,456)
Retained claim payments	\$252,024	\$-	\$252,024	\$144,595	\$-	\$144,595



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	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$865,919	\$-	\$865,919	\$794,071	\$-	\$794,071
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	865,919	-	865,919	794,071	-	794,071
Less:						
Claims recovered from reinsures	(19,113)	-	(19,113)	(122,428)	-	(122,428)
Retained claim payments	\$846,806	\$-	\$846,806	\$671,643	\$-	\$671,643

**(3) Cathay life (Vietnam)**

	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$5,056	\$-	\$5,056	\$3,974	\$-	\$3,974
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	5,056	-	5,056	3,974	-	3,974
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$5,056	\$-	\$5,056	\$3,974	\$-	\$3,974

	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Direct insurance claim payments	\$16,921	\$-	\$16,921	\$10,907	\$-	\$10,907
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	16,921	-	16,921	10,907	-	10,907
Less:						
Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	\$16,921	\$-	\$16,921	\$10,907	\$-	\$10,907

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

Item	For the three-month period ended 30 September 2014			For the three-month period ended 30 September 2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$7,194,223	\$731,470	\$7,925,693	\$6,563,911	\$691,493	\$7,255,404
Labor and health insurance expenses	480,925	112,882	593,807	454,984	105,640	560,624
Pension expenses	257,552	55,435	312,987	263,409	56,013	319,422
Other expenses	359,649	94,487	454,136	313,436	73,988	387,424
Depreciation	1,476	163,046	164,522	11,333	236,206	247,539
Amortization	-	12,674	12,674	441	14,639	15,080

Item	For the nine-month period ended 30 September 2014			For the nine-month period ended 30 September 2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$19,665,460	\$2,220,275	\$21,885,735	\$20,525,871	\$2,205,550	\$22,731,421
Labor and health insurance expenses	1,349,548	306,504	1,656,052	1,407,958	301,100	1,709,058
Pension expenses	703,688	146,242	849,930	829,139	164,394	993,533
Other expenses	957,781	247,328	1,205,109	937,590	233,712	1,171,302
Depreciation	3,916	499,186	503,102	33,667	716,099	749,766
Amortization	-	37,683	37,683	1,244	48,206	49,450

38. Non-operating income and expenses

	For the three-month period ended 30 September 2014	For the three-month period ended 30 September 2013	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
(Losses) gains on disposal of property and equipment	\$(68)	\$(159)	\$32	\$(1,181)
Dividend on preferred stock liabilities	(228,866)	(228,866)	(679,134)	(679,134)
Other	458,747	570,630	1,805,531	1,524,775
<b>Total</b>	<b>\$229,813</b>	<b>\$341,605</b>	<b>\$1,126,429</b>	<b>\$844,460</b>

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39. Components of other comprehensive income

	For the three-month period ended 30 September 2014				
	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	\$(126,692)	\$-	\$(126,692)	\$-	\$(126,692)
Unrealized valuation losses from available-for-sale financial assets	(18,029,803)	(6,696,392)	(24,726,195)	225,380	(24,500,815)
Effective portion of losses on hedging instruments in cash flow hedges	(38,322)	(107,515)	(145,837)	24,793	(121,044)
Gains from revaluation	-	-	-	-	-
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	27,796	-	27,796	-	27,796
<b>Total</b>	<b>\$(18,167,021)</b>	<b>\$(6,803,907)</b>	<b>\$(24,970,928)</b>	<b>\$250,173</b>	<b>\$(24,720,755)</b>

	For the three-month period ended 30 September 2013				
	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	\$(109,678)	\$-	\$(109,678)	\$-	\$(109,678)
Unrealized valuation losses from available-for-sale financial assets	(3,679,128)	(4,312,054)	(7,991,182)	(117,815)	(8,108,997)
Effective portion of losses on hedging instruments in cash flow hedges	(23,833)	(173,910)	(197,743)	33,616	(164,127)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	6,941	-	6,941	-	6,941
<b>Total</b>	<b>\$(3,805,698)</b>	<b>\$(4,485,964)</b>	<b>\$(8,291,662)</b>	<b>\$(84,199)</b>	<b>\$(8,375,861)</b>

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	For the nine-month period ended 30 September 2014				
		Reclassification	Other		Other
	Arising during the period	adjustments during the period	comprehensive income	Income tax benefit	comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$ (370,050)	\$-	\$ (370,050)	\$-	\$ (370,050)
Unrealized valuation losses from available-for-sale financial assets	12,652,139	(21,076,564)	(8,424,425)	466,914	(7,957,511)
Effective portion of losses on hedging instruments in cash flow hedges	61,591	(377,256)	(315,665)	53,663	(262,002)
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	28,543	(13)	28,530	-	28,530
<b>Total</b>	<b>\$13,274,558</b>	<b>\$(21,453,833)</b>	<b>\$(8,179,275)</b>	<b>\$445,851</b>	<b>\$(7,733,424)</b>

	For the nine-month period ended 30 September 2013				
		Reclassification	Other		Other
	Arising during the period	adjustments during the period	comprehensive income	Income tax benefit	comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of foreign operations	\$119,166	\$-	\$119,166	\$-	\$119,166
Unrealized valuation losses from available-for-sale financial assets	(11,482,036)	(13,508,296)	(24,990,332)	2,646,441	(22,343,891)
Effective portion of losses on hedging instruments in cash flow hedges	(38,589)	(545,994)	(584,583)	99,379	(485,204)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	15,994	-	15,994	-	15,994
<b>Total</b>	<b>\$(11,385,465)</b>	<b>\$(14,054,290)</b>	<b>\$(25,439,755)</b>	<b>\$2,745,820</b>	<b>\$(22,693,935)</b>

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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 30 September 2014	For the three-month period ended 30 September 2013
Current income tax expense (benefit)		
Current income tax charge	\$120,133	\$7,631
Adjustments in respect of current income tax of prior periods	(779)	-
Deferred tax expense (benefit)		
Deferred tax benefit relating to origination and reversal of temporary differences	(309,809)	(172,972)
Deferred tax expense relating to origination and reversal of tax loss and tax credit	1,607,562	-
Other		
Tax effect under consolidated income tax systems	220,841	(392,446)
Total income tax expense (benefit)	<u>\$1,637,948</u>	<u>\$(557,787)</u>
	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Current income tax expense (benefit)		
Current income tax charge	\$309,901	\$34,065
Adjustments in respect of current income tax of prior periods	(55,954)	(228,402)
Deferred tax expense (benefit)		
Deferred tax expense relating to origination and reversal of temporary differences	4,273,467	4,559,297
Deferred tax benefit relating to origination and reversal of tax loss and tax credit	(2,037,551)	-
Other		
Tax effect under consolidated income tax systems	258,220	(1,497,256)
Total income tax expense	<u>\$2,748,083</u>	<u>\$2,867,704</u>

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Income taxes relating to components of other comprehensive income

	For the three-month period ended 30 September 2014	For the three-month period ended 30 September 2013
Deferred tax expense (benefit)		
Unrealized valuation (losses) gains from available-for-sale financial assets	\$(225,380)	\$117,815
Effective portion of losses on hedging instruments in cash flow hedges	(24,793)	(33,616)
Gains from revaluation	-	-
Income taxes relating to components of other comprehensive income	<u>\$(250,173)</u>	<u>\$84,199</u>
	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013
Deferred tax expense (benefit)		
Unrealized valuation losses from available-for-sale financial assets	\$(466,914)	\$(2,646,441)
Effective portion of losses on hedging instruments in cash flow hedges	(53,663)	(99,379)
Gains from revaluation	74,726	-
Income taxes relating to components of other comprehensive income	<u>\$(445,851)</u>	<u>\$(2,745,820)</u>

Imputation credit information

	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Balances of imputation credit amounts	<u>\$3,294,739</u>	<u>\$6,295,838</u>	<u>\$5,312,045</u>	<u>\$5,584,641</u>

The actual creditable ratio for 2013 and 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.

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The assessment of income tax returns

As of 30 September 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 30 September 2014	For the three-month period ended 30 September 2013 (Adjusted)
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	\$9,732,251	\$8,111,046
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)	\$1.83	\$1.53
	For the nine-month period ended 30 September 2014	For the nine-month period ended 30 September 2013 (Adjusted)
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	\$29,257,611	\$20,383,339
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)	\$5.51	\$3.84

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If foreign exchange volatility reserve was not applied, basic earnings per share would be \$2.18 and \$1.61 for the three-month periods ended 30 September 2014 and 2013, respectively. If foreign exchange volatility reserve was not applied, basic earnings per share would be \$5.93 and \$4.50 for the nine-month periods ended 30 September 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 \$1.37 and \$1.06 for the three-month periods ended 30 September 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 \$4.11 and \$2.43 for the nine-month periods ended 30 September 2014 and 2013, respectively.

42. Separate account insurance products

(1) The Company

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	30 September 2014	31 December 2013	Item	30 September 2014	31 December 2013
Cash in bank	\$847,829	\$1,116,968	Other payables	\$1,192,696	\$1,553,917
Financial assets at fair value through profit or loss	435,459,484	368,564,306	Reserve for separate account-Insurance contracts	363,102,986	330,034,752
Other receivables	6,077,310	6,208,781	Reserve for separate account-Investment contracts	78,088,941	44,301,386
Total	\$442,384,623	\$375,890,055	Total	\$442,384,623	\$375,890,055

Assets			Liabilities		
Item	30 September 2013	1 January 2013	Item	30 September 2013	1 January 2013
Cash in bank	\$664,797	\$1,269,067	Other payables	\$866,514	\$1,439,828
Financial assets at fair value through profit or loss	362,750,504	319,027,929	Reserve for separate account-Insurance contracts	323,052,793	299,194,942
Other receivables	3,383,153	8,903,802	Reserve for separate account-Investment contracts	42,879,147	28,566,028
Total	\$366,798,454	\$329,200,798	Total	\$366,798,454	\$329,200,798



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B. Separate account insurance products - revenue and expenses

Expenses			Revenue		
Item	1 July - 30 September 2014	1 July - 30 September 2013	Item	1 July - 30 September 2014	1 July - 30 September 2013
Insurance claim payments	\$2,997,736	\$2,890,307	Premium income	\$14,016,084	\$17,022,728
Cash surrender value	11,213,232	7,774,041	Interest income	978	1,386
Dividends	43	55	(Losses) gains from financial assets and liabilities at fair value through profit or loss	(6,806,014)	9,227,387
(Recovery of) provision for separate account reserve	(11,639,744)	12,655,727	Foreign exchange losses	(3,434,279)	(2,001,236)
Gains on surrender	-	-			
Administrative expenses	1,240,286	951,098			
Non-operating income and expenses	(34,784)	(20,963)			
<b>Total</b>	<b>\$3,776,769</b>	<b>\$24,250,265</b>	<b>Total</b>	<b>\$3,776,769</b>	<b>\$24,250,265</b>

Expenses			Revenue		
Item	1 January - 30 September 2014	1 January - 30 September 2013	Item	1 January - 30 September 2014	1 January - 30 September 2013
Insurance claim payments	\$20,151,511	\$7,871,738	Premium income	\$89,709,740	\$68,864,384
Cash surrender value	43,553,928	34,261,023	Interest income	9,620	7,376
Dividends	494	214	Gains from financial assets and liabilities at fair value through profit or loss	9,207,054	2,989,038
Provision for separate account reserve	33,068,420	23,857,854	Foreign exchange gains (losses)	1,234,977	(3,213,349)
Gains on surrender	-	(3)			
Administrative expenses	3,484,415	2,723,757			
Non-operating income and expenses	(97,357)	(67,134)			
<b>Total</b>	<b>\$100,161,411</b>	<b>\$68,647,449</b>	<b>Total</b>	<b>\$100,161,411</b>	<b>\$68,647,449</b>

C. The commission earned for the sales of separate account insurance products from counterparties for the three-month periods ended 30 September 2014 and 2013 were \$439,460 thousands and \$392,312 thousands, respectively. The commission earned for the sales of separate account insurance products from counterparties for the nine-month periods ended 30 September 2014 and 2013 were \$1,960,294 thousands and \$1,021,999 thousands, respectively.

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(2) Cathay life (China)

A. Separate account insurance products - assets and liabilities

Assets			Liabilities		
Item	30 September 2014	31 December 2013	Item	30 September 2014	31 December 2013
Cash in bank	\$31,207	\$7,990	Other payables	\$3,176	\$674
Financial assets at fair value through profit or loss	299,216	354,666	Reserve for separate account	313,647	339,250
Interest receivable	71	25	Other	13,671	22,757
<b>Total</b>	<b>\$330,494</b>	<b>\$362,681</b>	<b>Total</b>	<b>\$330,494</b>	<b>\$362,681</b>

Assets			Liabilities		
Item	30 September 2013	1 January 2013	Item	30 September 2013	1 January 2013
Cash in bank	\$15,660	\$18,089	Tax Payable	\$2,953	\$414
Financial assets at fair value through profit or loss	336,376	338,194	Reserve for separate account	347,119	344,846
Interest receivable	17	165	Other	1,981	11,188
<b>Total</b>	<b>\$352,053</b>	<b>\$356,448</b>	<b>Total</b>	<b>\$352,053</b>	<b>\$356,448</b>

B. Separate account insurance products - revenue and expenses

Expenses			Revenue		
Item	1 July - 30 September 2014	1 July - 30 September 2013	Item	1 July - 30 September 2014	1 July - 30 September 2013
Cash surrender value	\$28,901	\$14,952	Premium income	\$406	\$855
Administrative expenses	1,075	1,217	Interest income	45	31
Interest expenses	1	-	Tax expenses	(107)	(183)
Tax expenses	152	612	Provision for separate account reserve	-	(19,247)
Provision for of separate account reserve	426	-	Gains from financial assets and liabilities at fair value through profit or loss	30,211	16,939
Losses from financial assets and liabilities at fair value through profit or loss	-	(18,386)			
<b>Total</b>	<b>\$30,555</b>	<b>\$(1,605)</b>	<b>Total</b>	<b>\$30,555</b>	<b>\$(1,605)</b>

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Expenses			Revenue		
Item	1 January - 30 September 2014	1 January - 30 September 2013	Item	1 January - 30 September 2014	1 January - 30 September 2013
Cash surrender value	\$74,208	\$47,910	Premium income	\$14,233	\$22,749
Administrative expenses	3,376	3,380	Interest income	153	86
Interest expenses	6	-	Recovery of separate account reserve	-	12,128
Tax expenses	152	612	Gains from financial assets and liabilities at fair value through profit or loss	38,116	16,939
Recovery of separate account reserve	(25,240)	-			
Total	\$52,502	\$51,902	Total	\$52,502	\$51,902

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 laws and 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, together with 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.

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- c. The board of directors should be aware of the risk arising from daily operations, ensure the effectiveness of risk management and bear 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 made by the board of directors and evaluate the results of developing and executing risk management mechanisms.
- 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 should not concurrently play a business or financial role nor hold a position in any profit center of the Company.
- b. The Chief Risk Officer should be able to access any and all information which may have an impact on risk overview of the Company.

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- c. The Chief Risk Officer should be in charge of overall risk management of the Company.
- d. The Chief Risk Officer should participate in the company's important decision-making process and express opinions from a risk management perspective.

**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 related issues.

**E. Business Units**

- a. Manager(s) of each business unit shall:
  - (A) be responsible for daily risk management and risk reporting of such unit if necessary and take necessary measures in response to such risks; and
  - (B) procure such unit to disclose risk management related information regularly to the risk management department.

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b. Each business unit shall:

- (A) identify and measure risks and report risk exposure and potential influence against the Company on time;
- (B) regularly review the risk limits and in the event of any excess of such limits, the designated person shall report such excess along with what actions have been taken against it;
- (C) assist to develop the risk model and to ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent;
- (D) ensure that internal control procedure are executed effectively to comply with applicable laws and regulations and the Company's risk management policies; and
- (E) assist to collect operational risk related data.

F. Audit department

The department is required to oversee risk management policies execution among all departments pursuant to the applicable laws and regulations and the Company's risk management policies.

(3) The range and types of risk assessment and reporting

The Company's procedures for risk management include risk identification, risk measurement, risk control and risk reporting. The Company sets its management standards for a broad variety of risks as specified below, i.e. market risk, credit risk, sovereign risk, liquidity risk, operational risk, insurance risk, and assets/liability management, as well as for capital adequacy. The Company also develop methods of assessment and evaluation, monitors its risks and regularly provides the risk management reports.

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 use back testing regularly to ensure the accuracy of the market risk model. Furthermore, the Company applies scenario analysis and stress testing to evaluating the change in 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 foreign exchange risk regularly.

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B. Credit risk

This risk refers to the Company's losses due to the default of debtors. The measurements that the Company uses include credit rating, concentration analysis and value-at-risk (VaR) under 95% confidence level. Furthermore, the Company applies scenario analysis and stress testing to evaluating the change in 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 takes international credit rating agencies' ratings and other economic indicators into consideration to measure the sovereign risk and to set 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 the index of high risk. Relevant business units have established funding communication system and the risk management department manages funding liquidity based on the information provided by such units. Furthermore, business units have also built up their own cash flow analysis models and monitor the result of the analysis. They also set the annual assets allocation plan to better maintain the liquidity of funding. 'Market liquidity risk' occurs when 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.

E. Operational risk

This risk occurs when there are errors caused by internal process, employee(s), system breakdown or external issues such as legislative risk; however, strategic risk and reputation risk are excluded. The Company had set the standard operating procedure based on all characteristics of operations and established losses reporting system as well to collect and manage information with respect to losses resulting from operational risk.

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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.
- 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.



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- 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.

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- 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.

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(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.

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d. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

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.

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44. Information of insurance risk

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

A. The Company

For the nine-month period ended 30 September 2014			
		Change in income	
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	1,524,914	1,265,679
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,878,291	1,558,982
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	312,099	259,042
Rate of return	+0.1%	Increase 2,766,049	Increase 2,295,821
Rate of return	-0.1%	Decrease 2,768,089	Decrease 2,297,514

  

For the nine-month period ended 30 September 2013			
		Change in income	
Scenarios		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	1,470,683	1,220,667
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	1,936,196	1,607,043
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	240,101	199,284
Rate of return	+0.1%	Increase 2,425,167	Increase 2,012,888
Rate of return	-0.1%	Decrease 2,426,957	Decrease 2,014,374

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B. Cathay life (China)

For the nine-month period ended 30 September 2014			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	74,254	55,690
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	59,220	44,415
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	23,627	17,720
Rate of return	+0.25%	Increase 238,815	Increase 179,112
Rate of return	-0.25%	Decrease 271,241	Decrease 203,431

  

For the nine-month period ended 30 September 2013			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	60,919	45,689
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	54,840	41,130
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	19,356	14,517
Rate of return	+0.25%	Increase 234,339	Increase 175,754
Rate of return	-0.25%	Decrease 212,091	Decrease 159,068

C. Cathay Life (Vietnam)

For the nine-month period ended 30 September 2014			
	Scenarios	Change in income	
		before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	85	67
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	6,999	5,459
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	393	306
Rate of return	+0.1%	Increase 2,643	Increase 2,062
Rate of return	-0.1%	Decrease 2,645	Decrease 2,063

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		For the nine-month period ended 30 September 2013	
		Change in income	
	Scenarios	before tax	Change in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	182	137
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	6,757	5,068
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	478	359
Rate of return	+0.1%	Increase 1,718	Increase 1,288
Rate of return	-0.1%	Decrease 1,719	Decrease 1,289

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the nine-month periods ended 30 September 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 nine-month period ended 30 September 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.

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(C) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.

(D) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

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

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.



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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.

(3) Claim development trend

A. The Company

a. Direct business development trend

Accident year	Development year							Expected future payment	
	1	2	3	4	5	6	7		
2007Q4~2008Q3	12,783,636	15,205,962	15,380,662	15,435,648	15,496,567	15,521,291	15,536,549	-	
2008Q4~2009Q3	14,093,398	16,952,010	17,187,343	17,269,392	17,320,234	17,351,529	17,368,850	17,321	
2009Q4~2010Q3	13,987,020	17,033,181	17,304,931	17,391,259	17,463,014	17,492,593	17,509,544	46,530	
2010Q4~2011Q3	14,706,765	18,104,960	18,434,572	18,531,539	18,601,159	18,633,026	18,651,090	119,551	
2011Q4~2012Q3	14,695,504	17,851,461	18,153,246	18,234,013	18,295,997	18,325,110	18,342,069	188,823	
2012Q4~2013Q3	13,727,342	16,978,803	17,227,915	17,297,430	17,345,636	17,369,377	17,384,159	405,356	
2013Q4~2014Q3	13,913,613	16,834,219	17,079,093	17,146,469	17,192,559	17,215,760	17,230,585	3,316,972	
								Expected future payment	\$4,094,553
								Less: Expected reported but not paid claim	124,957
								Add: Assumed reserve for incurred but not reported claim	51,759
								Reserve for unreported claim	4,021,355
								Add: Reported but not paid claim	473,276
								Claims reserve balance	<u>\$4,494,631</u>

b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	12,923,173	15,371,182	15,531,936	15,584,070	15,645,478	15,688,086	15,696,252	-
2008Q4~2009Q3	13,703,500	16,263,245	16,464,843	16,536,400	16,600,487	16,618,545	16,636,182	17,637
2009Q4~2010Q3	12,206,250	14,619,750	14,806,435	14,890,078	14,954,420	14,984,423	15,001,653	47,233
2010Q4~2011Q3	12,833,346	15,529,777	15,781,050	15,862,684	15,933,043	15,965,352	15,983,706	121,022
2011Q4~2012Q3	12,918,735	15,474,165	15,741,792	15,823,489	15,886,191	15,915,734	15,932,976	191,184
2012Q4~2013Q3	12,421,360	15,479,345	15,732,353	15,802,819	15,851,758	15,875,938	15,891,008	411,663
2013Q4~2014Q3	13,961,731	16,916,408	17,165,316	17,233,676	17,280,525	17,304,181	17,319,304	3,357,573

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

Expected future payment	\$4,146,312
Less: Expected reported but not paid claim	124,957
Add: Reported but not paid claim	473,276
Retained claims reserve balance	<u>\$4,494,631</u>

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B. Cathay life (China)

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	28	54	56	56	56	56	56	-
2008Q4~2009Q3	831	3,339	3,352	3,352	3,352	3,352	3,352	-
2009Q4~2010Q3	9,538	18,371	19,184	19,184	19,184	19,184	19,184	-
2010Q4~2011Q3	52,589	118,832	125,069	125,069	125,069	125,069	125,069	-
2011Q4~2012Q3	98,857	197,842	210,505	210,505	210,505	210,505	210,505	-
2012Q4~2013Q3	133,062	366,265	385,697	385,697	385,697	385,697	385,697	19,432
2013Q4~2014Q3	151,265	494,522	483,111	483,111	483,111	483,111	483,111	331,846

Expected future payment	\$351,278
Less: Expected reported but not paid claim	32,825
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	318,453
Add: Reported but not paid claim	72,239
Claims reserve balance	<u>\$390,692</u>

b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2007Q4~2008Q3	28	54	56	56	56	56	56	-
2008Q4~2009Q3	831	3,339	3,352	3,352	3,352	3,352	3,352	-
2009Q4~2010Q3	9,538	18,371	19,184	19,184	19,184	19,184	19,184	-
2010Q4~2011Q3	52,589	118,832	125,069	125,069	125,069	125,069	125,069	-
2011Q4~2012Q3	98,857	197,703	210,364	210,364	210,364	210,364	210,364	-
2012Q4~2013Q3	122,736	372,295	383,705	383,705	383,705	383,705	383,705	11,410
2013Q4~2014Q3	141,798	429,691	464,740	464,740	464,740	464,740	464,740	322,942

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

Expected future payment	\$334,352
Less: Expected reported but not paid claim	32,825
Add: Reported but not paid claim	72,239
Retained claims reserve balance	<u>\$373,766</u>

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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				
	1	2	3	4	5
2009Q4~2010Q3	221	231	231	231	231
2010Q4~2011Q3	236	334	334	334	334
2011Q4~2012Q3	1,098	1,270	1,270	1,270	1,270
2012Q4~2013Q3	819	898	898	898	898
2013Q4~2014Q3	652	752	752	752	752

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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."

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.

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(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.

				Unit: Billion
	30 September 2014	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments				
with discretionary participation features		\$(103.7)	\$139.4	\$11,274.4

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.

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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 suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.
- b. Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, the Company will bear financial losses.
- c. Underlying asset credit risk means the risk that the Company may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

B. Concentration risk

Regional distribution of credit risk exposure for financial assets of the Company:

30 September 2014

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$178,792,102	\$58,875	\$4,986,966	\$89,014,677	\$140,994,871	\$413,847,491
Financial assets at fair value through profit or loss	6,168,316	1,477,065	2,702,897	2,288,091	-	12,636,369
Available-for-sale financial assets	357,360,233	30,424,080	68,549,107	138,022,935	40,132,362	634,488,717
Derivative financial assets for hedging	61,661	-	64,037	20,569	-	146,267
Bond investments for which no active market exists	59,457,091	79,238,065	233,735,291	428,138,264	287,027,117	1,087,595,828
Held-to-maturity financial assets	19,989,553	-	-	-	-	19,989,553
Other financial assets	35,700,000	-	3,500,000	-	-	39,200,000
Total	\$657,528,956	\$111,198,085	\$313,538,298	\$657,484,536	\$468,154,350	\$2,207,904,225
Proportion	29.8%	5.0%	14.2%	29.8%	21.2%	100.0%

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31 December 2013

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
<b>Total</b>	<b>\$672,206,299</b>	<b>\$88,185,449</b>	<b>\$318,256,645</b>	<b>\$603,013,454</b>	<b>\$407,647,895</b>	<b>\$2,089,309,742</b>
Proportion	32.2%	4.2%	15.2%	28.9%	19.5%	100.0%

30 September 2013

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$160,662,827	\$-	\$-	\$45,914,778	\$70,937,222	\$277,514,827
Financial assets at fair value through profit or loss	16,418,379	430,790	3,067,253	2,165,142	-	22,081,564
Available-for-sale financial assets	451,291,059	16,307,479	67,437,034	179,059,884	28,277,036	742,372,492
Derivative financial assets for hedging	150,772	18,211	321,701	79,329	-	570,013
Bond investments for which no active market exists	40,284,287	56,432,715	243,311,221	364,283,722	254,383,479	958,695,424
Other financial assets	35,900,000	-	3,500,000	-	-	39,400,000
<b>Total</b>	<b>\$704,707,324</b>	<b>\$73,189,195</b>	<b>\$317,637,209</b>	<b>\$591,502,855</b>	<b>\$353,597,737</b>	<b>\$2,040,634,320</b>
Proportion	34.5%	3.6%	15.6%	29.0%	17.3%	100.0%

1 January 2013

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
<b>Total</b>	<b>\$805,566,169</b>	<b>\$64,609,931</b>	<b>\$307,264,884</b>	<b>\$572,563,089</b>	<b>\$317,744,620</b>	<b>\$2,067,748,693</b>
Proportion	39.0%	3.1%	14.8%	27.7%	15.4%	100.0%

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C. Credit Quality

Classification of credit quality for financial assets of the Company:

30 September 2014

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	\$413,847,491	\$-	\$-	\$-	\$-	\$413,847,491
Financial assets at fair value through profit or loss	10,479,460	2,156,909	-	-	-	12,636,369
Available-for-sale financial assets	632,613,078	1,875,639	-	735,000	(735,000)	634,488,717
Derivative financial assets for hedging	146,267	-	-	-	-	146,267
Bond investments for which no active market exists	1,081,830,667	5,765,161	-	395,668	(395,668)	1,087,595,828
Held-to-maturity financial assets	19,989,553	-	-	-	-	19,989,553
Other financial assets	39,200,000	-	-	-	-	39,200,000
<b>Total</b>	<b>\$2,198,106,516</b>	<b>\$9,797,709</b>	<b>\$-</b>	<b>\$1,130,668</b>	<b>\$(1,130,668)</b>	<b>\$2,207,904,225</b>
Proportion	99.6%	0.4%	-	0.1%	(0.1)%	100.0%

31 December 2013

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
<b>Total</b>	<b>\$2,079,170,948</b>	<b>\$10,107,983</b>	<b>\$-</b>	<b>\$1,155,161</b>	<b>\$(1,124,350)</b>	<b>\$2,089,309,742</b>
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%



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30 September 2013

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	\$277,512,757	\$2,070	\$-	\$-	\$-	\$277,514,827
Financial assets at fair value through profit or loss	20,994,981	1,086,583	-	-	-	22,081,564
Available-for-sale financial assets	735,625,193	6,661,028	-	821,271	(735,000)	742,372,492
Derivative financial assets for hedging	570,013	-	-	-	-	570,013
Bond investments for which no active market exists	956,572,786	2,122,638	-	385,710	(385,710)	958,695,424
Other financial assets	39,400,000	-	-	-	-	39,400,000
Total	\$2,030,675,730	\$9,872,319	\$-	\$1,206,981	\$(1,120,710)	\$2,040,634,320
Proportion	99.5%	0.5%	-	0.1%	(0.1)%	100.0%

1 January 2013

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%

Note: 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.

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D. Regional distribution of credit risk exposure for secured loans and overdue receivables:

30 September 2014				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$362,635,079	\$54,961,335	\$92,179,381	\$509,775,795
Overdue receivables	60,580	87,687	17,075	165,342
Total	\$362,695,659	\$55,049,022	\$92,196,456	\$509,941,137
Proportion	71%	11%	18%	100%

31 December 2013				
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%

30 September 2013				
Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	\$301,764,015	\$49,896,205	\$86,877,182	\$438,537,402
Overdue receivables	32,184	407,174	43,798	483,156
Total	\$301,796,199	\$50,303,379	\$86,920,980	\$439,020,558
Proportion	69%	11%	20%	100%

1 January 2013				
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%

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E. Secured loans and overdue receivables

30 September 2014

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	\$237,997,729	\$165,563,637	\$46,339,822	\$171,703	\$4,282,096	\$454,354,987	\$2,638,515	\$451,716,472
Corporate finance	46,153,929	3,878,324	1,164,584	-	4,389,313	55,586,150	1,479,322	54,106,828
<b>Total</b>	<b>\$284,151,658</b>	<b>\$169,441,961</b>	<b>\$47,504,406</b>	<b>\$171,703</b>	<b>\$8,671,409</b>	<b>\$509,941,137</b>	<b>\$4,117,837</b>	<b>\$505,823,300</b>

31 December 2013

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
<b>Total</b>	<b>\$254,927,297</b>	<b>\$151,889,305</b>	<b>\$43,840,322</b>	<b>\$123,468</b>	<b>\$10,380,773</b>	<b>\$461,161,165</b>	<b>\$3,838,490</b>	<b>\$457,322,675</b>

30 September 2013

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	\$202,939,223	\$141,175,112	\$39,513,686	\$128,972	\$3,833,764	\$387,590,757	\$1,908,052	\$385,682,705
Corporate finance	40,160,876	3,454,571	1,648,632	-	6,165,722	51,429,801	1,739,647	49,690,154
<b>Total</b>	<b>\$243,100,099</b>	<b>\$144,629,683</b>	<b>\$41,162,318</b>	<b>\$128,972</b>	<b>\$9,999,486</b>	<b>\$439,020,558</b>	<b>\$3,647,699</b>	<b>\$435,372,859</b>

1 January 2013

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
<b>Total</b>	<b>\$175,407,086</b>	<b>\$118,564,150</b>	<b>\$33,696,346</b>	<b>\$183,942</b>	<b>\$9,449,077</b>	<b>\$337,300,601</b>	<b>\$2,707,613</b>	<b>\$334,592,988</b>

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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		
	Due in 1~2 months	Due in 2~3 months	Total
30 September 2014	\$89,443	\$82,260	\$171,703
31 December 2013	109,251	14,217	123,468
30 September 2013	111,323	17,649	128,972
1 January 2013	157,700	26,242	183,942

(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.

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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.

	Less than six	Due in 6~12	Due in 1~2	Due in 2~5		
30 September 2014	months	months	years	years	Over 5 years	Total
Short-term debts	\$209,198	\$-	\$-	\$-	\$-	\$209,198
Payables	28,334,476	4,138,129	136	-	-	32,472,741
Preferred stock liability	-	228,866	15,897,931	15,543,328	-	31,670,125

  

	Less than six	Due in 6~12	Due in 1~2	Due in 2~5		
31 December 2013	months	months	years	years	Over 5 years	Total
Payables	\$15,566,483	\$3,458,995	\$198	\$-	\$-	\$19,025,676
Preferred stock liability	-	-	908,000	31,441,259	-	32,349,259

  

	Less than six	Due in 6~12	Due in 1~2	Due in 2~5		
30 September 2013	months	months	years	years	Over 5 years	Total
Short-term debts	\$293,692	\$-	\$-	\$-	\$-	\$293,692
Payables	37,926,768	3,230,129	196	-	-	41,157,093
Preferred stock liability	-	228,866	908,000	26,361,254	5,080,005	32,578,125

  

	Less than six	Due in 6~12	Due in 1~2	Due in 2~5		
1 January 2013	months	months	years	years	Over 5 years	Total
Short-term debts	\$297,268	\$-	\$-	\$-	\$-	\$297,268
Payables	35,522,453	-	2,551,202	-	-	38,073,655
Preferred stock liability	-	-	908,000	27,176,254	5,173,005	33,257,259

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D. Maturity analysis of derivative financial liability:

30 September 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$4,443	\$(23,766)	\$(28,986)	\$19,582	\$59,822	\$31,095
Forward	3,481,059	94,272	-	-	-	3,575,331
CS	12,141,198	2,015,091	-	-	-	14,156,289

31 December 2013	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$21,501	\$9,505	\$(10,901)	\$34,514	\$-	\$54,619
Forward	5,002,896	78,514	-	-	-	5,081,410
CS	10,599,472	1,026,096	853,795	-	-	12,479,363

30 September 2013	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$(31,484)	\$(38,734)	\$(108,475)	\$(355,822)	\$(682,410)	\$(1,216,925)
Forward	3,585,876	46,250	-	-	-	3,632,126
CS	4,941,531	408,530	1,229,031	-	-	6,579,092

1 January 2013	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$29,350	\$24,891	\$42,985	\$9,010	\$-	\$106,236
Forward	1,844,950	-	-	-	-	1,844,950
CS	4,047,504	2,333,184	370,735	-	-	6,751,423

(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.

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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.

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.

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(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.

Table of Stress Testing

For the nine-month period ended 30 September 2014

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Stock index)	-10%	\$(46,262,447)
Interest rate risk (Yield curve)	+20bps	(7,361,518)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(19,794,802)
Commodity risk (Price)	-10%	-

Table of Stress Testing

For the nine-month period ended 30 September 2013

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Stock index)	-10%	\$(42,331,504)
Interest rate risk (Yield curve)	+20bps	(8,979,472)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(15,687,403)
Commodity risk (Price)	-10%	-

Note 1: Impacts of credit spread changes are not included.

Note 2: Effect of hedging are considered.



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c. Sensitivity Analysis

Summarization of Sensitivity Analysis  
For the nine-month period ended 30 September 2014

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$3,287,986	\$2,736,760
	CNY/CNH appreciates 1%	2,381,583	135,986
	HKD appreciates 1%	39,807	438,116
	EUR appreciates 1%	307,416	124,735
	GBP appreciates 1%	203,346	43,440
Interest rate risk	Yield curve (USD) parallelly shifts up 1 bp	33,837	(90,653)
	Yield curve (AUD) parallelly shifts up 1 bp	(815)	(399)
	Yield curve (EUR) parallelly shifts up 1 bp	(2,307)	(7,929)
	Yield curve (NTD) parallelly shifts up 1 bp	5,143	(258,019)
Equity price risk	Equity price increases 1%	182,438	4,443,807

Summarization of Sensitivity Analysis  
For the nine-month period ended 30 September 2013

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$2,454,417	\$2,200,035
	CNY/CNH appreciates 1%	1,311,156	69,856
	HKD appreciates 1%	11,416	402,241
	EUR appreciates 1%	284,759	119,942
	GBP appreciates 1%	258,202	44,378
Interest rate risk	Yield curve (USD) parallelly shifts up 1 bp	32,026	(165,646)
	Yield curve (AUD) parallelly shifts up 1 bp	-	(873)
	Yield curve (EUR) parallelly shifts up 1 bp	-	(3,336)
	Yield curve (NTD) parallelly shifts up 1 bp	4,237	(280,957)
Equity price risk	Equity price increases 1%	143,015	4,090,136

Note 1: Impacts of credit changes are not included.

Note 2: Effect of hedging are considered.

Note 3: Impacts of change in income are not included in the calculation of change in equity.

Note 4: The foreign exchange volatility reserve adjustments are not included in the change in income of the foreign currency risk.

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47. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Item	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Financial assets at fair value through profit or loss				
Held for trading	\$61,365,066	\$73,892,698	\$73,430,784	\$72,964,811
Available-for-sale financial assets	1,219,636,482	1,277,352,123	1,245,381,277	1,227,321,172
Derivative financial assets for hedging	146,267	453,713	570,013	1,142,094
Held-to-maturity financial assets	21,781,445	1,619,138	-	-
Loans and receivables				
Cash and cash equivalents (Note)	416,557,735	281,874,153	280,631,811	365,919,542
Receivables	50,929,746	47,633,306	54,821,197	57,726,314
Bond investments for which no active market exists	1,090,792,525	1,023,349,976	961,782,807	816,904,617
Other financial assets	39,200,000	40,900,000	39,409,505	23,500,010
Loans	675,826,813	635,863,840	613,704,387	518,210,946
Guarantee deposits paid	16,702,288	16,714,926	15,929,017	14,376,119
Subtotal	2,290,009,107	2,046,336,201	1,966,278,724	1,796,637,548
Total	<u>\$3,592,938,367</u>	<u>\$3,399,653,873</u>	<u>\$3,285,660,798</u>	<u>\$3,098,065,625</u>

Note: Exclude cash on hand and revolving funds.

Financial liabilities

Item	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Financial liabilities at fair value through profit or loss				
Held for trading	\$16,299,230	\$16,148,024	\$8,750,413	\$2,079,457
Derivative financial liabilities for hedging	13,397	5,148	-	-
Financial liabilities at amortized cost				
Short-term debts	209,198	-	293,692	297,268
Payables	32,472,741	19,025,676	41,157,093	38,073,655
Preferred stock liability	30,000,000	30,000,000	30,000,000	30,000,000
Guarantee deposits received	2,701,513	2,211,239	2,174,426	2,077,752
Subtotal	65,383,452	51,236,915	73,625,211	70,448,675
Total	<u>\$81,696,079</u>	<u>\$67,390,087</u>	<u>\$82,375,624</u>	<u>\$72,528,132</u>

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(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.

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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			
	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Financial assets				
Bond investment for which no				
active market exists	\$1,090,792,525	\$1,023,349,976	\$961,782,807	\$816,904,617
Held-to-maturity financial assets	21,781,445	1,619,138	-	-
	Fair value			
	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Financial assets				
Bond investment for which no				
active market exists	\$1,106,690,779	\$994,573,305	\$933,213,374	\$867,272,570
Held-to-maturity financial assets	20,931,603	1,534,584	-	-

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.

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a. Fair value hierarchy

Item	30 September 2014			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$10,199,481	\$10,199,481	\$-	\$-
Bonds	7,620,682	6,543,529	1,077,153	-
Other	40,807,292	38,506,042	2,301,250	-
Available-for-sale financial assets				
Stocks	419,482,919	409,804,843	9,678,076	-
Bonds	636,526,167	7,577,076	628,949,091	-
Other	163,627,396	123,646,992	20,711,390	19,269,014
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Derivative financial assets for hedging	2,737,611	-	2,737,611	-
	146,267	-	146,267	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities for hedging	16,299,230	-	16,299,230	-
	13,397	-	13,397	-
Item	31 December 2013			
	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				
Derivative financial assets for hedging	3,375,604	-	3,375,604	-
	453,713	-	453,713	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities for hedging	16,148,024	-	16,148,024	-
	5,148	-	5,148	-

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Item	30 September 2013			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$13,404,021	\$13,404,021	\$-	\$-
Bonds	3,414,128	1,866,807	1,547,321	-
Other	50,273,899	37,945,199	12,328,700	-
Available-for-sale financial assets				
Stocks	372,453,392	365,643,567	6,809,825	-
Bonds	742,380,097	17,435,360	724,944,737	-
Other	130,547,788	96,316,043	23,777,235	10,454,510
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
	6,338,736	-	6,338,736	-
Derivative financial assets for hedging	570,013	-	570,013	-
Liabilities				
Financial liabilities at fair value through profit or loss				
	8,750,413	-	8,750,413	-
Item	1 January 2013			
	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	-

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b. Reconciliation for fair value measurements in Level 3 of the fair value hierarchy

(A) Financial assets

For the nine-month period ended 30 September 2014								
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	\$577,534	\$983,252	\$7,440,982	\$-	\$(2,835,457)	\$-	\$19,269,014

For the nine-month period ended 30 September 2013								
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	\$83,070	\$600,912	\$4,674,981	\$-	\$(2,545,068)	\$-	\$10,454,510

(B) Transfers between Level 1 and Level 2

During the nine-month periods ended 30 September 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

(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 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013:

30 September 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
Floating rate bonds	IRS	\$132,870	23 October 2014 ~ 26 May 2024	23 October 2014 ~ 26 May 2024

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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
Floating rate bonds	IRS	\$448,565	23 January 2014 ~ 23 September 2020	23 January 2014 ~ 23 September 2020

  

30 September 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
Floating rate bonds	IRS	\$570,013	23 October 2013 ~ 23 September 2020	23 October 2013 ~ 23 September 2020

  

1 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
Floating rate bonds	IRS	\$1,142,094	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.

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:

	<u>For the three-month period ended 30 September 2014</u>	<u>For the three-month period ended 30 September 2013</u>
Amount recognized in other comprehensive income	\$ (145,837)	\$ (197,743)
Amount reclassified from equity to profit or loss	(354)	4,070

  

	<u>For the nine-month period ended 30 September 2014</u>	<u>For the nine-month period ended 30 September 2013</u>
Amount recognized in other comprehensive income	\$ (315,665)	\$ (584,583)
Amount reclassified from equity to profit or loss	(30)	12,502



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Fair value hedges

The following table summarizes the terms of the Company's futures for bonds used as hedging instruments as of 30 September 2014 and 31 December 2013:

30 September 2014		
Par value (USD)	Hedged item	Maturity date
\$612,000	Bond investments for which no active market exists	30 April 2036 ~ 27 June 2044
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 nine-month period ended 30 September 2014, the loss of hedging instrument is \$1,724,383 thousands, and unrealized profit attributed to hedging bonds is \$1,594,924 thousands. Both of them are recognized as financial costs in the statement of comprehensive income.

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

	30 September 2014			31 December 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	40,707,679	30.436000	1,238,978,920	38,590,232	29.950000	1,155,777,439
AUD	1,071,012	26.620847	28,511,247	1,035,163	26.710908	27,650,131
EUR	796,232	38.608066	30,740,983	728,989	41.287573	30,098,202
GBP	415,401	49.507198	20,565,340	466,217	49.502858	23,079,082
CNH	47,080,855	4.937462	232,459,955	38,940,825	4.943631	192,509,070
<u>Non-Monetary Items</u>						
USD	5,611,494	30.436000	170,791,428	4,346,951	29.950000	130,191,169
HKD	11,461,437	3.920447	44,933,960	10,913,660	3.862647	42,155,618
<u>Investments accounted for using the equity method</u>						
CNY	156,819	4.957400	777,416	70,770	4.947200	350,111
USD	3,958	30.436000	120,470	3,832	29.950000	114,759

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	30 September 2013			1 January 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	37,987,142	29.670000	1,127,078,515	36,845,654	29.136000	1,073,534,986
AUD	1,030,969	27.618320	28,473,625	(Note)	(Note)	(Note)
EUR	792,131	40.053017	31,727,249	717,803	38.609570	27,714,068
GBP	546,524	47.876996	26,165,924	526,696	46.975973	24,742,075
CNH	26,091,419	4.849743	126,536,677	19,422,188	4.679730	90,890,601
<u>Non-Monetary Items</u>						
USD	4,275,037	29.670000	126,840,333	3,188,552	29.136000	93,069,180
HKD	10,512,487	3.826313	40,224,072	7,588,075	3.758611	28,520,621
<u>Investments accounted for using the equity method</u>						
CNY	103,570	4.846500	501,950	64,246	4.674100	300,290
USD	3,784	29.670000	112,283	3,493	29.136000	101,761

Note: The amount did not have significant influence.

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	30 September 2014		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$416,780,851	\$-	\$416,780,851
Receivables	50,677,296	252,450	50,929,746
Financial assets at fair value through profit or loss	672,010	60,693,056	61,365,066
Available-for-sale financial assets	83,886,044	1,135,750,438	1,219,636,482
Derivative financial assets for hedging	30,685	115,582	146,267
Investments accounted for using the equity method - Net	-	3,064,851	3,064,851
Bond investments for which no active market exists	53,145,608	1,037,646,917	1,090,792,525
Held-to-maturity financial assets	-	21,781,445	21,781,445
Other financial assets - Net	-	39,200,000	39,200,000
Investment property	-	400,170,582	400,170,582
Investment property under construction	-	17,924,834	17,924,834
Prepayments for buildings and land - Investments	-	1,837,342	1,837,342
Loans	36,166	675,790,647	675,826,813
Reinsurance assets	-	468,458	468,458
Property and equipment	-	26,904,232	26,904,232
Intangible assets	-	174,211	174,211
Deferred tax assets	-	10,789,600	10,789,600
Other assets	447,808	18,868,782	19,316,590
Separate account product assets	6,956,417	435,758,700	442,715,117
Total assets			<u>\$4,499,825,012</u>

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

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Item	30 September 2014		Total
	Settlement within 12 months	Settlement more than 12 months	
Short-term debts	\$209,198	\$-	\$209,198
Payables	32,472,605	136	32,472,741
Financial liabilities at fair value through profit or loss	8,514	16,290,716	16,299,230
Derivative financial liabilities for hedging	-	13,397	13,397
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,578,344,621	3,578,344,621
Reserve for insurance contracts with feature of financial instruments	-	55,145,882	55,145,882
Foreign exchange volatility reserve	-	13,173,058	13,173,058
Provisions	-	3,762,972	3,762,972
Deferred tax liabilities	-	23,504,270	23,504,270
Other liabilities	9,186	10,282,130	10,291,316
Separate account product liabilities	1,195,872	441,519,245	442,715,117
Total liabilities			<u>\$4,205,931,802</u>

Item	31 December 2013		Total
	Recovery within 12 months	Recovery more than 12 months	
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	40,900,000
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>

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Item	31 December 2013		
	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>

Item	30 September 2013		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	\$280,847,168	\$-	\$280,847,168
Receivables	54,781,916	39,281	54,821,197
Financial assets at fair value through profit or loss	542,011	72,888,773	73,430,784
Available-for-sale financial assets	147,285,607	1,098,095,670	1,245,381,277
Derivative financial assets for hedging	294,800	275,213	570,013
Investments accounted for using the equity method - Net	-	1,155,580	1,155,580
Bond investments for which no active market exists	15,481,644	946,301,163	961,782,807
Other financial assets - Net	9,505	39,400,000	39,409,505
Investment property	-	310,384,204	310,384,204
Investment property under construction	-	13,053,129	13,053,129
Prepayments for buildings and land - Investments	-	1,612,861	1,612,861
Loans	31,592	613,672,795	613,704,387
Reinsurance assets	-	4,042,165	4,042,165
Property and equipment	-	48,092,582	48,092,582
Intangible assets	-	239,820	239,820
Deferred tax assets	-	13,435,350	13,435,350
Other assets	548,630	17,582,747	18,131,377
Separate account product assets	4,063,627	363,086,880	367,150,507
Total assets			<u>\$4,047,244,713</u>

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Item	30 September 2013		Total
	Settlement within 12 months	Settlement more than 12 months	
Short-term debts	\$293,692	\$-	\$293,692
Payables	41,156,897	196	41,157,093
Financial liabilities at fair value through profit or loss	-	8,750,413	8,750,413
Preferred stock liability	-	30,000,000	30,000,000
Insurance liabilities	-	3,272,418,801	3,272,418,801
Reserve for insurance contracts with feature of financial instruments	-	58,276,729	58,276,729
Foreign exchange volatility reserve	-	8,544,887	8,544,887
Provisions	-	3,931,978	3,931,978
Deferred tax liabilities	-	19,359,854	19,359,854
Other liabilities	229,214	5,611,963	5,841,177
Separate account product liabilities	869,467	366,281,040	367,150,507
Total liabilities			<u>\$3,815,725,131</u>

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			<u>\$3,817,640,513</u>

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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			<u>\$3,583,844,328</u>

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.

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A. Significant transactions of undertaking contracted projects with related parties are listed below:

Name	For the nine-month period ended 30 September 2014	
	Item	Amount
Other related party		
Lin Yuan Property		
Management Co., Ltd.	Cathay Cosmos Building, etc.	\$54,561
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	496,540
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	9,407
Total		<u>\$560,508</u>

Name	For the nine-month period ended 30 September 2013	
	Item	Amount
Other related party		
Lin Yuan Property		
Management Co., Ltd.	Cathay Cosmos Building, etc.	\$26,423
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,452,857
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	12,580
Total		<u>\$1,491,860</u>

The total amounts of contracted projects for real estate as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between the Company and Lin Yuan Property Management Co., Ltd. were \$42,460 thousands, \$95,481 thousands, \$95,481 thousands and \$3,408 thousands, respectively.

The total amounts of contracted projects for real estate as of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between the Company and San Ching Engineering Co., Ltd. were \$5,662,922 thousands, \$5,535,807 thousands, \$5,535,807 thousands and \$5,483,615 thousands, respectively.

The total amounts of contracted projects for real estate of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, between the Company and Cathay Real Estate Development Co., Ltd. were \$49,306 thousands, \$49,306 thousands, \$49,306 thousands and \$49,306 thousands, respectively.

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

Name	Rental income			
	For the three-month periods ended		For the nine-month periods ended	
	30 September		30 September	
	2014	2013	2014	2013
Parent company				
Cathay Financial Holding Co., Ltd.	\$9,326	\$8,240	\$26,918	\$23,807
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	2,210	2,211	6,633	6,593
Associate				
Symphox Information Co., Ltd.	7,813	(Note)	19,991	(Note)
Cathay Insurance Company Limited (China)	4,915	1,701	14,767	1,701
Subtotal	12,728	1,701	34,758	1,701
Other related party				
Cathay United Bank	99,247	92,883	298,800	285,458
Cathay Century Insurance Co., Ltd.	26,177	26,007	77,665	77,450
Cathay Securities Investment Trust Co., Ltd.	10,229	10,038	30,566	29,921
Cathay Securities Co., Ltd.	7,567	8,320	20,299	21,713
San Ching Engineering Co., Ltd.	1,420	1,404	4,193	4,421
Cathay General Hospital	10,946	10,611	99,831	97,715
Cathay Real Estate Development Co., Ltd.	4,935	4,343	13,621	13,029
Cathay Healthcare Inc.	12,317	8,587	35,383	25,776
Cathay Hospitality Management Co., Ltd.	34,834	9,283	100,053	11,358
Subtotal	207,672	171,476	680,411	566,841
Total	\$231,936	\$183,628	\$748,720	\$598,942



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Name	Guarantee deposits received			
	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Parent company				
Cathay Financial Holding Co., Ltd.	\$8,046	\$8,505	\$8,282	\$6,604
Associate				
Symphox Information Co., Ltd.	8,355	5,922	(Note)	(Note)
Cathay Insurance Company Limited (China)	5,300	5,262	5,155	-
Subtotal	13,655	11,184	5,155	-
Other related party				
Cathay United Bank	99,771	95,045	90,138	85,466
Cathay Century Insurance Co., Ltd.	24,157	24,464	24,038	22,678
Cathay Securities Investment Trust Co., Ltd.	9,270	9,270	9,270	8,903
Cathay Securities Co., Ltd.	6,746	5,655	5,655	5,853
Cathay General Hospital	10,166	10,166	10,166	10,166
Cathay Real Estate Development Co., Ltd.	4,028	4,028	4,028	4,028
Cathay Healthcare Inc.	8,593	8,012	8,012	8,012
Subtotal	162,731	156,640	151,307	145,106
Total	\$184,432	\$176,329	\$164,744	\$151,710

Note: As a subsidiary during the period.

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 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Other related party				
Cathay Real Estate Development Co., Ltd.	\$1,963	\$1,963	\$5,889	\$5,889
Cathay United Bank	14,724	14,717	44,232	41,564
Total	\$16,687	\$16,680	\$50,121	\$47,453

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Name	Guarantee deposits paid			
	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Other related party				
Cathay United Bank	\$15,293	\$15,172	\$14,790	\$14,790

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

(2) Cash in banks

Name	Item	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Other related party					
Cathay United Bank	Time deposit	\$4,482	\$7,482	\$12,086,482	\$57,338,698
	Cash in bank	21,554,165	25,549,308	13,675,551	16,746,027
Indovina Bank Limited	Time deposit	-	-	473	471
	Cash in bank	23,569	5,226	17,232	2,737
Total		\$21,582,216	\$25,562,016	\$25,779,738	\$74,087,933

Interest income from Cathay United Bank for the three-month periods ended 30 September 2014 and 2013 were \$5,319 thousands and \$35,216 thousands, respectively.

Interest income from Cathay United Bank for the nine-month periods ended 30 September 2014 and 2013 were \$16,437 thousands and \$315,469 thousands, respectively.

Interest income from Indovina Bank Limited for the three-month periods ended 30 September 2014 and 2013 were \$65 thousands and \$411 thousands, respectively.

Interest income from Indovina Bank Limited for the nine-month periods ended 30 September 2014 and 2013 were \$150 thousands and \$3,468 thousands, respectively.

As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, time deposit pledged were \$4,482 thousands, \$7,482 thousands, \$4,482 thousands and \$8,698 thousands, respectively.

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(3) Bond investments for which no active market exists

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Other related party				
Cathay United Bank	\$3,000	\$3,000	\$3,000	\$3,000

(4) Secured loans

Name	For the nine-month period ended 30 September 2014			
	Maximum amount	Interest income	Rate	Ending balance
Other related party				
Cathay General Hospital	\$2,926,691	\$46,783	2.01%~2.55%	\$2,708,180
Other	833,196	10,567	1.34%~3.78%	768,176
Total		<u>\$57,350</u>		<u>\$3,476,356</u>

Name	For the nine-month period ended 30 September 2013			
	Maximum amount	Interest income	Rate	Ending balance
Other related party				
Cathay General Hospital	\$3,210,519	\$55,817	2.43%~2.55%	\$2,998,743
Other	604,995	6,821	1.34%~3.88%	581,737
Total		<u>\$62,638</u>		<u>\$3,580,480</u>

(5) Financial assets at fair value through profit or loss (beneficiary certificates)

Name		30 September	31 December	30 September	1 January
		2014	2013	2013	2013
Other related party					
Cathay Securities Investment Trust Co., Ltd. managed funds	Market value	\$2,799,661	\$2,008,405	\$2,009,533	\$2,319,889
	Cost	<u>\$2,671,270</u>	<u>\$1,807,565</u>	<u>\$1,830,732</u>	<u>\$2,152,997</u>

(6) Discretionary account management balance

Name	30 September	31 December	30 September	1 January
	2014	2013	2013	2013
Other related party				
Cathay Securities Investment Trust Co., Ltd.	<u>\$213,549,042</u>	<u>\$227,376,831</u>	<u>\$218,384,163</u>	<u>\$204,663,888</u>

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(7) Other receivables

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Parent company				
Cathay Financial Holding Co., Ltd. (Note)	\$7,896,466	\$7,550,281	\$7,253,085	\$5,235,287
Other related party				
Cathay United Bank	-	-	21,802	12,396
Cathay Century Insurance Co., Ltd.	232,087	164,984	210,106	141,412
Cathay Securities Investment Trust Co., Ltd.	25,170	24,192	24,035	22,594

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

(8) Reinsurance assets

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$23,630</u>	<u>\$43,145</u>	<u>\$26,058</u>	<u>\$-</u>

(9) Guarantee deposits paid

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Other related party				
Cathay Futures Co., Ltd.	<u>\$573,524</u>	<u>\$711,826</u>	<u>\$632,556</u>	<u>\$364,739</u>

For the three-month periods ended 30 September 2014 and 2013, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were \$214 thousands and \$185 thousands, respectively.

For the nine-month periods ended 30 September 2014 and 2013, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were \$778 thousands and \$616 thousands, respectively.

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(10) Guarantee deposits received

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Other related party				
Cathay Healthcare Inc.	\$3,599	\$2,446	\$2,446	\$-
Lin Yuan Property Management Co., Ltd.	5,000	5,000	5,000	5,000
Total	<u>\$8,599</u>	<u>\$7,446</u>	<u>\$7,446</u>	<u>\$5,000</u>

(11) Other payables

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Parent company				
Cathay Financial Holding Co., Ltd. (Note 1)	\$4,138,129	\$3,458,995	\$3,230,129	\$2,550,995
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	-	14,109	14,109	-
Associate				
Symphox Information Co., Ltd.	28,744	5,904	(Note 2)	(Note 2)
Other related party				
Cathay United Bank	490,864	-	-	-
Cathay Century Insurance Co., Ltd.	15,807	2,390	16,459	5,732
Cathay Securities Investment Trust Co., Ltd.	14,753	12,754	11,296	10,586
Lin Yuan Property Management Co., Ltd.	55,920	1,383	44,132	3,580

Note 1: The payables consist of interest expenses accrued from preferred stock liability.

Note 2: As a subsidiary during the period.

(12) Preferred stock liability

Name	30 September 2014	31 December 2013	30 September 2013	1 January 2013
Parent company				
Cathay Financial Holding Co., Ltd.	<u>\$30,000,000</u>	<u>\$30,000,000</u>	<u>\$30,000,000</u>	<u>\$30,000,000</u>

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(13) Accounts collected in advance (Note)

Name	30 September 2013	1 January 2013
Other related party		
Cathay Century Insurance Co., Ltd.	\$10,480	\$10,859
Cathay United Bank	29,554	26,517
Cathay Securities Co., Ltd.	4,673	3,993

Note: As of 30 September 2014 and 31 December 2013, Symphox Information Co., Ltd. is not a subsidiary.

(14) Premium income

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Other related party				
Cathay United Bank	\$18,316	\$71,024	\$48,236	\$416,511
Cathay General Hospital	10,106	9,801	30,572	29,631
Cathay Century Insurance Co., Ltd.	4,450	2,573	11,721	8,766
Cathay Securities Co., Ltd.	1,481	1,750	4,324	3,827
Other	45,852	28,618	104,635	87,911
Total	<u>\$80,205</u>	<u>\$113,766</u>	<u>\$199,488</u>	<u>\$546,646</u>

(15) Handling fees earned

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Other related party				
Cathay Securities Investment Trust Co., Ltd.	<u>\$50,467</u>	<u>\$24,028</u>	<u>\$100,248</u>	<u>\$71,434</u>

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(16) Insurance expenses

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Other related party				
Cathay Century Insurance Co., Ltd.	\$32,052	\$6,992	\$153,772	\$106,588

The insurance expenses were related to insurance for property and equipment, cash, public accident, etc. Amounts of \$4,565 thousands and \$4,457 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 30 September 2014 and 2013, respectively.

The insurance expenses were related to insurance for property and equipment, cash, public accident, etc. Amounts of \$9,065 thousands and \$10,407 thousands paid by the Company on behalf of its employees for fidelity bond insurance were included in the above insurance expenses for the nine-month periods ended 30 September 2014 and 2013, respectively.

(17) Indemnity income

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Other related party				
Cathay Century Insurance Co., Ltd.	\$-	\$1,374	\$7,836	\$1,421

Amounts of \$0 thousands and \$0 thousands income by the Company on behalf of its employees for fidelity bonds insurance were included in above indemnity income for the three-month periods ended 30 September 2014 and 2013, respectively.

Amounts of \$0 thousands and \$0 thousands income by the Company on behalf of its employees for fidelity bonds insurance were included in above indemnity income for the nine-month periods ended 30 September 2014 and 2013, respectively.

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(18) Reinsurance income

Name	For the three-month		For the nine-month periods	
	periods ended 30 September		ended 30 September	
	2014	2013	2014	2013
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$59,714	\$30,087	\$99,535	\$100,169

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 nine-month periods ended 30 September 2014 and 2013, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

(19) Reinsurance service expenses

Name	For the three-month		For the nine-month periods	
	periods ended 30 September		ended 30 September	
	2014	2013	2014	2013
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$3,303	\$1,619	\$7,602	\$7,264

(20) Reinsurance claim payments

Name	For the three-month		For the nine-month periods	
	periods ended 30 September		ended 30 September	
	2014	2013	2014	2013
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$31,833	\$17,925	\$83,704	\$121,188



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(21) Reinsurance commission expenses

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Subsidiary				
Cathay Insurance (Bermuda) Co., Ltd.	\$1,984	\$1,019	\$3,229	\$2,604

(22) Other operating income (Note)

Name	For the three-month period ended 30 September 2013	For the nine-month period ended 30 September 2013
Other related party		
Cathay Century Insurance Co., Ltd.	\$7,455	\$23,063
Cathay United Bank	91,794	298,762
Cathay General Hospital	2,734	60,394
Cathay Securities Co., Ltd.	5,913	9,844
Total	\$107,896	\$392,063

Note: Symphox Information Co., Ltd. is not a subsidiary for the nine-month period ended 30 September 2014.

(23) Other operating costs

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Other related party				
Cathay United Bank	\$107,510	\$100,088	\$353,673	\$312,764
Cathay Securities Investment Trust Co., Ltd.	46,514	33,455	129,065	97,779
Total	\$154,024	\$133,543	\$482,738	\$410,543

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(24) Non-operating income

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Parent company				
Cathay Financial Holdings Co., Ltd.	\$362	\$315	\$3,839	\$1,314
Other related party				
Cathay Century Insurance Co., Ltd.	408,330	323,498	1,169,536	956,037
Cathay United Bank	27,422	19,662	116,886	66,169
Cathay Securities Investment Trust Co., Ltd.	4,388	4,581	14,171	14,009
Cathay General Hospital	922	910	3,689	3,640
Subtotal	<u>441,062</u>	<u>348,651</u>	<u>1,304,282</u>	<u>1,039,855</u>
Total	<u>\$441,424</u>	<u>\$348,966</u>	<u>\$1,308,121</u>	<u>\$1,041,169</u>

Non-operating income is mainly generated from the Company's integrated marketing activities.

(25) Operating expenses

Name	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
	2014	2013	2014	2013
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	\$-	\$-	\$356	\$6,589
Associate				
Symphox Information Co., Ltd.	61,614	(Note)	194,028	(Note)
Other related party				
Seaward Card Co., Ltd.	23,898	17,370	67,401	73,744
Cathay United Bank	1,158,723	735,366	2,650,470	1,604,163
Cathay Venture Inc.	-	5,000	9,223	16,021
Lin Yuan Property Management Co., Ltd.	180,008	49,891	543,086	480,856
Cathay Real Estate Development Co., Ltd.	4,054	4,424	12,585	13,578
Cathay Healthcare Inc.	1,836	2,030	5,480	5,414
Subtotal	<u>1,368,519</u>	<u>814,081</u>	<u>3,288,245</u>	<u>2,193,776</u>
Total	<u>\$1,430,133</u>	<u>\$814,081</u>	<u>\$3,482,629</u>	<u>\$2,200,365</u>

Note: As a subsidiary during the period.

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(26) Non-operating expenses

Name	For the three-month periods		For the nine-month periods	
	ended 30 September		ended 30 September	
	2014	2013	2014	2013
Parent company				
Cathay Financial Holding Co., Ltd.	\$228,866	\$228,866	\$679,134	\$679,134

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

(27) Other

A. As of 30 September 2014, 31 December 2013, 30 September 2013 and 1 January 2013, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below:

Item	30 September 2014		31 December 2013		30 September 2013		1 January 2013	
CS contracts	USD	830,000	USD	1,045,000	USD	1,035,000	USD	985,000

B. The Company had entered a credit assignment agreement with Cathay United Bank in the amounts of \$307,050 thousands during the nine-month period ended 30 September 2014.

(28) Key management personnel compensation

	For the three-month		For the nine-month periods	
	periods ended 30 September		ended 30 September	
	2014	2013	2014	2013
Short-term employee benefits	\$11,919	\$16,399	\$61,862	\$59,027
Post-employment benefits	793	478	1,809	1,537
Total	\$12,712	\$16,877	\$63,671	\$60,564

The management of the Company includes directors, vice general managers and the above.

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51. Pledged assets

(1) The Company

As of 30 September 2014, 31 December 2013, 30 September 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:

	<u>30 September 2014</u>	<u>31 December 2013</u>	<u>30 September 2013</u>	<u>1 January 2013</u>
Guarantee deposits paid -				
Government bonds	\$9,331,932	\$9,511,241	\$9,511,440	\$9,523,306
Guarantee deposits paid -				
Time deposits	512,482	519,782	538,082	118,698
Guarantee deposits paid - Others	4,095	3,459	9,242	8,807
Total	<u>\$9,848,509</u>	<u>\$10,034,482</u>	<u>\$10,058,764</u>	<u>\$9,650,811</u>

Pledged assets are summarized based on the net carrying amounts.

(2) Symphox Information

As of 30 September 2013 and 1 January 2013, the pledged property details are as follows:

<u>Item</u>	<u>30 September 2013</u>	<u>1 January 2013</u>
Cash in bank (recognized as other financial assets)	\$9,505	\$10
Financial assets at fair value through profit and loss	47,345	45,103
Total	<u>\$56,850</u>	<u>\$45,113</u>

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Symphox Information maintains a trust account at Cathay United Bank for its electronic gift certificates. As of 30 September 2013 and 1 January 2013, the account balance was \$9,505 thousands and \$10 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)

	<u>30 September 2014</u>	<u>31 December 2013</u>	<u>30 September 2013</u>	<u>1 January 2013</u>
Guarantee deposits paid	\$1,834,238	\$1,187,328	\$1,197,955	\$1,157,835

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.

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55. Others matters

(1) Discretionary account management

Item	30 September 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$124,010,613	\$124,010,613	\$129,828,751	\$129,828,751
Overseas stocks	49,855,932	49,855,932	55,726,731	55,726,731
Repurchase bonds	13,848,000	13,848,000	2,088,200	2,088,200
Cash in banks	21,738,344	21,738,344	22,994,358	22,994,358
Beneficiary certificates	5,881,690	5,881,690	18,109,871	18,109,871
Futures and options	687,225	687,225	911,776	911,776
Corporate bonds	727,602	727,602	837,194	837,194
Total	\$216,749,406	\$216,749,406	\$230,496,881	\$230,496,881

Item	30 September 2013		1 January 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$123,047,925	\$123,047,925	\$100,690,134	\$100,690,134
Overseas stocks	44,699,635	44,699,635	28,173,078	28,173,078
Repurchase bonds	3,140,000	3,140,000	6,336,804	6,336,804
Cash in banks	27,341,927	27,341,927	38,106,426	38,106,426
Beneficiary certificates	18,450,626	18,450,626	29,184,078	29,184,078
Futures and options	862,047	862,047	1,482,600	1,482,600
Corporate bonds	842,003	842,003	690,768	690,768
Total	\$218,384,163	\$218,384,163	\$204,663,888	\$204,663,888

As of 30 September 2014, the Company entered into discretionary account management contracts in the amounts of NT\$132,000,000 thousands, US\$1,470,000 thousands, and HK\$1,550,000 thousands. As of 31 December 2013, the Company entered into discretionary account management contracts in the amounts of NT\$143,000,000 thousands, US\$1,990,000 thousands and HK\$2,000,000 thousands. As of 30 September 2013, the Company entered into discretionary account management contracts in the amounts of NT\$143,000,000 thousands, US\$1,990,000 thousands, and HK\$2,000,000 thousands. As of 1 January 2013, the Company entered into discretionary account management contracts in the amounts of NT\$140,000,000 thousands, US\$2,090,000 thousands and HK\$2,000,000 thousands.

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(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.

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.

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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:

Effects on the balance sheet items

	<u>31 December 2013</u>	<u>30 September 2013</u>	<u>1 January 2013</u>
Increase in investment property	\$133,097,147	\$108,651,142	\$100,409,695
Increase in deferred tax liabilities	9,094,681	7,739,756	4,826,827
Increase in retained earnings	107,726,712	100,911,386	95,582,868
Increase in other equity	16,275,754	-	-

Effects on the statements of comprehensive income items

	<u>For the three-month period ended 30 September 2014</u>	<u>For the three-month period ended 30 September 2013</u>
Decrease in operating revenue	\$(127,461)	\$(23,601)
Decrease in operating expenses	-	478,579
Decrease (increase) in income tax expense	21,679	(77,347)
(Decrease) increase in net income	(105,782)	377,631
Increase in other comprehensive income	-	-
(Decrease) increase in earnings per share	(0.02)	0.07



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	For the nine-month period ended 30 September 2014	For the year ended 31 December 2013	For the nine-month period ended 30 September 2013
Increase in operating revenue	\$16,366,648	\$13,044,742	\$6,755,579
Decrease in operating expenses	-	1,962,340	1,485,869
Increase in income tax expense	(2,706,808)	(2,863,238)	(2,912,930)
Increase in net income	13,659,840	12,143,844	5,328,518
Increase in other comprehensive income	827,609	16,275,754	-
Increase in earnings per share	2.57	2.29	1.00

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 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousands of unexecuted project to CNY\$200,000 thousands to avoid currency risk on 14 September 2013. 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 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. The Company has remitted US\$48,330 thousands to the subsidiary as of 31 December 2009. The Company injected additional US\$29,880 thousands on 29 September 2010 and CNY\$200,000 thousands on 8 May 2014. As of 30 September 2014, the Company's remittances to the subsidiary totaled approximately CNY\$200,000 thousands and US\$78,210 thousands.

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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) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. On 15 August 2008, MOEAIC further authorized the Company to revise the remittance from US\$28,960 thousands to US\$28,140 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 30 September 2014, the Company's remittances to this general insurance company totaled approximately CNY\$200,000 thousands and US\$28,140 thousands.

On 1 November 2011 and 11 April 2012, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit CNY\$300,000 (US\$47,000) thousands and CNY\$ 500,000 (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 30 September 2014, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY\$1,500,000 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.